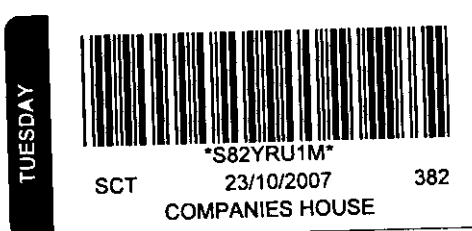


STANDARD LIFE INVESTMENTS

**STANDARD LIFE INVESTMENTS
LIMITED**

**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2006**



Registered in Scotland Number SC123321

GENERAL INFORMATION

Directors

C A M Buchan, BCom

* (Non Executive Deputy Chairman)

C M Clark, MA(Hons) PPE

* (Non Executive)

M Connolly, MBA

A M Crombie, FFA

(Non Executive)

D T Cumming, MA(Hons)

W R Littleboy, BA(Hons) MA

R L Paris, MA(Oxon)

R A Renaud, BSc

N K Skeoch, BA(Hons) MA FSI FRSA

(Chief Executive)

H A Stevenson, BA FSI

* (Non Executive Chairman)

A P Watt, FRICS

* member of the audit committee

Company Secretary

V J O'Brien, AClI

Registered Office

1 George Street

Edinburgh EH2 2LL

United Kingdom

Auditors

PricewaterhouseCoopers LLP

68 73 Queen Street

Edinburgh EH2 4NH

United Kingdom

REPORT BY THE DIRECTORS
for the year ended 31 December 2006

The directors submit their report and financial statements for the year ended 31 December 2006

Annual general meeting

As permitted by Section 366A of the Companies Act 1985, Standard Life Investments Limited (the 'Company') has passed an elective resolution to dispense with the holding of an annual general meeting

Principal activities

The principal activity of the Company and its subsidiaries (the 'Group') is to provide investment management services. The provision of insurance services ceased during the year as a result of the transfer of Touchstone Insurance Company, previously a subsidiary of the Company, to the Company's immediate parent undertaking, Standard Life Investments (Holdings) Limited

Business review

The Group achieved a profit after tax for the year ended 31 December 2006 of £43.9m, an increase of 29% over the previous year's profit of £34.1m

The Group's earnings before interest and taxation and exchange gains or losses ('EBIT'), the Group's preferred measure of profit, increased from £43.2m to £60.9m, an increase of 41%. EBIT as a percentage of net revenues ('EBIT margin') increased from 23.1% to 26.8%

The growth in profit of the Group was driven by an increase in funds under management ('FUM') and, in particular, FUM external to the Standard Life group ('Third Party FUM'). Overall FUM rose from £118.8bn as at 31 December 2005 to £132.1bn as at 31 December 2006, an increase of 11%

Third Party FUM grew by 32%, from £29.1bn in 2005 to £38.5bn as at 31 December 2006. Net inflows of £6.4bn included record levels of UK institutional business of £3.3bn. The Group's mutual funds business also enjoyed a very strong year achieving net sales of £1.3bn, an increase of 339% over 2005.

The Group's investment performance continues to be strong. 87% of pooled pension funds outperformed their respective peer groups during the year to 31 December 2006. Over 70% of the actively managed OEICs and Unit Trusts produced above average returns and 52% of them delivered upper quartile performance. Eight out of the 23 OEIC funds obtained a top ten rank.

Dividend

The directors did not recommend the payment of a dividend during the year (2005: £NIL).

Future outlook

The pipeline of new business remains strong. This, along with an impressive investment performance track record and the successful introduction of additional products in both retail and institutional markets, gives the Group a platform to deliver continued growth in 2007.

REPORT BY THE DIRECTORS

for the year ended 31 December 2006

Key performance indicators ('KPIs')

The directors monitor progress in relation to the overall Group strategy by reference to the following four KPIs

	2006	2005
EBIT Earnings before interest, taxation and foreign exchange gains and losses This KPI measures directly the absolute operating profitability of the Group.	£60.9m	£43.2m
EBIT margin EBIT as a percentage of net revenue This KPI measures the Group's efficiency	26.8%	23.1%
FUM Funds under management is the value of assets managed by the Group on behalf of clients	£132.1bn	£118.8bn
Third Party FUM Third party funds under management is the value of assets managed by the Group on behalf of clients external to the Standard Life group	£38.5bn	£29.1bn

Principal risks and uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks

The main business risk to which the Group is exposed is the volatility in securities markets, which can affect investment management fee income. Other key business risks include the development and retention of key employees as well as competition from other providers of investment management services.

Information relating to the risks affecting financial assets and liabilities of the Company are contained in note 22 to this report and accounts.

Directors and their interests

The names of the current directors of the Company are shown on page 1.

P C Hill resigned as a director of the Company on 3 January 2006.

J D Maxwell resigned as a director of the Company on 15 December 2006.

The appointment of directors is not subject to retirement by rotation.

None of the directors had a beneficial interest in the shares of the Company. Beneficial interests of directors, who are not directors of Standard Life plc, and their immediate families in ordinary shares of £0.10 each in Standard Life plc, the Company's ultimate controlling party are as follows:

Investments in Standard Life plc	2006 No. of shares	2005 No. of shares
C A M Buchan	3,478	
M Connolly	23,220	
D T Cumming	16,477	
W R Littleboy	10,524	
R L Paris	1,853	
R A Renaud	16,573	
A P Watt	18,526	

The interests of directors who are also directors of Standard Life plc are disclosed in the annual accounts of Standard Life plc.

REPORT BY THE DIRECTORS
for the year ended 31 December 2006**Statement of directors' responsibilities**

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements the directors are required to

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by the IASB, and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 and, as regards the Group financial statements, article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

So far as each director is aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware.

Each of the directors has taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Employees

The Group's policy is to recruit, develop and employ staff on the basis of the suitability of their qualifications and experience to the work performed, regardless of ethnic origin, religion, sex, marital status or disability. Full consideration is given to continuing the employment of staff who become disabled and to provide training and career development opportunities to disabled employees.

The Group keeps staff informed of progress and policies through line management channels, training courses, conferences and an Internal Communication Programme, which consists of various in house publications and briefing seminars with staff.

REPORT BY THE DIRECTORS
for the year ended 31 December 2006

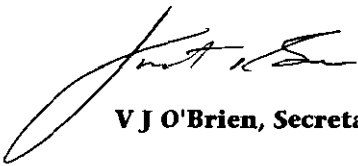
Supplier payment policy

It is the Group's and Company's policy to negotiate payment terms with principal suppliers and to pay in accordance with the terms agreed. For other suppliers, where goods and services have been supplied to specification, payment is made in accordance with the terms offered by the supplier.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

On behalf of the Board of Directors



V J O'Brien, Secretary

Edinburgh, 5 March 2007

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Revenue			
Management fee income		232,902	183,456
Earned premium		3,338	4,218
Other operating income	2	6,246	9,324
Total revenue		242,486	196,998
Less Fee and commission expenses		(15,257)	(10,160)
Net revenue		227,229	186,838
Operating expenses			
Administrative expenses		(169,134)	(144,054)
Claims paid		(642)	(500)
Change in insurance contract liabilities		57	(1,075)
Total operating expenses		(169,719)	(145,629)
Operating profit	4	57,510	41,209
Interest income		6,252	4,435
Finance costs	5	(1,465)	(1,011)
Net foreign exchange (loss)/gain		(623)	348
Share of profit after tax of joint venture	9	3,351	2,013
Profit before tax		65,025	46,994
Tax expense	6	(21,172)	(12,905)
Profit for the year attributable to equity holders of the parent		43,853	34,089

The notes on pages 13 to 42 form part of these financial statements

The Company has elected to take the exemption under section 230 of the Companies Act 1985 to not present the parent company income statement

The profit for the parent company for the year was £37,728k (2005 £23,133k)

CONSOLIDATED BALANCE SHEET
as at 31 December 2006

	Note	2006 £'000	2005 £'000
ASSETS			
Non-current assets			
Deferred acquisition costs	7	1,812	2,615
Investment in joint venture	9	20,977	18,830
Property and equipment	10	269	141
Deferred tax assets	11	5,097	3,811
Investment securities	12	6,858	2,307
Trade and other receivables	13	1,440	1,614
Total non current assets		<u>36,453</u>	<u>29,318</u>
Current assets			
Deferred acquisition costs	7	2,242	2,140
Current tax recoverable	11	3,028	3,418
Investment securities	12	2,435	2,302
Trade and other receivables	13	226,930	63,766
Cash and cash equivalents	14	194,227	133,564
Total current assets		<u>428,862</u>	<u>205,190</u>
Total assets		<u>465,315</u>	<u>234,508</u>
LIABILITIES			
Non current liabilities			
Subordinated liabilities	15	15,000	15,000
Pension and other post retirement benefit provisions	16		972
Deferred income	17	2,126	3,036
Trade and other payables	18	13,602	6,799
Total non current liabilities		<u>30,728</u>	<u>25,807</u>
Current liabilities			
Deferred income	17	2,957	2,431
Current tax liabilities	11	7,674	6,410
Trade and other payables	18	272,858	91,297
Total current liabilities		<u>283,489</u>	<u>100,138</u>
Total liabilities		<u>314,217</u>	<u>125,945</u>
EQUITY			
Share capital	19	32,440	32,440
Foreign currency translation reserve		(905)	413
Retained earnings		119,563	75,710
Equity attributable to equity holders of the parent		<u>151,098</u>	<u>108,563</u>
Total liabilities and equity		<u>465,315</u>	<u>234,508</u>

The notes on pages 13 to 42 form part of these financial statements

Approved on behalf of the Board of Directors and authorised for issue on 5 March 2007 by the following Director



N K Skeoch, Chief Executive

COMPANY BALANCE SHEET
as at 31 December 2006

	Note	2006 £'000	2005 £'000
ASSETS			
Non current assets			
Investments in subsidiaries	8	27,002	27,002
Investment in joint venture	9	16,761	16,761
Deferred tax assets	11	4,380	2,213
Investment securities	12	3,609	66
Trade and other receivables	13	1,440	1,614
Total non current assets		<u>53,192</u>	<u>47,656</u>
Current assets			
Current tax recoverable	11	544	
Trade and other receivables	13	23,492	21,993
Cash and cash equivalents	14	145,377	91,767
Total current assets		<u>169,413</u>	<u>113,760</u>
Total assets		<u>222,605</u>	<u>161,416</u>
LIABILITIES			
Non current liabilities			
Subordinated liabilities	15	15,000	15,000
Pension and other post retirement benefit provisions	16		972
Trade and other payables	18	11,505	5,133
Total non current liabilities		<u>26,505</u>	<u>21,105</u>
Current liabilities			
Current tax liabilities	11	7,386	1,352
Trade and other payables	18	55,623	43,596
Total current liabilities		<u>63,009</u>	<u>44,948</u>
Total liabilities		<u>89,514</u>	<u>66,053</u>
EQUITY			
Share capital	19	32,440	32,440
Retained earnings		100,651	62,923
Equity attributable to equity holders of the Company		<u>133,091</u>	<u>95,363</u>
Total liabilities and equity		<u>222,605</u>	<u>161,416</u>

The notes on pages 13 to 42 form part of these financial statements

Approved on behalf of the Board of Directors and authorised for issue on 5 March 2007 by the following Director



N K Skeoch, Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2006

	Share capital £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total equity attributable to equity holders of the parent £'000
At 1 January 2005	32,440		41,621	74,061
Currency translation differences		413		413
Net income recognised directly in equity		413		413
Profit for the year			34,089	34,089
Total recognised income for the year		413	34,089	34,502
At 31 December 2005	<u>32,440</u>	<u>413</u>	<u>75,710</u>	<u>108,563</u>
At 1 January 2006	32,440	413	75,710	108,563
Currency translation differences		(1,318)		(1,318)
Net income recognised directly in equity		(1,318)		(1,318)
Profit for the year			43,853	43,853
Total recognised income for the year		(1,318)	43,853	42,535
At 31 December 2006	<u>32,440</u>	<u>(905)</u>	<u>119,563</u>	<u>151,098</u>

The notes on pages 13 to 42 form part of these financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2006

	Share capital £'000	Retained earnings £'000	Total equity attributable to equity holders of the Company £'000
At 1 January 2005	32,440	39,790	72,230
Profit for the year		23,133	23,133
At 31 December 2005	<u>32,440</u>	<u>62,923</u>	<u>95,363</u>
At 1 January 2006	32,440	62,923	95,363
Profit for the year		37,728	37,728
At 31 December 2006	<u>32,440</u>	<u>100,651</u>	<u>133,091</u>

The Company did not recognise any income or expense directly in equity (2005 £NIL) The total recognised income for the year comprised of the profit for the year

The notes on pages 13 to 42 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Cash flows from operating activities			
Profit before tax		65,025	46,994
Adjustments for			
Interest income classified as investing activity		(6,252)	(4,435)
Interest expense classified as financing activity	5	1,465	1,011
Movement in fair value of investment securities	2	(3,012)	(672)
Net purchase of investment securities held as part of manager's box		(13)	(23)
Purchase of investment securities		(2,039)	(66)
Depreciation of property and equipment	10	105	209
Share of profit after tax of joint venture	9	(3,351)	(2,013)
Dividends received from joint venture	9	670	1,491
Movement in operating assets and liabilities	20	28,698	4,654
Taxation paid		(20,893)	(10,700)
Net cash flows from operating activities		<u>60,403</u>	<u>36,450</u>
Cash flows from investing activities			
Proceeds from repayment of loan balances			10,000
Proceeds from disposal of subsidiary net of cash disposed		(3,685)	
Interest received		6,252	4,435
Purchase of property and equipment	10	(243)	(56)
Net cash flows from investing activities		<u>2,324</u>	<u>14,379</u>
Cash flows from financing activities			
Interest paid		(1,465)	(1,011)
Net cash flows from financing activities		<u>(1,465)</u>	<u>(1,011)</u>
Net increase in cash and cash equivalents		61,262	49,818
Cash and cash equivalents at the beginning of the year	14	133,564	83,164
Effects of exchange rate changes on cash and cash equivalents		(599)	582
Cash and cash equivalents at the end of the year	14	<u>194,227</u>	<u>133,564</u>

The cash disposed of as part of the disposal of the subsidiary undertaking amounted to £4,746k

The notes on pages 13 to 42 form part of these financial statements

COMPANY CASH FLOW STATEMENT
for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Cash flows from operating activities			
Profit before tax		55,180	30,643
Adjustments for			
Interest income classified as investing activity		(3,793)	(3,231)
Interest expense classified as financing activity		1,230	970
Dividend received from subsidiary undertakings classified as investing activity		(9,658)	(8,734)
Dividend received from joint venture classified as investing activity	9	(670)	(1,491)
Movement in fair value of investment securities		(2,576)	
Purchase of investment securities		(967)	(66)
Gain on disposal of investments in subsidiary undertakings	8	(61)	
Impairment losses on investments in subsidiary undertakings	8	1,000	1,000
Movement in operating assets and liabilities	20	16,102	3,785
Taxation paid		(14,129)	(7,378)
Net cash flows from operating activities		<u>41,658</u>	<u>15,498</u>
Cash flows from investing activities			
Proceeds from repayment of loan balances			10,000
Purchase of investment in subsidiary undertakings	8	(2,000)	(3,626)
Proceeds from disposal of investments in subsidiary undertakings	8	1,061	454
Dividends received from subsidiary undertakings		9,658	8,734
Dividends received from joint venture	9	670	1,491
Interest received		3,793	3,231
Net cash flows from investing activities		<u>13,182</u>	<u>20,284</u>
Cash flows from financing activities			
Interest paid		(1,230)	(970)
Net cash flows from financing activities		<u>(1,230)</u>	<u>(970)</u>
Net increase in cash and cash equivalents		53,610	34,812
Cash and cash equivalents at the beginning of the year	14	91,767	56,955
Cash and cash equivalents at the end of the year	14	<u>145,377</u>	<u>91,767</u>

The notes on pages 13 to 42 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with

- (1) International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission (EC) for use in the European Union (EU), and
- (2) those parts of the Companies Act 1985 applicable to companies reporting under IFRS

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss (FVTPL). These are the Group's first consolidated financial statements under IFRS and in accordance with IFRS 1 First Time Adoption of International Financial Reporting Standards, the financial effects of adopting IFRS are summarised in note 27.

The Group has taken advantage of the exemption on first time adoption of IFRS that permits it to not recalculate the foreign translation reserve at the date of transition. The opening balance on the reserve, at the time of transition, was therefore set to £NIL.

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these consolidated financial statements and by all Group entities, unless otherwise stated. All amounts classified as current are expected to be settled/recovered in less than 12 months unless otherwise stated in the notes to these financial statements.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles (GAAP), requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Consistent with IFRS 1, any estimates included in the Group's opening IFRS Balance Sheet have been made by considering the information that existed at the time the estimate was made under previous GAAP, rather than information that became available after that date, after taking into account any applicable adjustments resulting from differences in accounting policies.

Key judgements made in selecting accounting policies and critical accounting estimates

In the process of applying the Group's accounting policies, management has used its judgement and made estimates and assumptions in determining the amounts recognised in the financial statements. These estimates and assumptions can affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, results ultimately may differ from these estimates. The most significant areas where judgements and estimates are made are set out below.

• Cash Flow Statement

The indirect method was chosen on the basis that it is simpler than the direct method and is consistent with the approach adopted by our peers.

• Deferred acquisition costs ('DAC') amortisation period

Management estimate the DAC amortisation period based on the average period over which services have been provided in the past to the relevant grouping of customers and any significant changes in the business which may impact this period in the foreseeable future.

• Long term incentive schemes

The liabilities arising in respect of the Group's long term incentive schemes are accrued based upon the terms of each scheme. The liabilities are determined on the basis of a range of criteria. Management estimate the liability at each period end using projections of the Group's growth, profitability and of its investment performance against the criteria.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

• Insurance claims reserving

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

(b) Basis of consolidation

The Group financial statements consolidate the Income Statements and Balance Sheets of the Company and its subsidiary undertakings. Joint venture undertakings are accounted for using the equity method from the date that significant influence or joint control (respectively) commences until the date this ceases.

Investments in subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. Such power, generally but not exclusively, accompanies a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, until the date that control ceases.

The Group uses the purchase method of accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In the Company's separate financial statements, all subsidiaries are accounted for at cost. Any impairment on individual investments in subsidiaries held at cost is determined, at each reporting date, by an evaluation of the exposure on a case by case basis.

Impairment losses are calculated and recorded on an individual basis in a manner consistent with the impairment policy described in section (g) below.

Investments in joint ventures

Joint ventures are accounted for at cost less impairment in the entity financial statements and using the equity method in the consolidated financial statements. Under the equity method, the investment in a joint venture is initially recognised at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the joint venture. The Group's share of post acquisition results of its joint ventures is recognised in the Consolidated Income Statement. The Group's share of any post acquisition movements in reserves, where the joint venture recognised a gain or loss directly in equity, is recognised in equity. The cumulative post acquisition movements are adjusted against the carrying amount of the investment.

Where the Group's share of losses in a joint venture equals or exceeds its interest in a joint venture, including any other unsecured receivables, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations in connection with, or made payments on behalf of, a joint venture.

(c) Revenue recognition

Investment management fees

All fees and costs associated with the provision of investment management services are recognised, subject to recoverability, as the services are provided. Front end fees relating to investment management services are deferred as a liability and recognised over the average period over which services are provided. The resulting Deferred Income Reserve ('DIR') liability is amortised on a basis consistent with the associated Deferred Acquisition Cost ('DAC') asset (note (d)).

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Performance fees are calculated with reference to performance benchmarks specified in the individual investment management agreements. Revenues arising in respect of performance fee arrangements are recognised provided that the outcome of such arrangements can be estimated reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

Other operating income

Other operating income includes the gross value of sales and liquidations of units and shares in unit trusts and open ended investment vehicles respectively, net of discounts, less the gross value of creations and repurchases of units and shares in unit trusts and open ended investment vehicles respectively.

Investment gains and losses resulting from changes in both market value and foreign exchange on investments classified as FVTPL are recognised in the period in which they occur.

Distributions from collective investment schemes and dividend income are recognised when the right to receive payment is established.

Registration fees and other operating income are recognised on an accruals basis.

(d) Expense recognition

Long term incentive plan ('LTIP')

The expense in respect of the Group's long term incentive schemes is recognised based upon the terms of each scheme. The expense is determined on the basis of a range of criteria which include the Group's growth, profitability and its investment management performance.

Trail commission

To the extent that any future trail commission payments are not for ongoing services but for services provided in promoting and selling the product initially, the net present value of the future trail commission obligation is recognised as a financial liability, together with a matching financial asset, at the time the obligation arises.

Deferred acquisition costs ('DAC')

Incremental costs directly related to the cost of acquiring new business (i.e. commission) which are incurred during a financial period but which relate to subsequent financial periods are deferred, to the extent that they are recoverable from future charges. The recoverability test takes account of any front end fees that have been deferred.

The DAC asset is amortised on a straight line basis through fee and commission expenses in the Income Statement over the average period over which investment management services are provided. The carrying amount is tested for impairment at each reporting date.

Other expenses

Other expenses are recognised on an accruals basis.

(e) General insurance

Classification of insurance

Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% greater than the benefits payable if the insured event did not occur.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Premiums

Premiums relate to insurance business undertaken during the period, together with any differences between premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Group. Premiums are accounted for gross of any commission payable, if applicable, to intermediaries and relevant taxes. In addition to the written premiums, the change in the period of the proportion of premiums written in the period that relate to expired terms of policies in force at the balance sheet date, calculated on a time apportionment basis, is included.

Claims

Insurance claims comprise claims, related expenses paid and movements in technical provisions in the period. Provision is made at the period end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims.

(f) Foreign currency

Foreign currency transactions and fair values are translated using the exchange rates applying to the functional currency, which is Sterling, prevailing at the dates of the transactions or at the date the fair value was determined, with related foreign currency exchange gains or losses reflected in the Income Statement. Translation differences on non-monetary items such as equities held at FVTPL, are reported as part of the fair value gain or loss.

Group companies and joint venture

The Income Statements of foreign subsidiaries are translated into Sterling at average exchange rates for the year. Assets and liabilities of foreign subsidiaries are translated at the closing rate at the balance sheet date. On consolidation, exchange differences arising from the translation of the net investment in foreign subsidiaries, are taken to the foreign currency translation reserve in equity shareholders' funds.

(g) Impairment of non financial assets

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised in the Income Statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price (fair value less costs to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit, or group of units, to which the asset belongs.

(h) Property and equipment

Property and equipment is capitalised at cost and depreciation is charged to the Income Statement, within administration expenses, on a straight line basis, over their estimated useful lives of between two and four years.

(i) Income tax

Current tax

The current tax expense is based on the taxable results for the year, using tax rates enacted or substantively enacted at the balance sheet date, including any adjustments in respect of prior years. Amounts are charged or credited to the Income Statement or equity as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Deferred tax

Deferred tax is provided using the Balance Sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable results will be available against which the temporary differences can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Temporary differences arising from investments in subsidiaries give rise to deferred tax in the Company Balance Sheet only to the extent that it is probable that the temporary difference will reverse in the foreseeable future or the Company does not control the timing of the reversal of that difference. Deferred tax is provided on unremitted earnings of subsidiaries to the extent that the temporary difference created is expected to reverse in the foreseeable future.

Deferred tax is recognised in the Income Statement except when it relates to items recognised directly in the Statement of Changes in Equity in which case it is credited or charged directly to Retained Earnings through the Statement of Changes in Equity.

(j) Investment securities

Designation as fair value through profit or loss ('FVTPL')

Financial assets and liabilities are designated as FVTPL where the asset or liability is part of a group of assets that are evaluated and managed on a fair value basis.

All investment securities including units or shares in collective investment vehicles that are held as part of the 'manager's box', equity securities and seed monies are designated as FVTPL. Box positions are not held to create speculative proprietary positions but are managed in accordance with specified criteria and authorisation limits.

Fair value measurement

The Group recognises investment securities at fair value on the trade date of the transaction. Directly attributable transaction costs are not included in the initial measurement value but are recognised in the Income Statement.

Fair values are based upon the current quoted bid price where an active market exists. Where a quoted price in an active market cannot be obtained, an appropriate market consistent valuation technique (for example discounted cash flows and recent market transactions) is used to determine fair value. If a price/technique is not available to provide a reliable fair value, the investment is carried at cost less a provision for impairment.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, any highly liquid investments which have a maturity date within three months of the date of acquisition and bank overdrafts that are repayable on demand and form an integral part of the Group's cash management strategy.

(l) Subordinated liabilities

Subordinated liabilities are initially included in the Balance Sheet at the value of proceeds received net of issue expenses. The total finance costs are charged to the Income Statement over the relevant term of the instrument using the Effective Interest Rate (EIR) method. The carrying amount of the debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in the period.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(m) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made as lessees under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight line basis over the period of the lease.

There are no material finance leases affecting the group as either lessor or lessee.

(n) Pension costs and other post retirement benefits

The Standard Life plc group ('Standard Life group') operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee administered funds. The pension plans are funded by payments from employees and by the Standard Life group of companies, determined by periodic actuarial calculations.

The Group is unable to identify its share of the underlying assets and liabilities in the defined benefit schemes on a consistent and reasonable basis, therefore it treats these schemes as defined contribution schemes. Consequently the costs of these schemes and the defined contribution schemes represent the contributions payable for the accounting period.

For the defined contribution scheme, the Group pays contributions to separately administered pension insurance schemes. The contributions are recognised in staff expenses when they are due.

(o) Dividend distribution

Dividend distribution to the Company's sole shareholder is recognised as a liability in the Group's financial statements, and directly in equity, in the period in which the dividend is paid or, if applicable, approved by the Company's sole shareholder.

(p) Share based payments

Standard Life group operates share incentive plans for the majority of employees and share based long term incentive plans for senior employees. The schemes are all in respect of Standard Life plc shares and further details are set out in note 25. These schemes are treated as equity settled share based payment schemes under IFRS 2 Share based Payment.

For equity settled share based payment employee transactions, the services received as compensation are measured at their fair value. This fair value is measured by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at the grant date, which is the date that the Standard Life group and the employees have a shared understanding of the terms and conditions of the award. If that award is subject to an approval process then the grant date is the date when that approval is obtained. The charge in respect of the services received by the Group from its employees is recharged to the Group by Standard Life plc.

If the equity instruments granted vest immediately, the employees become unconditionally entitled to those equity instruments. Therefore, the Group recognises immediately the full charge in the Income Statement with a corresponding amount due to Standard Life plc.

If the equity instruments do not vest until the employee has fulfilled specified vesting conditions, the Group presumes that the services to be rendered by the employee as consideration for those equity instruments will be received in the future, during the period of those vesting conditions ('vesting period'). Therefore, the Group recognises the charge in respect of those services as they are rendered during the vesting period with a corresponding amount due to Standard Life plc.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(q) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007. The Group has not early adopted these standards, amendments, and interpretations as described below.

IFRS 7 Financial Instruments Disclosures, and a complementary amendment to IAS 1 Presentation of Financial Statements Revised guidance on implementing IFRS 4, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to the information on financial instruments and the revision to IFRS 4 reflects the changes made by IFRS 7 and affects the disclosure section of the guidance. The amendment to IAS 1 introduces disclosures on the level of management of capital resources. IFRS 7 will be applied by the Group from annual periods beginning 1 January 2007. The standard has no financial impact but may change the disclosures surrounding the Group's financial instruments.

IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). The interpretation requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have a significant impact on the Group's financial statements.

IFRIC 9 Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). The interpretation requires an assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the Group first becomes a party to that contract. Subsequent reassessment is prohibited, unless there is a change in the contract's terms, in which case it is required. The Group will apply IFRIC 9 from 1 January 2007, but it is not expected to have a significant impact on the Group's financial statements.

IFRIC 11 IFRS 2 – Group and treasury share transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on accounting for share based transactions involving treasury shares or involving group entities and considers accounting for such transactions as equity settled and as cash settled share based payment transactions. The Group will apply IFRIC 11 from 1 January 2008, but it is not expected to have a significant impact on the Group's financial statements.

Standards and interpretations that are not relevant to the Group: IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009), IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006), IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006), IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008).

2. OTHER OPERATING INCOME

	2006 Group £'000	2005 Group £'000
Profit on unit and share dealing (net of rebates)	2,807	5,794
Registrar's fees	424	206
Gains on financial instruments carried at FVTPL	3,012	672
Other	3	2,652
Total other operating income	6,246	9,324

Profit on unit and share dealing includes distributions from investments in collective investment schemes of £3,948k (2005 £2,366k).

NOTES TO THE FINANCIAL STATEMENTS**3. STAFF COSTS AND OTHER EMPLOYEE RELATED COSTS**

	2006 Group £'000	2005 Group £'000
The aggregate remuneration payable in respect of employees was:		
Wages and salaries	90,180	71,569
Social security costs	10,864	7,528
Pension costs	5,203	4,690
Share based payments	166	
Other	2,276	1,746
Total staff costs and other employee related costs	108,689	85,533

The average number of staff employed by the Group during the year was 739 (2005 696) The average number of staff of the Company during the year was 641 (2005 597)

4. OPERATING PROFIT

The following have been included in arriving at operating profit

	2006 Group £'000	2005 Group £'000
Auditor's remuneration for statutory audit services	223	148
Amortisation of deferred acquisition costs (note 7)	2,300	2,617
Depreciation of property and equipment (note 10)	105	209
Operating lease rentals	532	545
Staff costs (note 3)	108,689	85,533

5. FINANCE COSTS

	2006 Group £'000	2005 Group £'000
Subordinated debt interest expense	740	755
Other	725	256
Total finance costs	1,465	1,011

6. TAX EXPENSE

(a) Analysis of the tax charge for the year

	2006 Group £'000	2005 Group £'000
Current tax		
United Kingdom corporation tax	22,371	13,211
Adjustment to tax expense in respect of prior years	(10)	105
Overseas tax	134	155
Total current tax	22,495	13,471
Deferred tax		
Deferred tax income arising in the current year (note 11(b))	(1,323)	(566)
Total deferred tax	(1,323)	(566)
Total tax expense	21,172	12,905

NOTES TO THE FINANCIAL STATEMENTS**6. TAX EXPENSE (continued)**

(b) Reconciliation of tax expense

	2006 Group £'000	2005 Group £'000
Profit before tax	65,025	46,994
Tax at UK corporation tax rate of 30% (2005 30%)	19,508	14,098
Effects of		
Permanent differences	1,751	(382)
Different tax rates applicable to foreign subsidiaries	(521)	(898)
Prior year adjustments	(10)	105
Taxation on unremitted earnings	424	
Other	20	(18)
Total tax expense	21,172	12,905

7. DEFERRED ACQUISITION COSTS

	2006 Group £'000	2005 Group £'000
At 1 January	4,755	6,639
Costs deferred	1,599	733
Amortisation	(2,300)	(2,617)
At 31 December	4,054	4,755
Comprising:		
Costs deferred	13,685	12,086
Accumulated amortisation	(9,631)	(7,331)
Closing net book amount	4,054	4,755
Presented as:		
Non current	1,812	2,615
Current	2,242	2,140
Total deferred acquisition costs	4,054	4,755

8. INVESTMENTS IN SUBSIDIARIES

	Company 2006 £'000	2005 £'000
At 1 January	27,002	24,830
Additional investment	2,000	3,626
Disposals	(1,000)	(454)
Impairment losses recognised	(1,000)	(1,000)
At 31 December	27,002	27,002

All subsidiaries are carried at cost less impairment losses recognised as per the Group's accounting policy

Impairment losses recognised during the year relate to the additional investment made in Standard Life Investments (USA) Limited (2005 Standard Life Investments (Asia) Limited). It is not expected that the value of the investments will be supportable by the future operating results of these subsidiaries and as such, the carrying value of the investments has been impaired to its fair value less costs to sell, which is deemed to be £NIL (2005 £NIL). Impairment losses are recognised within administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS**8. INVESTMENTS IN SUBSIDIARIES (continued)**

During 2006, the Company disposed of its subsidiary undertaking Touchstone Insurance Company Limited to its parent company, Standard Life Investments (Holdings) Limited for a consideration of £1,061k. During 2005, the Company disposed of part of its holding in the preference share capital of Standard Life Investments (Private Equity) Limited as a result of a redemption of preference share capital by that subsidiary undertaking.

The following are particulars of the Company's significant subsidiary undertakings

Name	Country of registration/ incorporation	Share class	% owned	Nature of business
Standard Life Investments (Mutual Funds) Limited	Scotland	Ordinary & Redeemable Preference	100	Collective investment products management
SLTM Limited	Scotland	Ordinary	100	Collective investment products management
Standard Life Investments (Corporate Funds) Limited	Scotland	Ordinary	100	Investment management
Standard Life Investments (Private Equity) Limited	Scotland	Ordinary & Redeemable Preference	100	Investment management
Standard Life Investments Inc	Canada	Ordinary	100	Investment management
Standard Life Investments (Asia) Limited	Scotland	Ordinary	100	Investment management
Standard Life Investments (USA) Limited	Scotland	Ordinary & Redeemable Preference	100	Investment management
Standard Life Investments (Hong Kong) Limited	Hong Kong	Ordinary	100	Investment management
Standard Life Investments (Jersey) Limited	Jersey	Ordinary	100	Property investment management

All of the above companies are unlisted and all have a year end of 31 December, except Standard Life Investments (Jersey) Limited which has a financial year end date of 31 March

NOTES TO THE FINANCIAL STATEMENTS**9. INVESTMENT IN JOINT VENTURE**

The Group's investment in the joint venture is as follows

	2006 Group £'000	2005 Group £'000	2006 Company £'000	2005 Company £'000
At 1 January	18,830	18,730	16,761	16,761
Share of profit after tax	3,351	2,013		
Foreign exchange differences	(534)	(422)		
Dividends received	(670)	(1,491)		
At 31 December	20,977	18,830	16,761	16,761

The Company has a joint venture, HDFC Asset Management Company (HDFC AMC), an investment management company incorporated in India. The Company holds a 49.9% (2005 – 49.9%) interest in the equity share capital and a 49.9% (2005 – 49.9%) interest in the non equity share capital of HDFC AMC (note 13). The Company does not exercise significant influence over this joint venture. HDFC AMC has a financial year end date of 31 March. For the purposes of consolidation these accounts incorporate the result from 1 October 2005 to 30 September 2006. The accounts incorporated include 6 months of audited accounts to 31 March 2006 and 6 months of the unaudited management accounts from 1 April 2006 to 30 September 2006.

The following are particulars of the Group's share of the joint venture

	2006 £'000	2005 £'000
Current assets	9,260	5,605
Long term assets	17,717	17,710
Current liabilities	(4,560)	(2,871)
Long term liabilities	(1,440)	(1,614)
	20,977	18,830
Income	9,666	5,375
Expenses	(6,315)	(3,362)
	3,351	2,013

10. PROPERTY AND EQUIPMENT

GROUP	Computers £'000	Furniture & Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost:				
At 1 January 2005	560	700	751	2,011
Exchange differences	42	19	67	128
Additions	31	25		56
Disposals	(200)	(43)	(262)	(505)
At 31 December 2005	433	701	556	1,690
Exchange differences	(18)	(15)	(31)	(64)
Additions	36	107	100	243
At 31 December 2006	451	793	625	1,869
Accumulated depreciation:				
At 1 January 2005	495	582	658	1,735
Exchange differences	37	15	58	110
Depreciation for the year	53	85	71	209
Disposals	(200)	(43)	(262)	(505)
At 31 December 2005	385	639	525	1,549
Exchange differences	(15)	(11)	(28)	(54)
Depreciation for the year	40	34	31	105
At 31 December 2006	410	662	528	1,600

NOTES TO THE FINANCIAL STATEMENTS**10. PROPERTY AND EQUIPMENT (continued)****Net book value:**

At 31 December 2006	41	131	97	269
At 31 December 2005	48	62	31	141

The Company had no property and equipment at the year end (2005 £NIL)

11. TAX ASSETS AND LIABILITIES**(a) Tax assets and liabilities**

	2006 Group £'000	2005 Group £'000	2006 Company £'000	2005 Company £'000
Deferred tax assets	5,097	3,811	4,380	2,213
Current tax recoverable	3,028	3,418	544	
Total tax assets	8,125	7,229	4,924	2,213
Current tax liabilities	7,674	6,410	7,386	1,352
Total tax liabilities	7,674	6,410	7,386	1,352

Deferred tax assets expected to be recoverable by the Group within 12 months amount to £830k (2005 £1,381k) Deferred tax assets expected to be recoverable by the Company within 12 months amount to £898k (2005 £157k).

(b) Recognised deferred tax

	2006 Group £'000	2005 Group £'000	2006 Company £'000	2005 Company £'000
Deferred tax assets comprise:				
Employee benefits	6,789	4,292	5,478	3,070
Deferred income		1,640		
Depreciable assets	190	153		
Other		10		
Gross deferred tax assets	6,979	6,095	5,478	3,070
Less offset of deferred tax liabilities	(1,882)	(2,284)	(1,098)	(857)
Net deferred tax assets	5,097	3,811	4,380	2,213

Deferred tax liabilities comprise:

Deferred acquisition costs	784	1,427		
Unrealised gain on investment securities	674		674	
Taxation on unremitted earnings	424		424	
Other		857		857
Gross deferred tax liabilities	1,882	2,284	1,098	857
Less offset against deferred tax assets	(1,882)	(2,284)	(1,098)	(857)
Net deferred tax liabilities				

Movements in net deferred tax assets comprise:

At 1 January	3,811	3,245	2,213	1,647
Exchange differences	(37)			
Amounts credited to the income statement (note 6(a))	1,323	566	2,167	566
At 31 December	5,097	3,811	4,380	2,213

NOTES TO THE FINANCIAL STATEMENTS**12. INVESTMENT SECURITIES**

	2006 Group £'000	2005 Group £'000	2006 Company £'000	2005 Company £'000
Non current				
Other	6,858	2,307	3,609	66
Current				
Manager's box	2,435	2,302		
Investment securities	9,293	4,609	3,609	66

13. TRADE AND OTHER RECEIVABLES

	2006 Group £'000	2005 Group £'000	2006 Company £'000	2005 Company £'000
Amounts due from funds/unit trusts	117,886	10,132		
Amounts due from investors in collective investment schemes	39,661	17,796		
Amounts due from Standard Life group undertakings	13,336	15,429	8,858	14,166
Amounts due from Standard Life Investments (Holdings) Limited	1,061		1,061	
Amounts due from subsidiary undertakings			11,387	4,995
Amounts due from joint venture	1,440	1,614	1,440	1,614
Trade receivables	8,674	734		
Prepayments and accrued income	41,805	10,993	1,327	2,770
Other	4,507	8,682	859	62
Total trade and other receivables	228,370	65,380	24,932	23,607
Presented as:				
Non current	1,440	1,614	1,440	1,614
Current	226,930	63,766	23,492	21,993
Total trade and other receivables	228,370	65,380	24,932	23,607

All of the financial assets listed above, with the exception of the amounts due from the joint venture, are non interest bearing and are expected to be settled within 12 months

The amounts due from the joint venture represent an investment in the preference share capital of HDFC AMC (note 9). The preference shares are denominated in Indian Rupees and carry an entitlement to a cumulative annual dividend of 10% of the nominal value of the shares. The amounts are not expected to be settled within 12 months.

14. CASH AND CASH EQUIVALENTS

	2006 Group £'000	2005 Group £'000	2006 Company £'000	2005 Company £'000
Cash at bank and in hand	26,366	15,129	1,393	515
Demand and term deposits with original maturity of less than 3 months	149,245	101,771	128,819	91,252
Debt investments with original maturity of less than 3 months	3,451	10,438		
Other short term investments	15,165	6,226	15,165	
Total cash and cash equivalents	194,227	133,564	145,377	91,767

Cash in hand is non interest bearing. Deposits are subject to variable interest rates.

NOTES TO THE FINANCIAL STATEMENTS**15. SUBORDINATED LIABILITIES**

	2006 Group £'000	2005 Group £'000	2006 Company £'000	2005 Company £'000
Subordinated liabilities	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>

The Company has a subordinated loan from a fellow subsidiary of the Standard Life group, Standard Life Assurance Limited, under an agreement that complies with the Financial Services Authority (FSA) regulations. The subordinated loan was transferred from The Standard Life Assurance Company to Standard Life Assurance Limited on 10 July 2006 as part of the demutualisation of The Standard Life Assurance Company. The loan is repayable on 1 November 2013. The repayment of the subordinated loan is subject to the prior written agreement of the FSA. The interest on the loan is charged at LIBOR + 0.20% and is reviewed on a quarterly basis.

The average rate of interest paid on the loan during the year was 4.92% (2005: 4.98%).

16. PENSION AND OTHER POST RETIREMENT BENEFIT PROVISIONS**Unfunded pension obligation:**

	2006 Group £'000	2005 Group £'000	2006 Company £'000	2005 Company £'000
At 1 January	972	901	972	901
Movement in unfunded pension obligation	199	71	199	71
Settlement	<u>(1,171)</u>		<u>(1,171)</u>	
At 31 December	<u>972</u>	<u>972</u>	<u>972</u>	<u>972</u>

The unfunded pension obligation, which related to a number of current directors of the Company, was assumed by the defined benefit pension scheme operated by the Standard Life group in return for a one off contribution which discharged the Company's and the Group's liability.

17. DEFERRED INCOME

	2006 Group £'000	2005 Group £'000
At 1 January	5,467	7,489
Additions during the year	2,275	1,034
Released to the Income Statement	<u>(2,659)</u>	<u>(3,056)</u>
At 31 December	<u>5,083</u>	<u>5,467</u>
Presented as:		
Non current	2,126	3,036
Current	<u>2,957</u>	<u>2,431</u>
Total deferred income	<u>5,083</u>	<u>5,467</u>

NOTES TO THE FINANCIAL STATEMENTS

18. TRADE AND OTHER PAYABLES

	2006 Group £'000	2005 Group £'000	2006 Company £'000	2005 Company £'000
Amounts due to funds/unit trusts	40,438	18,032		
Amounts due to investors in collective investment schemes	121,669	8,018		
Amounts due to Standard Life group undertakings	44,460	12,066	2,838	2,648
Amounts due to subsidiary undertakings			247	297
Insurance contract liabilities		2,551		
Accruals	72,812	51,889	63,529	44,954
Other	7,081	5,540	514	830
Total trade and other payables	286,460	98,096	67,128	48,729
Presented as:				
Non current	13,602	6,799	11,505	5,133
Current	272,858	91,297	55,623	43,596
Total trade and other payables	286,460	98,096	67,128	48,729

All trade and other payables, with the exception of insurance contract liabilities and certain accruals are expected to be settled within 12 months. All of the financial liabilities listed above are non interest bearing.

19. SHARE CAPITAL

	2006		2005	
	No.	£'000	No.	£'000
Ordinary Shares of £1 each	50,000,000	50,000	50,000,000	50,000
Authorised				
Allotted, Called Up and Fully Paid				
	2006		2005	
	No.	£'000	No.	£'000
Ordinary Shares of £1 each	32,440,000	32,440	32,440,000	32,440

20. MOVEMENT IN OPERATING ASSETS AND LIABILITIES

	2006 Group £'000	2005 Group £'000	2006 Company £'000	2005 Company £'000
Movement in operating assets:				
Deferred acquisition costs	701	1,884		
Trade and other receivables	(163,400)	(35,099)	(1,325)	(6,554)
	(162,699)	(33,215)	(1,325)	(6,554)
Movement in operating liabilities:				
Deferred income	(384)	(2,022)		
Pension and other post retirement benefit provisions	(972)	71	(972)	71
Trade and other payables	192,753	39,820	18,399	10,268
	191,397	37,869	17,427	10,339
Movement in operating assets and liabilities	28,698	4,654	16,102	3,785

NOTES TO THE FINANCIAL STATEMENTS

21. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying value of all financial assets and liabilities approximates their fair value

22. RISK MANAGEMENT POLICIES

(a) Governance framework

The Group takes and manages risks to achieve its corporate, financial and regulatory objectives. The types of risk inherent in the pursuit of these objectives and the extent of exposure to these risks form the Group's risk profile.

The Board has approved a Risk Policy which outlines the framework for identifying, assessing, controlling and monitoring the following categories of risk: credit, liquidity, market, operational and insurance.

The Board delegates responsibility for the implementation of the day to day processes to manage risk across the Group to the Chief Executive. The Chief Executive is supported in this role by the Senior Executive Committee and assisted by the Controls and Compliance and Operational Risk Committees.

(b) Credit risk

Credit risk is the risk that the Group or individual subsidiaries are exposed to loss if a counterparty fails to meet its contractual obligations, including failure to meet those obligations in a timely manner. The Group sets an acceptable level of credit risk through the Risk Policy.

Cash and cash equivalents

Limits are set for exposure to individual counterparties and minimum credit quality criteria must also be met, based on credit ratings issued by Standard & Poor's and Moody's. Short term credit rating requirements are at least A 1 (Standard & Poor's) or P 1 (Moody's).

All of the cash and cash equivalent balances at the balance sheet date were rated (Standard & Poor's) A or above (2005 A or above).

Trade receivables

Credit terms are established. Doubtful balances are reported to the Board.

Concentration of risk

Credit risk is primarily concentrated in the United Kingdom within the financial services industry sector.

(c) Liquidity or funding risk

Liquidity risk is the risk that the Group or individual subsidiaries, although solvent, do not have sufficient financial resources available to meet their obligations as they fall due, or can secure them only at excessive cost.

The Group reviews its liquidity position during the year as part of regulatory solvency monitoring.

The central Standard Life group treasury function has responsibility for mitigating liquidity risks across the Standard Life Group and for arranging external financing.

(d) Market risk

Market risk is the risk that as a result of market movements the Group or individual subsidiaries may be exposed to fluctuations in the value of its assets, the amount of its liabilities or the income from its assets. Sources of general market risk include movements in interest rates, securities markets and foreign exchange rates. The Group sets an acceptable level of market risk through the Risk Policy.

NOTES TO THE FINANCIAL STATEMENTS

22. RISK MANAGEMENT POLICIES (continued)

Revenue from investment management services

The Group's revenues are exposed to market risk because the investment management fees are levied based on the market value of the funds under management. The exposure of revenues to market risk is not hedged, although the sensitivity of revenues to market movements is calculated and reported to the Board.

Box management

The Group is exposed to market risk through box management for its Mutual Funds business line.

Box positions are not held with the intent to trade and are not seen as a source of revenue. Box positions are held for administrative convenience only.

Interest rate risk

Interest rate risk refers to the potential variability in the Group's financial condition as a result of changes in interest rates.

The Group's exposure to interest rate risk is limited by restricting the investment of surplus cash in instruments with short dated maturities or fixing dates.

Financial assets subject to interest rate risk comprise primarily of cash and cash equivalent balances and the investment in the preference share capital of the joint venture. Financial liabilities subject to interest rate risk comprise primarily of a subordinated loan from Standard Life Assurance Limited.

At 31 December 2006 and 2005, none of the Group's assets exposed to cash flow interest rate risk had a term to maturity exceeding 1 year. The subordinated loan is repayable on 1 November 2013. The repayment of the subordinated loan is subject to the prior written agreement of the Financial Services Authority (FSA).

Currency risk

The Group's financial assets are primarily denominated in the functional currencies of its subsidiaries which mitigate the foreign currency exchange rate risk for the overseas operations. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which business is conducted, and net investment in foreign operations when these are incorporated in the consolidated financial statements of the Group.

The Group's risk policy specifies that no more than 25% of the Group's capital will be denominated in currencies other than Sterling.

At 31 December 2005 and 2006 the majority of the Group's assets and liabilities were denominated in Sterling. The majority of the assets of the overseas subsidiaries were denominated in United States dollars, Canadian dollars and Hong Kong dollars. The assets and liabilities of the overseas subsidiaries are not significant in the context of the Group's exposure to currency risk.

(e) Operational risk

Operational risk is defined as the risk of loss, or adverse consequences for the business, resulting from inadequate or failed internal processes, people and systems, or from external events. The Group sets an acceptable level of operational risk through the Risk Policy.

The types of operational risk the Group is exposed to are identified using the following operational risk categories: fraud or irregularities, regulatory or legal, customer treatment, business interruption, supplier failure, planning, process execution, and people. Activities undertaken to ensure the practical operation of controls over financial risks (i.e. market, credit, liquidity and insurance risk) are treated as an operational risk.

NOTES TO THE FINANCIAL STATEMENTS

22. RISK MANAGEMENT POLICIES (continued)

The Group assesses its exposure to operational risk to enable efficient allocation of resources to manage such risks. The Group assesses its historical operational risk exposure using objective quantitative data. The Group also assesses the impact and likelihood of operational risks materialising in the future through a combination of qualitative data arising from management's judgement and historical data.

The Group's control environment is subject to quarterly self assessment by management. Managers are responsible for correcting any control weaknesses identified through this process, taking into account the cost of implementing preventive or corrective action plans and the Group's acceptable level of operational risk as set out in the Risk Policy.

The impact of a new product, a significant change, or any one off transaction on the operational risk profile of the Group is assessed and managed.

(f) Insurance risk

The Group is exposed to insurance risk through the provision of re insurance cover for property damage.

The insurance risk exposure is limited to a maximum amount payable per claim and to an aggregate amount payable per annum. These limits are specified in the insurance agreements.

(g) The Company

The Company is exposed to similar risks to those of the Group.

23. RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

Prior to 2 May 2006, the Company's parent and ultimate controlling party was The Standard Life Assurance Company. On 2 May 2006 its parent became Standard Life Investments (Holdings) Limited whilst its ultimate controlling party remained as The Standard Life Assurance Company.

On 10 July 2006, The Standard Life Assurance Company demutualised and a new holding company for the Standard Life group, Standard Life plc, was admitted to the London Stock Exchange. From 10 July 2006 the Company's parent remained as Standard Life Investments (Holdings) Limited whilst its ultimate controlling party became Standard Life plc.

Copies of the Annual Report and Accounts of Standard Life plc are available to the public from, Standard Life House, 30 Lothian Road, Edinburgh.

NOTES TO THE FINANCIAL STATEMENTS**23. RELATED PARTY TRANSACTIONS (continued)****Group transactions between and balances with related parties**

In the normal course of business, the Group enters into transactions with related parties in respect of the investment management business. Such related party transactions are at arms length.

The following are details of significant transactions with related parties during the year and year end balances arising from such transactions.

	2006			
	Revenues	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Key management personnel		9,889		
Parent	14,093	90	1,061	
Pension schemes		5,203		
Joint venture			1,440	
Other (including fellow subsidiaries)	162,882	25,357	13,336	59,460
	176,975	40,539	15,837	59,460
	2005			
	Revenues	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Key management personnel		7,530		
Parent	45,465	3,269	6,519	26,882
Pension schemes		4,690		
Joint venture			1,614	
Other (including fellow subsidiaries)	86,841	22,631	8,910	184
	132,306	38,120	17,043	27,066

Interest paid to the parent amounted to £120k (2005 £764k). Interest paid to other related parties amounted to £242k (2005 £NIL).

Dividend income from the joint venture amounted to £670k (2005 £1,491k). Dividends owed by the joint venture amounted to £NIL (2005 £NIL).

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense for bad and doubtful debts has been recognised in the year, or in the prior year, in respect of the amounts owed by related parties.

NOTES TO THE FINANCIAL STATEMENTS**23. RELATED PARTY TRANSACTIONS (continued)****Compensation of key management personnel**

Key management personnel of the Group include all directors, both executive and non executive and certain direct reports of the Chief Executive Officer. A number of the key management personnel of the Group are also key management personnel of a number of entities within the Standard Life group. For the purpose of this note an apportionment of the total compensation has been made based on an estimate of the services rendered. The key management personnel compensation apportioned to the Group was as follows:

	2006 £'000	2005 £'000
Short term employee benefits	6,557	4,920
Post employment benefits	84	44
Other long term benefits	2,828	2,566
Share based payments	165	
Termination benefits	255	
Other		
	9,889	7,530

Of the amounts disclosed above, the following is in respect of the directors of the Company:

	2006 £'000	2005 £'000
Aggregate emoluments	6,896	4,964
Amounts (excluding options in group shares) receivable under long term incentive schemes	2,828	2,566

Seven directors of the Company are participants in long term incentive schemes. The benefits arising under the incentive schemes are recorded in the period in which entitlement is determined.

Retirement benefits are accruing to six directors in respect of their services to the Company under a defined benefit scheme operated by the Standard Life group. Non executive directors are not entitled to retirement benefits in respect of their service to the Company.

The highest paid director of the Company received aggregate remuneration during the year of £2,429k (2005 £1,548k). At 31 December 2006, the highest paid director also held accrued pension benefits of £38k (2005 £12k) under the defined benefit pension scheme operated by the Standard Life group and £NIL (2005 £16k) under an unfunded pension arrangement with the parent undertaking.

NOTES TO THE FINANCIAL STATEMENTS**23. RELATED PARTY TRANSACTIONS (continued)****Company's transactions between and balances with related parties**

In the normal course of business, the Company enters into transactions with related parties that relate to the investment management business. Such related party transactions are at arms length.

The following are details of significant transactions with related parties during the year and year end balances arising from such transactions.

	2006			
	Revenues	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Key management personnel		9,724		
Parent	30,254	90	1,061	
Pension schemes		4,155		
Joint venture			1,440	
Other (including fellow subsidiaries)	143,473	32,561	20,245	18,085
	173,727	46,530	22,746	18,085
	2005			
	Revenues	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Key management personnel		7,530		
Parent	82,550	321	5,789	17,546
Pension schemes		4,107		
Joint venture			1,614	
Other (including fellow subsidiaries)	38,681	29,232	13,372	399
	121,231	41,190	20,775	17,945

Interest paid to the parent amounted to £120k (2005 £755k). Interest paid to other related parties amounted to £239k (2005 £NIL).

Dividend income from subsidiaries amounted to £9,658k (2005 £8,734k). Dividends owed by subsidiaries amounted to £NIL (2005 £NIL).

Dividend income from the joint venture amounted to £670k (2005 £1,491k). Dividends owed by the joint venture amounted to £NIL (2005 £NIL).

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense for bad and doubtful debts has been recognised in the year, or in the prior year, in respect of the amounts owed by related parties.

NOTES TO THE FINANCIAL STATEMENTS

24. PENSIONS

The majority of the staff who manage the affairs of the Group and the Company are members of a defined benefit pension scheme and a defined contribution pension scheme operated by the Standard Life group for its employees in the United Kingdom. There is no contractual agreement or policy for charging the net defined benefit cost of the defined benefit scheme across the participating UK companies. The sponsoring employer for the defined benefit scheme is a fellow subsidiary of Standard Life plc, Standard Life Assurance Limited, and therefore the net defined benefit cost of the scheme is recognised by Standard Life Assurance Limited. As a result the Group and the Company treat their participation in the defined benefit plan as a defined contribution plan. A similar arrangement is in place for the employees of the Group's Canadian subsidiary, Standard Life Investments Inc., where the sponsoring employer is The Standard Life Assurance Company of Canada.

The Group also makes contributions to state pension schemes in Hong Kong, the People's Republic of China and the Republic of Korea as well as a defined contribution pension scheme for its employees in the United States of America. Contributions to defined contribution plans (including state plans) are expensed when employees have rendered services in exchange for such contributions, generally in the year of contribution.

The contributions to the defined contribution and the defined benefit plans recognised as an expense for the year ended 31 December 2006 were £5.2m (2005: £4.7m).

The Group is required, under IAS 19 Employee Benefits, to provide the following disclosures relating to the Standard Life group defined benefit pension plans.

(a) Background

The Standard Life group operates defined benefit schemes for its employees in Europe and Canada. The plans operating in Europe are in the UK, Ireland and Germany, with the scheme in the UK having the largest number of members. With effect from 16 November 2004, the UK scheme was closed to new entrants. The Standard Life group has agreed to make deficit reduction contributions to the UK scheme in addition to the normal contributions assessed from time to time in respect of ongoing benefit accrual. The Standard Life group made a contribution of £60m in the year to 31 December 2006 and has committed to make further contributions of twice yearly instalments of £10m. The Standard Life group expects to contribute £64m to its defined benefit pension plans in 2007 inclusive of deficit reduction payments of £20m.

(b) Actuarial gains and losses recognised by the Standard Life group in the Standard Life group Consolidated Statement of Recognised Income and Expense ('SORIE')

The actuarial (losses)/gains recognised by the Standard Life group in the Consolidated SORIE are as follows:

	2006 £m	2005 £m
Actual return less expected return on plan assets	(31)	137
Experience gains and losses arising on schemes' liabilities	(18)	15
Changes in assumptions underlying schemes' liabilities	37	(130)
Actuarial (losses)/gains in the Consolidated SORIE	(12)	22

The cumulative amount of actuarial losses recognised by the Standard Life group in the Consolidated SORIE since 16 November 2003, the date of adoption of IFRS by the Standard Life group, is a loss of £32m (2005: loss of £20m).

The actuarial gain of £22m for the year ended 31 December 2005 and the actuarial loss of £10m for the period from 1 January 2006 to 10 July 2006 were recognised directly in the unallocated divisible surplus when the Standard Life group was a mutual insurer. The actuarial losses for the period from 10 July 2006 to 31 December 2006 of £2m were recognised directly in retained earnings.

NOTES TO THE FINANCIAL STATEMENTS**24. PENSIONS (continued)****(c) Analysis of amounts recognised by the Standard Life group in the Consolidated Balance Sheet**

The present value of the defined benefit obligation less the fair value of gross scheme assets is as follows

	2006		
	Europe £m	Canada £m	Total £m
Present value of funded obligations	(1,332)	(115)	(1,447)
Present value of unfunded obligations	(3)	(41)	(44)
Fair value of plan assets	1,161	110	1,271
Net liability on the Balance Sheet	(174)	(46)	(220)

	2005		
	Europe £m	Canada £m	Total £m
Present value of funded obligations	(1,265)	(126)	(1,391)
Present value of unfunded obligations	(3)	(43)	(46)
Fair value of plan assets	1,051		1,051
Net liability on the Balance Sheet	(217)	(169)	(386)

The definition of plan assets excludes non transferable financial instruments issued by the Standard Life group. Investments that do not meet the definition of plan assets are not deducted from the defined benefit pension scheme obligation. Certain non transferable financial instruments were amended to enable transferability in 2005 in relation to the European schemes and in 2006 in relation to the Canadian scheme. The remainder of excluded assets relate to the Canadian scheme.

The present value of the defined benefit obligation including all assets backing the schemes is as follows

	2006 £m	2005 £m
Defined benefit pension deficit recognised on the balance sheet	(220)	(386)
Investment by pension scheme in non transferable financial instruments		111
Net liability on the Balance Sheet including all assets backing the schemes	(220)	(275)

(d) Defined benefit obligation

The movement in the present value of the defined benefit obligation is as follows

	2006 £m	2005 £m
At 1 January	1,437	1,207
Foreign exchange differences	(22)	18
Current service costs	53	58
Interest costs	71	68
Actuarial (gains)/losses	(19)	115
Past service cost	1	
Benefit paid	(30)	(29)
At 31 December	1,491	1,437

The defined benefit obligation is funded as follows

	2006 £m	2005 £m
Wholly unfunded	44	46
Wholly funded	1,447	1,391
At 31 December	1,491	1,437

NOTES TO THE FINANCIAL STATEMENTS**24 PENSIONS (continued)****(e) Plan assets**

The changes in the fair value of plan assets are as follows

	2006	2005
	£m	£m
At 1 January	1,051	735
Recognition of plan assets	110	96
Expected return on plan assets	71	63
Actuarial (losses)/gains	(31)	137
Contributions by employer	107	46
Exchange difference on foreign plans	(13)	
Benefits paid	(24)	(26)
At 31 December	1,271	1,051

The difference between the Standard Life group 'Benefits paid' as disclosed in the tables in sections (d) and (e) is due to the exclusion of Canadian assets in section (e)

In 2005, the Standard Life group entered into futures contracts in order to increase exposure to bonds and reduce exposure to equities

The distribution of the fair value of the plan assets is as follows

	2006	2005
	£m	£m
Equities	874	871
Bonds government	225	94
Bonds corporate	15	5
Property	53	41
Other	104	40
At 31 December	1,271	1,051

The expected return on plan assets is based on the market expectations at the beginning of the period for return over the entire life of the related benefits obligations. The actual return on plan assets during 2006 was £40m (2005 £200m)

(f) Plan assets

The principal assumptions used in determining the pension benefit obligation for Standard Life group's schemes are as follows:

	2006	2005
	%	%
Rate of increase in salaries	3.05 4.55	2.85 4.00
Rate of increase in pensions	2.25 3.05	2.25 2.85
Discount rate	4.60 5.25	4.80 5.25
Inflation assumption	2.25 3.05	2.25 2.85
Rate of return on plan assets	7	6

NOTES TO THE FINANCIAL STATEMENTS**24. PENSIONS (continued)**

Mortality tables used for the UK defined benefit pension obligations

Post retirement males	PMA92	PMA92
Post retirement females	PFA92	PFA92
Pre retirement males	AM92 5 years	AM92 5 years
Pre retirement females	AF92 5 years	AF92 5 years

The change in the assumption rate for the increase in salaries reflects management action regarding future salary increases which impact the UK scheme

The long term rate of return expected on plan assets is as follows

	2006		
	Europe	Canada	Total
	%	%	%
Equities	8	9	8
Bonds government	5	6	5
Bonds corporate	5	6	6
Property	8	6	8
Other	5	6	5

	2005		
	Europe	Canada	Total
	%	%	%
Equities	8	9	8
Bonds government	4	6	4
Bonds corporate	5	6	5
Property	8	6	8
Other	5	6	5

25. EMPLOYEE SHARE BASED PAYMENTS**(a) Details of arrangements**

The Group does not operate any share based payments. During the year ended 31 December 2006 the Group's ultimate parent company, Standard Life plc operated a number of schemes, all of which are equity settled. Prior to admittance to the London Stock Exchange, Standard Life plc did not operate any employee share based payment schemes. Details of these arrangements are as follows:

(i) Standard Life group Long Term Incentive Plan ('Standard Life group LTIP')

The Standard Life group LTIP is an award scheme granted to senior executives of the Standard Life group. Prior to admittance of Standard Life plc to the London Stock Exchange, the Standard Life group LTIP was a cash based award dependent on certain performance conditions being achieved over a three year period. On admittance to the London Stock Exchange, the 2005 and 2006 plans were converted to awards of shares of the Company and in future years the Standard Life group LTIP will be a share based payment scheme. Under the terms of the conversion, the number of options awarded, which will have a nil exercise price, was based on the average share price over the initial 20 days of trading. The relevant performance periods for the 2005 and 2006 plans commence on 1 January 2005 and 1 January 2006 respectively, and this remains unchanged by the conversion.

NOTES TO THE FINANCIAL STATEMENTS

25. EMPLOYEE SHARE BASED PAYMENTS (continued)

Under the terms of the share based plan, share options are awarded to executives and senior management based on performance results of the Standard Life group over a three year period. The performance target is based on the Standard Life group's return on capital which is a combination of return on underlying profit for the non life businesses of the Standard Life group and the return on European Embedded Value for the life businesses of the Standard Life group. At the grant date the participants are advised of the range of options that will be awarded. The actual number of options that ultimately vest is determined at the end of the performance period. The terms and conditions of the Standard Life group LTIP listed below assume the maximum number of options available to vest.

(ii) Share incentive plans

The Standard Life group operates share incentive plans, allowing employees the opportunity to buy shares from their salary each month. The maximum purchase that an employee can make in any year is £1,500. The Standard Life group offers to match the first £25 of shares bought each month. The matching shares awarded under the Share Incentive Plan are granted at the end of each month. The first grant occurred at the end of October 2006.

The matching shares are generally subject to a three year service period, an employee may forfeit some or all of the matching shares if they leave the company prior to completing three years of service from date of grant.

(b) Terms and conditions of the share based payment schemes

The terms and conditions attaching to each of the arrangements are set out in the table below. The assumptions set out are based on the weighted average number of awards, across the Standard Life group.

Arrangement	Group LTIP	Share incentive plans
Nature of arrangement	Grant of share options	Grant of shares
Date of grant	4 August 2006	Monthly
Number of instruments granted	161,306	8,002
Exercise price	nil	n/a
Share price at date of grant	258.75p	291p
Contractual life (years)	3.75	n/a
Vesting conditions	3 year service period, specified Standard Life Group performance	3 year service period
Settlement	Shares	Shares
Expected volatility	25%	n/a
Expected option life at grant date (years)	2.16	n/a
Risk free interest rate	4.92%	n/a
Expected dividend (dividend yield)	2.67%	n/a
Expected departures (grant date)	None at grant date. Leavers accounted for on departure.	None at grant date. Leavers accounted for on departure.
Expected outcome of meeting performance criteria (at the grant date)	75%	At grant date all awards expected to vest.
Fair value per granted instrument determined at the grant date	244p	291p

NOTES TO THE FINANCIAL STATEMENTS

25. EMPLOYEE SHARE BASED PAYMENTS (continued)

(c) Standard Life group LTIP share options

The Black Scholes option pricing model is used to value the options granted under the LTIP. The expected volatility for the share options has been determined following consideration of historical volatility since admittance of Standard Life plc to the London Stock Exchange, together with the volatility of a group of peer companies over a comparable period in their history.

The risk free interest rate was based on the yields attaching to UK government bonds at the grant date. These had a similar term to the expected life of the options at the grant date.

No share options were exercised during the period. The information in the table that follows applies to the maximum number of options outstanding at the end of the period.

Range of exercise prices	Weighted average exercise price	2006	
		Number of options ('000)	Weighted average remaining life (years)
			Expected Contractual
nil	nil	161	2.16 2.66

A reconciliation of movements in the number of share options granted to executives and senior management is set out in the table below.

	2006	
	Number of options ('000)	Weighted average exercise price
On conversion	161	nil
Effect of modifications and cancellations		nil
Effect of change in expected performance outcome		nil
Granted		nil
Forfeited		nil
Exercised		nil
Outstanding at 31 December	<u>161</u>	nil
Exercisable at 31 December		<u>nil</u>

Under the terms of the conversion these options have a nil exercise price.

(d) Expense charged to the Income Statement

The Company and the Group have incurred a charge of £166k (2005: £NIL) in respect of share based awards granted by Standard Life plc to employees of the Company. The charge recognised in the Income Statement is split as follows:

	2006 Group and Company £'000
Share options granted to executives and senior management	165
Matching shares granted under share incentive plans	<u>1</u>
	<u>166</u>

NOTES TO THE FINANCIAL STATEMENTS**26 COMMITMENTS****Operating lease commitments**

The Group's and the Company's annual commitments under non cancellable operating leases for land and buildings were as follows

	2006 Group £'000	2005 Group £'000
Expiring during years 2 to 5	133	111
Expiring thereafter	406	406

Commitments to limited partnerships

The Group has entered into partnership agreements which have committed the Group to invest a maximum of £2,411k (2005 £1,898k) into limited partnerships. During the year the Group invested £390k (2005 £66k) with a remaining maximum commitment of £2,021k (2005 £1,832k)

27. RECONCILIATION OF EQUITY AND PROFIT REPORTED UNDER UK GAAP AND IFRS**GROUP**

(a) Reconciliation of shareholders' equity reported under UK GAAP to shareholders' equity reported under IFRS as at:	31 December 2005 £'000	1 January 2005 £'000
Equity attributable to equity holders of the parent as reported under UK GAAP	106,058	72,938
Adjustments for		
Main fund performance fee	2,857	1,302
Accrual for holiday pay	(703)	(155)
Deferred acquisition costs (DAC)	4,755	6,639
Deferred income reserve (DIR)	(5,467)	(7,489)
Deferred taxation	(201)	103
Amortisation of investment in joint venture	1,264	723
Total equity attributable to equity holders of the parent as reported under IFRS	108,563	74,061
(b) Reconciliation of profit for the year reported under UK GAAP to profit for the year reported under IFRS, for year ended:	31 December 2005 £'000	
Profit for the year reported under UK GAAP	32,707	
Adjustments for		
Main fund performance fee	1,555	
Accrual for holiday pay	(548)	
Deferred acquisition costs (DAC)	(1,884)	
Deferred income reserve (DIR)	2,022	
Deferred taxation	(304)	
Amortisation of investment in joint venture	541	
Profit for the year attributable to equity holders of the parent as reported under IFRS	34,089	

NOTES TO THE FINANCIAL STATEMENTS**27. RECONCILIATION OF EQUITY AND PROFIT REPORTED UNDER UK GAAP AND IFRS (continued)****COMPANY**

(a) Reconciliation of shareholders' equity reported under UK GAAP to shareholders' equity reported under IFRS as at:	31 December 2005 £'000	1 January 2005 £'000
Equity attributable to equity holders of the Company as reported under UK GAAP	93,701	71,311
Adjustments for		
Main fund performance fee	2,857	1,302
Accrual for holiday pay	(703)	(155)
Deferred taxation	(492)	(228)
Total equity attributable to equity holders of the Company as reported under IFRS	95,363	72,230
(b) Reconciliation of profit for the year reported under UK GAAP to profit for the year reported under IFRS, for year ended:	31 December 2005 £'000	
Profit for the year reported under UK GAAP	22,390	
Adjustments for		
Main fund performance fee	1,555	
Accrual for holiday pay	(548)	
Deferred taxation	(264)	
Profit for the year attributable to equity holders of the Company as reported under IFRS	23,133	

(c) Explanation of reconciling items between UK GAAP and IFRS**Main fund performance fee**

The performance fee income recognised in relation to the management of Standard Life Assurance Limited's UK Participating Life Fund was calculated on the basis of a prudent reliable estimate. IFRS requires income to be recognised whenever a reliable estimate can be made and hence does not allow the concept of prudence to be taken into account.

Accrual for holiday pay

Under UK GAAP it has been common practice for companies not to recognise a liability in relation to compensated absences. IFRS contains express provisions for the recognition of such liabilities.

Deferred acquisition costs ('DAC')

Under UK GAAP, the commission costs associated with acquiring new mutual funds management business were recognised in the period in which the payments were made. Under IFRS, incremental costs directly related to the cost of acquiring new business (i.e. commission) are deferred, to the extent that they are deemed recoverable from future charges. The recoverability test takes account of any front end fees that have been deferred. The DAC asset is amortised on a consistent basis with the DIR liability in line with the expected emergence of profits from the underlying product grouping.

NOTES TO THE FINANCIAL STATEMENTS

27. RECONCILIATION OF EQUITY AND PROFIT REPORTED UNDER UK GAAP AND IFRS (continued)

Deferred income reserve ('DIR')

Under UK GAAP, the commission income associated with acquiring new mutual funds management business was recognised in the period in which the payments were received. Under IFRS, front end fees relating to investment management services are deferred as a liability and recognised over the period over which services are provided. The DIR liability is amortised on a basis consistent with the associated DAC asset.

Deferred taxation

IFRS requires deferred tax to be calculated on temporary differences rather than on timing differences under UK GAAP. Under IFRS, where any asset or liability has a temporary timing difference and that temporary timing difference is increased or decreased in the IFRS financial statements by making an adjustment to its carrying value on transition to IFRS, then an adjustment will be required to the deferred tax provision recognised in the UK GAAP financial statements. Furthermore, IAS 12 does not permit discounting of the deferred tax provisions whereas UK GAAP did.

Amortisation of goodwill on investment in joint venture

Under IFRS, any goodwill arising on the consolidation of an investment in a joint venture is not separately identified. Under UK GAAP the goodwill arising on the consolidation of an investment in a joint venture was separately identified. Under IFRS, the carrying value of the investment in a joint venture is subject to an impairment review and goodwill is not amortised on a systematic basis as was the practice under UK GAAP.

(d) Presentation adjustments between UK GAAP and IFRS not impacting equity shareholders' funds or profit for the year

Presentation of profit of joint venture

Under IFRS, the share of profit of joint ventures is stated after tax and is included in profit before tax in the income statement. Under UK GAAP, the share of profit before tax of joint ventures' was included in profit before tax in the income statement, with the share of joint ventures' taxation being shown separately within the taxation charge.

Cash and cash equivalents

'Cash and cash equivalents' is a newly defined term under IFRS and results in more assets falling into the 'Cash and cash equivalents' category than fell into the 'Cash at bank and in hand' category under UK GAAP. Approximately £10.4m of assets has been reclassified into 'Cash and cash equivalents' as at 31 December 2005.

(e) Cash flow statement

In the financial statements prepared under UK GAAP, the Group and the Company availed itself of the exemption outlined in paragraph 5(a) of FRS1 Cash Flow Statements and consequently no cash flow statement was presented. As a result no explanation of material adjustments to the Cash Flow Statement has been presented.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STANDARD LIFE INVESTMENTS LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Standard Life Investments Limited for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

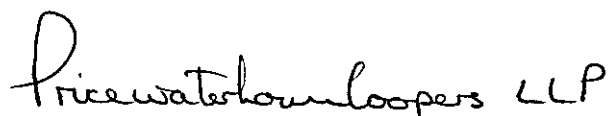
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STANDARD LIFE INVESTMENTS LIMITED

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006 and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Edinburgh, 15 March 2007