



**STANDARD LIFE INVESTMENTS  
LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2013**



**General Information**

**Directors**

A S Acheson

R A Charnock (as from 1 January 2014)

C M Clark

D T Cumming

W R Littleboy

J Martin

R L Paris

R A Renaud

N K Skeoch (Chief Executive)

G B Stern

G Teasdale

M Tumilty

C R Walklin

**Company Secretary**

D J Burns

**Registered Office**

1 George Street

Edinburgh

EH2 2LL

United Kingdom

**Independent Auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

68 - 73 Queen Street

Edinburgh

EH2 4NH

United Kingdom

**Directors' annual report  
for the year ended 31 December 2013**

The Directors present their report together with the financial statements of Standard Life Investments Limited (the Company) for the year ended 31 December 2013.

**Directors**

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

E G Munro resigned as a Director on 19 July 2013.

G B Stern was appointed as a Director on 30 August 2013.

R A Charnock was appointed as a Director on 1 January 2014.

The Company's ultimate parent company, Standard Life plc, maintains directors' and officers' liability insurance on behalf of its Directors and officers.

**Result for the year**

The result for the year ended 31 December 2013 is a profit after tax of £98,409,000 (2012: £87,229,000). The Directors consider the result to be satisfactory.

**Dividends and distributions**

The Directors recommended and paid dividends of £94,000,000 in 2013 (2012: £96,000,000) to its parent company and distributed £Nil (2012: £2,667,000) to Standard Life plc in respect of the Company's long-term incentive plans (LTIPs) as described in Note 1(q).

**Charitable and political donations**

The Company made no charitable donations during the year (2012: £nil). The Company did not make any donations to any political party, organisation or election candidate, or incur any political expenditure.

**Annual general meeting**

There was no annual general meeting held in the year, as permitted by the Companies Act 2006.

**Independent Auditors**

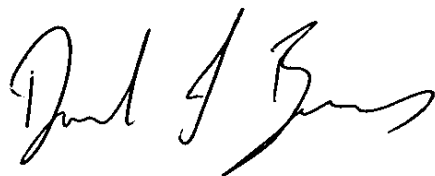
The Independent Auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

**Disclosure of information to the Independent Auditors**

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

**By order of the Board of Directors (the Board)**



**D J Burns, Company Secretary**

**London, 20 February 2014**

**Strategic annual report  
for the year ended 31 December 2013**

**Review of the Company's business**

The principal activity of the Company is to provide investment management services to members of the Standard Life plc group (the Standard Life Group), mutual funds, pension funds and other institutions.

**Future outlook**

The Directors are confident of maintaining the performance in the future.

**Key performance indicators (KPIs)**

The Directors of Standard Life Investments (Holdings) Limited (SLIH), the Company's direct parent undertaking, manage the operations of the Standard Life Investments (Holdings) Limited group (the Group), on a divisional basis. The Company is a direct subsidiary of SLIH, and therefore, a member of the Group. The Company's Directors therefore believe that an analysis using KPIs for the Company is not necessary or appropriate for gaining an understanding of the development, performance or position of the business of the Company. The KPIs of the Group can be found in the Group's annual report and financial statements (Group Annual Report).

**Principal risks and uncertainties**

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

The main business risks to which the Company is exposed, and its financial risk management objectives and policies, are considered in Note 22 to this report and financial statements. Other key business risks include the development and retention of key employees as well as competition from other providers of investment management services.

**Employees**

The Company'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 Company 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. The Company carries out regular employee surveys to measure employee engagement and uses the results to develop action plans.

**Environmental matters**

The Company follows the environmental strategy of the Standard Life Group which is to consume fewer of the world's resources, reduce waste, recycle more and dispose of what remains sensitively.

**By order of the Board of Directors**



**D J Burns, Company Secretary**

**London, 20 February 2014**

**Statement of Directors' responsibilities for preparing the financial statements for the year ended 31 December 2013**

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the Independent Auditors' report, is made to help shareholders distinguish the respective responsibilities of the Directors and the Independent Auditors in relation to the financial statements for 2013.

The Directors are responsible for preparing the annual report and the 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 Company's financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial statements of the Standard Life Group must be prepared in accordance with IFRS issued by the International Accounting Standards Board (IASB), as adopted for use in the EU, the Companies Act 2006 and Article 4 of the IAS Regulation. The Directors have elected to prepare the Company's financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the EU and IFRS issued by the IASB, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Income statement  
for the year ended 31 December 2013**

|                                                                          |             | <b>2013</b>      | <b>2012</b>      |
|--------------------------------------------------------------------------|-------------|------------------|------------------|
|                                                                          | <b>Note</b> | <b>£'000</b>     | <b>£'000</b>     |
| <b>Revenue</b>                                                           |             |                  |                  |
| Management fee income                                                    |             | 420,279          | 318,333          |
| Other operating income                                                   | <b>3</b>    | 32,391           | 44,760           |
| <b>Total revenue</b>                                                     |             | <b>452,670</b>   | <b>363,093</b>   |
| Fee and commission expense                                               |             | (16,317)         | (9,262)          |
| <b>Net revenue</b>                                                       |             | <b>436,353</b>   | <b>353,831</b>   |
| <b>Operating expenses</b>                                                |             |                  |                  |
| Administrative expenses                                                  |             | (315,005)        | (246,102)        |
| <b>Total operating expenses</b>                                          |             | <b>(315,005)</b> | <b>(246,102)</b> |
| <b>Operating profit</b>                                                  |             | <b>121,348</b>   | <b>107,729</b>   |
| Finance income                                                           | <b>6</b>    | 3                | 98               |
| Finance costs                                                            | <b>7</b>    | (153)            | (31)             |
| Restructuring costs                                                      | <b>8</b>    | (991)            | (3,148)          |
| Net foreign exchange gain / (loss)                                       |             | 122              | (358)            |
| <b>Profit before tax</b>                                                 |             | <b>120,329</b>   | <b>104,290</b>   |
| Tax expense                                                              | <b>9</b>    | (21,920)         | (17,061)         |
| <b>Profit for the year attributable to equity holders of the Company</b> |             | <b>98,409</b>    | <b>87,229</b>    |

The notes on pages 9 to 36 form part of these financial statements.

The Company has not recorded any other comprehensive income during the year to 31 December 2013. For the year to 31 December 2012 the tax taken to equity of £4,587,000 previously recorded within the statement of comprehensive income has been removed in line with current policy. A separate statement of comprehensive income is therefore not disclosed.

**Statement of financial position  
as at 31 December 2013**

|                                                            | Note | 2013<br>£'000  | 2012<br>£'000  |
|------------------------------------------------------------|------|----------------|----------------|
| <b>Assets</b>                                              |      |                |                |
| <b>Non-current assets</b>                                  |      |                |                |
| Intangible assets                                          | 11   | 5,486          | 4,321          |
| Tax assets                                                 | 12   | 12,473         | 11,772         |
| Investment in subsidiaries                                 | 13   | 28,362         | 25,659         |
| Investment in associate                                    | 14   | 13,448         | 13,448         |
| Investment securities                                      | 15   | 13,684         | 9,249          |
| <b>Total non-current assets</b>                            |      | <b>73,453</b>  | <b>64,449</b>  |
| <b>Current assets</b>                                      |      |                |                |
| Tax assets                                                 | 12   | -              | 98             |
| Investment securities                                      | 15   | 142,714        | 110,296        |
| Trade and other receivables                                | 16   | 101,366        | 89,894         |
| Cash and cash equivalents                                  | 17   | 3,761          | 2,205          |
| <b>Total current assets</b>                                |      | <b>247,841</b> | <b>202,493</b> |
| <b>Total assets</b>                                        |      | <b>321,294</b> | <b>266,942</b> |
| <b>Equity</b>                                              |      |                |                |
| Share capital                                              | 18   | 34,440         | 34,440         |
| Retained earnings                                          | 19   | 113,662        | 105,182        |
| <b>Equity attributable to equity holders of the parent</b> |      | <b>148,102</b> | <b>139,622</b> |
| <b>Liabilities</b>                                         |      |                |                |
| <b>Non-current liabilities</b>                             |      |                |                |
| Trade and other payables                                   | 20   | 24,680         | 17,578         |
| <b>Total non-current liabilities</b>                       |      | <b>24,680</b>  | <b>17,578</b>  |
| <b>Current liabilities</b>                                 |      |                |                |
| Current tax liabilities                                    | 12   | 179            | 2,844          |
| Trade and other payables                                   | 20   | 148,333        | 106,898        |
| <b>Total current liabilities</b>                           |      | <b>148,512</b> | <b>109,742</b> |
| <b>Total liabilities</b>                                   |      | <b>173,192</b> | <b>127,320</b> |
| <b>Total equity and liabilities</b>                        |      | <b>321,294</b> | <b>266,942</b> |

The notes on pages 9 to 36 form part of these financial statements.

The financial statements on pages 5 to 36 were approved on behalf of the Board of Directors on 17 February 2014 and signed on its behalf on 20 February 2014 by the following Director:



**C R Walklin, Director**

**Statement of changes in equity  
for the year ended 31 December 2013**

|                                                |             |                      | <b>Total equity<br/>attributable to<br/>equity holders<br/>of the parent</b> |
|------------------------------------------------|-------------|----------------------|------------------------------------------------------------------------------|
|                                                | <b>Note</b> | <b>Share capital</b> | <b>Retained<br/>earnings</b>                                                 |
|                                                |             | <b>£'000</b>         | <b>£'000</b>                                                                 |
|                                                |             |                      | <b>£'000</b>                                                                 |
| <b>Balance at 1 January 2012</b>               |             | 34,440               | 112,033                                                                      |
| <b>Comprehensive income</b>                    |             |                      |                                                                              |
| Profit for the year                            |             | -                    | 87,229                                                                       |
| <b>Total comprehensive income for the year</b> |             | -                    | <b>87,229</b>                                                                |
| <b>Other changes in equity</b>                 |             |                      |                                                                              |
| Tax taken to equity                            | <b>19</b>   | -                    | 4,587                                                                        |
| <b>Total other changes in equity</b>           |             | -                    | <b>4,587</b>                                                                 |
| <b>Transactions with owners</b>                |             |                      |                                                                              |
| Dividends and distributions to equity holders  | <b>10</b>   | -                    | (98,667)                                                                     |
| <b>Balance at 31 December 2012</b>             |             | <b>34,440</b>        | <b>105,182</b>                                                               |
| <b>Balance at 1 January 2013</b>               |             | 34,440               | 105,182                                                                      |
| <b>Comprehensive income</b>                    |             |                      |                                                                              |
| Profit for the year                            |             | -                    | 98,409                                                                       |
| <b>Total comprehensive income for the year</b> |             | -                    | <b>98,409</b>                                                                |
| <b>Other changes in equity</b>                 |             |                      |                                                                              |
| Tax taken to equity                            | <b>19</b>   | -                    | 4,071                                                                        |
| <b>Total other changes in equity</b>           |             | -                    | <b>4,071</b>                                                                 |
| <b>Transactions with owners</b>                |             |                      |                                                                              |
| Dividends and distributions to equity holders  | <b>10</b>   | -                    | (94,000)                                                                     |
| <b>Balance at 31 December 2013</b>             |             | <b>34,440</b>        | <b>113,662</b>                                                               |

The notes on pages 9 to 36 form part of these financial statements.

**Statement of cash flows  
for the year ended 31 December 2013**

**Cash flows from operating activities**

|                                                                                    | Note | 2013<br>£'000   | 2012<br>£'000   |
|------------------------------------------------------------------------------------|------|-----------------|-----------------|
| <b>Profit before tax</b>                                                           |      | <b>120,329</b>  | <b>104,290</b>  |
| Finance income classified as investing activity                                    | 6    | (3)             | (98)            |
| Finance costs classified as financing activity                                     | 7    | 153             | 31              |
|                                                                                    |      | 120,479         | 104,223         |
| <b>Adjustments for:</b>                                                            |      |                 |                 |
| Movement in fair value of investment securities                                    |      | (3,081)         | (1,371)         |
| Purchase of investment securities                                                  |      | (746,818)       | (342,250)       |
| Disposal of investment securities                                                  |      | 702,044         | 314,148         |
| Amortisation of intangible fixed assets                                            | 11   | 640             | 568             |
| Impairment (reversal) / losses on investments in subsidiary undertakings           | 13   | (846)           | 1,474           |
| Dividends received from subsidiary undertakings classified as investing activities | 10   | (22,008)        | (38,575)        |
| Dividend received from associate classified as investing activity                  | 10   | (7,810)         | (4,067)         |
| Movement in operating assets and liabilities                                       | 21   | 37,065          | 29,157          |
| Group relief included in operating assets and liabilities                          |      | 11,880          | (14,275)        |
| Taxation and group relief (paid)/ received                                         |      | (21,995)        | 1,511           |
| <b>Net cash flows from operating activities</b>                                    |      | <b>69,549</b>   | <b>50,543</b>   |
| <b>Cash flows from investing activities</b>                                        |      |                 |                 |
| Purchase of investment in subsidiary undertakings                                  | 13   | (2,075)         | (991)           |
| Proceeds from disposal of investment in subsidiary undertakings                    | 13   | 218             | 8,500           |
| Dividends received from subsidiary undertakings                                    | 10   | 22,008          | 38,575          |
| Dividends received from associate                                                  | 10   | 7,810           | 4,067           |
| Purchase of intangible assets                                                      | 11   | (1,805)         | (1,932)         |
| Finance income                                                                     | 6    | 3               | 98              |
| <b>Net cash flows from investing activities</b>                                    |      | <b>26,159</b>   | <b>48,317</b>   |
| <b>Cash flows used in financing activities</b>                                     |      |                 |                 |
| Dividends and distributions to equity holders                                      | 10   | (94,000)        | (98,667)        |
| Finance costs                                                                      | 7    | (153)           | (31)            |
| <b>Net cash flows used in financing activities</b>                                 |      | <b>(94,153)</b> | <b>(98,698)</b> |
| <b>Net increase in cash and cash equivalents</b>                                   |      | <b>1,556</b>    | <b>162</b>      |
| Cash and cash equivalents at the beginning of the year                             |      | 2,205           | 2,043           |
| <b>Cash and cash equivalents at the end of the year</b>                            | 17   | <b>3,761</b>    | <b>2,205</b>    |

The notes on pages 9 to 36 form part of these financial statements.

## **Notes to the financial statements for the year ended 31 December 2013**

### **1. Accounting policies**

#### **(a) Basis of preparation**

##### ***(i) Statement of compliance***

The financial statements of the Company have been prepared in accordance with IFRS issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission for use in EU and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities, which includes derivatives, at fair value through profit or loss (FVTPL). The financial statements have also been prepared on a going concern basis.

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these financial statements, unless otherwise stated. Additional information has been included in the financial statements for the current and prior year, resulting in some minor changes in comparison to the presentation in the prior year.

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.

##### ***(ii) New standards, amendments and interpretations to published standards that have been adopted by the Company***

The Company has adopted the following amendments to IFRS, International Accounting Standards (IAS) and interpretations which are effective from 1 January 2013 and management considers that the implementation of these amendments and interpretations has had no significant impact on the Company's financial statements:

#### **IFRS 13 Fair Value Measurement**

IFRS 13 replaces the guidance on fair value measurement in existing IFRS with a single standard. The standard does not change requirements regarding which items should be measured at fair value but provides guidance on how to determine fair value. There was no material impact on the Group from the adoption of IFRS 13.

#### **Amendment to IAS 1 Presentation of Financial Instruments (effective for annual periods beginning on or after 1 July 2013)**

The amendment to IAS 1 revises the way other comprehensive income (OCI) is presented. The key changes are as follows:

- Requirement to group items presented in OCI according to whether they will subsequently be reclassified to profit and loss
- Requirement to show separately the tax associated with items presented before tax in OCI for each classification of OCI items

The adoption of the amendment to IAS 1 has had no impact on the financial statements of the Company.

#### **Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013)**

The amendment to IAS 19 revises measurement, presentation and disclosure requirements for post-employment benefits, termination benefits and other employee benefits. The main impact on the Company's financial statements is that it is now permitted to satisfy the disclosure requirements in relation to the defined benefit plans it participates in, which share risks between entities under common control, by cross-reference to the disclosures for these plans given in the consolidated financial statements of Standard Life plc. The amendment has had no impact on the Company's statement of financial position or statement of comprehensive income.

#### **Amendment to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2013)**

This amendment to IFRS 7 enhances the disclosure requirements where financial assets and liabilities are offset on the statement of financial position. The new requirements focus on enhancing quantitative disclosures about recognised financial instruments that are offset. Additionally enhanced disclosures are required on financial instruments subject to master netting agreements or similar arrangements regardless of whether they are offset. There was no impact on the financial statements of the Company from the adoption of the amendment to IFRS 7.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### ***(iii) Standards, amendments and interpretations to published standards that are not yet effective and have not been early adopted by the Company***

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's annual accounting periods beginning on or after 1 January 2014 or later periods. The Company has not early adopted the standards, amendments and interpretations described below:

#### **IFRS 10 Consolidated Financial Statements**

IFRS 10 introduces a single consolidation model to be applied to all entities and replaces previous requirements on control and consolidation in IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 defines control, determines how to identify if an investor controls an investee and requires an investor to consolidate entities it controls under the new standard. IFRS 10 identifies three elements which must be present for an investor to control an investee, which are as follows:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use that power over the investee to affect the amount of the returns.

The adoption of IFRS 10 is not expected to have a significant impact on the financial statements of the Company.

#### **IFRS 11 Joint Arrangements**

IFRS 11 defines and establishes accounting principles for joint arrangements and replaces previous requirements in IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. The standard distinguishes between two types of joint arrangements – Joint Ventures and Joint Operations – based on how rights and obligations are shared by the parties to the arrangement. Joint operators should recognise their share of the assets, liabilities, revenue and expenses of the interest in accordance with applicable IFRS. Joint ventures should apply the equity method of accounting prescribed in IAS 28 (revised 2012) Investments in Associates and Joint Ventures to account for their interest.

The adoption of IFRS 11 is not expected to have a significant impact on the financial statements of the Company.

#### **IFRS 12 Disclosure of Interests in Other Entities**

IFRS 12 is a single disclosure standard which applies to all entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 requires entities to disclose information to enable users of the financial statements to evaluate the nature, risks and financial effects associated with interests in other entities. The required disclosures are grouped into the following main categories:

- Significant judgements and assumptions
- Interests in subsidiaries
- Interests in joint arrangements and associates
- Interests in unconsolidated structured entities

The adoption of IFRS 12 is expected to result in increased disclosure requirements within the financial statements of the Company.

#### **Amendment to IAS 27 Separate Financial Statements (2012)**

IAS 27 is amended to remove the requirements for consolidated financial statements which are superseded by the issue of IFRS 10.

#### **Amendment to IAS 28 Investments in Associates and Joint Ventures (2012)**

IAS 28 is amended to include Joint Ventures as well as associates. Joint Ventures are required to be equity accounted following the issue of IFRS 11. The amendment to IAS 28 is not expected to have a significant impact on the financial statements of the Company.

IFRS 10, IFRS 11, IFRS 12, Amendment to IAS 27 and Amendment to IAS 28 must be adopted concurrently and have been endorsed by the EU for adoption on periods beginning on or after 1 January 2014.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### **Amendment to IAS 32 Financial Instruments: Presentation (effective for annual periods beginning on or after 1 January 2014)**

The amendment to IAS 32 clarifies the circumstances in which financial assets and financial liabilities may be offset on the statement of financial position. The adoption of the amendment to IAS 32 is not expected to have a significant impact on the financial statements of the Company.

#### **Amendment to IAS 36 Impairment of Assets (effective for annual periods beginning on or after 1 January 2014)**

The amendment to IAS 36 clarifies that the recoverable amount for a cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated, is only required to be disclosed when an impairment loss has been recognised or reversed. The adoption of the amendment to IAS 36 is not expected to have a significant impact on the financial statements of the Company.

#### **International Financial Reporting Interpretations Committee (IFRIC) Interpretation 21 Levies (effective for annual periods beginning on or after 1 January 2014)**

The interpretation clarifies that an entity recognises a liability for a levy when and only when the triggering event specified in the legislation occurs. The adoption of the interpretation is not expected to have a significant impact on the financial statements of the Company. The interpretation has not yet been endorsed by the EU.

#### **Amendments to IAS 39 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2014)**

The amendments to IAS 39 provide relief in certain circumstances from having to discontinue hedge accounting when a derivatives contract is not rated as a result of a change in law or regulation and the new counterparty is a clearing counterparty. The adoption of the amendments to IAS 39 is not expected to have a significant impact on the financial statements of the Company. The amendment has not yet been endorsed by the EU.

### **IFRS 9 Financial Instruments**

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 allows only two measurement categories for financial assets: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at FVTPL. For financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised directly in OCI. Financial liabilities that are neither held for trading nor elected to be held at FVTPL are measured at amortised cost. Financial liabilities that are held for trading are measured at FVTPL.

In December 2012 the IASB issued *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, which amends IFRS 9 to require application for annual periods beginning on or after 1 January 2015, rather than 1 January 2013. IFRS 9 has not yet been endorsed by the EU.

### **(b) Revenue recognition**

#### **(i) Management fee income**

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 during which services are provided.

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 Company.

#### **(ii) Other operating income**

'Other operating income' consists mainly of dividend income received from associate and subsidiary companies.

It also includes net income received in respect of the transfer of management of certain money market funds to an external provider in the current year and investment gains and losses resulting from changes in market value on investments classified as FVTPL and certain derivatives.

'Other operating income' is recognised on an accruals basis.

**Notes to the financial statements (continued)****1. Accounting policies (continued)****(c) Expense recognition****(i) Impairment of non-financial assets**

The carrying amounts of assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. Where there is an indication of impairment, an impairment review is performed and an impairment loss recognised in the income statement to the extent that the 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, any 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, or the net asset value is used where appropriate. 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.

Non-financial assets other than goodwill which have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**(ii) Administrative expenses**

'Administrative expenses' are recognised on an accruals basis.

**(d) 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.

**(e) Intangible assets**

Intangible assets consist of internally developed software and are recognised in the statement of financial position if it is probable that the relevant future economic benefits attributable to the assets will flow to the Company and their cost can be measured reliably and either identified as separable (i.e. capable of being separated from the entity and sold, transferred, rented, or exchanged) or arising from contractual or other legal rights, regardless of whether those rights are transferable or separable.

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of up to five years of the intangible asset. Impairment losses are calculated and recorded on an individual basis in a manner consistent with policy (c) (i). Amortisation commences at the time from which an intangible asset becomes available for use.

**(f) Income tax**

The current tax expense is based on the taxable results for the year, using tax rates enacted or substantively enacted at the statement of financial position date, including any adjustments in respect of prior years.

Deferred tax is provided using the statement of financial position 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.

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.

Current and deferred tax is recognised in the income statement except when it relates to items recognised in other comprehensive income or directly in equity, in which case it is credited or charged to other comprehensive income or directly in equity respectively.

**Notes to the financial statements (continued)****1. Accounting policies (continued)****(g) 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 and derivatives are designated as FVTPL.

***(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 statement of financial position date. These are classified as 'Non-current assets'. The Company's loans and receivables comprise 'Trade and other receivables' and 'Cash and cash equivalents' in the statement of financial position.

**(h) Investments in subsidiaries**

Subsidiaries are all entities over which the Company 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.

The Group uses the acquisition method of accounting for the value 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. Acquisition costs are expensed when incurred.

Where there is an indication of impairment, an impairment review is performed and an impairment loss recognised in the income statement to the extent that the carrying amount exceeds its recoverable amount.

Dividend income received from subsidiaries is included as 'Other operating income' in the income statement.

**(i) Investment in associate**

Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The Company uses the acquisition method of accounting for the value of associates. 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. Acquisition costs are expensed when incurred.

Where there is an indication of impairment, an impairment review is performed and an impairment loss recognised in the income statement to the extent that the carrying amount exceeds its recoverable amount.

Dividend income received from the associate is included as 'Other operating income' in the income statement.

**(j) Investment securities and derivatives**

Management determines the classification of investment securities and derivatives at initial recognition. The Company 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. All derivatives are held at fair value and changes in fair value are recorded 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. Estimates and assumptions used in determining fair values are disclosed in note 2(i).

**(k) Trade and other receivables**

Trade and other 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 Company 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.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

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 and other receivables'. Subsequent recoveries of amounts previously written off are credited against 'Administrative expenses' in the income statement.

#### (l) Cash and cash equivalents

'Cash and cash equivalents' include cash in hand, deposits held at call with banks and any highly liquid investments with less than three months to maturity from the date of acquisition. 'Cash and cash equivalents' are categorised for measurement purposes as loans and receivables and are therefore measured at amortised cost.

#### (m) Share capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. The difference between the proceeds received on issue of the shares and the nominal value of the shares issued is recorded in the share premium account. Incremental costs directly attributable to the issue of new equity instruments are shown in the share premium account as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments in a business combination are included in the cost of acquisition.

#### (n) Trade and other payables

Trade and other payables are recognised at their initial fair value and subsequently measured at amortised cost.

#### (o) 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 Company as either lessor or lessee.

#### (p) Pension costs and other post retirement benefits

The 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, determined by periodic actuarial calculations.

The Company 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 Company pays contributions to separately administered pension insurance schemes. The contributions are recognised in staff expenses when they are due.

#### (q) Dividends and distributions

Distributions relate to the additional charge payable to Standard Life plc as a result of dividend shares on LTIPs, as set out in Note 25. Distributions are recognised directly in equity in the Company's financial statements in the period in which the awards, to which they relate, vest.

Dividends are recognised directly in equity in the Company's financial statements in the period in which they are paid.

#### (r) Employee cash-based long-term incentive payments

The Company operates cash based LTIPs for certain senior employees. These are accounted for under IAS 19 'Employee Benefits' and are remeasured at fair value at each reporting date and at the settlement date, with any difference in value taken to the income statement.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### (s) Employee share-based payments

Standard Life Group operates share incentive plans for all employees, share-based LTIPs and restricted stock for senior employees and may award annual performance shares to all eligible employees when targets for each scheme are met. The schemes are all in respect of Standard Life plc shares and further details are set out in Note 25. The majority of schemes are treated as equity-settled share-based payment schemes under IFRS 2 Share-based payment. For share-based payment employee transactions, services received are measured at fair value.

Fair value of options granted under share incentive schemes is determined using a relevant valuation technique, such as the Black Scholes option pricing model.

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 Group. Market vesting conditions and non-vesting conditions, such as the requirement of employees to save in a Save-as-you-earn scheme, are included in the calculation of the fair value of the instruments at the date of grant. Vesting conditions which are not market conditions are included in assumptions about the number of instruments that are expected to vest.

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 Group.

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 Group.

Cancellations of awards granted arise where non-vesting conditions attached to the award are not met during the vesting period. Cancellations are accounted for as an acceleration of vesting and the remaining unrecognised expense in respect of the fair value of the award is recognised immediately.

At each period end the Group reassesses the number of equity instruments expected to vest and recognises any difference between the revised and original estimate in the income statement with a corresponding adjustment to the amount due to the Standard Life Group.

#### (t) Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

### 2. Key estimates and judgements

The preparation of financial statements, in conformity with IFRS, may require 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 Company'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:

#### (i) Fair value calculations

Fair value is defined as the value at which assets, liabilities or positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty. Where quoted market prices are not available, fair value is based upon cash flow models which use, wherever possible, independently sourced market parameters such as interest rate yield curves and option volatilities.

**Notes to the financial statements (continued)****2. Key estimates and judgements (continued)**

Other factors are also considered, such as counterparty credit quality and liquidity. Management must use judgement and estimates where not all necessary data can be externally sourced or where factors specific to the Company's holdings need to be considered. The accuracy of the fair value calculations would therefore be affected by unexpected market movements, inaccuracies within the models used compared to actual outcomes and incorrect assumptions.

**(II) Long-term incentive plans**

The key judgement in respect of Standard Life Group's LTIP is in relation to the number of awards expected to vest at each individual vesting date or the cash amount payable at each reporting date. This judgement is arrived at using a number of factors, including expectations of the Group's future cumulative pre-variable compensation, Earnings Before Interest and Taxation (EBIT) from third party assets under management.

**(III) Impairment assumptions**

The Company conducts annual impairment tests on its intangible assets and on the carrying value of the associate and subsidiaries. The recoverable amount is determined from the net realisable value or from value-in-use calculations. The key assumptions in the value-in-use calculations reflect management's expectations of the intangible assets and the medium-term operating performance of the associate and subsidiaries and growth prospects in the associate's and subsidiaries markets. Any assets which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**3. Other operating income**

|                                                 | <b>2013</b>   | <b>2012</b>   |
|-------------------------------------------------|---------------|---------------|
|                                                 | <b>£'000</b>  | <b>£'000</b>  |
| Income from shares in Group undertakings        | 29,817        | 42,641        |
| Gains on financial instruments carried at FVTPL | 978           | 1,566         |
| Distributions from private equity funds         | 634           | 549           |
| Gains on disposal of money market mandates      | 620           | -             |
| Other                                           | 342           | 4             |
| <b>Total other operating income</b>             | <b>32,391</b> | <b>44,760</b> |

**4. Staff and other employee related costs**

|                                                                 | <b>2013</b>    | <b>2012</b>    |
|-----------------------------------------------------------------|----------------|----------------|
|                                                                 | <b>£'000</b>   | <b>£'000</b>   |
| The aggregate remuneration payable in respect of employees was: |                |                |
| Wages and salaries                                              | 108,201        | 89,627         |
| Social security costs                                           | 19,730         | 14,311         |
| Other pension costs                                             | 10,021         | 9,062          |
| Share based payment expenses                                    | 18,013         | 11,842         |
| Cash based LTIPs                                                | 10,307         | 3,224          |
| Other                                                           | 2,767          | 3,843          |
| <b>Total staff and other employee related costs</b>             | <b>169,039</b> | <b>131,909</b> |

The average number of staff of the Company during the year was 912 (2012: 843). The staff split by activity is as follows:

|                                             | <b>2013</b> | <b>2012</b> |
|---------------------------------------------|-------------|-------------|
| Fund management                             | 272         | 259         |
| Global client group                         | 199         | 178         |
| Operations and change                       | 321         | 305         |
| Executive office, support, finance and risk | 120         | 101         |
|                                             | <b>912</b>  | <b>843</b>  |

Details of Directors' remuneration for services to the Company are contained in Note 23, 'Related party transactions'.

**Notes to the financial statements (continued)****5. Operating profit**

The following have been included in arriving at operating profit:

|                                                                                                      | <b>2013</b>  | <b>2012</b>  |
|------------------------------------------------------------------------------------------------------|--------------|--------------|
|                                                                                                      | <b>£'000</b> | <b>£'000</b> |
| Staff and other employee related costs (Note 4)                                                      | 169,039      | 131,909      |
| Operating lease rentals                                                                              | 150          | 137          |
| Amortisation of intangibles (Note 11)                                                                | 640          | 568          |
| Independent Auditors' remuneration (see below)                                                       | 274          | 70           |
| Fees payable to the Company's Independent Auditors for the audit of the Company financial statements | 24           | 23           |
| Fees payable to the Company's Independent Auditors:                                                  |              |              |
| Services pursuant to legislation                                                                     | 13           | 13           |
| Other assurance services                                                                             | 232          | 29           |
| Tax services                                                                                         | 5            | 5            |
| Total payable to the Company's Independent Auditors                                                  | <b>274</b>   | <b>70</b>    |

**6. Finance income**

Interest income of £3,000 (2012: £98,000) is derived primarily from 'Cash and cash equivalents'.

**7. Finance costs**

Finance costs of £153,000 (2012: £31,000) consist of overdraft interest and interest claims.

**8. Restructuring costs**

Restructuring costs of £991,000 (2012: £3,148,000) relate to expenses incurred by the Company during the process of reorganising operations.

**9. Tax expense****(a) Analysis of the tax charge for the year:**

|                                                                         | <b>2013</b>    | <b>2012</b>   |
|-------------------------------------------------------------------------|----------------|---------------|
|                                                                         | <b>£'000</b>   | <b>£'000</b>  |
| <b>Current tax</b>                                                      |                |               |
| United Kingdom corporation tax                                          | 23,607         | 15,429        |
| Adjustment to tax expense in respect of prior years                     | (300)          | 1,063         |
| Withholding tax                                                         | 74             | 34            |
| <b>Total current tax</b>                                                | <b>23,381</b>  | <b>16,526</b> |
| <b>Deferred tax</b>                                                     |                |               |
| Deferred tax (credit) / charge arising in the current year (note 12(b)) | (1,461)        | 535           |
| <b>Total deferred tax</b>                                               | <b>(1,461)</b> | <b>535</b>    |
| <b>Total tax expense</b>                                                | <b>21,920</b>  | <b>17,061</b> |

**(b) Tax relating to Items taken directly to equity**

|                                                                              | <b>2013</b>    | <b>2012</b>    |
|------------------------------------------------------------------------------|----------------|----------------|
|                                                                              | <b>£'000</b>   | <b>£'000</b>   |
| Current tax credit on reserves for employee share-based payments             | (4,831)        | (894)          |
| Deferred tax charge / (credit) on reserves for employee share-based payments | 760            | (3,692)        |
|                                                                              | <b>(4,071)</b> | <b>(4,586)</b> |

**Notes to the financial statements (continued)****9. Tax expense (continued)****(c) Reconciliation of tax expense:**

|                                                        | <b>2013</b>   | <b>2012</b>   |
|--------------------------------------------------------|---------------|---------------|
|                                                        | <b>£'000</b>  | <b>£'000</b>  |
| Profit before tax                                      | 120,329       | 104,290       |
| Tax at UK corporation tax rate of 23.25% (2012: 24.5%) | 27,976        | 25,551        |
| Effects of:                                            |               |               |
| Income not taxable                                     | (6,784)       | (10,447)      |
| Disallowable expenses                                  | 350           | 435           |
| Transfer pricing                                       | (170)         | (146)         |
| Prior year adjustments in respect of current tax       | (300)         | 1,063         |
| Prior year adjustments in respect of deferred tax      | -             | (829)         |
| Impairment of subsidiaries                             | (197)         | 361           |
| Changes in deferred tax rate                           | 971           | 917           |
| Share of profits from controlled foreign companies     | -             | 145           |
| Irrecoverable withholding tax                          | 74            | 34            |
| Other                                                  | -             | (23)          |
| <b>Total tax expense</b>                               | <b>21,920</b> | <b>17,061</b> |

From 1 April 2013 the main rate of UK corporation tax has decreased from 24% to 23%. Accordingly, this results in an average current tax rate of 23.25% for the year.

**10. Dividends and distributions**

|                                                   | <b>2013</b>            | <b>2012</b>            |
|---------------------------------------------------|------------------------|------------------------|
|                                                   | <b>£'000</b>           | <b>£'000</b>           |
| Dividends paid to parent undertaking              | 94,000                 | 96,000                 |
| Distributions made to ultimate parent undertaking | -                      | 2,667                  |
| <b>Total dividends and distributions</b>          | <b>94,000</b>          | <b>98,667</b>          |
| Dividends received from subsidiary undertakings   | 22,008                 | 38,575                 |
| Dividend received from associate                  | 7,810                  | 4,067                  |
|                                                   | <b>29,818</b>          | <b>42,642</b>          |
|                                                   | <b>2013</b>            | <b>2012</b>            |
|                                                   | <b>pence per share</b> | <b>pence per share</b> |
| Dividends paid to parent undertaking              | 272.9                  | 278.7                  |

**11. Intangible assets**

|                                  | <b>Total</b> |
|----------------------------------|--------------|
|                                  | <b>£'000</b> |
| <b>Cost:</b>                     |              |
| At 1 January 2012                | 2,957        |
| Additions                        | 1,932        |
| <b>At 31 December 2012</b>       | <b>4,889</b> |
| Additions                        | 1,805        |
| <b>At 31 December 2013</b>       | <b>6,694</b> |
| <b>Accumulated amortisation:</b> |              |
| At 1 January 2012                | -            |
| Amortisation for the year        | 568          |
| <b>At 31 December 2012</b>       | <b>568</b>   |
| Amortisation for the year        | 640          |
| <b>At 31 December 2013</b>       | <b>1,208</b> |
| <b>Net book value:</b>           |              |
| <b>At 31 December 2012</b>       | <b>4,321</b> |
| <b>At 31 December 2013</b>       | <b>5,486</b> |

**Notes to the financial statements (continued)****11. Intangible assets (continued)**

Intangible assets, consisting of internally developed software, are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is charged to 'Administrative expenses' on a straight-line basis over the estimated useful life of up to five years of the intangible asset.

Impairment losses are calculated and recorded on an individual basis in a manner consistent with Note 1 (c) (i).

There has been no impairment recorded in the year (2012: nil).

**12. Tax assets and liabilities****(a) Tax assets and liabilities**

|                                     | <b>2013</b>   | <b>2012</b>   |
|-------------------------------------|---------------|---------------|
|                                     | <b>£'000</b>  | <b>£'000</b>  |
| Current tax recoverable             | -             | 98            |
| Deferred tax assets (see (b) below) | 12,473        | 11,772        |
| <b>Total tax assets</b>             | <b>12,473</b> | <b>11,870</b> |
| Current tax liabilities             | 179           | 2,844         |
| <b>Total tax liabilities</b>        | <b>179</b>    | <b>2,844</b>  |

**(b) Recognised deferred tax**

|                                                                  | <b>2013</b>   | <b>2012</b>   |
|------------------------------------------------------------------|---------------|---------------|
|                                                                  | <b>£'000</b>  | <b>£'000</b>  |
| <b>Deferred tax assets comprise:</b>                             |               |               |
| Employee benefits                                                | 12,896        | 12,045        |
| Legal & marketing provision                                      | 130           | 150           |
| Unrelieved capital allowances                                    | 5             | -             |
| <b>Gross deferred tax assets</b>                                 | <b>13,031</b> | <b>12,195</b> |
| Less: offset of deferred tax liabilities                         | (558)         | (423)         |
| <b>Net deferred tax assets</b>                                   | <b>12,473</b> | <b>11,772</b> |
| <b>Deferred tax liabilities comprise:</b>                        |               |               |
| Unrealised gain on investment securities                         | (558)         | (423)         |
| <b>Gross deferred tax liabilities</b>                            | <b>(558)</b>  | <b>(423)</b>  |
| Less: offset against deferred tax assets                         | 558           | 423           |
| <b>Net deferred tax liabilities</b>                              | <b>-</b>      | <b>-</b>      |
| <b>Movements in net deferred tax assets comprise:</b>            |               |               |
| At 1 January                                                     | 11,772        | 8,615         |
| Amounts credited / (charged) to the income statement (note 9(a)) | 1,461         | (535)         |
| Deferred tax taken to equity                                     | (760)         | 3,692         |
| <b>At 31 December</b>                                            | <b>12,473</b> | <b>11,772</b> |

Deferred tax assets that are expected to be realised during 2014 (£6,614,000) have been measured at the 2014 average current tax rate of 21.5%. All other deferred tax balances are expected to be realised more than twelve months after the statement of financial position date. Therefore they have been measured at 20% (2012: 23%), this being the tax rate substantively enacted at the statement of financial position date.

**Notes to the financial statements (continued)****13. Investments in subsidiaries**

|                                 | <b>2013</b>   | <b>2012</b>   |
|---------------------------------|---------------|---------------|
|                                 | <b>£'000</b>  | <b>£'000</b>  |
| <b>At 1 January</b>             | 25,659        | 34,642        |
| Additional investment           | 2,075         | 991           |
| Disposals                       | (218)         | (8,500)       |
| Impairment reversals / (losses) | 846           | (1,474)       |
| <b>At 31 December</b>           | <b>28,362</b> | <b>25,659</b> |

Impairment reversals / (losses) recognised during 2013 consist of £10,000 (2012: (£58,000)) relating to Standard Life Investments (Asia) Limited, £717,000 (2012: (£437,000)) relating to Standard Life Investments (USA) Limited and £119,000 (2012: (£979,000)) relating to Standard Life Investments (France) SAS. The carrying values of the investments have been impaired to their recoverable amount. The recoverable amount of Standard Life Investments (USA) Limited is deemed to be £1,959,000 (2012: £1,242,000) and Standard Life Investments (France) SAS is deemed to be £2,418,000 (2012: £225,000).

During 2012 and 2013 the operations of Standard Life Investments (Asia) Limited were transferred to Standard Life Investments (Hong Kong) Limited.

Disposals in the current year relate to the transfer of the operations of Standard Life investments (Asia) Limited.

Disposals in the previous year relate to the redemption of preference shares in Standard Life Investments (Corporate Funds) Limited, Standard Life Investments (Mutual Funds) Limited and SLTM Limited.

**Notes to the financial statements (continued)****13. Investments in subsidiaries (continued)**

The following are particulars of the Company's subsidiary undertakings as at the statement of financial position date:

| <b>Name</b>                                              | <b>Country of registration/<br/>Incorporation</b> | <b>Share class</b> | <b>Direct or indirect % owned</b> | <b>Nature of business</b>                 |
|----------------------------------------------------------|---------------------------------------------------|--------------------|-----------------------------------|-------------------------------------------|
| Standard Life Investments (Mutual Funds) Limited *       | Scotland                                          | Ordinary           | 100                               | Collective investment products management |
| SLTM Limited *                                           | Scotland                                          | Ordinary           | 100                               | Collective investment products management |
| Standard Life Investments (Corporate Funds) Limited *    | Scotland                                          | Ordinary           | 100                               | Investment management                     |
| Standard Life Investments (Private Equity) Limited *     | Scotland                                          | Ordinary           | 100                               | Investment management                     |
| SL Capital Partners LLP +                                | Scotland                                          | LLP                | 60                                | Investment management                     |
| Standard Life Investments (Asia) Limited *               | Scotland                                          | Ordinary           | 100                               | Investment management                     |
| Standard Life Investments (USA) Limited *                | Scotland                                          | Ordinary           | 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            |
| Standard Life Investments (France) SAS*                  | France                                            | Ordinary           | 100                               | Investment management                     |
| SL Capital Partners (US) Limited ++                      | Scotland                                          | Ordinary           | 60                                | Equity research and marketing services    |
| SLCP (Holdings) Limited +++                              | Scotland                                          | Ordinary           | 60                                | Holding Company                           |
| Standard Life Investments Inc. *                         | Canada                                            | Common             | 100                               | Investment management                     |
| Standard Life Investments (General Partner CREF) Inc-    | Canada                                            | Ordinary           | 100                               | Investment management                     |
| Standard Life Investments (General Partner MAC) Limited* | Scotland                                          | Ordinary           | 100                               | Investment management                     |

**Notes to the financial statements (continued)****13. Investments in subsidiaries (continued)**

| <b>Name</b>                                                                             | <b>Country of registration/<br/>incorporation</b> | <b>Share class</b> | <b>Direct or<br/>Indirect %<br/>owned</b> | <b>Nature of<br/>business</b> |
|-----------------------------------------------------------------------------------------|---------------------------------------------------|--------------------|-------------------------------------------|-------------------------------|
| 4384831 Canada Inc. -                                                                   | Canada                                            | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (Real Estate) Inc. -                                          | Canada                                            | Common             | 100                                       | Investment management         |
| Standard Life Investments (General Partner EPGF) Limited *                              | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (General Partner UK Shopping Centre Feeder Fund LP) Limited * | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (General Partner UK PDF) Limited *                            | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (General Partner PDFI) Limited *                              | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (PDF. No 1) Limited ~                                         | Jersey                                            | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (General Partner GARS) Limited *                              | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| SLCP (General Partner ESP 2006) Limited ++                                              | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner ESP 2008) Limited ++                                              | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner ESP 2008 Coinvestment) Limited ++                                 | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner ESP CAL) Limited ++                                               | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner NASP 2006) Limited ++                                             | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner NASP 2008) Limited ++                                             | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner) Limited ++                                                       | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner II) Limited ++                                                    | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner ESP 2004) Limited ++                                              | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner CPP) Limited ++                                                   | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner Edcastle) Limited ++                                              | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner Tidal Reach) Limited ++                                           | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner ESF I) Limited ++                                                 | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner NASF I) Limited ++                                                | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner USA) Limited ++                                                   | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner Europe VI) Limited ++                                             | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| SLCP (General Partner SOF I) Limited ++                                                 | Scotland                                          | Ordinary           | 60                                        | Investment management         |
| Castlepoint General Partner Limited *                                                   | England & Wales                                   | Ordinary           | 100                                       | Investment management         |
| Castlepoint Nominee Limited >                                                           | England & Wales                                   | Ordinary           | 100                                       | Investment management         |

**Notes to the financial statements (continued)****13. Investments in subsidiaries (continued)**

| <b>Name</b>                                                                | <b>Country of registration/<br/>Incorporation</b> | <b>Share class</b> | <b>Direct or<br/>Indirect %<br/>owned</b> | <b>Nature of<br/>business</b> |
|----------------------------------------------------------------------------|---------------------------------------------------|--------------------|-------------------------------------------|-------------------------------|
| Standard Life Investments UK Shopping Centre Feeder Fund Company Limited < | Jersey                                            | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments Securities LLC ^                                 | US                                                | Ordinary           | 100                                       | Broker Dealer                 |
| Standard Life Investments (Trustee No. 1 UK PDF) Limited *                 | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (Trustee No. 2 UK PDF) Limited *                 | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (Trustee No. 3 UK PDF) Limited *                 | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (Trustee No. 4 UK PDF) Limited *                 | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (Trustee No. 5 UK PDF) Limited *                 | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (Trustee No. 6 UK PDF) Limited *                 | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (Trustee No. 7 UK PDF) Limited *                 | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (Trustee No. 8 UK PDF) Limited *                 | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (Trustee No. 9 UK PDF) Limited *                 | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (Trustee No. 10 UK PDF) Limited *                | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (Trustees No. 11 UK PDF) Limited *               | Scotland                                          | Ordinary           | 100                                       | Investment management         |
| Standard Life Investments (Trustees No. 12 UK PDF) Limited *               | Scotland                                          | Ordinary           | 100                                       | Investment management         |

\* Subsidiary undertaking of Standard Life Investments Limited

+ Subsidiary undertaking of Standard Life Investments (Private Equity) Limited

- Subsidiary undertaking of Standard Life Investments Inc.

^ Subsidiary undertaking of Standard Life Investments (USA) Limited

- Subsidiary undertaking of Standard Life Investments (Corporate Funds) Limited

> Subsidiary undertaking of Castlepoint General Partner Limited

< Subsidiary undertaking of Standard Life Investments (General Partner UK Shopping Centre Feeder Fund LP) Limited

~ Subsidiary undertaking of Standard Life Investments (Real Estate) Inc.

++ Subsidiary undertaking of SLCP (Holdings) Limited

+++ Subsidiary undertaking of SL Capital Partners LLP

All of the companies are unlisted and all the subsidiaries have a financial year end date of 31 December, with the exception of Standard Life Investments (Jersey) Limited, which has a financial year end date of 31 March, and Standard Life Investments PDF No. 1 Limited, which has a year end of 31 August 2013.

**14. Investment in associate**

The Company has an associate, HDFC Asset Management Company Limited (HDFC AMC), an investment management company incorporated in India. The Company holds a 40% (2012: 40%) interest in the equity share capital of HDFC AMC. The Company has significant influence in the associate. HDFC AMC has a financial year end date of 31 March.

The Company's investment in the associate is as follows:

|                                          | <b>2013</b>   | <b>2012</b>   |
|------------------------------------------|---------------|---------------|
|                                          | <b>£'000</b>  | <b>£'000</b>  |
| <b>Cost at 1 January and 31 December</b> | <b>13,448</b> | <b>13,448</b> |

**Notes to the financial statements (continued)****15. Investment securities**

Investment securities comprise of the following listed and unlisted instruments:

|                              | <b>2013</b>    | <b>2012</b>    |
|------------------------------|----------------|----------------|
|                              | <b>£'000</b>   | <b>£'000</b>   |
| Equity securities - listed   | 4,952          | -              |
| Equity securities - unlisted | 112,426        | 69,452         |
| Debt securities - listed     | 39,020         | 50,093         |
|                              | <b>156,398</b> | <b>119,545</b> |
| Non-current                  | 13,684         | 9,249          |
| Current                      | 142,714        | 110,296        |
|                              | <b>156,398</b> | <b>119,545</b> |

Listed equity securities consist of ordinary shares in a listed investment trust. Unlisted equity securities consist primarily of capital invested into regulated collective investment schemes, limited partnerships, and an investment in an unregulated property fund.

Listed debt securities consist of amounts held in certificates of deposit. Non-current assets consist primarily of capital invested into limited partnerships.

Related party disclosures are contained within Note 23 'Related party transactions'.

**16. Trade and other receivables**

|                                                  | <b>2013</b>    | <b>2012</b>   |
|--------------------------------------------------|----------------|---------------|
|                                                  | <b>£'000</b>   | <b>£'000</b>  |
| Amounts owed by subsidiary undertakings          | 67,503         | 62,635        |
| Amounts owed by Standard Life Group undertakings | 18,424         | 16,730        |
| Prepayments and accrued income                   | 8,253          | 9,549         |
| Management fee debtors                           | 5,369          | 606           |
| Other                                            | 1,817          | 374           |
| <b>Total trade and other receivables</b>         | <b>101,366</b> | <b>89,894</b> |

All of the financial assets above are non-interest bearing. Note 22 to these financial statements provides an analysis of the credit and foreign currency risks from the financial assets noted above.

**17. Cash and cash equivalents**

|                                        | <b>2013</b>  | <b>2012</b>  |
|----------------------------------------|--------------|--------------|
|                                        | <b>£'000</b> | <b>£'000</b> |
| Cash at bank and in hand               | 3,696        | 2,130        |
| Short-term bank deposits               | 65           | 75           |
| <b>Total cash and cash equivalents</b> | <b>3,761</b> | <b>2,205</b> |

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

All of the 'Cash and cash equivalents' balances at the statement of financial position date were held with counterparties rated (Standard & Poor's) A or above (2012: A or above).

**18. Share capital**

|                            | <b>Allotted, Called Up and Fully Paid</b> |              |             |              |
|----------------------------|-------------------------------------------|--------------|-------------|--------------|
|                            | <b>2013</b>                               |              | <b>2012</b> |              |
|                            | <b>No.</b>                                | <b>£'000</b> | <b>No.</b>  | <b>£'000</b> |
| Ordinary Shares of £1 each | 34,440,000                                | 34,440       | 34,440,000  | 34,440       |

**Notes to the financial statements (continued)****19. Retained earnings**

|                                                    | <b>2013</b>    | <b>2012</b>    |
|----------------------------------------------------|----------------|----------------|
|                                                    | <b>£'000</b>   | <b>£'000</b>   |
| <b>At 1 January</b>                                | 105,182        | 112,033        |
| Profit for the year attributable to equity holders | 98,409         | 87,229         |
| Dividends and distributions                        | (94,000)       | (98,667)       |
| Tax credit relating to share option scheme         | 4,071          | 4,587          |
| <b>At 31 December</b>                              | <b>113,662</b> | <b>105,182</b> |

**20. Trade and other payables**

|                                                  | <b>2013</b>    | <b>2012</b>    |
|--------------------------------------------------|----------------|----------------|
|                                                  | <b>£'000</b>   | <b>£'000</b>   |
| Accruals & deferred income                       | 106,364        | 74,917         |
| Amounts owed to Standard Life Group undertakings | 59,943         | 43,013         |
| Amounts owed to subsidiary undertakings          | 5,635          | 2,429          |
| Other                                            | 1,071          | 4,117          |
| <b>Total trade and other payables</b>            | <b>173,013</b> | <b>124,476</b> |
| <b>Presented as:</b>                             |                |                |
| Non-current                                      | 24,680         | 17,578         |
| Current                                          | 148,333        | 106,898        |
| <b>Total trade and other payables</b>            | <b>173,013</b> | <b>124,476</b> |

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

**21. Movement in operating assets and liabilities**

|                                                     | <b>2013</b>     | <b>2012</b>    |
|-----------------------------------------------------|-----------------|----------------|
|                                                     | <b>£'000</b>    | <b>£'000</b>   |
| <b>Movement in operating assets:</b>                |                 |                |
| Trade and other receivables                         | (11,472)        | (6,003)        |
|                                                     | <b>(11,472)</b> | <b>(6,003)</b> |
| <b>Movement in operating liabilities:</b>           |                 |                |
| Trade and other payables                            | 48,537          | 35,160         |
|                                                     | <b>48,537</b>   | <b>35,160</b>  |
| <b>Movement in operating assets and liabilities</b> | <b>37,065</b>   | <b>29,157</b>  |

**22. Financial risk management****(a) Standard Life Group approach to risk management**

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

**(b) The Group's approach to risk and capital management**

The Company operates within the governance structure of the Standard Life Group. The Group also has its own established governance framework, with clear terms of reference for the board of directors of SLIH (the Group Board) and risk committees, and a clear organisation structure, with documented, delegated authorities and responsibilities.

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 Group Board has approved a risk policy which outlines the framework for identifying, assessing, monitoring and controlling risk.

**Notes to the financial statements (continued)****22. Financial risk management (continued)**

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 Group Board, to identify the risks to which the Company 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. While the Company does not have its own ICAAP it is a part of the Group ICAAP. The Group's calculation thereof is subject to review by the Financial Conduct Authority (FCA) 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 Group Board. The potential impact of any significant risks identified outwith these timescales would be subject to immediate review.

**(c) The management of financial and non-financial risks**

The following tables reconcile the classes of financial instruments used for the risk management analysis to statement of financial position line items.

**(i) Statement of financial position reconciliation**

| <b>2013</b>                 |                         |                              |                      |                |
|-----------------------------|-------------------------|------------------------------|----------------------|----------------|
|                             | <b>Financial assets</b> |                              | <b>Non-financial</b> | <b>Total</b>   |
|                             | <b>FVTPL</b>            | <b>Loans and receivables</b> | <b>assets</b>        |                |
|                             | <b>£'000</b>            | <b>£'000</b>                 | <b>£'000</b>         |                |
| Intangible assets           | -                       | -                            | 5,486                | 5,486          |
| Investments in subsidiaries | -                       | -                            | 28,362               | 28,362         |
| Tax assets                  | -                       | -                            | 12,473               | 12,473         |
| Investment in associate     | -                       | -                            | 13,448               | 13,448         |
| Investment securities       | 156,398                 | -                            | -                    | 156,398        |
| Trade and other receivables | -                       | 100,734                      | 632                  | 101,366        |
| Cash and cash equivalents   | -                       | 3,761                        | -                    | 3,761          |
| <b>Total assets</b>         | <b>156,398</b>          | <b>104,495</b>               | <b>60,401</b>        | <b>321,294</b> |

| <b>2012</b>                 |                         |                              |                      |                |
|-----------------------------|-------------------------|------------------------------|----------------------|----------------|
|                             | <b>Financial assets</b> |                              | <b>Non-financial</b> | <b>Total</b>   |
|                             | <b>FVTPL</b>            | <b>Loans and receivables</b> | <b>assets</b>        |                |
|                             | <b>£'000</b>            | <b>£'000</b>                 | <b>£'000</b>         |                |
| Intangible assets           | -                       | -                            | 4,321                | 4,321          |
| Investments in subsidiaries | -                       | -                            | 25,659               | 25,659         |
| Tax assets                  | -                       | -                            | 11,870               | 11,870         |
| Investment in associate     | -                       | -                            | 13,448               | 13,448         |
| Investment securities       | 119,545                 | -                            | -                    | 119,545        |
| Trade and other receivables | -                       | 88,893                       | 1,001                | 89,894         |
| Cash and cash equivalents   | -                       | 2,205                        | -                    | 2,205          |
| <b>Total assets</b>         | <b>119,545</b>          | <b>91,098</b>                | <b>56,299</b>        | <b>266,942</b> |

| <b>2013</b>              |                              |                                  |                |
|--------------------------|------------------------------|----------------------------------|----------------|
|                          | <b>Financial liabilities</b> | <b>Non-financial liabilities</b> | <b>Total</b>   |
|                          | <b>£'000</b>                 | <b>£'000</b>                     | <b>£'000</b>   |
|                          |                              |                                  |                |
| Current tax liabilities  | -                            | 179                              | 179            |
| Trade and other payables | 172,651                      | 362                              | 173,013        |
| <b>Total liabilities</b> | <b>172,651</b>               | <b>541</b>                       | <b>173,192</b> |

**Notes to the financial statements (continued)****22. Financial risk management (continued)**

|                          | <b>2012</b>                  |                                  |                |
|--------------------------|------------------------------|----------------------------------|----------------|
|                          | <b>Financial liabilities</b> | <b>Non-financial liabilities</b> | <b>Total</b>   |
|                          | <b>£'000</b>                 | <b>£'000</b>                     | <b>£'000</b>   |
| Current tax liabilities  | -                            | 2,844                            | 2,844          |
| Trade and other payables | 124,476                      | -                                | 124,476        |
| <b>Total liabilities</b> | <b>124,476</b>               | <b>2,844</b>                     | <b>127,320</b> |

**(ii) Fair value of assets and liabilities**

All financial assets that are held as FVTPL are carried at their fair value which is stated in the table above. All assets listed as FVTPL are classified as designated on initial recognition. Due to the short-term nature of current financial assets and current financial liabilities the amortised cost is approximate to the fair value.

The accounting standards define fair value hierarchy levels which describe the nature of an instrument's fair value measurement as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table classifies the financial instruments held at FVTPL into one of the above three levels:

|                       | <b>2013</b>    |                |                |                |
|-----------------------|----------------|----------------|----------------|----------------|
|                       | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>   |
|                       | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   |
| <b>Assets</b>         |                |                |                |                |
| Investment securities | 218            | 143,289        | 12,891         | 156,398        |
|                       | <b>218</b>     | <b>143,289</b> | <b>12,891</b>  | <b>156,398</b> |

|                       | <b>2012</b>    |                |                |                |
|-----------------------|----------------|----------------|----------------|----------------|
|                       | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>   |
|                       | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   | <b>£'000</b>   |
| <b>Assets</b>         |                |                |                |                |
| Investment securities | 114            | 110,297        | 9,134          | 119,545        |
|                       | <b>114</b>     | <b>110,297</b> | <b>9,134</b>   | <b>119,545</b> |

Equity instruments listed on a recognised exchange are valued using prices sourced from the primary exchange on which they are listed. These instruments are generally considered to be quoted in an active market, and are therefore treated as level 1 instruments within the fair value hierarchy.

Level 2 securities consist of unlisted investments in regulated collective investment schemes and amounts held in certificates of deposit. These investments are valued using prices sourced directly or indirectly. Since they are not generally considered to be quoted in an active market, they have been treated as level 2 within the fair value hierarchy.

Valuation techniques are used for level 3 equity securities. The Company's exposure to these relates primarily to private equity investments. The majority of the Company's private equity investments are carried out through European fund of funds structures, where the Company receives valuations from the investment managers of the underlying funds. The valuation of these investments by the investment managers of the underlying funds is based on European Venture Capital Association Guidelines, including price/earnings ratio based valuations. Private equity fund valuations are provided by the respective managers of the underlying funds and are assessed on an individual investment basis, with an adjustment made if necessary for significant movements between the date of the valuation and the end of the reporting period. Sensitivities are determined by comparison to the private equity market. The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are treated as level 3 instruments within the fair value hierarchy. Where appropriate, reference is made to observable market data.

The valuation of the other level 3 investment securities, the investment in the unregulated property fund, is based on the price received from an independent property valuation company.

**Notes to the financial statements (continued)****22. Financial risk management (continued)**

A 10% change in the assumptions to reasonably possible alternatives would impact shareholder profit before tax or shareholder total assets or liabilities by £989,000 (2012: £699,000) for level 3 investments.

**(iii) Reconciliation of movements in level 3 instruments**

Included in level 3 investment securities are private equity co-investments and an investment in an unregulated property fund. The movements in level 3 financial assets and liabilities held at fair value are set out below.

|                                                          | <b>2013</b>                  | <b>2012</b>                  |
|----------------------------------------------------------|------------------------------|------------------------------|
|                                                          | <b>Investment securities</b> | <b>Investment securities</b> |
|                                                          | <b>£'000</b>                 | <b>£'000</b>                 |
| <b>At 1 January</b>                                      | 9,134                        | 5,754                        |
| Total gains or losses recognised in the income statement | (216)                        | 1,034                        |
| Purchases                                                | 6,676                        | 2,806                        |
| Sales                                                    | (2,495)                      | (264)                        |
| Foreign exchange adjustment                              | (208)                        | (196)                        |
| <b>At 31 December</b>                                    | <b>12,891</b>                | <b>9,134</b>                 |

Total gains and losses recognised in the income statement shown above are included in 'Other operating income'.

**(iv) Credit risk**

The Company is exposed to credit risk through capital investments, cash deposits, trade receivables and intercompany balances. For cash deposits an internal credit assessment of each counterparty is used to set counterparty limits by the Group. This is presented to the Standard Life Group Credit Risk Committee for review and approval.

Management fee income provides the bulk of the Company'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 Group companies and third parties, that specify contractual payment terms. The majority of receipts by value are received either monthly or quarterly from Standard Life Group entities who have had no defaults in the past.

Cash deposits, comprising the majority of 'Cash and cash equivalents', are placed for terms of less than three months, with counterparties selected according to the criteria noted and are all rated (Standard & Poor's) A or above (2012: A or above).

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

|                             | <b>2013</b>    | <b>2012</b>    |
|-----------------------------|----------------|----------------|
|                             | <b>£'000</b>   | <b>£'000</b>   |
| Investment securities       | 117,378        | 69,452         |
| Trade and other receivables | 100,734        | 88,893         |
| Debt securities             | 39,020         | 50,093         |
| Cash and cash equivalents   | 3,761          | 2,205          |
|                             | <b>260,893</b> | <b>210,643</b> |

At the statement of financial position date, none of the financial assets above were impaired but 'Trade and other receivables' classified as past due amounted to £908,000 (2012: £176,000), of which £nil (2012: £33,000) was overdue for greater than three months, £nil over six months (2012: £nil) and £nil (2012: £nil) over twelve months.

**(v) Market risk**

Market risk is the risk of adverse impact on the Company 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 profit after tax of £32,256,000 (2012: £24,034,000).

**Notes to the financial statements (continued)****22. Financial risk management (continued)**

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

|                             | <b>2013</b>     |               |                                   |                |
|-----------------------------|-----------------|---------------|-----------------------------------|----------------|
|                             | <b>Sterling</b> | <b>Euro</b>   | <b>Other</b>                      | <b>Total</b>   |
|                             | <b>£'000</b>    | <b>£'000</b>  | <b>currencies</b><br><b>£'000</b> | <b>£'000</b>   |
| Investment securities       | 143,412         | 12,313        | 673                               | 156,398        |
| Trade and other receivables | 93,268          | 6,699         | 767                               | 100,734        |
| Cash and cash equivalents   | 2,795           | 291           | 675                               | 3,761          |
|                             | <b>239,475</b>  | <b>19,303</b> | <b>2,115</b>                      | <b>260,893</b> |

|                             | <b>2012</b>     |               |                                   |                |
|-----------------------------|-----------------|---------------|-----------------------------------|----------------|
|                             | <b>Sterling</b> | <b>Euro</b>   | <b>Other</b>                      | <b>Total</b>   |
|                             | <b>£'000</b>    | <b>£'000</b>  | <b>currencies</b><br><b>£'000</b> | <b>£'000</b>   |
| Investment securities       | 111,981         | 7,052         | 512                               | 119,545        |
| Trade and other receivables | 82,030          | 3,542         | 4,322                             | 89,894         |
| Cash and cash equivalents   | 1,681           | 54            | 470                               | 2,205          |
|                             | <b>195,692</b>  | <b>10,648</b> | <b>5,304</b>                      | <b>211,644</b> |

|                          | <b>2013</b>     |              |                                   |                |
|--------------------------|-----------------|--------------|-----------------------------------|----------------|
|                          | <b>Sterling</b> | <b>Euro</b>  | <b>Other</b>                      | <b>Total</b>   |
|                          | <b>£'000</b>    | <b>£'000</b> | <b>currencies</b><br><b>£'000</b> | <b>£'000</b>   |
| Trade and other payables | 169,094         | 3,038        | 881                               | 173,013        |
|                          | <b>169,094</b>  | <b>3,038</b> | <b>881</b>                        | <b>173,013</b> |

|                          | <b>2012</b>     |              |                                   |                |
|--------------------------|-----------------|--------------|-----------------------------------|----------------|
|                          | <b>Sterling</b> | <b>Euro</b>  | <b>Other</b>                      | <b>Total</b>   |
|                          | <b>£'000</b>    | <b>£'000</b> | <b>currencies</b><br><b>£'000</b> | <b>£'000</b>   |
| Trade and other payables | 120,180         | 1,967        | 2,329                             | 124,476        |
|                          | <b>120,180</b>  | <b>1,967</b> | <b>2,329</b>                      | <b>124,476</b> |

A 10% movement in the exchange rate between Sterling and the main currency to which the Company is exposed, would have the following impact:

|                            | <b>2013</b>                                          |                                                      |
|----------------------------|------------------------------------------------------|------------------------------------------------------|
|                            | <b>10% increase in currency<br/>against Sterling</b> | <b>10% decrease in currency<br/>against Sterling</b> |
|                            | <b>Euro</b><br><b>£'000</b>                          | <b>Euro</b><br><b>£'000</b>                          |
| Impact on profit after tax | 1,646                                                | (1,347)                                              |
|                            | <b>2012</b>                                          |                                                      |
|                            | <b>10% increase in currency<br/>against Sterling</b> | <b>10% decrease in currency<br/>against Sterling</b> |
|                            | <b>Euro</b><br><b>£'000</b>                          | <b>Euro</b><br><b>£'000</b>                          |
| Impact on profit after tax | 893                                                  | (731)                                                |

**Notes to the financial statements (continued)****22. Financial risk management (continued)**

The Company has exposure to market risk in the UK only for equity securities.

The Company has minimal exposure to interest rate risk through its 'Cash and cash equivalents' as disclosed in the statement of financial position.

**(vi) Liquidity risk**

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

The Company'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 Group Board and the Financial Risk and Capital Management Forum.

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 statement of financial position under 'Cash and cash equivalents'.

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

|                              | 2013                  |                             |                           |
|------------------------------|-----------------------|-----------------------------|---------------------------|
|                              | Investment securities | Trade and other receivables | Cash and cash equivalents |
|                              | £'000                 | £'000                       | £'000                     |
| Due on demand                | 142,714               | -                           | 3,761                     |
| Due within 1 month           | -                     | 14,807                      | -                         |
| No contractual maturity date | 13,684                | 85,927                      | -                         |
|                              | <b>156,398</b>        | <b>100,734</b>              | <b>3,761</b>              |

|                              | 2012                  |                             |                           |
|------------------------------|-----------------------|-----------------------------|---------------------------|
|                              | Investment securities | Trade and other receivables | Cash and cash equivalents |
|                              | £'000                 | £'000                       | £'000                     |
| Due on demand                | 110,296               | -                           | 2,205                     |
| Due within 1 month           | -                     | 9,528                       | -                         |
| No contractual maturity date | 9,249                 | 79,365                      | -                         |
|                              | <b>119,545</b>        | <b>88,893</b>               | <b>2,205</b>              |

|                              | 2013                     | 2012           |
|------------------------------|--------------------------|----------------|
|                              | Trade and other payables |                |
|                              | £'000                    | £'000          |
| Due within 1 month           | 34,874                   | 27,960         |
| Due within 1 year            | 74,837                   | 58,598         |
| Due between 1 and 5 years    | 24,680                   | 17,578         |
| No contractual maturity date | 38,622                   | 20,340         |
|                              | <b>173,013</b>           | <b>124,476</b> |

**(vii) 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 as quantitative and qualitative risk limits.

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

## Notes to the financial statements (continued)

### 22. Financial risk management (continued)

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

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

The impact of new products, significant changes in business operations, or any material one-off transactions on the operational risk profile of the Company is assessed and managed.

#### (d) Compliance with FCA regulatory requirements

The Capital Requirements Directive created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. In the United Kingdom, this is being implemented by our regulator, the FCA which has created rules and guidance specifically through the creation of the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

#### The FCA framework consists of three 'Pillars':

Pillar 1 sets out the minimum capital requirements that companies need to retain to meet their credit, market and operational risk;

Pillar 2 requires each company, and the FCA, to take a view on whether the company needs to hold additional capital against firm-specific risks not covered by Pillar 1; and

Pillar 3 requires each company to develop a set of disclosures which will allow market participants to assess key information about its underlying risks, risk management controls and capital position.

Rule 11 of BIPRU sets out the provision for Pillar 3 disclosure. This must be done in accordance with a formal disclosure document. The disclosure of this document meets the Company's obligation with respect to Pillar 3, and can be found at:

[http://www.standardlifeinvestments.com/Global\\_Pillar\\_3\\_Policy/getLatest.pdf](http://www.standardlifeinvestments.com/Global_Pillar_3_Policy/getLatest.pdf)

The Pillar 3 disclosure does not fall within the remit of the annual audit.

### 23. Related party transactions

#### Parent and ultimate controlling party

The Company's parent undertaking is Standard Life Investments (Holdings) Limited, and the ultimate controlling party is Standard Life plc.

Copies of the annual report and accounts of Standard Life plc (the Standard Life Annual Report) are available to the public from Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH, or on the website [www.standardlife.com](http://www.standardlife.com).

#### Company transactions between and balances with related parties

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

**Notes to the financial statements (continued)****23. Related party transactions (continued)**

The following are details of significant transactions with related parties (excluding key management personnel) during the year and year end balances arising from such transactions:

| <b>2013</b>                      |                 |                 |                                        |
|----------------------------------|-----------------|-----------------|----------------------------------------|
|                                  | <b>Revenues</b> | <b>Expenses</b> | <b>Amounts owed by related parties</b> |
|                                  | <b>£'000</b>    | <b>£'000</b>    | <b>£'000</b>                           |
| Pension schemes                  | -               | 10,021          | -                                      |
| Standard Life Group undertakings | 410,229         | 73,596          | 85,927                                 |
| Other                            | 15,695          | 9,986           | -                                      |
|                                  | <b>425,924</b>  | <b>93,603</b>   | <b>85,927</b>                          |
|                                  |                 |                 | <b>65,578</b>                          |
| <b>2012</b>                      |                 |                 |                                        |
|                                  | <b>Revenues</b> | <b>Expenses</b> | <b>Amounts owed by related parties</b> |
|                                  | <b>£'000</b>    | <b>£'000</b>    | <b>£'000</b>                           |
| Pension schemes                  | -               | 9,062           | -                                      |
| Standard Life Group undertakings | 330,143         | 65,375          | 79,365                                 |
| Other                            | 16,953          | 8,136           | -                                      |
|                                  | <b>347,096</b>  | <b>82,573</b>   | <b>79,365</b>                          |
|                                  |                 |                 | <b>45,442</b>                          |

Interest paid to the parent amounted to £nil (2012: £nil). Interest paid to other related parties amounted to £nil (2012: £nil).

Dividend income from subsidiaries amounted to £22,008,000 (2012: £38,575,000). Dividends owed by subsidiaries amounted to £nil (2012: £nil).

Dividend income from the associate amounted to £7,810,000 (2012: £4,067,000). Dividends owed by the associate amounted to £nil (2012: £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. The investments held within the collective investment schemes are held with a related party. Refer to Note 15 'Investment Securities' for additional information on investment securities. Some of the investment securities held within the statement of financial position were sold to a related party after the statement of financial position date as discussed in Note 28.

**Key management personnel**

Key management personnel comprises 12 people (2012: 12 people) within the Company, including all directors. The remuneration of the Directors during the year was as follows:

|                                                    | <b>2013</b>   | <b>2012</b>   |
|----------------------------------------------------|---------------|---------------|
|                                                    | <b>£'000</b>  | <b>£'000</b>  |
| Short-term benefits                                | 10,906        | 10,337        |
| Post employment benefits                           | 16            | 24            |
| Share-based payment expenses                       | 5,615         | 5,894         |
| <b>Total key management personnel remuneration</b> | <b>16,537</b> | <b>16,255</b> |

£13,408,000 (2012: £13,088,000) was owing to key management personnel at the statement of financial position date.

Twelve Directors (2012: twelve) of the Company were participants in LTIPs. The benefits arising under the incentive schemes are recorded in the period in which entitlement is determined. Of these Directors, there were twelve (2012: twelve) Directors whose qualifying services were received or are receivable in the year.

Twelve (2012: twelve) Directors exercised share options during the year.

**Notes to the financial statements (continued)****23. Related party transactions (continued)**

Retirement benefits are accruing to nine Directors (2012: nine) in respect of their services to the Company and its subsidiaries under a defined benefit scheme operated by the Standard Life Group and four (2012: three) under a defined contribution scheme.

The highest paid Director of the Company received aggregate remuneration during the year of £2,748,000 (2012: £2,509,000). At 31 December 2012, the highest paid Director also held accrued pension benefits of £14,000 (2012: £14,000) under the defined benefit pension scheme operated by the Standard Life Group. The company pension contributions for the highest paid Director for the year were £84,000 (2012: £83,000).

The highest paid Director has exercised share options during the year and qualifying services in relation to the Group's LTIP were received or are receivable during the year.

**24. Pension obligations**

The employees who manage the affairs of the Company are members of defined benefit pension schemes and defined contribution pension schemes operated by the Standard Life Group for its employees in the United Kingdom. There is no contractual agreement or policy for charging the net defined benefit cost of the defined benefit schemes across the participating companies. The sponsoring employer for the defined benefit schemes is Standard Life Assurance Limited (SLAL) and therefore the net defined benefit cost of the schemes is recognised by SLAL. As a result the Company records its contributions to the defined benefit schemes as an expense in the period they are payable. The contributions to the defined contribution and the defined benefit plans recognised as an expense for the year ended 31 December 2013 were £10,021,000 (2012: £9,062,000).

Details of the UK defined benefit pension schemes are disclosed in the consolidated financial statements of Standard Life plc.

**25. Employee share based payments**

The Company does not operate any share-based payment schemes. During the year the Company's ultimate parent company, Standard Life plc, operated a number of share-based payment schemes, the majority of which are equity settled. Details of these arrangements affecting the Company are as follows:

**a) Share options****(i) Long-term incentive plans**

The Standard Life Group operates the following LTIPs:

| Plan                                                                | Recipients                                                    | Grant date                 | Conditions which must be met prior to vesting                                                                               |
|---------------------------------------------------------------------|---------------------------------------------------------------|----------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Standard Life plc long-term incentive plan (Standard Life plc LTIP) | Executives and senior management                              | Granted annually in March  | Service and performance conditions as set out in the directors' remuneration report within the Standard Life Annual Report. |
| Standard Life Investments long-term incentive plan (Group's LTIP)   | Executives and senior management of Standard Life Investments | Granted annually in March  | Service and performance conditions as set out in the directors' remuneration report within the Standard Life Annual Report. |
| Restricted stock plan (RSP)                                         | Executives (other than Directors) and senior management       | May be granted at any time | Service or, service and performance conditions. These are tailored to the individual award.                                 |

All of the awards are equity settled other than awards made under the Group's LTIP in respect of employees in the US, France and Asia which are cash settled.

**(ii) Short-term incentive plan (annual bonus deferred shares)**

The majority of the members of the executive and senior management including executive Directors participate in the Group annual bonus. Under the terms of the 2013 and 2012 annual bonus, half of any bonus earned by executive Directors and members of the executive team above 25% of salary will be settled in nil cost options which are deferred for a period of two years, subject to the deferred amount being worth 100% or more of salary.

The value of any dividends paid on those shares over the two year deferral period will be added in the form of additional options to the value of the deferred bonus.

Employees may forfeit some or all of awards made under any of the above share based payment schemes if they leave the Group prior to the end of the awards vesting period.

**Notes to the financial statements (continued)****25. Employee share based payments (continued)****(iii) Sharesave (Save-as-you-earn)**

The Standard Life Group operates Save-as-you-earn (SAYE) plans, which allow eligible employees in the UK and Ireland the opportunity to save a monthly amount from their salaries, over either a three or five year period, which can be used to purchase shares in the Company. The shares can be purchased at the end of the savings period at a predetermined price.

Employees are granted a predetermined number of options based on the monthly savings amount and duration of their contract. The conditions attached to the options are that the employee remains in employment for three years after the grant date of the options and that the employee satisfies the monthly savings requirement. Settlement will be made in the form of shares.

**b) Share awards****(i) 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 Group offers to match the number of shares bought up to a value of £25 each month. The matching shares awarded under the share incentive plan are granted at the end of each month. The matching shares are generally subject to a three year service period.

**c) Options granted and weighted average contractual life**

The number and weighted average exercise price for options outstanding during the year are as follows (for the Company element of the Standard Life plc LTIP and the Group's LTIP):

|                                                                               | 2013                                                 |                                 |           |                                                           |
|-------------------------------------------------------------------------------|------------------------------------------------------|---------------------------------|-----------|-----------------------------------------------------------|
|                                                                               | Number of options                                    |                                 |           |                                                           |
|                                                                               | 000's                                                |                                 |           |                                                           |
|                                                                               | Long-term<br>Incentive<br>plan<br>(including<br>RSP) | Short-term<br>Incentive<br>plan | Sharesave | Weighted<br>average<br>exercise<br>price for<br>Sharesave |
| Outstanding at 1 Jan                                                          | 30,244                                               | 50                              | 1,391     | 165.3p                                                    |
| Granted                                                                       | 5,511                                                | 19                              | 283       | 271.6p                                                    |
| Forfeited                                                                     | (6,227)                                              | -                               | (22)      | 168.1p                                                    |
| Exercised                                                                     | (7,325)                                              | (26)                            | (12)      | 157.0p                                                    |
| Cancelled                                                                     | -                                                    | -                               | (2)       | 157.0p                                                    |
| Outstanding at 31 Dec                                                         | 22,203                                               | 43                              | 1,638     | 183.7p                                                    |
| Weighted average remaining contractual life of<br>options outstanding (years) | 1.31                                                 | 1.18                            | 2.65      | n/a                                                       |

|                                                                               | 2012 restated                                        |                                 |              |                                                           |
|-------------------------------------------------------------------------------|------------------------------------------------------|---------------------------------|--------------|-----------------------------------------------------------|
|                                                                               | Number of options                                    |                                 |              |                                                           |
|                                                                               | 000's                                                |                                 |              |                                                           |
|                                                                               | Long-term<br>Incentive<br>plan<br>(including<br>RSP) | Short-term<br>Incentive<br>plan | Sharesave    | Weighted<br>average<br>exercise<br>price for<br>Sharesave |
| Outstanding at 1 Jan                                                          | 34,504                                               | 32                              | 1,235        | 157.0p                                                    |
| Granted                                                                       | 5,250                                                | 24                              | 181          | 221.3p                                                    |
| Forfeited                                                                     | (838)                                                | -                               | (24)         | 157.0p                                                    |
| Exercised                                                                     | (8,672)                                              | (6)                             | (1)          | 157.0p                                                    |
| Outstanding at 31 Dec                                                         | <b>30,244</b>                                        | <b>50</b>                       | <b>1,391</b> | <b>165.3p</b>                                             |
| Weighted average remaining contractual life of<br>options outstanding (years) | <b>1.81</b>                                          | <b>1.23</b>                     | <b>3.36</b>  |                                                           |

**Notes to the financial statements (continued)****25. Employee share based payments (continued)**

The number of options for 2012 has been restated in line with current year methodology. The exercise price for options granted under long-term and short-term incentive schemes is nil. Fair value of options granted under the Group's incentive schemes is determined using a relevant valuation technique, such as the Black Scholes option pricing model.

The following table shows the assumptions that were considered in determining the fair value of options granted during the year (for the Group's LTIP):

|                                                  | 2013                                                 |                        |                                  |             |
|--------------------------------------------------|------------------------------------------------------|------------------------|----------------------------------|-------------|
|                                                  | Long-term<br>Incentive<br>plan<br>(excluding<br>RSP) | RSP                    | Short-term<br>Incentive<br>plans | Sharesave   |
| <b>Options granted during the year</b>           |                                                      |                        |                                  |             |
| Date of grant                                    | 25 Mar 2013                                          | Throughout<br>the year | 28 Mar 2013                      | 14 Oct 2013 |
| Share price at grant date                        | 367.0p                                               | 341.6p                 | 365.0p                           | 356.0p      |
| Weighted average fair value                      | 367.0p                                               | 341.6p                 | 365.0p                           | 79.5p       |
| Exercise price                                   | Nil                                                  | Nil                    | Nil                              | 271.6p      |
| Option term (years)                              | 3.23                                                 | 1.44                   | 3.24                             | 2.97        |
| <b>Options exercised during the year</b>         |                                                      |                        |                                  |             |
| Weighted average share price at time of exercise | 355.7p                                               | n/a                    | 395.90p                          | 360.4p      |

For the LTIPs, RSPs and short-term incentive plans, the dividend policy includes the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date. For the Sharesave scheme there is no dividend entitlement.

No departures from share option schemes are expected at grant date, with any leavers being accounted for on departure. In determining the fair value of options granted under the Sharesave scheme the historic volatility of the share price over a period of up to five years and a risk free rate determined by reference to swap rates was also considered.

The following table shows the range of exercise prices of options outstanding at 31 December 2013. All options are exercisable for a period of six months after the vesting date.

|                                   | 2013                                           | 2012                                           |
|-----------------------------------|------------------------------------------------|------------------------------------------------|
|                                   | Number of<br>options<br>outstanding<br>(000's) | Number of<br>options<br>outstanding<br>(000's) |
| <b>Long-term Incentive plans</b>  | 22,203                                         | 30,244                                         |
| £nil                              |                                                |                                                |
| <b>Short-term Incentive plans</b> |                                                |                                                |
| £nil                              | 43                                             | 50                                             |
| <b>Sharesave</b>                  |                                                |                                                |
| 157p                              | 1,177                                          | 1,210                                          |
| 221p                              | 177                                            | 181                                            |
| 272p                              | 284                                            | -                                              |
| <b>Outstanding at 31 December</b> | <b>23,884</b>                                  | <b>31,685</b>                                  |

**Share incentive plans**

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

|                                                 | 2013   | 2012   |
|-------------------------------------------------|--------|--------|
| Number of instruments granted                   | 43,862 | 57,896 |
| Share price at date of grant                    | 361p   | 249p   |
| Fair value per granted instrument at grant date | 361p   | 249p   |

**Notes to the financial statements (continued)****25. Employee share based payments (continued)**

The fair value of instruments granted under the share incentive plan is calculated by reference to the share price at grant date. The plan includes the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date. At the grant date all awards are expected to vest. No departures are expected at the grant date, with leavers being accounted for on departure.

**(d) Employee share-based payment expense**

The amounts recognised as an expense in Note 4 for equity settled share-based payment transactions with employees are as follows:

|                                                        | <b>2013</b>    | <b>2012</b>    |
|--------------------------------------------------------|----------------|----------------|
|                                                        | <b>£'000's</b> | <b>£'000's</b> |
| Share options granted under LTIPs                      | 17,644         | 11,552         |
| Share options granted under Sharesave                  | 146            | 133            |
| Share options granted under short-term incentive plans | 65             | 39             |
| Matching shares granted under share incentive plans    | 158            | 118            |
|                                                        | <b>18,013</b>  | <b>11,842</b>  |

**26. Commitments****Operating lease commitments**

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

|                                   | <b>2013</b>  | <b>2012</b>  |
|-----------------------------------|--------------|--------------|
|                                   | <b>£'000</b> | <b>£'000</b> |
| Within one year                   | 125          | 135          |
| Expiring during years two to five | 63           | 264          |
|                                   | <b>188</b>   | <b>399</b>   |

**Commitments to limited partnerships**

The Company has entered into partnership agreements which have committed the Company to invest a maximum of £17,659,000 (2012: £16,539,000) into limited partnerships. During the year the Company invested £419,000 (2012: £2,530,000) with a remaining maximum commitment of £7,407,000 (2012: £7,887,000).

**27. Contingent assets**

A minimum fee arrangement is in place with an external party, in relation to an agreement by the Company to sell investment solutions directly to customers. It is probable that this minimum fee will be payable to the Company and the maximum value of this as at the 31 December 2013 is £5,000,000.

**28. Events after the statement of financial position date**

On 30 January 2014, the investment in the unregulated property fund reported within investment securities as at the statement of financial position date by the Company, was sold to Standard Life Assurance Limited, a related party within the Standard Life Group.

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## **Independent Auditors' Report to the Members of Standard Life Investments Limited**

### **Report on the financial statements**

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#### **Our opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

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#### **What we have audited**

The financial statements, which are prepared by Standard Life Investments Limited, comprise:

- the statement of financial position as at 31 December 2013;
- the income statement for the year then ended;
- the statement of changes in equity and the statement of cash flows for the year then ended; and
- the accounting policies and the notes to the financial statements which include other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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#### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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**Independent Auditors' Report to the Members of Standard Life Investments Limited**  
**Report on the financial statements (continued)**

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**Opinion on matter prescribed by the Companies Act 2006**

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In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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**Other matters on which we are required to report by exception**

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**Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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**Directors' remuneration**

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

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**Responsibilities for the financial statements and the audit**

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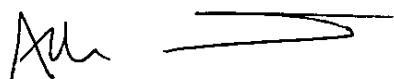
**Our responsibilities and those of the Directors**

As explained more fully in the Directors' Responsibilities Statement, set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

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Allan McGrath (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

20 February 2014