

STANDARD LIFE INVESTMENTS

**STANDARD LIFE INVESTMENTS
LIMITED**

**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2007**



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	
C Walklin, BSc FCA	
* member of the audit committee	

Company Secretary

V J O'Brien, ACII

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 2007

The Directors present their report and financial statements for the year ended 31 December 2007

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

Business review

The Group achieved a profit after tax for the year ended 31 December 2007 of £67.3m, an increase of 53% over the previous year's profit of £43.9m. This included profit after tax of £12.4m from the partial disposal of the Group's joint venture with HDFC Asset Management Company (HDFC)

The Group's earnings before interest and taxation ('EBIT'), the Group's preferred measure of profit, increased from £60.9m to £70.9m, an increase of 16%. EBIT as a percentage of net revenues ('EBIT margin') increased from 26.8% to 28.5%.

The growth in EBIT 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 £132.1bn as at 31 December 2006 to £143.4bn as at 31 December 2007, an increase of 9%.

Third Party FUM grew by 24%, from £38.5bn in 2006 to £47.7bn as at 31 December 2007. Net inflows of £7.9bn included record levels of UK institutional business of £3.9bn. The Group's mutual funds business also enjoyed a very strong year achieving net sales of £1.5bn, an increase of 13% over 2006. FUM internal to the Standard Life group increased by 2.2% to £95.7bn.

Market conditions have been volatile during 2007, particularly in the second half of the year. Concerns about US sub prime lending triggered a global crisis of confidence in the credit markets which, in turn, led to serious dislocation of the money markets from August onwards. Equity markets in both the UK and US reached record highs during the first half of the year but lost ground as the impact of the credit crisis began to feed through.

Even in these difficult investing conditions, Standard Life Investments delivered a good investment performance over the year. The money weighted investment performance across the portfolio was well above median for all time periods from 1 year to 10 years and remains in the top quartile over 3 and 5 years. Of our 58 retail funds, 35 were above median and 12 were top quartile over the past 12 months.

Dividend

The Directors recommended and paid dividends during the year amounting to £82m (2006: £NIL)

Future outlook

Despite the turbulent market conditions, we are seeing a good volume of "Request for Proposals" and our pipeline of confirmed new third party business remains strong, driven substantially by institutional funds. It is likely that the first half of 2008 will be challenging for all players in the industry but we remain confident of delivering further growth in the year to come.

REPORT BY THE DIRECTORS

for the year ended 31 December 2007

Key performance indicators ('KPIs')

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

	2007	2006
EBIT Earnings before interest, taxation, foreign exchange gains and losses, profit on partial disposal of joint venture and financial guarantee costs This KPI measures directly the underlying operating profitability of the Group	£70.9m	£60.9m
EBIT margin EBIT as a percentage of net revenue This KPI measures the Group's efficiency	28.5%	26.8%
FUM Funds under management is the value of assets managed by the Group on behalf of clients	£143.4bn	£132.1bn
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	£47.7bn	£38.5bn

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 risks to which the Group is exposed, and its financial risk management objectives and policies are considered in note 23 to this report and accounts. Other key business risks include the development and retention of key employees as well as competition from other providers of investment management services.

Directors

The names of the current Directors of the Company are shown on page 1

Colin Walklin was appointed as Director on 3 December 2007

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.

REPORT BY THE DIRECTORS
for the year ended 31 December 2007

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, in which case there should be supporting assumptions or qualifications as necessary

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

Charitable donations

During the year, the Group made a number of charitable donations totalling £38,514

REPORT BY THE DIRECTORS
for the year ended 31 December 2007

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. There was an average 22 days (2006: 16) taken to make payment for services provided in 2007.

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, 11 March 2008

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Revenue			
Management fee income		258,137	232,902
Earned premium			3,338
Other operating income	3	6,654	6,246
Total revenue		264,791	242,486
Less Fee and commission expenses		(16,089)	(15,257)
Net revenue		248,702	227,229
Operating expenses			
Administrative expenses		(182,550)	(169,134)
Claims paid			(642)
Change in insurance contract liabilities			57
Total operating expenses		(182,550)	(169,719)
Operating profit	5	66,152	57,510
Interest income		10,189	6,252
Finance costs	6	(1,876)	(1,465)
Net foreign exchange gain/(loss)		159	(623)
Share of profit after tax of joint venture	13	4,773	3,351
Gain on partial disposal of joint venture interest	13	16,964	
Gain on sale of investment securities		30	
Profit before tax		96,391	65,025
Tax expense	7	(29,082)	(21,172)
Profit for the year		67,309	43,853
Attributable to:			
Equity holders of the parent		67,258	43,853
Minority interests		51	
		67,309	43,853

The notes on pages 13 to 48 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 Company for the year was £44,410,000 (2006 £37,728,000)

CONSOLIDATED BALANCE SHEET
as at 31 December 2007

	Note	2007 £'000	2006 £'000
ASSETS			
Non current assets			
Property and equipment	9	501	269
Deferred acquisition costs	10	1,139	1,812
Deferred tax assets	12	3,903	5,097
Investment in joint venture	13	19,767	20,977
Investment securities	14	7,870	6,858
Trade and other receivables	15	1,272	1,440
Total non current assets		34,452	36,453
Current assets			
Deferred acquisition costs	10	1,331	2,242
Current tax recoverable	12	967	3,028
Investment securities	14	1,254	2,435
Trade and other receivables	15	101,157	226,930
Cash and cash equivalents	16	190,404	194,227
Total current assets		295,113	428,862
Total assets		329,565	465,315
EQUITY			
Share capital	17	32,440	32,440
Foreign currency translation reserve		822	(905)
Retained earnings		104,821	119,563
Equity attributable to equity holders of the parent		138,083	151,098
Minority interest in equity		91	
Total Equity		138,174	151,098
LIABILITIES			
Non current liabilities			
Subordinated liabilities	18	15,000	15,000
Deferred income	20	2,797	2,126
Trade and other payables	21	9,948	13,602
Total non current liabilities		27,745	30,728
Current liabilities			
Deferred income	20	1,522	2,957
Current tax liabilities	12	8,654	7,674
Trade and other payables	21	153,470	272,858
Total current liabilities		163,646	283,489
Total liabilities		191,391	314,217
Total liabilities and equity		329,565	465,315

The notes on pages 13 to 48 form part of these financial statements

Approved on behalf of the Board of Directors and authorised for issue on 11 March 2008 by the following Director

C Walklin, Finance Director



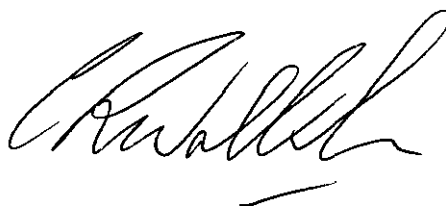
COMPANY BALANCE SHEET
as at 31 December 2007

	Note	2007 £'000	2006 £'000
ASSETS			
Non current assets			
Investments in subsidiaries	11	32,728	27,002
Deferred tax assets	12	3,269	4,380
Investment in joint venture	13	13,448	16,761
Investment securities	14	4,327	3,609
Trade and other receivables	15	1,272	1,440
Total non current assets		55,044	53,192
Current assets			
Current tax recoverable	12		544
Trade and other receivables	15	41,730	23,492
Cash and cash equivalents	16	117,554	145,377
Total current assets		159,284	169,413
Total assets		214,328	222,605
EQUITY			
Share capital	17	32,440	32,440
Retained earnings		66,701	100,651
Equity attributable to equity holders of the Company		99,141	133,091
LIABILITIES			
Non current liabilities			
Subordinated liabilities	18	15,000	15,000
Trade and other payables	21	9,353	11,505
Total non current liabilities		24,353	26,505
Current liabilities			
Current tax liabilities	12	7,991	7,386
Trade and other payables	21	82,843	55,623
Total current liabilities		90,834	63,009
Total liabilities		115,187	89,514
Total liabilities and equity		214,328	222,605

The notes on pages 13 to 48 form part of these financial statements

Approved on behalf of the Board of Directors and authorised for issue on 11 March 2008 by the following Director

C Walklin, Finance Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2007

	Note	Share capital £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total equity attributable to equity holders of the parent £'000	Minority interests £'000	Total equity £'000
At 1 January 2006		32,440	413	75,710	108,563		108,563
Currency translation differences			(1,318)		(1,318)		(1,318)
Net expense recognised directly in equity			(1,318)		(1,318)		(1,318)
Profit for the year				43,853	43,853		43,853
Total recognised income for the year			(1,318)	43,853	42,535		42,535
At 31 December 2006		32,440	(905)	119,563	151,098		151,098
At 1 January 2007		32,440	(905)	119,563	151,098		151,098
Currency translation differences			1,727		1,727		1,727
Net income recognised directly in equity			1,727		1,727		1,727
Profit for the year				67,258	67,258	51	67,309
Total income and expense for the year			1,727	67,258	68,985	51	69,036
Total recognised income for the year			1,727	67,258	68,985	51	69,036
Equity dividends	8			(82,000)	(82,000)		(82,000)
Capital introduced by minority interests						40	40
At 31 December 2007		32,440	822	104,821	138,083	91	138,174

The notes on pages 13 to 48 form part of these financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2007

	Share capital £'000	Retained earnings £'000	Total equity attributable to equity holders of the Company £'000
At 1 January 2006	32,440	62,923	95,363
Profit for the year		37,728	37,728
At 31 December 2006	32,440	100,651	133,091
At 1 January 2007	32,440	100,651	133,091
Profit for the year		48,050	48,050
Dividends		(82,000)	(82,000)
At 31 December 2007	32,440	66,701	99,141

The Company did not recognise any income or expense directly in equity (2006 £NIL) The total recognised income for the year comprised of the profit for the year

The notes on pages 13 to 48 form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Cash flows from operating activities			
Profit before tax		96,391	65,025
Adjustments for			
Interest income classified as investing activity		(10,189)	(6,252)
Interest expense classified as financing activity	6	1,876	1,465
Movement in investment securities		465	(3,012)
Net purchase of investment securities held as part of manager's box		(20)	(13)
Purchase of investment securities		(382)	(2,039)
Depreciation of property and equipment	9	183	105
Share of profit after tax of joint venture	13	(4,773)	(3,351)
Dividends received from joint venture	13	1,654	670
Gain on partial disposal of joint venture	13	(16,964)	
Movement in operating assets and liabilities	22	3,719	28,698
Minority interest		(51)	
Taxation paid		(24,848)	(20,893)
Net cash flows from operating activities		47,061	60,403
Cash flows from (used in) investing activities			
Proceeds from disposal of subsidiary net of cash disposed			(3,685)
Proceeds from partial disposal of joint venture	13	22,002	
Interest received		10,189	6,252
Purchase of property and equipment	9	(391)	(243)
Net cash flows from investing activities		31,800	2,324
Cash flows from financing activities			
Interest paid	6	(1,876)	(1,465)
Dividends paid to parent	8	(82,000)	
Capital introduced by minority interest		40	
Net cash flows from financing activities		(83,836)	(1,465)
Net increase/(decrease) in cash and cash equivalents		(4,975)	61,262
Cash and cash equivalents at the beginning of the year	16	194,227	133,564
Effects of exchange rate changes on cash and cash equivalents		1,152	(599)
Cash and cash equivalents at the end of the year	16	190,404	194,227

In 2006, the cash disposed of as part of the disposal of the subsidiary undertaking amounted to £4,746,000

The notes on pages 13 to 48 form part of these financial statements

COMPANY CASH FLOW STATEMENT
for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Cash flows from operating activities			
Profit before tax		65,727	55,180
Adjustments for			
Interest income classified as investing activity		(5,715)	(3,793)
Interest expense classified as financing activity		1,673	1,230
Dividend received from subsidiary undertakings classified as investing activity		(10,105)	(9,658)
Dividend received from joint venture classified as investing activity	13	(1,654)	(670)
Movement in fair value of investment securities		(312)	(2,576)
Purchase of investment securities		(707)	(967)
Proceeds from disposal on investment securities		330	
Gain on disposal of investment securities		(30)	
Gain on disposal of investments in subsidiary undertakings	11		(61)
Impairment losses on investments in subsidiary undertakings	11	300	1,000
Gain on partial disposal of joint venture	13	(18,689)	
Movement in operating assets and liabilities	22	6,998	16,102
Taxation paid		(15,418)	(14,129)
Net cash flows from operating activities		22,398	41,658
Cash flows from investing activities			
Purchase of investment in subsidiary undertakings	11	(7,527)	(2,000)
Proceeds on disposal of subsidiary undertakings	11	1,501	1,061
Proceeds from disposal of investment in joint venture	13	22,002	
Dividends received from subsidiary undertakings	8	10,105	9,658
Dividends received from joint venture	13	1,654	670
Interest received		5,717	3,793
Net cash flows from investing activities		33,452	13,182
Cash flows from financing activities			
Dividends paid	8	(82,000)	
Interest paid		(1,673)	(1,230)
Net cash flows from financing activities		(83,673)	(1,230)
Net increase in cash and cash equivalents		(27,823)	53,610
Cash and cash equivalents at the beginning of the year	16	145,377	91,767
Cash and cash equivalents at the end of the year	16	117,554	145,377

The notes on pages 13 to 48 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)

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.

(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.

(i) 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.

(ii) Investments in joint ventures

Joint ventures are entities whereby the Group and other parties undertake an economic activity, which is subject to joint control arising from contractual agreement. All joint ventures are equity accounted for and in this case, the Group's investment in associates and joint ventures includes goodwill, net of any impairment loss, identified on acquisition.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(ii) Investments in joint ventures

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

(iii) Group reconstructions

The Group uses merger accounting principles to account for group reconstructions which are not business combinations within the scope of IFRS 3 Business Combinations. Under the principles of merger accounting, assets and liabilities transferred to a new entity are recorded in the new entity at the carrying value they were measured at by the transferor. No goodwill is recognised as a result of such transactions.

(c) Revenue recognition

(i) 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 in note (d)(iii).

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.

(ii) 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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(d) Expense recognition

(i) Long term incentive plans ('LTIP' and 'Executive Performance Plan')

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

(ii) 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.

(iii) 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.

(iv) Other expenses

Other expenses are recognised on an accruals basis.

(e) General insurance

(i) 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.

(ii) 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.

(ii) 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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(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.

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

(i) 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.

(ii) 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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(j) Financial assets designation

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

Financial assets 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

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non current assets. The group's loans and receivables comprise "trade and other receivables" and cash and cash equivalents in the balance sheet

(k) Investment securities

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

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less a provision for impairment where this is deemed necessary. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) may be considered indicators that the trade receivable is impaired

The amount of any provision is the difference between the asset's carrying amount and its estimated realisable value. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "administrative expenses". When a trade receivable is uncollectible, it is written off against trade receivables. Subsequent recoveries of amounts previously written off are credited against "administrative expenses" in the Income statement

(m) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(n) 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.

(o) Trade payables

Trade payables are recognised at their initial fair value.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(s) Share based payments (continued)

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.

(t) Derecognition and offset of financial assets and liabilities

A financial asset (or a part of a group of similar financial assets) is derecognised where

- (i) The rights to receive cash flows from the asset have expired,
- (ii) The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- (iii) The Group has transferred its rights to receive cash flows from the assets and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(u) Standards, interpretations and amendments to published standards that are effective for the first time

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. These standards, amendments, and interpretations as described below.

Both IFRS 7 Financial Instruments Disclosures, and amendments to IAS 1 Presentation of Financial Statements, are effective from 1 January 2007. IFRS 7 requires disclosures that enables users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments. The adoption of IFRS 7 has required the Group to make additional disclosures, which are disclosed in these financial statements and in note 23. The amendments to IAS 1 requires the Group to make new disclosures to enable users to evaluate the Group's objectives, policies and processes for managing capital. These disclosures are contained in note 23. IFRS 7 and the amendments to IAS 1 did not have any impact on the Group's financial instruments.

IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006) required 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 applied IFRIC 8 from 1 January 2007 and it did not have a significant impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(u) Standards, interpretations and amendments to published standards that are effective for the first time (continued)

IFRIC 9 Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006) required 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 applied IFRIC 9 from 1 January 2007 and it did not have a significant impact on the Group's financial statements.

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Group

Revised standards and interpretations: IAS 1 Presentation of Financial Statements (effective from 1 January 2009), IAS 23 Borrowing Costs (effective from 1 January 2009), IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008), IFRIC 13 Customer Loyalty Programmes (effective for periods beginning on or after 1 July 2008), IFRIC 14 IAS 19 The Limitation on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Effective from 1 January 2008). These are not expected to have a material impact on the financial statements of the Group.

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, interpretations and amendments to published standards that are not yet effective and/or are not expected to be applicable 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. KEY ESTIMATES AND JUDGEMENTS

The preparation of financial statements, in conformity with generally accepted accounting principles (IFRS 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. KEY ESTIMATES AND JUDGEMENTS (continued)

Key judgements made in selecting accounting policies and critical accounting estimates (continued)

(i) 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

(ii) 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

(iii) Long term incentive plans

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

(iv) 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

(v) Group reconstructions

The Group uses merger accounting principles to account for group reconstructions which are not business combinations within the scope of IFRS 3 Business Combinations. Details of this accounting policy are contained in note 1 (b)(iii) to these accounts

3. OTHER OPERATING INCOME

	2007 Group £'000	2006 Group £'000
Profit on unit and share dealing (net of rebates)	2,657	2,927
Registrar's fees	3,357	424
Gains on financial instruments earned at FVTPL	522	2,892
Other	118	3
Total other operating income	6,654	6,246

4. STAFF COSTS AND OTHER EMPLOYEE RELATED COSTS

	2007 Group £'000	2006 Group £'000
The aggregate remuneration payable in respect of employees was:		
Wages and salaries	89,641	88,145
Social security costs	9,970	9,410
Pension costs	5,017	5,203
Share based payments	399	166
Termination payments	3,239	255
Other	3,280	2,991
Total staff costs and other employee related costs	111,546	106,170

The average number of staff employed by the Group during the year was 749 (2006 739). The average number of staff of the Company during the year was 674 (2006 641).

NOTES TO THE FINANCIAL STATEMENTS**5. OPERATING PROFIT**

The following have been included in arriving at operating profit

	2007 Group £'000	2006 Group £'000
Auditors' remuneration for statutory audit services	270	223
Amortisation of deferred acquisition costs (note 10)	1,837	2,300
Depreciation of property and equipment (note 9)	183	105
Operating lease rentals	1,367	532
Staff costs (note 4)	111,546	106,170

6. FINANCE COSTS

	2007 Group £'000	2006 Group £'000
Subordinated debt interest expense	907	740
Other	969	725
Total finance costs	1,876	1,465

7. TAX EXPENSE

(a) Analysis of the tax charge for the year

	2007 Group £'000	2006 Group £'000
Current tax		
United Kingdom corporation tax	22,996	22,371
Adjustment to tax expense in respect of prior years	(71)	(10)
Overseas tax	4,718	134
Total current tax	27,643	22,495
Deferred tax		
Deferred tax charge/(income) arising in the current year (note 12(b))	1,439	(1,323)
Total deferred tax	1,439	(1,323)
Total tax expense	29,082	21,172

NOTES TO THE FINANCIAL STATEMENTS**7. TAX EXPENSE (continued)**

(b) Reconciliation of tax expense

	2007 Group £'000	2006 Group £'000
Profit before tax	96,391	65,025
Tax at UK corporation tax rate of 30% (2006 30%)	28,917	19,508
Effects of		
Permanent differences	1,802	1,751
Different tax rates applicable to foreign subsidiaries	(1,803)	(521)
Prior year adjustments	(71)	(10)
Taxation on unremitted earnings	1,469	424
Effects of joint venture disposal	(1,432)	
Other	200	20
Total tax expense	29,082	21,172

8. DIVIDENDS PAID AND RECEIVED

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Dividends paid to parent undertaking	82,000		82,000	
Dividends received from subsidiary undertakings			10,105	9,658

9. PROPERTY AND EQUIPMENT

GROUP	Computers £'000	Furniture & Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost:				
At 1 January 2006	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
Exchange differences	16	11	69	96
Additions	66	46	279	391
At 31 December 2007	533	850	973	2,356
Accumulated depreciation:				
At 1 January 2006	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
Exchange differences	18	25	29	72
Depreciation for the year	45	64	74	183
At 31 December 2007	473	751	631	1,855
Net book value:				
At 31 December 2007	60	99	342	501
At 31 December 2006	41	131	97	269

The Company had no property and equipment at the year end (2006: £NIL)

NOTES TO THE FINANCIAL STATEMENTS**10. DEFERRED ACQUISITION COSTS**

	2007 Group £'000	2006 Group £'000
At 1 January	4,054	4,755
Costs deferred	253	1,599
Amortisation	(1,837)	(2,300)
At 31 December	2,470	4,054
Comprising:		
Costs deferred	13,938	13,685
Accumulated amortisation	(11,468)	(9,631)
Closing net book amount	2,470	4,054
Presented as:		
Non current	1,139	1,812
Current	1,331	2,242
Total deferred acquisition costs	2,470	4,054

11. INVESTMENTS IN SUBSIDIARIES

	2007 Company £'000	2006 Company £'000
At 1 January	27,002	27,002
Additional investment	7,527	2,000
Disposals	(1,501)	(1,000)
Impairment losses recognised	(300)	(1,000)
At 31 December	32,728	27,002

During 2007 the Group reorganised its private equity business and set up a limited liability partnership (LLP). This new entity, SL Capital Partners LLP, is owned 60% by the Group and 40% by Minority Interests comprising senior members of the private equity management team. As part of this transaction, the General Partner companies were transferred to a new parent company, SLCP Holdings Limited, and these were later sold to the LLP at their cost of £1,000. The Company also redeemed its holding of preference shares in Standard Life Investments (Private Equity) Limited at their cost of £1,500,000 at this time.

Impairment losses recognised during 2007 related to an additional investment made in Standard Life Investments (Asia) Limited. Impairment losses recognised during 2006 related to an additional investment made in Standard Life Investments (USA) 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 their fair value less costs to sell, which is deemed to be £1,700,000 (2006 £NIL). Impairment losses are recognised within administrative expenses.

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 £1,061,000. The following are particulars of the Company's significant subsidiary undertakings:

NOTES TO THE FINANCIAL STATEMENTS**11. INVESTMENTS IN SUBSIDIARIES (continued)**

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 & Redeemable Preference	100	Investment management
Standard Life Investments (Private Equity) Limited	Scotland	Ordinary & Redeemable Preference	100	Investment management
SL Capital Partners LLP	Scotland	Ordinary	60	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 and SL Capital Partners LLP which has a financial year end date of 30 June

NOTES TO THE FINANCIAL STATEMENTS

12. TAX ASSETS AND LIABILITIES

(a) Tax assets and liabilities

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Deferred tax assets (see (b) below)	3,903	5,097	3,269	4,380
Current tax recoverable	967	3,028		544
Total tax assets	4,870	8,125	3,269	4,924
Current tax liabilities	8,654	7,674	7,991	7,386
Total tax liabilities	8,654	7,674	7,991	7,386

Deferred tax liabilities expected to be payable by the Group within 12 months amount to £545,000 (2006 recoverable £830,000) Deferred tax liabilities expected to be payable by the Company within 12 months amount to £333,000 (2006 recoverable £898,000)

(b) Recognised deferred tax

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Deferred tax assets comprise:				
Employee benefits	6,300	6,789	5,803	5,478
Depreciable assets	141	190		
Other	316			
Gross deferred tax assets	6,757	6,979	5,803	5,478
Less offset of deferred tax liabilities	(2,854)	(1,882)	(2,534)	(1,098)
Net deferred tax assets	3,903	5,097	3,269	4,380
Deferred tax liabilities comprise:				
Deferred acquisition costs	320	784		
Unrealised gain on investment securities	736	674	736	674
Taxation on un remitted earnings	1,798	424	1,798	424
Gross deferred tax liabilities	2,854	1,882	2,534	1,098
Less offset against deferred tax assets	(2,854)	(1,882)	(2,534)	(1,098)
Net deferred tax liabilities				
Movements in net deferred tax assets comprise:				
At 1 January	5,097	3,811	4,380	2,213
Exchange differences	245	(37)		
Amounts credited to the income statement (note 7(a))	(1,439)	1,323	(1,111)	2,167
At 31 December	3,903	5,097	3,269	4,380

NOTES TO THE FINANCIAL STATEMENTS

13. INVESTMENT IN JOINT VENTURE

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

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
At 1 January	20,977	18,830	16,761	16,761
Share of profit after tax	4,773	3,351		
Foreign exchange differences	626	(534)		
Dividends received	(1,654)	(670)		
Partial disposal	(4,955)		(3,313)	
At 31 December	19,767	20,977	13,448	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 40.0% (2006: 49.9%) interest in the equity share capital and a 49.9% (2006: 49.9%) interest in the non equity share capital of HDFC AMC. The Company shares control of 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 2006 to 30 September 2007. The accounts incorporated include 6 months of audited accounts to 31 March 2007 and 6 months audited management accounts from 1 April 2007 to 30 September 2007.

In October 2007 the Company sold 9.9% of the equity capital of HDFC AMC for a consideration of £22,002,000, the particulars of which are as follows:

	2007 Group £'000	2007 Company £'000
Consideration received	22,002	22,002
Cost of disposal	(4,955)	(3,313)
Foreign exchange gain realised	(83)	
Net gain realised in income statement	16,964	18,689

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

	2007 £'000	2006 £'000
Current assets	7,504	9,260
Long term assets	22,046	17,717
Current liabilities	(8,511)	(4,560)
Long term liabilities	(1,272)	(1,440)
	19,767	20,977
Income	14,244	9,666
Expenses	(9,471)	(6,315)
	4,773	3,351

NOTES TO THE FINANCIAL STATEMENTS

14. INVESTMENT SECURITIES

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Non current				
Other	<u>7,870</u>	<u>6,858</u>	<u>4,327</u>	<u>3,609</u>
Current				
Manager's box	<u>1,254</u>	<u>2,435</u>		
Investment securities	<u>9,124</u>	<u>9,293</u>	<u>4,327</u>	<u>3,609</u>

Investment securities comprise of the following listed and unlisted instruments

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Equity securities listed	1,219	4,449	307	577
Equity securities unlisted	4,020	3,032	4,020	3,032
Debt securities listed	562	541		
Debt securities unlisted	<u>3,323</u>	<u>1,271</u>		
	<u>9,124</u>	<u>9,293</u>	<u>4,327</u>	<u>3,609</u>

15. TRADE AND OTHER RECEIVABLES

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Amounts due from funds/unit trusts	37,019	117,886		
Amounts due from investors in collective investment schemes	24,512	39,661		
Amounts due from Standard Life group undertakings	11,236	13,336	16,595	8,858
Amounts due from Standard Life Investments (Holdings) Limited	1,061	1,061	1,061	1,061
Amounts due from subsidiary undertakings			17,955	11,387
Amounts due from joint venture	1,272	1,440	1,272	1,440
Trade receivables	4,494	8,674		
Prepayments and accrued income	17,627	41,805	3,389	1,327
Other	<u>5,208</u>	<u>4,507</u>	<u>2,730</u>	<u>859</u>
Total trade and other receivables	<u>102,429</u>	<u>228,370</u>	<u>43,002</u>	<u>24,932</u>

Presented as:

Non current	1,272	1,440	1,272	1,440
Current	<u>101,157</u>	<u>226,930</u>	<u>41,730</u>	<u>23,492</u>
Total trade and other receivables	<u>102,429</u>	<u>228,370</u>	<u>43,002</u>	<u>24,932</u>

Trade and other receivables have the following maturities

Within one year	101,157	226,930	41,730	23,492
Greater than one year	<u>1,272</u>	<u>1,440</u>	<u>1,272</u>	<u>1,440</u>
Total	<u>102,429</u>	<u>228,370</u>	<u>43,002</u>	<u>24,932</u>

All of the financial assets above, with the exception of the amounts due from the joint venture, are non interest bearing. Note 23 to these financial statements provides an analysis of the credit and foreign currency risks from the financial assets noted above.

NOTES TO THE FINANCIAL STATEMENTS**15. TRADE AND OTHER RECEIVABLES (continued)**

The amounts due from the joint venture represent an investment in the preference share capital of HDFC AMC (note 13). 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.

16. CASH AND CASH EQUIVALENTS

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Cash at bank and in hand	32,269	26,366	2,539	1,393
Demand and term deposits with original maturity of less than 3 months	136,292	149,245	99,362	128,819
Debt investments with original maturity of less than 3 months	6,190	3,451		
Other short term investments	15,653	15,165	15,653	15,165
Total cash and cash	190,404	194,227	117,554	145,377

Cash at bank and in hand and deposits are subject to variable interest rates.

£20,773,000 of the demand and term deposits were placed with a fellow Standard Life plc group subsidiary company, Standard Life Bank Limited, and the other short term investment was held in Standard Life Investments (Global Liquidity Funds) plc Sterling Liquidity Fund.

All of the cash and cash equivalent balances at the balance sheet date were rated (Standard & Poor's) A or above (2006 A or above).

17. SHARE CAPITAL

	Authorised			
	2007 No.	£'000	2006 No.	£'000
Ordinary Shares of £1 each	50,000,000	50,000	50,000,000	50,000

	Allotted, Called Up and Fully Paid			
	2007 No.	£'000	2006 No.	£'000
Ordinary Shares of £1 each	32,440,000	32,440	32,440,000	32,440

18. SUBORDINATED LIABILITIES

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Subordinated liabilities	15,000	15,000	15,000	15,000

The Company has a subordinated loan from a fellow subsidiary of the Standard Life plc 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 demutualization 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 5.94% (2006 4.92%).

NOTES TO THE FINANCIAL STATEMENTS**19. PENSION AND OTHER POST RETIREMENT BENEFIT PROVISIONS****Unfunded pension**

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
At 1 January		972		972
Movement in unfunded		199		199
Settlement		(1,171)		(1,171)
At 31 December				

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

20. DEFERRED INCOME

	2007 Group £'000	2006 Group £'000
At 1 January	5,083	5,467
Additions during the year	1,449	2,275
Released to the Income	(2,213)	(2,659)
At 31 December	4,319	5,083
Presented as:		
Non current	2,797	2,126
Current	1,522	2,957
Total deferred income	4,319	5,083

21. TRADE AND OTHER PAYABLES

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Amounts due to funds/unit trusts	16,703	40,438		
Amounts due to investors in collective investment schemes	25,414	121,669		
Amounts due to Standard Life group undertakings	27,912	44,460	13,677	2,838
Amounts due to subsidiary undertakings			620	247
Accruals	79,321	72,812	69,572	63,529
VAT payable	6,743			
Other	7,325	7,081	8,327	514
Total trade and other	163,418	286,460	92,196	67,128
Presented as:				
Non current	9,948	13,602	9,353	11,505
Current	153,470	272,858	82,843	55,623
Total trade and other	163,418	286,460	92,196	67,128

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

NOTES TO THE FINANCIAL STATEMENTS

22. MOVEMENT IN OPERATING ASSETS AND LIABILITIES

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Movement in operating assets:				
Deferred acquisition costs	1,584	701		
Trade and other receivables	125,941	(163,400)	(18,070)	(1,325)
	<u>127,525</u>	<u>(162,699)</u>	<u>(18,070)</u>	<u>(1,325)</u>
Movement in operating liabilities:				
Deferred income	(764)	(384)		
Pension and other post retirement benefit provisions		(972)		(972)
Trade and other payables	(123,042)	192,753	25,068	18,399
	<u>(123,806)</u>	<u>191,397</u>	<u>25,068</u>	<u>17,427</u>
Movement in operating assets and liabilities	<u>3,719</u>	<u>28,698</u>	<u>6,998</u>	<u>16,102</u>

23. FINANCIAL RISK MANAGEMENT

(a) Standard Life plc group approach to risk management

Standard Life plc, the ultimate parent of the Group, has established an Enterprise Risk Management Framework (ERM) to provide the basis for ensuring that risks inherent in the design and execution of Group strategy are managed in line with its expectations

(b) Standard Life Investments Limited and subsidiaries approach to risk and capital management

The Group operates within the governance structure of the Standard Life plc group. It also has its own established governance framework, with clear terms of reference for the Company Board and Operational Risk Committee and a clear organisation structure, with documented, delegated authorities and responsibilities. The Group has an Audit Committee, which includes stakeholder representatives.

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, monitoring and controlling risk.

Capital is managed within the regulatory framework in which the Group operates. This makes use of an Internal Capital Adequacy Assessment Process (ICAAP), approved by the Board, to identify the risks to which the business is exposed and to quantify their impact on economic capital, including changes thereto by way of stress and scenario tests. The ICAAP estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk. The Group is required at all times to maintain at least this level of capital. The Group's calculation thereof is subject to review by the Financial Services Authority (FSA) who also monitor compliance by way of quarterly and annual submissions made by the Group and periodic visits.

The ICAAP is subject to high level quarterly review within the Group, with detailed annual review and approval by the Board. If there are any risks identified outwith these timescales, through internal or external events, or significant business developments, that could have a material impact on the Group's financial position, Risk and Compliance will co-ordinate an immediate review of the ICAAP and arrange for its resubmission to the Board where necessary.

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL RISK MANAGEMENT (continued)

(c) The management of financial and non financial risks

(i) Credit risk

The Group is exposed to credit risk through capital investments, cash and margin deposits, trade receivables and intercompany balances. Credit exposures are managed according to limits agreed by the Board, which are regularly reviewed. These limits specify the minimum acceptable counterparty credit rating (A 1 Standard & Poors, P 1 Moody's for short term exposures and higher credit ratings for longer term exposures) and the maximum acceptable exposure to a single counterparty.

Management fee income provides the bulk of the Group's revenues and is the largest component of Trade and other receivables. Funds are managed in accordance with legal agreements in place with both Standard Life plc group companies and third parties, that specify contractual payment terms. The majority of receipts by value are received either monthly or quarterly.

Cash deposits, comprising the majority of cash and cash equivalents, are placed for terms of less than 3 months, with counterparties selected according to the criteria noted above. The Group is also exposed to credit risk through its investment in the Standard Life Investments (Global Liquidity Fund) plc sub fund, within which it places funds as part of its investment strategy for surplus liquid funds.

The table below provides an analysis of total assets bearing credit risk

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Trade and other receivables	101,871	227,669	42,543	24,326
Cash and cash equivalents	<u>190,405</u>	<u>194,227</u>	<u>117,554</u>	<u>145,377</u>
	<u>292,276</u>	<u>421,896</u>	<u>160,097</u>	<u>169,703</u>

At the balance sheet date, none of the financial assets above were impaired but Trade and other receivable assets classified as past due amounted to £16.0m (2006 £39.5m), of which £1.63m (2006 £85,000) is overdue for greater than 3 months and £397,000 (2006 £nil) over 12 months. Of the total Group balance overdue of £16.0m, £14.7m is in respect of certain transactions in collective investment funds. These are either amounts due from customers or are due from the funds in respect of cancellations. If amounts due from customers are not settled, the Group could recover the amounts due through selling the accompanying units/shares of those customers.

(ii) Market risk

Market risk is the risk of adverse impact on the Group of changes in the fair values of financial instruments from fluctuations in foreign currency exchange rates, interest rates, property prices and equity prices.

The Group uses sensitivity test based analysis including market and property value changes, foreign exchange and interest rate movements, detailed in its ICAAP, to understand their impact on expected earnings for decision making and planning purposes.

The impact of a fall in asset values at a point in time would primarily impact revenue, which is accrued based on those values, and is not hedged. A 10% change in market levels would result in a change in management fee income of £24.2m (2006 £23.3m).

The Group transacts most of its business in Sterling but has exposure to foreign exchange movements through its overseas subsidiaries, foreign currency denominated cash balances, and fee income derived from Canadian Dollar, US Dollar or Euro denominated assets, all unhedged. The Group's currency exposure at the balance sheet date was as follows:

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL RISK MANAGEMENT (continued)

(c) The management of financial and non financial risks (continued)

(ii) Market risk (continued)

2007 Group				
	Sterling	Euro	Canadian Dollar	Other currencies
	£'000	£'000	£'000	£'000
Investment securities	4,159	1,186	3,345	434
Trade and other receivables	93,224	8,647		
Cash and cash equivalents	172,153	6,330	6,118	5,803
	<u>269,535</u>	<u>16,163</u>	<u>9,463</u>	<u>6,237</u>
2006 Group				
	Sterling	Euro	Canadian Dollar	Other currencies
	£'000	£'000	£'000	£'000
Investment securities	5,445	304	3,243	301
Trade and other receivables	225,659	270	1,740	
Cash and cash equivalents	185,387	770	3,450	4,620
	<u>416,491</u>	<u>1,344</u>	<u>8,433</u>	<u>4,921</u>
2007 Company				
	Sterling	Euro	Canadian Dollar	Other currencies
	£'000	£'000	£'000	£'000
Investment securities	3,162	979		186
Trade and other receivables	42,543			
Cash and cash equivalents	113,530	23	3,913	88
	<u>159,235</u>	<u>1,002</u>	<u>3,913</u>	<u>274</u>
2006 Company				
	Sterling	Euro	Canadian Dollar	Other currencies
	£'000	£'000	£'000	£'000
Investment securities	3,152	304		153
Trade and other receivables	24,326			
Cash and cash equivalents	145,318		2	57
	<u>172,796</u>	<u>304</u>	<u>2</u>	<u>210</u>

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL RISK MANAGEMENT (continued)

(c) The management of financial and non financial risks (continued)

(ii) Market risk (continued)

A 10% movement in the exchange rate between Sterling and the two material foreign currency exposures would have the following impact

2007 Group			
	10% increase in currency against Sterling	10% decrease in currency against Sterling	
	Euro £'000	Canadian Dollar £'000	Euro £'000
Impact on profit before tax	<u>1,616</u>	<u>946</u>	<u>(1,616)</u>
Impact on equity	<u>458</u>	<u>662</u>	<u>(458)</u>

2006 Group			
	10% increase in currency against Sterling	10% decrease in currency against Sterling	
	Euro £'000	Canadian Dollar £'000	Euro £'000
Impact on profit before tax	<u>134</u>	<u>843</u>	<u>(134)</u>
Impact on equity	<u>94</u>	<u>590</u>	<u>(94)</u>

2007 Company			
	10% increase in currency against Sterling	10% decrease in currency against Sterling	
	Euro £'000	Canadian Dollar £'000	Euro £'000
Impact on profit before tax	<u>100</u>	<u>391</u>	<u>(100)</u>
Impact on equity	<u>70</u>	<u>274</u>	<u>(70)</u>

2006 Company			
	10% increase in currency against Sterling	10% decrease in currency against Sterling	
	Euro £'000	Canadian Dollar £'000	Euro £'000
Impact on profit before tax	<u>30</u>		<u>(30)</u>
Impact on equity	<u>21</u>		<u>(21)</u>

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL RISK MANAGEMENT (continued)

(c) The management of financial and non financial risks (continued)

(ii) Market risk (continued)

The Group is exposed to interest rate risk through its cash and cash equivalents and through its Subordinated Liabilities as disclosed in the Balance Sheet. A sensitivity impact of interest rate change on the profits of the Group are shown below

	2007 Group	
	10% increase in interest rates	10% decrease in interest rates
	£'000	£'000
Impact on profit before tax		
Cash and cash equivalents	1,095	(1,095)
Subordinated liabilities	(89)	89
	<u>1,006</u>	<u>(1,006)</u>

	2006 Group	
	10% increase in interest rates	10% decrease in interest rates
	£'000	£'000
Impact on profit before tax		
Cash and cash equivalents	1,117	(1,117)
Subordinated liabilities	(89)	89
	<u>1,028</u>	<u>(1,028)</u>

	2007 Company	
	10% increase in interest rates	10% decrease in interest rates
	£'000	£'000
Impact on profit before tax		
Cash and cash equivalents	404	(404)
Subordinated liabilities	(89)	89
	<u>315</u>	<u>(315)</u>

	2006 Company	
	10% increase in interest rates	10% decrease in interest rates
	£'000	£'000
Impact on profit before tax		
Cash and cash equivalents	836	(836)
Subordinated liabilities	(89)	89
	<u>747</u>	<u>(747)</u>

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL RISK MANAGEMENT (continued)

(c) The management of financial and non financial risks (continued)

(iii) Liquidity risk

Liquidity risk is the risk of the Group being unable to maintain sufficient cash and marketable securities to enable it to meet cashflow obligations as they fall due

The Group's cashflows are such that short term liabilities are generally matched by similarly short term assets, and longer term liabilities are covered by short term assets, normally held in cash or highly liquid securities. The Group manages its liquidity risk by regular monitoring of its cash position, credit control including credit risk assessment noted above, forward planning including cash flow analysis and regular reporting thereon to the Board and the Operational Risk Committee

Surplus cash is generally invested in cash deposits with institutions meeting the Group's credit risk approval criteria, repayable on demand. These are disclosed in the Balance Sheet under Cash and cash equivalents

The following table represents the Group's ability to meet its cash commitments as they fall due

2007 Expected Cashflows			
Group		Company	
Less than 1 year	Greater than 1 year	Less than 1 year	Greater than 1 year
£'000	£'000	£'000	£'000
Subordinated liabilities	15,000		15,000
Current tax liabilities	8,654	7,991	
Trade and other payables	153,470	82,843	9,353
Expected cashflows	162,124	90,834	24,353
	£'000		£'000
Total expected cashflows	187,072		115,187
Liquid assets	291,003		158,825
Surplus	103,931		43,638

2006 Expected Cashflows			
Group		Company	
Less than 1 year	Greater than 1 year	Less than 1 year	Greater than 1 year
£'000	£'000	£'000	£'000
Subordinated liabilities	15,000		15,000
Current tax liabilities	7,674	7,386	
Trade and other payables	272,858	55,623	11,505
Expected cashflows	280,532	63,009	26,505
	£'000		£'000
Total expected cashflows	309,134		89,514
Liquid assets	420,456		168,263
Surplus	111,322		78,749

All of the above amounts are recorded at their carrying value which is considered to be their fair value

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL RISK MANAGEMENT (continued)

(c) The management of financial and non financial risks (continued)

(iv) 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.

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.

24. 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**24. 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.

	2007			
	Revenues	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Key management personnel		21,154		
Parent			1,061	
Pension schemes		5,017		
Joint venture			1,272	
Other (including fellow subsidiaries)	204,162	25,726	31,236	42,912
	204,162	51,897	33,569	42,912

	2006			
	Revenues	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Key management personnel		13,695		
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	44,345	15,837	59,460

Interest paid to the parent amounted to £906,000 (2006 £120,000). Interest paid to other related parties amounted to £NIL (2006 £242,000).

Dividend income from the joint venture amounted to £1,654,000 (2006 £670,000). Dividends owed by the joint venture amounted to £NIL (2006 £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. 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:

	2007	2006
	£'000	£'000
Short term employee benefits	12,163	9,267
Post employment benefits	35	154
Other long term benefits	4,904	3,658
Share based payments	399	166
Termination benefits	3,653	450
Other		
	21,154	13,695

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

	2007	2006
	£'000	£'000
Aggregate emoluments	6,540	5,735
Amounts (excluding options in group shares) receivable under long term incentive schemes	3,979	2,828

Nine 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 seven Directors in respect of their services to the Company under a defined benefit scheme operated by the Standard Life plc 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 £2,208,000 (2006 £1,944,000). At 31 December 2007, the highest paid Director also held accrued pension benefits of £41,000 (2006 £38,000) under the defined benefit pension scheme operated by the Standard Life plc group.

NOTES TO THE FINANCIAL STATEMENTS

24. 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

	2007			
	Revenues	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Key management personnel		10,519		
Parent			1,061	
Pension schemes		4,027		
Joint venture			1,272	
Other (including fellow subsidiaries)	110,524	24,977	34,550	28,677
	110,524	39,523	36,883	28,677
	2006			
	Revenues	Expenses	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Key management personnel		8,563		
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	46,696	22,746	18,085

Interest paid to the parent amounted to £906,000 (2006 £120,000). Interest paid to other related parties amounted to £NIL (2006 £239,000).

Dividend income from subsidiaries amounted to £10,512,000 (2006 £9,658,000). Dividends owed by subsidiaries amounted to £NIL (2006 £NIL).

Dividend income from the joint venture amounted to £1,654,000 (2006 £670,000). Dividends owed by the joint venture amounted to £NIL (2006 £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

25. PENSION OBLIGATIONS

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 plc 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 UK defined benefit scheme is a fellow subsidiary of Standard Life plc 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 account for their contributions to the defined benefit scheme as an expense in the period they are payable. 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 expenses when employees have rendered services in exchange for such contributions, generally in the year of contribution.

The contributions to the defined benefit and the defined contribution schemes recognised as an expense for the year ended 31 December 2007 were £5,017,000 (2006 £5,203,000).

The Group is required, under IAS 19 Employee Benefits, to provide the following disclosures relating to the Standard Life plc group's UK and Canadian defined benefit schemes.

Changes to the UK defined benefit scheme

With effect from 16 November 2004, the UK scheme was closed to new entrants. The benefits provided by the UK scheme have since undergone substantial further review. In November 2007, as part of a broader suite of changes and subsequent to appropriate consultation, members were given a choice of two options to take effect from January 2008:

- i) Maintaining a link to final salary for benefit accrued to December 2007, with future service benefits accruing on a 'defined contribution' basis, or
- ii) Linking benefits accrued to December 2007 to movements in the Retail Price Index, with future service to be credited on defined benefit basis, as earned and revalued thereafter in line with the same index.

Approximately 95% of members selected option (ii). The financial information presented in this note reflects the outcome of this activity. Further information is outlined where appropriate, below.

Contributions to UK and Canadian defined benefit schemes.

The following table shows the actual contributions made to the schemes in 2006 and 2007.

	2007	2006
	£m	£m
United Kingdom Normal Funding	40	46
United Kingdom Deficit Reduction	20	60
Canada	3	

Expected contributions to the schemes in 2008 are as follows:

	2008
	£m
United Kingdom Normal Funding	36
United Kingdom Deficit Reduction	20
Canada	3

Note that the total contributions to the UK scheme include deficit reduction contributions paid in accordance with the existing agreement with the scheme trustees.

NOTES TO THE FINANCIAL STATEMENTS

25. PENSION OBLIGATIONS (continued)

Canada – post retirement medical benefits

In Canada, certain of the scheme plans provide employees with post retirement medical benefits. A 1% point change in assumed medical cost trend rates would have the following effects:

	One percentage point increase		One percentage point decrease	
	2007	2006	2007	2006
Effect on the aggregate of the service cost and interest cost	1	1	(1)	
Effect on defined benefit obligation	5	3	(4)	(2)

(a) Analysis of amounts recognised in the Standard Life plc group balance sheet for the UK and Canadian defined benefit schemes

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

	2007		
	United Kingdom	Canada	Total
	£m	£m	£m
Present value of funded obligation	(1,375)	(119)	(1,494)
Present value of unfunded obligations		(44)	(44)
Fair value of plan assets	1,212	133	(1,345)
Net liability on the balance sheet	(163)	(30)	(193)

	2006		
	United Kingdom	Canada	Total
	£m	£m	£m
Present value of funded obligation	(1,287)	(115)	(1,402)
Present value of unfunded obligations		(41)	(41)
Fair value of plan assets	1,124	110	(1,234)
Net liability on the balance sheet	(163)	(46)	(209)

(b) Defined benefit obligation

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

	2007	2006
	£m	£m
At 1 January	1,443	1,386
Foreign exchange differences	22	(20)
Current service cost	47	51
Interest cost	74	68
Actuarial gains	(15)	(14)
Past service cost	5	1
Benefits paid	(38)	(29)
At 31 December	1,538	1,443

NOTES TO THE FINANCIAL STATEMENTS

25. PENSION OBLIGATIONS (continued)

(b) Defined benefit obligation (continued)

The defined benefit obligation is funded as follows

	2007	2006
	£m	£m
Wholly unfunded	44	41
Wholly funded	1,494	1,402
At 31 December	1,538	1,443

(c) Plan Assets

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

	2007	2006
	£m	£m
At 1 January	1,234	1,017
Recognition of plan assets		110
Expected return on plan assets	89	69
Actuarial gains/(losses)	(22)	(32)
Contributions by employer	62	106
Exchange difference on foreign plans	18	(13)
Benefits paid	(36)	(23)
At 31 December	1,345	1,234

The distribution of the fair value of the plan assets at year end is as follows

	2007		
	United Kingdom	Canada	Total
	£m	£m	£m
Equities	779	72	896
Bonds government	209	37	243
Bonds corporate	10	10	22
Property	47	12	12
Other	167	2	172
Total	1,212	133	1,345

	2006		
	United Kingdom	Canada	Total
	£m	£m	£m
Equities	783	72	855
Bonds government	191	18	209
Bonds corporate	4	11	15
Property	47	4	51
Other	99	5	104
Total	1,124	110	1,234

Derivative instruments are used by the UK scheme to modify the profile of the assets of the scheme to better match the scheme's liabilities and to execute specific strategies as defined within the scheme's Investment Guidelines

NOTES TO THE FINANCIAL STATEMENTS

25. PENSION OBLIGATIONS (continued)

(d) Principal assumptions

The principal economic assumptions used in determining pension benefit obligation for the UK and Canadian defined benefit schemes are as follows

	2007	
	United Kingdom	Canada
	%	%
Rate of increase in salaries*	4.45	5.45
Rate of increase in pensions		3.50
	3.45	1.33
Discount rate	5.75	5.50
Inflation assumption	3.45	2.00
Rate of return on plan assets	6.39	7.00

	2006	
	United Kingdom	Canada
	%	%
Rate of increase in salaries*	3.05	3.90
Rate of increase in pensions		
	3.05	2.25
Discount rate	5.10	5.25
Inflation assumption	3.05	2.25
Rate of return on plan assets	7.16	7.50

*The rate of increase in salaries for the UK staff pension scheme is relevant only for service accrued to December 2007 attributed to members who chose option 'i'

The valuation of scheme liabilities is sensitive primarily to both the assumed discount and inflation rates and in particular to the difference between these two rates. A reduction of ten basis points in the discount rate used to value the UK scheme would increase the defined benefit obligation by £38m.

The most significant non economic assumption is that made in respect of mortality post retirement. The mortality tables (along with sample complete expectations of life) are illustrated below.

	United Kingdom	Canada
Table	PCM(M/F)00 "Double entry" table, CMI cohort projections with underpin	UP1994 proj to 2015 using mortality projection scale AA
Improvements		0
Normal retirement age	60	65
Expectation of Life		
Male, age today NRA	25.60	19.00
Male, age today 40	29.80	19.00
Female, age today NRA	0.00	21.60
Female, age today 40	0.00	21.60

NOTES TO THE FINANCIAL STATEMENTS

26. EMPLOYEE SHARE BASED PAYMENTS

The Group does not operate any share based payments. During the year ended 31 December 2007 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 the arrangements now in place are as follows:

(i) Long Term Incentive Plan (LTIP)

Under the terms of the LTIP, 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 three year performance period. The terms and conditions of the LTIP listed below assume the maximum number of options available to vest.

Prior to the listing of Standard Life plc's shares on the London Stock Exchange, the LTIP was a cash based award dependent on certain performance conditions being achieved over a three year period. On the listing of the Standard Life plc's shares on the London Stock Exchange, the 2005 and 2006 plans were converted to awards over the shares of Standard Life plc and in future years the 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 thus remains unchanged by the conversion. An additional grant under the 2006 plan was made on 1 November 2006.

The three year performance period for the 2007 plan commenced on 1 January 2007. The grant date for the plan was 1 May 2007 with additional grants being made during the year to individuals who joined the plan after 1 May 2007.

(ii) Performance shares

All eligible employees may be awarded free performance shares if certain Standard Life Group profit targets are met. On 2 May 2007, each eligible employee was awarded 100 shares in respect of their services for the period 10 July to 31 December 2006. The costs of issue of these shares were recharged to the Group during the year.

(iii) 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 Group prior to completing three years of service from date of grant.

(iv) Shares awarded on flotation of Standard Life plc

On the listing of the Standard Life plc's shares on the London Stock Exchange, each qualifying employee was awarded 185 shares. There were no vesting conditions attaching to these shares and therefore all these shares vested on 10 July 2006.

(v) Bonus shares

As part of the listing of Standard Life plc shares, holders of employee shares who retained their shares for a continuous period of one year from 10 July 2006 to 9 July 2007 were entitled to one bonus share for every twenty shares held. The shares were issued to all eligible employees through the employee share plan and are deemed to be a share based payment.

NOTES TO THE FINANCIAL STATEMENTS

26. EMPLOYEE SHARE BASED PAYMENTS (continued)

(a) Terms and conditions of the share-based payment schemes

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

Arrangement	LTIP 2007 share options granted to executives	Share incentive plans 2007	Performance shares 2006	LTIP 2006 share options granted to executives	Share incentive plans 2006
Nature of arrangement	Grant of share options	Grant of shares	Grant of shares		Grant of shares
Date of Grant	1 May 2007	Monthly	2 May 2007	4 Aug 2006	Monthly
Number of instruments granted	126,729	33,955	60,400	161,306	8,002
Exercise price	nil	n/a	n/a	nil	n/a
Share price at date of grant	330.75p	296p	331p	258.75p	291p
Contractual life (years)	3.5	n/a	n/a	3.75	n/a
Vesting conditions	3 year service period; specified Group performance	3 year service period		3 year service period, specified Group performance	3 year service period
Settlement	Shares	Shares	Shares	Shares	Shares
Expected option life at grant date (years)	3	n/a	n/a	2.16	n/a
Risk free interest rate	5.82%	n/a	n/a	4.92%	n/a
Expected dividend (dividend yield)	3.38%	n/a	n/a	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	n/a	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)	50%	At grant date all awards expected to vest	n/a	75%	At grant date all awards expected to vest
Fair value per granted instrument determined at the grant date	299p	296p	331p	244p	291p

NOTES TO THE FINANCIAL STATEMENTS

26. EMPLOYEE SHARE BASED PAYMENTS (continued)

(b) Standard Life group LTIP share options

The Black Scholes option pricing model is used to value the options granted under the LTIP

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 options outstanding at the end of each period.

2007				
Range of exercise prices	Weighted average exercise price	Number of options ('000)	Weighted average remaining life (years)	
			Expected	Contractual
nil	nil	288	1.44	1.94

2006				
Range of exercise prices	Weighted average exercise price	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. The number of options transferred in and out represent movements of employees between entities part of the Standard Life Group.

	2007	
	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	127	nil
Forfeited		nil
Exercised		nil
Outstanding at 31 December	<u>288</u>	nil
Exercisable at 31 December		nil

	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		nil

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

NOTES TO THE FINANCIAL STATEMENTS**26. EMPLOYEE SHARE BASED PAYMENTS (continued)****(c) Expense charged to the Income Statement**

The Company and the Group have incurred a charge of £399,000 (2006 £166,000) 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

	2007	2006
	Group and Company	Group and Company
	£'000	£'000
Share options granted to executives and senior management	156	165
Matching shares granted under share incentive plans	29	1
Performance shares	200	
Bonus shares	14	
	399	166

27. 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

	2007	2006
	Group	Group
	£'000	£'000
Within one year	514	
Expiring during years 2 to 5	2,481	133
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 £11,447,000 (2006 £2,411,000) into limited partnerships. During the year the Group invested £771,000 (2006 £390,000) with a remaining maximum commitment of £10,220,000 (2006 £2,021,000).

28. EVENTS AFTER THE BALANCE SHEET DATE

On 28 February 2008, the Board approved that the Company provide a Capital Support Agreement to an investment fund (an associate of the Standard Life plc Group) whereby the Company commits to contribute the difference between the amortised cost value of the associate's investment in Whistlejacket Floating Rate Notes and the disposition, sale value or amount recovered from the receivership of those notes. The Company currently estimates that there will be no material financial effect of this arrangement.

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 2007 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.

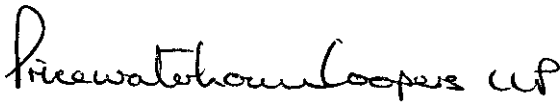
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 2007 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 2007 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, 11 March 2008