

# Global strength Local knowledge

Aberdeen Asset Management PLC  
Annual Report and Accounts 2011

SC082015



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# Providing investment expertise around the globe

## Who we are

Aberdeen Asset Management is an international asset management group investing across the four main asset classes of equity, fixed income, property and alternative investment strategies. We have a presence in 23 countries through some 30 offices and over 1,800 staff.

## What we do

Our business is the active management of financial assets for third parties. We package and sell that expertise in the form of segregated and pooled products across borders. Our key clients include leading national and corporate pension funds, central banks and other investment institutions. We have a broad shareholder base and are free from the ownership ties of a larger parent company structure.

## Our culture

We believe in locating our investment and client service teams in or near the markets in which we invest or where our clients are based. The Group has grown rapidly in the last 28 years and values a flat management structure and being an open, diverse and accessible employer. To our clients, we believe we are transparent and approachable. We champion local decision making, close-knit teams and interdependence among our offices worldwide.

## Our responsibilities

We see our role as being one where we do our utmost to provide the best possible working conditions for our employees, to protect the environment, to manage our business in a fair and ethical manner. Our corporate responsibility website may be found at [www.aberdeen-asset.com/csr](http://www.aberdeen-asset.com/csr).

## FINANCIAL CALENDAR

### Annual General Meeting

19 January 2012

### Payment of final dividend

26 January 2012

### Announcement of interim results

May 2012

### Payment of interim dividend

June 2012

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In 2011 Aberdeen Asset Management took up an initial three year sponsorship of Cowes week, the largest sailing regatta of its kind in the world. Taking place in early August each year it now attracts up to 1,000 competing boats, around 8,500 competitors and at least 100,000 visitors.

# Highlights

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## Revenue

2011: £784.0m

2010: £638.2m

+23%

## Underlying pre-tax profit<sup>A</sup>

2011: £301.9m

2010: £210.0m

+44%

## Statutory pre-tax profit

2011: £224.1m

2010: £125.6m

+78%

## Core operating cash flow

2011: £399.3m

2010: £254.6m

+57%

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## Historical summary

### Operating margin<sup>A</sup>

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### Diluted earnings per share<sup>A</sup> (pence)

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### Dividend per share (pence)

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### Assets under management (£bn)

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<sup>A</sup> stated on an underlying basis as explained on page 22.

# Chairman's statement

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## Roger Cornick Chairman

The final quarter contrasted starkly to the relatively stable market environment during the first three quarters of our financial year to 30 September 2011. Yet, despite the economic and political circumstances of the last few months and challenges they present I am pleased to report the Group has achieved significant growth in revenue, margins and profits. Revenue increased by 23%, underlying profit before taxation by 44% and underlying earnings per share by 41%. These results demonstrate that with Aberdeen's strategy of product, asset class and geographic diversity, combined with a strong balance sheet and a robust investment process, the Group is well placed to deliver shareholder value and withstand the pressures faced by the global economy.

The 23% increase in revenue, combined with operating costs controlled to an increase of only 14%, has seen underlying operating profit improve by 39%. The resultant cash flow has been used to add further strength to the balance sheet, and we can report a year end net cash position of £127.5 million (2010: net debt of £7.7 million). Assets under management ("AuM") had grown steadily for most of the year, although the events of the last few months have brought about a 5% reduction in AuM from the levels of a year ago.

New business flows have been won from a broadening range of capabilities of which gross flows amounted to £43.0 billion. Flows were, as last year, primarily into our global emerging market and global equity strategies but with a growing momentum of flows into our Asian fixed income and emerging market debt capabilities, both higher margin products.

## Financials

Revenue for the year of £784.0 million was 23% higher than in 2010 as the Group benefited from winning a significant volume of higher margin new business, principally into pooled funds, and maintaining fee rates on our principal products due to market demand. Performance fees of £36.3 million (2010: £30.3 million) remained stable at around 5% of total revenue, while the scale and quality of recurring fee income continue to benefit from the higher average fee rates earned on new business.

Operating costs increased by 14% and ongoing control of operating costs remains a key area of focus. We have seen a small increase in headcount as we have continued to invest in the depth of our investment teams and develop our global distribution effort. We have also prioritised marketing and sponsorship expenditure in certain areas where it aligns with our business strategy; for example, as part of our campaign to promote our brand in the UK market we agreed to an initial three year agreement to become the main sponsor for Cowes Week, the world's premier sailing regatta.

Underlying operating profit increased by 39% to £309.3 million (2010: £221.9 million), and the operating margin improved to 39.5% (2010: 34.8%). We believe that this margin compares favourably with our international peer group and, subject to stabilising markets, we will look to build this margin further.

I am pleased to report the company has also taken significant steps to add further balance sheet strength, and we report a net cash position of £127.5 million at the year end (2010: net debt of £7.7 million). During the year we repaid the US\$125 million 7.2% subordinated notes using the strong cash flow generated from our operations. We also spent £98.1 million to make market purchases of ordinary shares to negate the potential dilution from vesting of the deferred share element of prior years' bonus awards. We will continue to build balance sheet strength in the year ahead in order to reach a position where we no longer require the waiver from the full consolidated capital adequacy regulations.

## Results and dividend

Profit before taxation, on the statutory reporting basis, has increased by 78% to £224.1 million and diluted earnings per share of 14.1p is 75% ahead of last year. The Group's underlying profit, which we define as profit before taxation, exceptional items, amortisation and impairment of intangible assets, increased by 44% to £301.9 million (2010: £210.0 million). Underlying earnings per share, on a diluted basis, increased by 41% to 18.7p (2010: 13.3p).

The Board is recommending a final dividend of 5.2p per share, making a total payment for the year of 9.0p per share, an increase of 29% on the total payment for 2010. The Board remains committed to its policy of paying a progressive level of dividend.

## New business

Gross new business of £43.0 billion was added in the year, principally into our higher margin pooled funds. Outflows, mainly from lower margin segregated mandates, totalled £44.7 billion. While it is disappointing to report net outflows of AuM, the mix of the flows had a positive effect on revenues. The new business flows are summarised in the table below; gross inflows were sourced principally from investors in Europe (38%), the UK (23%), the Americas (20%), Asia Pacific (17%) and the Middle East (2%).

	Pooled funds £bn	Segregated £bn	Total £bn
Gross inflows	25.1	17.9	43.0
Outflows	(19.4)	(25.3)	(44.7)
Net flow	5.7	(7.4)	(1.7)

Our equity teams have continued to deliver consistent outperformance against their respective benchmarks both over the longer and shorter term periods with most core strategies performing particularly well as market conditions became more challenging. We believe this demonstrates the merits of our disciplined investment process and team-based approach and that our portfolios are well positioned during this extended period of turbulence. It is pleasing to note that the quality of our equity philosophy and process has been recognised through a number of awards, notably Hugh Young being honoured with the Outstanding Achievement award at this year's Investment Week Fund Manager of the Year Award and our investment teams also winning the Asian and the Emerging Market categories.

Demand for global emerging market equities has remained strong, but at more sustainable rates following our decision to close to new segregated business at the beginning of 2010. Global equity also remains popular with investors, attracting interest from a wide range of geographies and institutions,

reflected in a healthy forward looking pipeline. We continue to monitor the gross inflows to this strategy to ensure they do not reach unsustainable rates.

We are now seeing strong interest in our higher margin emerging market debt and Asian fixed income products, both of which have good long term performance records – this is reflected in healthy net inflows of £1.6 billion into these strategies during the year. As a result, the fixed income business mix is slowly moving from low margin core mandates towards higher margin specialist products. Performance in the core strategies of US and EMEA continues to improve towards attaining three year track records although we have seen some short term underperformance as our teams believe government bond markets are overvalued and have therefore favoured shorter portfolio duration.

The second half of our financial year has seen our property teams add £1.2 billion of new business wins, following a quiet first half. Conversely, outflows have slowed and, although the outcome is net outflows for the year of £0.6 billion, momentum is good as we enter a new financial year. We continue to see investor interest in our property capability, and our European and Asian expertise is now supplemented by our global multi-manager platform. Performance has been steady in difficult market conditions, recognised by numerous third party bodies and industry commentators.

Alternative Investment Strategies continues its transition following the acquisition of the RBS business in 2010. Importantly performance of the flagship products remains robust and we are making steady progress in broadening their investment appeal and accessibility to our existing client and consultant base. We are confident that our recently launched multi-asset Diversified Growth strategy will be attractive to a broad range of investors, while our Fund of Hedge Funds strategies continue to be recognised for investment excellence with the Aberdeen Orbita Global Opportunities Fund recently named FoHF of the Year at the Hedge Fund Review European FoHF Awards.

New business flows, analysed by asset class, are shown in the following table.

	Inflows £bn	Outflows £bn	Net flows £bn
Equities	24.1	15.1	9.0
Fixed income	8.7	13.5	(4.8)
Alternative investment strategies	3.9	7.1	(3.2)
Property	1.2	1.8	(0.6)
Money market	5.1	7.2	(2.1)
	43.0	44.7	(1.7)

## Business development

Our distribution efforts continued to make progress on a number of products globally. As part of the Group's strategy to promote our UK product range and fulfil the demand for fixed income yield, we launched two UK open end funds investing in emerging markets bonds and high yield bonds, together with a Latin American equity fund.

However, by far the most successful new product this year has been the re-launch of the Asian Local Currency Short Duration Bond fund in March this year which grew to over US\$600 million by the year end and has subsequently exceeded US\$750 million.

Our investment trust business won the top award at the 2011 Money Observer Investment Trust Awards. Elsewhere Aberdeen Asset Management was named winner in the Best International Fund Group category at the Professional Adviser International Fund & Product Awards 2011 an award given in recognition of the Group's Luxembourg fund range. We also received four awards at the prestigious Euromoney Liquid Real Estate Awards. Finally, Aberdeen was named Investment Trust Manager of the Year at Investment Week's Investment Trust of the Year Awards.

## The Board

During the year I have been pleased to welcome to the Board our new non-executive director, Julie Chakraverty, as well as two new executive directors, Anne Richards and Hugh Young.

I am again indebted to my fellow Board members for their continued hard work and support.

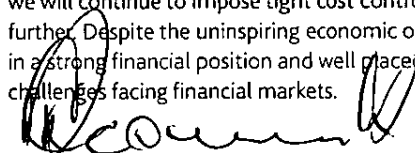
The Board continues to undergo change and I would like to take the opportunity to offer special thanks to Sir Malcolm Rifkind for his highly valued contribution and commitment to the Group. Sir Malcolm will retire from the Board at the conclusion of the AGM in January following twelve years of service.

Finally and on behalf of the Board I would like to thank the staff for their continued hard work and support.

## Outlook

Markets are likely to remain volatile until there is meaningful progress towards a resolution to the European debt crisis. Even then the likelihood is for a low growth environment across Europe and the US over the next few years. Despite this we are confident that Aberdeen can continue to grow revenues, assets under management and profits. The combination of the significant pools of wealth around the world, the evident increased need for retirement planning for increasing longevity and an extended period of extremely low interest rates will lead to increased investment in equities, fixed income securities and property. Our strength in these asset classes and geographical reach, particularly in Asia and the US, means that we are well positioned to meet this demand. Furthermore the shift from traditional core fixed income portfolios to more specialist mandates fits with our expertise in Asia Pacific and emerging market bonds.

We remain focused on growing the business organically and we will continue to impose tight cost control to grow margins further. Despite the uninspiring economic outlook, the Group is in a strong financial position and well placed to withstand the challenges facing financial markets.



R C Cornick  
Chairman



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# What we do

**At Aberdeen, asset management is our business.**

We believe our focus, size and approach enable us to provide effective asset management and superior client service.

Consistently strong performance across strategies is our priority.

We aim to deliver strong organic growth by retaining clients as well as attracting new ones. We seek to work with distributor partners and clients who share our values and standards internationally.

A strong team culture and distinctive and transparent investment processes sets us apart.

Our global network of offices supports a uniformly high standard of local client service.

Find out more about us through our website at  
**[www.aberdeen-asset.com](http://www.aberdeen-asset.com)**

# Our business model

Our sole focus is on the active management of our clients' portfolios by our teams of investment professionals who are based in the regions in which our AuM is invested. This forms the basis of our business model. We are diversified across our product range, geographic reach and client base. We have globally consistent processes in everything we do from investment to marketing to client servicing.

Our objective is to deliver strong organic growth in management fees and this will be achieved by providing a high quality service to existing clients as well as attracting new ones. We do this by knowing global markets from local level upwards and drawing on over 1,800 staff, across 30 offices in 23 countries.

	Aberdeen approach	Highlights in 2011	Risks and mitigations
<b>Investment process</b>	<p>Our investment process across all asset classes is founded on our own primary research on companies' securities and assets, both before and after we invest. This is achieved by adopting a robust investment process which is applied consistently by our investment teams.</p> <p>We favour teams and not star managers – our strong team culture with distinctive and transparent investment processes sets us apart.</p> <p>Our investment teams are long established and stable. As a truly active manager, it is key that our teams are based in the major locations where we invest.</p>	<p>Continued outperformance of strategies across a range of equities.</p> <p>Ongoing strong inflows into global emerging markets and global equities.</p> <p>We have put in place additional funds to tap our existing expertise in Asian fixed income and emerging market debt.</p> <p>Fixed income performance has continued to recover with most strategies now ahead of three year benchmarks.</p> <p>Increased scale of property team in Asia and begun to build a team in the US, introducing our global property capability.</p>	<p>The majority of the Group's revenue is earned from management fees which are calculated on the basis of the value of AuM. The value of AuM will be affected by general market movements, as well as investor appetite and the actual investment performance achieved by the asset managers. Further information on current trends is given in the business review.</p> <p>We recognise that our investment style, under which we invest for the longer term, may lead to periods of underperformance. We seek to mitigate this by ensuring that clients and investment consultants are kept fully aware of the nature of our investment philosophy and by openly discussing the drivers of such performance, supported by relevant analysis of the components of performance.</p>
<b>Reputation and brand</b>	<p>We aim to build and strengthen our brand through a co-ordinated series of local and regional name awareness initiatives and sponsorship opportunities.</p> <p>Whilst individual initiatives are tailored to the relevant country or region, they follow the common theme of Aberdeen's global capability and consistent processes, complemented by our local presence.</p>	<p>We now have dedicated marketing resource in our key markets in Europe, Asia and Americas.</p> <p>We have focused 'brand building' campaigns in the key markets in all regions.</p> <p>Major regional sponsorship includes Cowes Week and the Dad Vail regatta.</p> <p>Annual investment conference.</p>	<p>As well as poor investment performance, our reputation could be damaged through significant changes in investment personnel or if our brand is inconsistent with our culture and way of doing things.</p> <p>We consider that our team based approach and our consistent global processes and objectives mitigate these risks. Also, we provide our fund managers with a strong development programme and seek to encourage performance and loyalty through appropriate remuneration package.</p> <p>We actively manage regulatory risk through our global compliance team. We track developments in emerging regulatory changes and ensure that the Group is well prepared for change. The compliance team work closely with the business to check that our marketing materials are consistent with our products and capabilities.</p>

	Aberdeen approach	Highlights in 2011	Risks and mitigations
<b>Distribution</b>	<p>We source business through two main distribution channels:</p> <ul style="list-style-type: none"> <li>• Directly from institutions such as pension funds, corporates, sovereign wealth funds, government agencies, insurance companies, etc. New business typically takes the form of 'segregated mandates' or investment into pooled funds.</li> <li>• Through intermediaries (also known as distributors, third party advisors). These intermediaries recommend our pooled funds to their end clients as appropriate.</li> </ul>	<p>Flows into higher margin products have offset redemptions, with increasing flows into higher margin pooled funds.</p> <p>Blended average management fee increased to 41bps in 2011, from 37bps in 2010.</p> <p>Strong progress in UK wholesale market.</p> <p>Expansion across distribution platforms in US, with good growth in Brazil and Canada offices.</p>	<p>Our relationships with clients are fundamental to our business.</p> <p>We manage the risk of client retention by ensuring that our client relations teams keep in regular contact with clients to ensure that we address their changing needs. Client relationship managers are located as close as practicable to core clients to ensure a high level of service. We add new offices where it enhances our services to clients and prospects or deepens our investment coverage.</p>
<b>Client service and administration</b>	<p>The Group's own systems cover strategic systems such as trading, as well as decision support, data and compliance. These systems are supported in house.</p> <p>We outsource most of our back office functions, such as investment administration, to well established third party administrators. We have selected suppliers who have a strong track record of investment in their business, a long term strategic commitment to that business and reputational strength. Quality and continuity of service is of paramount importance.</p>	<p>Developed our global model for property and operations, ensuring that we have consistent and scalable platforms.</p> <p>Improved data capture on our clients, marketing efforts and success by markets and products.</p> <p>Third party administration costs have reduced, benefitting from fund mergers.</p>	<p>We have an obligation to ensure that the business can operate at all times. We have offsite back up for our systems in place to cover each of the Group's principal operating sites and regularly test our back up plans.</p> <p>Using a small number of strategic suppliers ensures competition between those suppliers for new business, while ensuring that we have significant influence and leverage. However, it also exposes us to concentration risk and dependence on strategic providers. Nonetheless, we believe that corporate failure or withdrawal of a strategic supplier are events that can be managed. We regularly review the business recovery infrastructure and strategy of these suppliers.</p>
<b>Capital</b>	<p>We aim to have a strong balance sheet with low gearing. We use the cash generated from the business to pay a progressive dividend. We also aim to avoid any further dilutive issuance of new shares; for example, we plan to satisfy future vesting of our deferred share schemes by purchasing shares in the market.</p> <p>We currently have a waiver from the FSA to meet the minimum capital requirements under the consolidated supervision rules. While the waiver runs to August 2014, it is our aspiration to be able to operate without the waiver by the end of 2012.</p>	<p>129% of underlying operating profit converted to operating cash flows.</p> <p>Net cash of £127.5 million at 30 September 2011.</p> <p>US\$125 million subordinated debt repaid.</p> <p>Growth in dividend is well covered by EPS.</p> <p>£98.1 million used to purchase shares for deferred share scheme.</p>	<p>The main risk is that regulatory capital requirements became more onerous, reducing available capital to pay dividends.</p> <p>We prepare long term forecasts of our capital position, using stress tests to determine how much capital to hold and retain. Our regulatory subsidiaries hold capital in excess of their local requirements.</p> <p>We also ensure that we have adequate headroom on bank facilities. We renegotiated our revolving credit facility and now have a £100 million facility, which is undrawn.</p>

# Global stretch, local activation

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## BRITISH ISLES

**Aberdeen (Head office)**  
**Edinburgh**  
**Glasgow**  
**Jersey**  
**London**

The British Isles are our home market accounting for 30% of our clients by AuM, some £50 billion. The city of Aberdeen is our headquarters where we locate many Group functions including finance, information management and human resources. London, our largest office by number of staff, is the investment centre for UK and European equity, fixed income and alternative investment strategy teams. Edinburgh is the investment centre for our global equity team, some of the alternative investment managers, as well as the base of company secretaries for the UK closed-end funds. Edinburgh is also the base for our global e-marketing resource.

## CONTINENTAL EUROPE

**Amsterdam**  
**Brussels**  
**Budapest**  
**Copenhagen**  
**Frankfurt**  
**Geneva**  
**Helsinki**  
**Luxembourg**  
**Milan**  
**Oslo**  
**Paris**  
**Stockholm**  
**Zurich**

We have a significant presence across Continental Europe with 13 offices in 12 countries. Europe excluding UK accounts for over 30% of Group AuM. Luxembourg is the domicile for the Aberdeen Global fund range.

## AMERICAS

**Philadelphia**  
**São Paulo**  
**Toronto**

Philadelphia is our hub for North America and includes fixed income and US equity teams. This year we established our first on-the-ground property team presence in the US. We manage almost £30 billion on behalf of clients throughout the Americas and have developed a strong platform on which to service institutional and wholesale channels.

The Toronto office services our burgeoning Canadian client base, while São Paulo is a research office for our emerging markets equity team.

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## MIDDLE EAST AND AFRICA

The Middle East and Africa are important sources of institutional funds and we have a strong client base which we service from London. We currently manage over £16 billion of assets for institutional and sovereign wealth entities in those regions.

## ASIA PACIFIC

**Bangkok**  
**Hong Kong**  
**Kuala Lumpur**  
**Shanghai**  
**Singapore**  
**Taipei**  
**Tokyo**

The Asian headquarters of the Group is in Singapore and is home to most of our Asian fund managers covering the main asset classes as well as substantial marketing, client servicing and administrative functions. Other full service offices are in Hong Kong, Kuala Lumpur and Bangkok. We also have research and client servicing in North Asia. Asian clients account for over £13 billion of AuM and our investment in Asian securities, both equities and fixed income, is a core competence for the Group.

## AUSTRALIA

**Melbourne**  
**Sydney**

The Group's Australian operation accounts for over £9 billion AuM and has a sizeable presence in this relatively sophisticated retirement savings market. Our funds in Australia offer local investors a comprehensive choice of domestic, regional, global and emerging market investments. Additionally, we manage a range of specialist mandates in fixed income and equities and an investment company that is listed on the Australian Stock Exchange.

We believe our focus, size and approach enable us to provide effective asset management and superior client service.

Our teams champion original thinking and knowledge, so investment decisions are based only on our own research.

As a group, we have the scale to provide global coverage of financial markets; yet we are small enough to focus on each and every portfolio decision.

Close-knit teams, clear investment processes and flat structures are important to us.

We seek to grow our clients' assets in a way that is manageable and sustainable over the longer term.

# Equities

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- Bottom-up investment style, emphasising company fundamentals
- Team approach, with asset managers based in the regions where we invest
- Low portfolio turnover, buying stocks and holding them for the long term
- First-hand research is central to our process
- No investment without interviewing the company's management first

Aberdeen's mainstream equity process dates from the early 1990s and we believe its advantage lies in the consistency of its approach, irrespective of market conditions.

From the company visits and analysis carried out regionally, through to portfolio construction decisions, we adopt a team approach.

Cross-coverage of securities locally ensures objectivity; we avoid cultivating 'star' managers. Diversification at the stock level is our main control of risk. We aim to add value by capitalising on original research and in avoiding fashions. We see equity risk in terms of investing in a poor quality company, or overpaying for a good one.

## Active management

We aim to add value by identifying good quality stocks, defined chiefly in terms of management and business model, which are attractively priced. Good stockpicking is the key to our performance. We downplay benchmarks in portfolio construction since these provide little clue to future performance. Our asset managers avoid businesses that we do not understand or those with discriminatory shareholder structures.

## Proprietary research

Our mainstream equity managers always visit companies before investing, making thousands of visits annually to existing and prospective holdings. Every contact is documented in detail. If a security fails our screens, we will not own it, irrespective of its index weight.

## Long-term focus

Our mainstream strategies are simple; we buy and hold, add on price dips and take profits on price rises. This reduces transaction costs and keeps portfolios focused. We rarely pursue short-term returns for mainstream equity strategies, albeit for specialist portfolios, activity may be more dynamic.

## Team approach

We employ over 130 equity investment professionals globally. Portfolio decisions are made collectively, and we avoid cultivating 'star' fund managers. Cross-coverage of securities also increases objectivity and lessens reliance on individuals.

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## Equity investment process

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## Equities breakdown

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Source: Aberdeen Asset Management PLC

# Fixed income

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- Active management, operating globally, in a transparent and accountable structure, within a risk framework
- Belief that multiple sources of added value improve the risk-return profile
- Specialist teams working independently within their area of expertise
- Local presence in London, Philadelphia, Singapore, Sydney, Bangkok, Tokyo and Budapest
- Strong derivatives capability to assist implementation of both active and liability matching strategies

We believe outperformance should be generated within a risk framework, adding value through multiple sources with low correlations to create natural diversification. As such, our fixed income structure comprises independent product teams, with their investment universes being as unconstrained as possible.

Our product teams are responsible for generating investment ideas from the global fixed income markets and implementing these into our clients' portfolios, keeping within stated investment objectives, risk budgets and individual client specific restrictions. In doing so, product teams utilise the skills and expertise of the Firm's broad fixed income group.

## Active management

We aim to add value by exploiting market inefficiencies in interest rates, currency, investment grade credit, emerging market debt, high yield, convertibles and money markets. We have dedicated portfolio managers and analysts in the three main time zones – Asia Pacific, Europe and the US. They operate as close-knit teams within a global framework, with investment decision-making devolved to specialists, based on their knowledge and expertise.

## Flexible and disciplined investment process

Our investment structure enables us not only to follow a disciplined investment process but also to be flexible to manage portfolios for a wide variety of client requirements. This may range from strategies which employ multiple sources of uncorrelated returns to those that are focused on a particular specialist area.

## Fixed income investment process

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## Team approach

We employ over 120 investment professionals across our teams. They invest within clearly delineated parameters, with defined reporting lines. Our team structure is based on transparency and accountability.

## Diverse solutions

Many clients are moving to higher performance or core plus mandates. Another trend is the move away from market-based indices and the use of liability driven benchmarks. We aim to deliver performance across the full range of our fixed income capabilities. We also use derivatives, such as interest rate and credit default swaps, to add value and also to match liability exposures.

## Fixed income breakdown

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# Property

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- An active property investment manager
- Unrivalled local presence in key international markets
- Separate accounts and collective funds, including funds-of-funds
- Disciplined investment process, supported by research on the ground
- Team approach, with managers based in the regions where we invest

Active management, top-class research, local presence and a rigorous investment process are the means by which we add value to property investment. We offer a wide range of well-structured vehicles that provide strong risk-adjusted returns as well as a choice of geographic and sector allocations.

In addition to funds holding direct property, we have pioneered the development of funds of property funds, with exposure to UK, Continental Europe, Asia Pacific and North America. This team invests in third party funds, not in direct property and its clients are exclusively institutional investors. Their philosophy focuses on creating alpha and not on general market exposure. Our direct investment and multi-manager teams manage client money in segregated mandates as well as pooled vehicles.

## Active management

Our understanding of the factors that drive returns stems from our local presence and our dedicated research capability. A unique feature of property is the value that can be added by active asset management, and selecting assets with this potential enables a skilful investment manager to create alpha and outperform the market.

## Local presence

Active property investment requires a local presence. We have expanded in Europe's heartland, through our Singapore office into Asia and more recently into North America. We now number over 300 professionals based in 13 countries. This unrivalled local reach is essential to our understanding of local markets and our commitment to local decision making.

## Structured investment process

Our robust investment process links the three essential disciplines of allocation, selection and asset management. We apply it rigorously to all property sectors and geographies. Our principle is to combine advanced top-down research with a pragmatic, but structured, bottom-up approach from our local professionals. The former focuses on managing beta, or portfolio risk, the latter on creating alpha.

## Delivering risk-adjusted returns

We aim to help our institutional clients achieve well diversified property exposure by delivering superior risk-adjusted returns through funds that offer a clear choice of geographic or sectoral exposure. With our advanced portfolio modelling techniques, we provide an understanding of the risk of different property investments and their place in multi-asset portfolios.

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## Property investment process

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## Property breakdown

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Source: Aberdeen Asset Management PLC



# Alternative investment strategies

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- Active management of diversified multi-asset portfolios, multi-manager funds, funds of hedge funds and funds of private equity funds
- Bottom-up and proprietary research are the cornerstone of our investment process
- No investment in any asset is made without first interviewing management
- Continual improvement to risk management controls, as superior methodologies emerge
- Team-based approach with managers based in London, Edinburgh, Paris and Philadelphia, with access to all of the group's skill sets worldwide

Our funds of hedge funds, fund of private equity funds and multi-manager capabilities enhance and complement Aberdeen's traditional skills in multi-asset investing. Our aim is to provide client portfolios and funds that diversify and control risk while optimising returns, whether using in-house capabilities or those of third party managers. A range of passive fund solutions is also available, according to client need.

## Active management

Our multi-asset team builds portfolios by investing in securities that have been researched and selected by our specialist asset class teams in-house, while our multi-manager and fund of hedge fund teams research and invest in highly-skilled third party manager funds.

## A focus on long-term investing

In multi-manager funds, we aim to add value by identifying and building strong relationships with those managers which we believe will excel at providing risk-adjusted performance. This approach mirrors our mainstream equity investment process, which is based on regular company visits with management. In multi-asset portfolios and the 'balanced' element of multi-manager products, we also employ top-down processes to aid superior portfolio construction and reduce risk.

## Alternatives investment process

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## Risk management

Our risk management controls are both specific to asset classes and characterised by our institutional clients' own risk appetites, their agreed risk budgets and any other mandate constraints. While the strength of our investment decision-making process is predominantly qualitative, in our fund of hedge funds and multi-manager businesses we also draw on a number of quantitative inputs to help guide our investment decision making.

## Proprietary research

First-hand analysis is a central tenet to Aberdeen as an investment manager. Despite the differences of our alternative asset capabilities, our stock and manager selection processes share the key values of our mainstream investment processes, namely due diligence, repeated investment meetings to verify our decisions and a disciplined attention to risk control.

## Alternative strategies breakdown

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# Business review

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## Introduction

This has been a record year for revenues and profits. The Group has delivered on its priorities of improving fee margins and operating margin. Profits have been converted into operating cash flow, which has been used to repay debt and to strengthen the balance sheet.

There has been increased volatility in the markets since the summer and we face a period of uncertain markets. However, the Group is well placed to address the challenges given the diversified client, product and asset base.

## Industry developments

For much of the last financial year, world markets were stable. Investors bet on a US-led global recovery and corporate profits and stock markets were rising. However, with the escalating European debt crisis, volatility has surged. Lacklustre US data and China's housing-led slowdown add additional concerns. Bouts of risk appetite and risk aversion have alternated as arguments have gone back and forth in respect of inflation and deflation, stimulus and austerity. That has led many investors to opt for perceived safe havens of real assets, like property, commodities and gold.

Flows into emerging markets were strong early on and benefited both equities and bonds, where we are among market leaders. We believe that Western institutions remain underweight in emerging markets and will need to diversify further in order to generate higher returns to meet liabilities at home. While some movement was policy led, recent outflows appear temporary as investors take profits to cover positions elsewhere or seek liquidity.

Unfortunately, flows into emerging markets were unrepresentative of industry patterns as a whole. Sales through third party distributors have not recovered and market movements rather than new money have been responsible

for almost all the aggregate rise in industry assets under management. In Europe alone there were US\$140 billion of net fund redemptions in the three months to September from European and cross-border funds.

Although such withdrawals amounted to less than 2% of long-term fund assets, they are among the highest net outflows on record. In the same quarter US\$54 billion was redeemed from US equity mutual funds; there were outflows of US\$90 billion in long-term mutual funds in the year to date, led by bond funds. Investor confidence in most markets is being affected by slow economic growth. In addition there is widespread scepticism towards financial services, with regulation adding to a popular backlash.

This environment has contributed to changes in investor behaviour. On the one hand it has created demand for low-cost products. Helped by the boom in commodities, Exchange Traded Funds (ETFs) have quickly outgrown their origins as simple index trackers. On the other hand, the complexity of the newer breed of ETFs is making the alternative of actively-managed funds, such as ours, that much clearer.

Within Europe, flows from bank-owned asset managers slumped in 2010. Investors withdrew funds because of performance or as a delayed reaction to past product mis-selling. By contrast nimble, less encumbered independent fund managers saw positive flows.

To some extent banks are facing a crisis of their own making, leading some to put their asset management businesses up for sale. However, while we value our market position as an independent asset manager, the difficulties that the banks face are not necessarily our gain. We depend on banks for distribution as much as we compete with them on products. Bank-owned asset managers have been able to use their links to push structured products, including ETFs.

## Global quarterly long-term fund flows

<sup>A</sup> Early estimations of September 2011 data. Excludes money market funds.  
Source: Strategic Insight.

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New regulations continue to be developed and amended. From 2013 rebate payments to UK intermediaries are to be outlawed. The continent may follow. A complete separation of manager and distributor charges would have the merit of letting retail buyers see what we receive. The popular perception is that managers retain the bulk of headline fees – which is not the case. Legislation could redraw how funds are priced and sold and managers may have to tailor products to investors needs or opt to compete on service.

A parallel development is taking place over products, with Europe looking to distinguish between simple and complex structures. While this would seem welcome – as we believe firmly in transparency and a simple investment process – there are deeper problems. Equities, in general, have failed to deliver satisfactory returns over the past decade. Diversification has not reduced risk either because asset classes have become more correlated. At the same time the idea of the 'risk-free' rate that underpins debt markets appears broken.

The industry may need to do several things to win back buyer trust: accept its limitations, otherwise increasing numbers of investors will turn to cash savings; and learn to understand client needs better and resist chasing fads.

#### **Aberdeen developments**

Our priority remains to build sustainable growth in assets at improving margins. One way to achieve that is through improved distribution. We have continued to source new business from a broadening range of capabilities and products. We have a blend of direct institutional clients investing in segregated mandates, as well as investments in our pooled funds, which are largely sold through intermediaries. In the past financial year, we have had net outflows of £7.4 billion,

but net inflows of £5.7 billion into our higher margin pooled funds. Overall 58% of gross new flows were in pooled funds. We have substituted segregated accounts with growth in our higher margin pooled funds business, where owners included institutions and wholesale vendors acting for corporates and private investors alike. These developments follow our efforts to build distribution across Europe and latterly the US, which remains easily the biggest market for savings and one we see as having potential for growth for Aberdeen.

Our closed end fund range is an important part of our pooled fund business. In the UK, we were awarded Investment Week's "investment trust group of the year", with Murray International winning the award for best international income trust and New India for best single country fund. Our US business has continued to grow and we are adding to the range. We were recently appointed manager of The Singapore Growth Fund and there are two other Asian equities funds where the boards are expected to appoint us. These funds add around US\$1.2 million of AuM.

Our past investment in creating a global client service model is bearing fruit. In recent years we have grown our office network to provide global coverage. This footprint helps to differentiate us as a genuine global group, one capable of both gathering and managing assets around the world. In the past 12 months we have made strides in systems development and client and fund flow data capture that has given us a much more intelligent and dynamic picture of where we are making money. This allows us to better understand the sources of demand and respond more effectively to these.

#### **Globally emerging markets saw inflows, mature markets did not**

<sup>A</sup> Cumulative inflows from 2008-2010 as a % of year end 2007 AuM.  
Source: McKinsey Global Asset Management database.

#### **Assets by mandate type**

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Source: Aberdeen Asset Management PLC

## Asset classes in focus

### Equities

Our core equities teams have continued to perform robustly. Overall, we had £9.0 billion of inflows, largely into global emerging markets (GEM) and global equities.

We have had good flows into GEM across each of our regions. In line with different regional responses to risk, the industry reported variable appetite for GEM at different points through the year. Notwithstanding, we continued to receive steady flows in aggregate, underscoring how established our GEM products have become, even in taxing conditions.

Core global equity mandates continued to generate interest, with some £4 billion of net new business. Through the year we won mandates in EAFE Plus, EAFE Only and global income. We see opportunity for further growth in pooled funds, including the Global Small Cap product.

The global equity team have been together for almost nine years; we can soon look forward to a ten-year track record under the current investment process. One of the key funds managed by the team, Murray International, received a 'highly commended' at the Money Observer Investment Trust Awards 2011 and won the international income award in Investment Week's 2011 Investment Trust Awards, where we also won 'Group of the year'. Our Asian equities team continues to generate steady flows, primarily into pooled funds.

### Fixed Income

Fixed income markets have had a very volatile year. The continuing Eurozone debt crisis and concerns over the outlook for global economic growth have led to a flight to quality and liquidity. Yields in developed government bond markets are at multi-year lows. The spike in risk aversion we saw over the summer months led to a widening in credit spreads and, briefly, underperformance in emerging markets.

We suffered net outflows of £6.5 billion from the more traditional fixed income classes such as UK, Europe, the US and Australia. Against this, our Asian and emerging market debt teams attracted £1.6 billion in net new money. Interest in local currency mandates has grown from almost non-existent levels just two to three years ago, and consultant interest is now picking up. In line with the industry, we have seen net outflow of £2.1 billion in money market assets.

In our view, developed government bond markets are extremely overvalued; thus we established a short duration position for many of our fixed income strategies over the summer, shortly before the Federal Reserve launched its 'twist' operation. While contrarian, we believe this strategy will ultimately prove successful.

We brought together our interest rate and currency teams into one global macro team to improve the interaction between our specialist teams. We also set up a strategy team to develop our longer term investment views. There is now one team ultimately responsible for managing global credit (similar to the approach used by our global equity team). Our global credit research platform is more tightly controlled ensuring greater transparency and consistency worldwide.

### Assets by asset class

### Net sales by asset class, £bn

Source: Aberdeen Asset Management PLC

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### Alternative Investment Strategies

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We have spent much of the period putting structure in place in terms of products and staff to enable us to present coherent and competitive products. We have reorganised the Aberdeen Private Equity Fund, our main private equity investment vehicle. We had a change in leadership in our fund of hedge funds business; while the multi-asset team based in Edinburgh has been developing new products for the UK pension market.

In terms of fund flows some £3.2 billion exited, leaving total assets under management of £24.8 billion. Much of the outflows were from lower margin passive funds. In revenue terms, some of these declines were cushioned by performance fees from the flagship capital return fund.

Performance in the funds of hedge funds has held up well, while long term relative performance in long only assets is respectable. The Aberdeen Orbita Global Opportunities Fund was named 'fund of hedge fund of the year' at the 2011 European Fund of Hedge Fund Awards. The multi-asset unit has won new business in the UK, noticeably within the charity sector, and there are signs of success following marketing in Europe and the Middle East. As a primarily UK business, our ability to develop credible processes and products to meet the needs of other markets, and to benefit from our considerable distribution network, is our next priority.

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### Property

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Although the turbulence in investment markets over recent months has slowed capital placement decisions, there is evidence that real estate is seen as a safe haven at a time of financial market volatility. Investor demand remains focused on lower risk property strategies, which suits Aberdeen well. Although we had net outflows of £0.6 billion, this was largely due to the loss of one low margin mandate in the first quarter of the financial year. We had positive flows in the last two quarters.

We have streamlined the fund range, merging funds with similar strategies and improving the terms for well-established open end products including the European Balanced and Pan-Nordic funds. This has broadened these funds' appeal and helped to support new inflows.

In Germany, we began the controlled wind-up of further DEGI retail funds, which is due to take a further three years to complete. By contrast institutional investor demand in Germany remains reasonably healthy, enabling the launch of a new Pan-European core fund for German investors, with a portfolio of over €200 million already established. This has led to better margins – as we have experienced for the division as a whole.

The multi-manager team continues to develop its global capabilities with new products in the pipeline, and client investments being made in Europe, Asia and North America with cross-border investment becoming increasingly global, rather than regionally focused.

We have added research and product specialists in key regions and created a dedicated investment strategy group. We now have a US investment team and we can market a global as well as a regional capability for the first time.

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## Regional highlights

### Americas

Our operations in the Americas have continued to expand. We added staff in Toronto, São Paulo and Philadelphia, especially in distribution. Our São Paulo office moved to a new location as staff increased to four. Our commitment is to expand operations in Central and South America, using São Paulo both as an investment and, in due course, distribution hub for the region.

We have raised £9.0 billion of gross new business over the last year. We have introduced products on several distribution platforms in the US and launched three new mutual funds: Aberdeen Asia Pacific Smaller Companies Fund, Aberdeen Ultra-Short Duration Fund and Aberdeen Emerging Markets Debt Local Currency Fund.

In our US closed end business we capitalised very successfully on the standing we have achieved as one of the world's largest managers of closed end emerging markets funds. We have replaced the existing manager for one Asian equity vehicle and expect to be appointed as manager of two further funds. These funds are well-regarded and further enhance Aberdeen's standing in this specialist industry.

### Asia Pacific

Our Asian business enjoyed another strong year, principally due to continued flows into Asian and GEM equities from around the world, as well as to Asian bonds. Interest in these asset classes provided the main thrust for retail sales. Net mutual fund sales were £0.5 billion, led by Singapore and Taiwan. Australia saw net outflows of some £900 million, although the underlying trend is for retail assets to replace institutional ones where we are unwilling to chase decreasing fees.

Our distribution has benefited from good work on the ground and we raised £7 billion of gross assets. Our three-year old relationship with Mitsubishi in Japan is progressing well and in Hong Kong and Singapore flows from the private bank channel are promising. We also continued to make progress in Taiwan and Thailand, which are primarily retail markets.

We launched our first Asian bond retail product – a local currency short duration fund. We are also targeting niche growth areas. We intend to start Islamic equity and bond funds in Malaysia for retail investors. We are also in the process of asset raising for a new Asian property fund of funds, our third such offering.

### EMEA

We now have 18 offices in 13 countries – from which we actively cover 22 markets. Our local presence has never been so strong. We successfully capitalised on this during the year and won £27 billion of gross new business. The UK accounts for £8 billion of this new business and we had strong sales spread across our European and Nordic offices. Flows in GEM and global equities were good. As well as the successful launch of the new core property fund in Germany, there were strong flows in direct property mandates in the Nordics and the Asian Local Currency Short Duration Bond.

We are seeking to grow in the UK wholesale market and our UK financial institutions team raised £1 billion of net flows. A part of this strategy was our sponsorship of Cowes Week for an initial term of three years. Cowes Week, now bearing the official title Aberdeen Asset Management Cowes Week, is one of the world's best-known sailing regattas and is widely supported by UK intermediaries. This increased brand recognition and, alongside additional resource that we have recruited, helped to raise efforts with our key strategic distributors and newly launched funds. We are in good stead to build on the recent success in the UK wholesale market in the year ahead.

### Assets by client domicile

### Gross sales by region FY11 – £43.0bn

Source: Aberdeen Asset Management PLC

## Financial review

### Overview

The previous section shows how we have sought to spread our risks by increasing diversification at product, geographic and client levels. In this section, we look at the financial position of the Group, which has benefited from improvements in revenue margins and strong conversion of operating profits into operating cash flows.

Our objective is to deliver long-term shareholder value by pursuing a strategy that involves organic growth supplemented, at appropriate times in the business cycle, by selective acquisitions. We are focused on growing organically for the foreseeable future. Our principal aims are to grow the recurring revenues that can be generated from the assets under our management, promoting our higher margin offerings and to maintain an efficient cost base from which to service this business, thus generating sustainable profits and cash flows from higher quality business. The value of net new business flows is the key driver of the growth in revenues and profits.

### AUM and flows

Global markets grew at the start of the year and for much of the year we benefited from stronger markets.

We entered a period of extreme volatility towards the end of the summer. Our AuM suffered a decline in August and September, falling to £169.9 billion. The reduction in AUM was largely caused by adverse market movements in the last two months of the financial year.

Average monthly AuM for 2011 was £179.6 billion compared to £160.4 billion in 2010 – a 12% increase.

While it is disappointing to finish the year with net outflows of £1.7 billion, the effect of changes in the product mix, with inflows in higher margin products more than offsetting outflows in lower margin products, has been to increase revenues. We have had net flows into equities of £9 billion, as well as growing momentum of flows into our higher margin fixed income products, especially Asian fixed income and emerging market debt. Our losses have been on lower margin products, including money markets, long-only multi manager and traditional fixed income.

In part, through soft closing to segregated mandates on Asian and GEM equities, we have seen growth in our pooled funds (+£5.7 billion), at the expense of segregated mandates (-£7.4 billion).

Changes in AuM are summarised in the following table:

	£bn
At 30 September 2010	178.7
Net new business flows	(1.7)
Markets and performance	(7.9)
Currency	0.8
<b>At 30 September 2011</b>	<b>169.9</b>

At the gross level, new business flows have grown strongly, and have been won from a broadening range of capabilities and geographics. There were inflows of £43.0 billion during the year (2010: £46.6 billion).

### Revenue margins

Average management fees by asset class are shown in the table below. Overall revenue margin has benefited from growth in AuM equities, our highest margin asset class and the trends in product mix discussed above.

The revenue margin for the year was 43.7bps (2010: 40.1bps), of which 41.2bps (2010: 37.4bps) was earned from recurring management fees.

	2011	2010
Equities	61bps	58bps
Fixed income	23bps	22bps
Money market	13bps	13bps
Alternative investment strategies	16bps	17bps
Property	50bps	49bps

**Summary of results for 2011**

	Underlying £m	Reclassifications £m	IFRS £m
Revenue	784.0	–	784.0
Operating expenses	(474.7)	(77.8)	(552.5)
Operating profit	309.3	(77.8)	231.5
Net finance costs	(7.7)	–	(7.7)
Other gains and losses	0.3	–	0.3
Profit before taxation	301.9	(77.8)	224.1
Tax expense	(60.2)	20.0	(40.2)
Profit after taxation	241.7	(57.8)	183.9
Amortisation & impairment of intangible assets	(77.8)	77.8	–
Tax on exceptional items, amortisation & impairment	20.0	(20.0)	–
Profit for the year	183.9	–	183.9

**Key performance indicators**

	2011	2010	2009
Change in underlying profit before taxation	+44%	+147%	-10%
Change in underlying EPS (diluted)	+41%	+110%	-30%
Underlying operating margin	39.5%	34.8%	22.7%
Conversion of underlying operating profit to core operating cash flow	129%	115%	83%

**Results**

Consistent with the approach we have adopted in previous years, this business review discusses the results on the basis of presentation adopted for management purposes, which separates exceptional items, amortisation and impairment from the underlying revenues and costs which drive the Group's recurring cash flow. The Board believes that discussing the results in this way will provide more helpful information to investors, and the Group income statement on page 63 has been presented in a manner which enables this distinction.

Revenue for the year increased by 23% to £784.0 million, while underlying operating expenses grew by 14% to £474.7 million; underlying operating profit consequently grew by 39% to £309.3 million. Net finance costs amounted to £7.7 million (2010: £11.9 million), resulting in an underlying profit before taxation of £301.9 million, a 44% increase on 2010.

**Revenue**

Revenue increased by 23% to £784.0 million. Management fees grew by 24% to £739.2 million with performance fees growing by 20% to £36.3 million. The major part of the growth came from recurring management fees which, at 94% of total revenues (2010: 94%), provide a high quality base on which to build.

**Operating expenses**

Overall, operating expenses have grown by £58.4 million (14%). Staff costs increased by 20%, with non-staff costs growing by 7%. The main increase in staff costs was the expense for the share based element of bonus awards. In part, this is due to the Group's improved profits and consequent increase in performance-related awards to our teams. In addition, having established a pattern of paying a substantial portion of the bonus in deferred shares, we now recognise these costs from the start of the service period, rather than from the award date. This accounts for 7% of the increase. Our compensation ratio of 35% (2010: 36%) remains competitive within our peer group.

Third party administration costs remain tightly controlled and, as previously flagged, benefited from fund mergers. The one area where we have deliberately increased spend is marketing, where we continue to build market awareness of our brand across our global markets. There have been no exceptional costs incurred since the completion of the integration of the Credit Suisse business in early 2010.

**Operating profit and margin**

Underlying operating profit for 2011 was 39% higher at £309.3 million, representing an operating margin of 39.5% (2010: 34.8%).



### Net finance costs

The main elements of net finance costs are interest paid on the bonds issued by the Group and on bank borrowings drawn from time to time, less interest earned on cash balances. Net finance costs have decreased significantly from £11.9 million in 2010 to £7.7 million this year, reflecting the repayment of the subordinated debt in July, no draw down of the revolving credit facility during the year and the build up of cash balances.

### Tax

The effective tax rate, defined as the tax charge divided by profit before taxation, was 19.9% in 2011. This relatively low rate is achieved because significant elements of the Group's profits are earned in jurisdictions which charge tax at lower rates than the UK corporation tax rate of 27%. The rate is slightly higher than last year, reflecting higher profits in the UK and Europe.

### Earnings per share

As discussed above, the Board believes that the most appropriate measure of the Group's profitability is the underlying diluted EPS number, which excludes from its calculation exceptional costs, exceptional income and gains and the amortisation and impairment charges on intangible assets. On this measure the Group's underlying diluted EPS has increased by 41% to 18.7p per share.

### Coupon on 7.9% perpetual subordinated capital securities

The coupon payable on these equity securities, which were issued in 2007 to introduce additional flexibility to the capital structure, is fully deductible for UK tax purposes, so that the post-tax cost is approximately 5.8% pa. This is considerably less than the cost of ordinary share capital, currently estimated at around 10.4% pa.

### Dividends

An interim dividend of 3.8p per share was paid to ordinary shareholders in June 2011 and the Board is recommending payment of a final dividend of 5.2p per share, resulting in a total payment for 2011 of 9.0p, a 29% increase on 2010. This dividend is covered approximately 2.1 times by diluted underlying earnings per share and is fully covered by diluted earnings per share, stated after amortisation, impairment and exceptional items.

### Cash flow

The year to 30 September 2011 has seen extremely strong cash flow, with operating profit of £309.3 million turned into £399.3 million of core operating cash flow, a conversion rate of 129% (2010: 115%). The operating cash flow excludes the effect of short term timing differences on settlement accounts (which are generally settled within four working days) and any acquisition related expenses, including deferred consideration. The Group's cash flow performance over the last three years is set out in the following table.

### Cash flow performance

	2011 £m	2010 £m	2009 £m
Core cash flow from operating activities	399.3	254.6	84.3
Short term timing differences on open end fund settlements	7.9	0.4	(4.7)
Operating cash flow before interest and tax	407.2	255.0	79.6
Interest and tax paid	(33.5)	(26.9)	(37.3)
Cash flow from operating activities after interest and tax	373.7	228.1	42.3
Maintenance capital expenditure	(5.9)	(6.5)	(6.8)
Dividends and coupons paid	(105.5)	(90.6)	(61.5)
Recurring free cash flow	262.3	131.0	(26.0)
Exceptional costs and gains	(7.3)	(15.5)	(25.3)
Acquisitions and disposals	(5.7)	(102.4)	33.8
Purchase (sales) of investments	(11.9)	29.1	(13.9)
Debt (repaid) drawn	(77.9)	(90.9)	31.8
Issue of share capital	–	115.8	(0.8)
Purchase of own shares	(98.1)	(2.2)	(0.3)
Exchange fluctuations	(2.7)	4.5	–
Movement in cash and cash equivalents	58.7	69.4	(0.7)

## Financial position

Total equity increased by £49.6 million to £1,234.5 million at 30 September 2011. The main components of this increase were as follows:

### Changes in equity

	£m
Profit for the year	183.9
Net income recognised directly in other comprehensive income	6.9
Issue of equity	0.2
Preference dividends paid	(0.3)
Coupon paid on perpetual capital securities	(14.2)
Ordinary dividends paid	(85.8)
Movement in non-controlling interest	2.6
Release from reserves to match charge for share-based payments in Income Statement	54.4
Purchase of own shares	(98.1)
Increase in total equity	49.6

### Capital and liquidity

The Group aims to have a strong balance sheet with low gearing. The Group has used the cash generated from the business to pay a progressive dividend, with a total payment of 9.0p proposed for 2011.

The Group moved from net borrowings of £7.7 million at 30 September 2010 to net cash of £127.5 million at 30 September 2011. During the year we repaid the US\$125 million subordinated debt, which is part of our strategy to use operating cash flows to strengthen the balance sheet. We spent £98.1 million buying shares in the market to satisfy outstanding deferred share awards. This negates potential EPS dilution from vesting of deferred awards.

We negotiated new revolving credit facilities on improved terms with our lenders. At the year end the Group had access to £100 million of committed but undrawn bank facilities and an overdraft facility, also undrawn, of £20 million, in addition to cash resources of £209.5 million. These facilities are used for the management of working capital requirements including the provision of seed capital to enable fund launches. The Group's liquidity position remains very robust.

### Pension deficits

The net deficit on the Group's legacy defined benefit pension schemes has decreased to £24.3 million at 30 September 2011, compared to a net deficit of £35.0 million at the previous year end. Assets held by the schemes have increased by £10.3 million from a combination of improvements in markets and increased employer contributions. One of the schemes also benefited from a de-risking strategy put in place by the trustees. Further, the value attributed to the liabilities of the schemes decreased slightly by £1.1 million. In estimating the liabilities, we are required by IAS 19 to use a discount rate calculated by reference to the yield on AA-rated corporate bonds. The discount rate used this year is 5.1%, compared to 5.0% in 2010 which helped in the decrease in the liabilities of the schemes. The Group's ongoing cash contribution to these schemes was increased by £1.8 million to £8.0 million per annum. Contributions are expected to increase to £9.3 million in the next financial year.

## Risk management

### Principal risks and uncertainties

In common with many businesses, the Group is exposed to a range of risks. Some of these risks are an inherent part of the business, such as taking investment decisions on behalf of clients and our energies are focused on managing this risk, as opposed to eliminating it.

The management of risk is embedded in the culture of the Group and the way we conduct our business. This is managed at an executive level through the risk management committee which, together with the risk, compliance and internal audit departments, is responsible for overseeing the implementation of our risk strategies; this involves the provision of regular reports to the Audit Committee, Risk Committee and the Board. In order to mitigate risk, the Group manages risk in a variety of ways depending on the nature of the risk and the areas of potential impact.

On pages 8 and 9, we have given an overview of our business model and strategy and the risks associated with this approach. The risks described in that section include: movements in AuM due to markets and investment performance; loss of key investment personnel; reputation damage; failure to retain clients; breach of regulatory capital requirements; and business continuity or third party administrator failure. In addition to these risks, the principal financial risks that we are exposed to include:

### Interest rate risk

We finance our activities from a combination of equity, including perpetual capital securities and preference shares, and debt. Coupon payments on the perpetual capital securities and preference dividends are payable, at the discretion of the Board, at fixed rates. Bank borrowings under the Group's revolving credit facilities are drawn in the desired currency at variable interest rates. The convertible bonds issued in December 2009 bear interest at a fixed rate throughout their five year life. The Board believes that the balance between floating rate and fixed rate borrowings is appropriate to the Group's business needs and will continue to monitor this position on a regular basis.

### Liquidity risk

The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Details of the bank facilities available to the Group are provided in note 27. The headroom between available facilities and amounts drawn is substantial, and will be maintained at a healthy level in future, using committed borrowing facilities where necessary to supplement cash resources retained by the Group.

### Credit risk

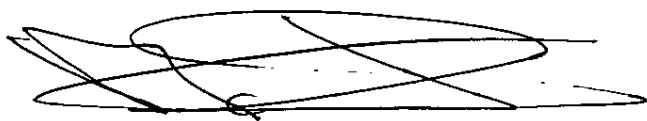
We face credit risk as a result of counter party exposure. We monitor the credit worthiness of our major counter parties. This includes actively monitoring credit ratings from rating agencies at the banks where we deposit cash.

### Foreign currency risk

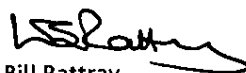
Revenues are earned principally from fees which are calculated on the basis of the value of AuM managed for clients and many mandates include investments valued in currencies other than sterling. Fluctuations in the rates at which overseas currencies are convertible to sterling can therefore affect the value of the Group's revenues on an ongoing basis. The fact that we operate on a global basis, with offices in a number of countries worldwide, means that a proportion of operating costs is also incurred in foreign currencies and coupons on the 7.9% perpetual capital securities is incurred in US dollars. Variations in the sterling value of these operating costs and interest cost will, to an extent, offset any similar impact of fluctuating exchange rates on revenues and the Board has therefore decided that it is not appropriate to undertake any specific hedging of the Group's US dollar exposure.

### Fair value of financial instruments

As explained in note 31 to the accounts, there is no material difference between the book value and fair value of financial instruments as at 30 September 2011.



**Martin Gilbert**  
Chief Executive



**Bill Rattray**  
Finance Director

# Board of directors

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ROGER CORNICK <sup>2</sup>

**CHAIRMAN (AGE 67)**

Roger was appointed to the Board on 23 January 2004 and became chairman on 22 January 2009. Roger was with Perpetual PLC for over 20 years, serving latterly as deputy chairman. Roger has over 30 years' experience of marketing and distribution in financial services and is currently a trustee of the River and Rowing Museum. Roger is chairman of the Group's nominations committee.

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MARTIN GILBERT

**CHIEF EXECUTIVE (AGE 56)**

Trained as a chartered accountant in Aberdeen, Martin is a founder of the Company and was first appointed a director on 1 July 1983. He is chairman of FirstGroup plc. Martin is also a director of Aberdeen Asian Smaller Companies Investment Trust PLC, Aberdeen Asia Pacific Income Fund, Inc, Aberdeen Asia Pacific Income Investment Company Limited, Aberdeen Development Capital PLC, Aberdeen Football Club plc, Aberdeen Global Income Fund, Inc, British Sky Broadcasting Group PLC and Primary Health Properties PLC.

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ANDREW LAING

**DEPUTY CHIEF EXECUTIVE (AGE 59)**

Andrew joined the Group in 1986 with responsibility for private equity investment. Andrew was subsequently appointed chief operating officer, originally joining the Board in 1987 and then again on 23 January 2004 and was appointed deputy chief executive in 2008. Andrew graduated from Aberdeen University with a MA in Politics and International Relations and a degree in Law. Andrew is a director of a number of Group subsidiaries.

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BILL RATTRAY

**FINANCE DIRECTOR (AGE 53)**

Bill joined the Group in 1985 as company secretary and subsequently became Group financial controller. He was appointed finance director on 31 January 1991. Before joining the Group, he trained as a chartered accountant with Ernst & Whinney in Aberdeen and qualified in 1982. Bill is a director of a number of Group subsidiaries.

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ANNE RICHARDS

**CHIEF INVESTMENT OFFICER (AGE 47)**

Anne was appointed to the Board on 22 March 2011. Anne is chief investment officer and head of alternative investment strategies. She is also head of the EMEA region. Anne was chief investment officer and joint managing director of Edinburgh Fund Managers, which was acquired by Aberdeen in 2003. Prior to joining EFM, Anne worked for Merrill Lynch Investment Managers. Anne graduated with first class honours in Electronics and Electrical Engineering from the University of Edinburgh and has an MBA from Insead.

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<sup>1</sup> Member of the audit committee.

<sup>2</sup> Member of the nominations committee.

<sup>3</sup> Member of the remuneration committee.

<sup>4</sup> Member of the risk committee.

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## HUGH YOUNG

### GLOBAL HEAD OF EQUITIES (AGE 53)

Hugh was appointed to the Board on 22 March 2011. Hugh is managing director of Aberdeen Asset Management Asia Limited and is also global head of equities. He founded Singapore based Aberdeen Asia in 1992, having been recruited in 1985 to manage Asian Equities from London. Hugh graduated with a BA in Politics from Exeter University. Hugh is also a director of Aberdeen Asia Pacific Income Investment Limited, Aberdeen Australia Equity Fund, Inc, Aberdeen New Dawn Investment Trust PLC, Aberdeen New Thai Investment Trust PLC and an alternative director of Aberdeen Asian Smaller Companies Investment Trust PLC.

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## ANITA FREW<sup>1,2,3,4</sup>

### SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR (AGE 54)

Anita was appointed to the Board on 1 October 2004. She is currently Chairman of Victrex plc and a non-executive director of IMI plc and Lloyds Banking Group plc. Anita started her career at The Royal Bank of Scotland before moving to Scottish Provident where she became head of equity investment. Anita then joined WPP Group PLC as director of development and thereafter executive director at Abbott Mead Vickers plc.

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## JULIE CHAKRAVERTY<sup>1</sup>

### INDEPENDENT NON-EXECUTIVE DIRECTOR (AGE 40)

Julie was appointed to the Board on 4 May 2011. Julie was formerly a board member of UBS Investment Bank and a non-executive director of the insurance company Paternoster. Within UBS she held a number of global leadership positions with a specialised background in risk management and fixed income. She started her financial services career 20 years ago at JP Morgan, after graduating first class in Economics from St John's College, Cambridge.

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## GERHARD FUSENIG

### NON-EXECUTIVE DIRECTOR (AGE 47)

Gerhard was appointed to the Board on 8 October 2009, following the agreement entered into by Aberdeen with Credit Suisse Group AG in 2008. Gerhard achieved a Masters in Mathematics and Business Management and started his career at SMH Research, before moving to Landesbank Hessen, Dresdner Bank and then UBS where he fulfilled several roles in operations, portfolio management and distribution until he joined Credit Suisse Asset Management in 2008. Gerhard is currently head of multi asset class solutions, equities and fixed income and head of asset management Switzerland.

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## KENICHI MIYANAGA

### NON-EXECUTIVE DIRECTOR (AGE 51)

Kenichi was appointed to the Board on 26 November 2009, as a result of the business and capital alliance between Aberdeen and Mitsubishi UFJ Trust and Banking Corporation. Kenichi was awarded a degree in Economics from Sophia University before starting his career with the bank and is a CFA Charterholder. Kenichi has fulfilled various roles within the bank including proprietary investment as well as corporate strategic planning and is currently executive officer and general manager in charge of the global asset management business division.

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**JIM PETTIGREW<sup>1,4</sup>**

**INDEPENDENT NON-EXECUTIVE DIRECTOR (AGE 53)**

Jim was appointed to the Board on 23 April 2010. Jim is chairman of the Edinburgh Investment Trust plc and a non-executive director AON UK Limited, Hermes Fund Managers Limited, Pacific Investments and Royal Bank of Canada Europe Limited. He was formerly chief executive of CMC Markets Plc and prior to joining CMC, was group finance director of ICAP Plc and subsequently chief operating officer and director at Ashmore Group plc. Jim is chairman of the Group's audit committee.

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**THE RT. HON SIR MALCOLM RIFKIND<sup>3</sup>**

**INDEPENDENT NON-EXECUTIVE DIRECTOR (AGE 65)**

Sir Malcolm joined the Board on 1 August 2000. He is Conservative Member of Parliament for Kensington, having previously served as UK defence secretary and UK foreign secretary. Sir Malcolm is a director of Unilever PLC.

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**SIMON TROUGHTON<sup>2,3,4</sup>**

**INDEPENDENT NON-EXECUTIVE DIRECTOR (AGE 58)**

Simon was appointed to the Board on 29 July 2009. Simon was a partner at Cazenove and Company Limited before moving to Fauchier Partners in 2003 where he became chief operating officer. Simon is currently a non-executive director of Fauchier Partners Incubator Fund and Fauchier Partners Counterpoint Fund. Simon qualified as a chartered surveyor having read Land Economy at Cambridge University. Simon was appointed chairman of the Group's remuneration committee on 20 January 2011.

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**GILES WEAVER<sup>1,3,4</sup>**

**INDEPENDENT NON-EXECUTIVE DIRECTOR (AGE 65)**

Giles was appointed to the Board on 1 December 2000. A chartered accountant, Giles was formerly managing director and chairman of the Murray Johnstone Group until its acquisition by Aberdeen in 2000. He is currently chairman of Charter European Trust PLC, Tamar European Industrial Fund Limited and Helical Bar PLC. Giles is also a director of IRP Property Investments Limited and EP Global Opportunities Trust plc. Giles is chairman of the Group's risk committee.

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<sup>1</sup> Member of the audit committee.

<sup>2</sup> Member of the nominations committee.

<sup>3</sup> Member of the remuneration committee.

<sup>4</sup> Member of the risk committee.

# Management board

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## **Gordon Brough**

### **Global Head of Legal**

Gordon joined Aberdeen in February 2009 to head up the Group's legal function having previously been the partner responsible for the Group's affairs at Maclay Murray & Spens LLP. Prior to its merger with Maclays, Gordon had helped found specialist law firm, The City Law Partnership. Gordon is qualified as a lawyer in both Scots and English law.

## **Kerry Christie**

### **Global Head of Human Resources**

Kerry is global head of human resources and was appointed to the Group management board in 2010. She joined Aberdeen in March 2000 and was appointed head of human resources in October 2003. Kerry graduated from Robert Gordon University with a BA in Public Administration and holds a postgraduate Diploma in Personnel Management.

## **John Brett**

### **Global Head of Distribution**

John joined Aberdeen on 1 November 2011 as global head of distribution. John joined from Scottish Widows Investment Partnership where latterly he was head of distribution. John trained as a lawyer and was with Aberdeen up until 2003 as head of legal. John is a qualified lawyer, having graduated LLB from the University of Aberdeen.

## **Ken Fry**

### **Chief Operating Officer**

Ken Fry graduated from the University of Essex with a BA in Computer Science and joined Aberdeen with the acquisition of Frederick's Place Holdings in 1989 as Group IT manager. He was appointed to the Group management board in 2006 as chief technology officer and to his current role in 2008.

## **Paul Griffiths**

### **Global Head of Fixed Income**

Paul is the global head of fixed income having joined Aberdeen in July 2009 via the acquisition of the Credit Suisse Asset Management business, where he was chief investment officer and global head of fixed income. Paul previously held a similar role at AXA Investment Managers, as well as being its UK chief executive officer. Paul graduated with a BSc in Physics from the University of York.

## **Rod MacRae**

### **Group Head of Risk**

Rod is responsible for UK and global risk including, regulatory compliance, legal services, business and investment risk and serves as chairman of the Group's risk management committee. Rod joined Aberdeen in 2003, following the acquisition of Edinburgh Fund Managers. Rod graduated with an MA in Economics from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland.

## **Gary Marshall**

### **Head of Americas**

Gary was appointed head of the Americas in January 2010. He is chief executive of Aberdeen Asset Management Inc in the US and president of Aberdeen's US mutual fund range, Aberdeen Funds. Gary joined Aberdeen via the acquisition of Prolific Financial Management in 1997 and has had experience in many aspects of Aberdeen's operations, having been based in London and Edinburgh prior to moving to the US. He graduated with a BSc (Hons) in Actuarial Mathematics and Statistics from Heriot Watt University in Edinburgh and is a qualified actuary.

## **Charles McKenzie**

### **Deputy Head of Fixed Income**

Charles joined Aberdeen via the acquisition of Deutsche Asset Management's London and Philadelphia fixed income businesses in 2005. Charles was head of UK fixed income at Deutsche Asset Management in London which he joined in 1993. Previously, Charles worked at Global Asset Management as a fixed income portfolio manager. Charles graduated with a BSc from Southampton University and an MBA in Finance from London City University Business School.

## **Andrew Smith**

### **Global Head of Property**

Andrew Smith is global head of property. Andrew joined Aberdeen in 2002 from Henderson Global Investors. His property career began at Pearl Assurance plc, where he established one of the industry's first institutional property research teams. The business subsequently became part of Henderson Global Investors. Andrew graduated with a BA in Geography from the University of Birmingham.

# Directors' report

The directors have pleasure in submitting their annual report and financial statements for the year to 30 September 2011.

## Principal activity and business review

The principal activity of the Group is the provision of asset management services. Further information on the Group's business, which is required by section 417 of the Companies Act 2006, can be found in the following sections of the Annual report, which are incorporated by reference into this report:

- Chairman's statement on pages 4 to 6;
- Business review, including details of principal risks and uncertainties, on pages 16 to 25 and business model on pages 8 and 9; and,
- Environmental, social and community matters and employees on page 50 to 52.

## Financial

The results for the year are shown in the Group income statement on page 63.

An interim ordinary dividend of 3.8p per share was paid on 16 June 2011. The directors recommend a final ordinary dividend of 5.2p per share, making a total of 9.0p per share for the year to 30 September 2011.

The proposed final dividend, if approved, will be paid on 26 January 2012 to shareholders on the register at the close of business on 16 December 2011. A preference dividend of £285,500 was paid on 30 June 2011 and quarterly coupon payments of £19.4 million have been paid on the 7.9% perpetual capital securities.

## Directors

The names and biographical details of the present directors of the Company are given on pages 26 to 28. Four directors were appointed during the year: Anne Richards and Hugh Young were appointed on 22 March 2011 and Julie Chakraverty on 4 May 2011 and each will stand for election at the 2012 Annual General Meeting. Partha Dasgupta was appointed to the Board on 22 March 2011 and subsequently resigned on 6 May 2011. Donald Waters retired as a director on 20 January 2011. Sir Malcolm Rifkind has decided to retire at the conclusion of the 2012 Annual General Meeting and will not seek re-election. All other directors, who served throughout the year, will retire and, being eligible, offer themselves for re-election.

Directors' interests in the share capital and equity of the Company at the year end were as follows:

	Ordinary shares of 10p		Options		Convertible preference share units		7.9% Perpetual subordinated capital securities	
	2011 Number	2010 Number	2011 Number	2010 Number	2011 Number	2010 Number	2011 US\$000	2010 US\$000
<b>Beneficial</b>								
Martin Gilbert <sup>A</sup>	5,452,920	8,285,786	413,000	413,000	–	3	–	–
Bill Rattray <sup>A</sup>	2,327,174	2,388,076	144,000	144,000	–	–	–	–
Andrew Laing <sup>A</sup>	1,188,793	1,235,565	178,000	178,000	–	13	–	–
Anne Richards	1,090,639	1,090,639 <sup>B</sup>	–	–	–	–	–	–
Hugh Young	–	– <sup>B</sup>	–	–	–	–	–	–
Donald Waters	220,530 <sup>C</sup>	220,530	–	–	–	–	–	–
Giles Weaver	112,173	112,173	–	–	–	–	–	256
Roger Cornick	111,000	11,000	–	–	–	–	–	–
Gerhard Fusenig	100,000	100,000	–	–	–	–	–	–
Simon Troughton	40,000	30,000	–	–	–	–	–	–
Anita Frew	37,500	37,500	–	–	–	–	–	–
Jim Pettigrew	25,000	–	–	–	–	–	–	–
Sir Malcolm Rifkind	17,500	7,500	–	–	–	–	–	–
Kenichi Miyanaga	–	–	–	–	–	–	–	–
Julie Chakraverty	–	– <sup>B</sup>	–	–	–	–	–	–

<sup>A</sup> The holdings for Messrs Gilbert, Rattray and Laing include shares awarded under the Group's LTIP and which remain subject to forfeiture pending achievement of the relevant performance criteria. Full details are given in the remuneration report.

<sup>B</sup> At date of appointment.

<sup>C</sup> At date of retirement.



There have been no changes to the directors' holdings between 30 September 2011 and 2 December 2011.

### Substantial interests

At 2 December 2011, the Company has been notified of the following interests, other than the directors', of 3% or more in the ordinary shares:

	Number	% of class
Credit Suisse Securities	226,493,100	19.8
Mitsubishi UFJ Trust & Banking Corporation	201,695,036	17.6
MFS Investment Management	49,261,681	4.3
Legal & General Group Plc	40,652,703	3.5

### Share capital

Details of changes in share capital are set out in note 23. The authority for the Company to purchase, in the market, up to 114,428,408 of its ordinary shares, representing approximately 10% of its issued ordinary share capital, expires at the forthcoming Annual General Meeting. This authority was not required during the year; however, at the forthcoming Annual General Meeting, shareholders will be asked to renew such authority for a further year.

### Employees

Details of the Company's employment practices, including the employment of disabled persons, can be found in the corporate governance report on pages 44 to 52.

### Corporate governance

A report on corporate governance and compliance with the provisions of the UK Corporate Governance Code, which forms part of this directors' report, is set out on pages 44 to 52.

### Going concern

The business review discusses the Group's business activities, together with the factors likely to affect its future development, performance and position and sets out the financial position of the Group, its cash flows and liquidity. Notes 31–32 of the financial statements set out the Group's objectives, policies and processes for managing capital and its financial risk management objectives, together with details of financial instruments and exposure to credit risk and liquidity risk.

The Group has considerable financial resources, a strong cash position and low gearing. The Board has prepared forecasts, including rigorous sensitivity analysis, which demonstrates that the Group will continue to operate within its available resources.

After making these enquiries, the Board considers that the Group has adequate resources to meet its business needs and it is therefore appropriate to adopt the going concern basis in preparing these financial statements.

### Charitable contributions

During the year, the Group made various charitable contributions totalling £953,000 (2010: £745,000), an element of which was contributed to the Group's Charitable Foundation. It is the Group's policy not to make contributions for political purposes.

### Acquisition of shares by the employee benefit trust

During the year, the Group Employee Benefit Trust, funded by the Company, purchased 57.9 million ordinary shares in the Company, which have an aggregate nominal value of 10 pence each, for a consideration of £98.1 million. The shares were purchased in order to hedge the Company's future commitment in relation to the vesting of awards under the Group's deferred share award scheme.

### Directors' indemnities

The Company maintains directors and officers' liability insurance which provides appropriate cover for any legal action brought against its directors.

### Policy on payment of creditors

All open end fund repurchase settlements are paid within four working days of receipt of the appropriate documentation from investors. Unless otherwise agreed, payments to other creditors are made within thirty days of receipt of an invoice. At the year end, the Group and Company had an average of 15 days' purchases outstanding in respect of trade creditors and an average of 4 days outstanding in respect of open end fund repurchase settlements.

### Audit information

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **2012 Annual General Meeting (AGM)**

A separate document, the Notice of Annual General Meeting 2012, covering the Annual General Meeting, of the Company to be held on 19 January 2012 at noon, will be sent or made available to all shareholders and will contain an explanation of the business before that meeting.

### **Electronic proxy voting**

Registered shareholders have the opportunity to submit their votes (or abstain) on all resolutions proposed at the Annual General Meeting by means of an electronic voting facility operated by the Company's registrar, Equiniti Limited. This facility can be accessed by visiting [www.sharevote.co.uk](http://www.sharevote.co.uk). CREST members may appoint a proxy or proxies by using the CREST electronic appointment service.

### **Electronic copies of the annual report and financial statements and other publications**

Copies of the 2011 Annual Report and financial statements, the notice of Annual General Meeting, other corporate publications, press releases and announcements are available on the Company's website at [www.aberdeen-asset.com](http://www.aberdeen-asset.com). Shareholders are encouraged to take advantage of the provisions allowing the Company to deliver notices of meetings and associated documentation electronically via the Company's investor relations webpages at [www.aberdeen-asset.com/investorrelations](http://www.aberdeen-asset.com/investorrelations), or by email.

By order of the Board

**Scott E Massie**  
Secretary  
10 Queen's Terrace  
Aberdeen AB10 1YG  
2 December 2011

# Remuneration report

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I am pleased to present the remuneration report for the year to 30 September 2011. This is the first report since my appointment as chairman of this committee in January 2011.

Aberdeen performed very well during the year, despite turmoil in global financial markets and slow growth in western economies. The Group has seen record profits as discussed in the Chairman's statement and the Business Review. Aberdeen's total shareholder return over the last five years has significantly exceeded the FTSE All Share and the FTSE Financial Services indices.

As a consequence of Aberdeen's strong performance, the committee recommended an increase in the aggregate bonus pool, and specific increases in the individual bonuses for executive directors. As in previous years, 75% of the bonus awarded to executive directors is in company shares, with vesting deferred over a three year period.

Following a significant market re-alignment of base salaries for executive directors at 1 January 2011, which was reported in last year's remuneration report, the committee decided executive directors' base salaries should remain unchanged at the 1 January 2012 review.

The objective of our remuneration policies is to retain and incentivise talented individuals to deliver sustained superior returns for our clients and shareholders. During the year, the committee undertook a review of remuneration policies to ensure that they continue to encourage the prudent management of risk and meet the requirements of the Remuneration Code introduced by the Financial Services Authority (FSA).

Following my appointment as committee chairman, I met with a number of large shareholders and shareholder representatives, and would like to thank them for the constructive comments and feedback I received.

The committee would be pleased to have your support for the policies and practices detailed in our report.

## **Simon Troughton**

Chairman of the remuneration committee

## **The report**

This report describes the role of the remuneration committee, its responsibilities and membership and matters considered during the year. The report discusses the remuneration arrangements for directors and other senior employees and has been prepared in compliance with the Companies Act 2006 and related regulations, the UK Corporate Governance Code, and the FSA Remuneration Code which became applicable to Aberdeen in 2011.

The auditors are required to report to shareholders on the auditable part of the report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006 and related regulations. The tables detailing directors' emoluments, interests in deferred shares, share options and shares awarded under the Group's Long Term Incentive Plan (LTIP) on pages 41 to 43 have been audited. The remainder of the report, which is unaudited, sets out the remuneration policies that applied during 2011 and describes arrangements which are intended to apply for 2012.

A resolution to approve this report will be proposed at the forthcoming Annual General Meeting.

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### **Membership**

The current members of the committee, all independent non-executive directors, are:

Simon Troughton (chairman)

Anita Frew

Sir Malcolm Rifkind

Giles Weaver

Simon Troughton became chairman of the committee following the 2011 Annual General Meeting, succeeding Sir Malcolm Rifkind.

### **Attendance**

The committee met formally four times during the year, and also held ad hoc meetings and several telephone conferences on matters arising.

The Chairman of the Board, as well as the Chief Executive, Deputy Chief Executive and Finance Director, attend meetings of the committee by invitation, as does the Head of HR. None of these executives was present when matters relating to their own remuneration were discussed.

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**Advisers & support**

New Bridge Street (NBS) was appointed by the committee in June 2011 to provide independent advice to the committee. NBS does not provide any other services to the Group.

PriceWaterhouseCoopers LLP provided the committee and management with information on current market conditions and the Group's positioning, together with commentary on regulatory developments as they affect remuneration.

McLagan provided the committee and management with information on market positioning and employment market conditions in the various countries and regions in which the Group operates.

The Company Secretary acts as secretary to the committee.

Giles Weaver, as chairman of the risk committee, and Anita Frew, who is a member of the risk committee, serve on the remuneration committee. Their membership helps to ensure that the management of risk and any circumstances which could materially increase the Group's exposure, are fully considered by the remuneration committee when remuneration decisions are taken.

**Activities during the year**

Key activities of the committee during the year included:

- Reviewing the committee's terms of reference;
- Reviewing the levels of base salary for executive directors and other senior staff;
- Assessing the level of achievement of annual bonus key performance indicators (KPIs) for executive directors and senior employees;
- Determining the size of the overall annual bonus pool for the Group;
- Reviewing and refining the policy for deferral of annual bonus below executive director level;
- Reviewing the Group's pension policy;
- Assessing the extent to which the performance conditions for vesting of LTIP awards were met and determining the appropriate vesting proportion; and,
- Discussing the proposed recruitment of certain key employees, and the remuneration packages for new appointments.

The committee takes into account the remuneration and employment conditions of employees throughout the Group when considering remuneration for executive directors, and seeks to apply a consistent remuneration philosophy. This includes, for example, considering the general levels of base salary increase and the principles applying to incentive pay.

**Remuneration policy**

The Group's remuneration policy is designed with the intention of achieving the following aims:

- the recruitment, retention and motivation of employees of the necessary calibre to maintain and develop the Group's position in the asset management sector;
- linking of the major element of reward to performance, thereby aligning the interests of directors and employees with those of shareholders and clients;
- prudent management of risk, within the limits of the Group's risk appetite and the risk management framework; and,
- maximising long-term shareholder value creation.

The key principles of the remuneration policy apply to executive directors and senior employees and are expected to remain unchanged for 2012 and subsequent years.

**Key responsibilities of the committee**

The committee operates on the basis of detailed written terms of reference, which are reviewed annually and are published on the Group's website. The committee was established by the Board to:

- a) determine and recommend to the Board the Company's policy on remuneration of executive directors and senior employees;
- b) determine the specific remuneration levels of the chairman, the executive directors and other senior employees;
- c) determine the overall size of the annual bonus pool;
- d) ensure that appropriate performance targets are set and that any payments made to executive directors and senior employees reflect achievement against such targets;
- e) consider individual awards under any incentive scheme to all executive directors and other senior employees with earnings in excess of specified thresholds;
- f) consider any redundancy or severance payment which exceeds the terms of the Group's standard policies, subject to a de minimis limit of £75,000;
- g) ensure that the Company maintains contact with its principal shareholders on remuneration matters;
- h) approve all substantial changes to the Group's pension arrangements;
- i) ensure proportionate compliance with the Remuneration Code of the Financial Services Authority; and,
- j) report to shareholders in accordance with relevant legal requirements and associated codes of practice.

## Elements of remuneration

The principal elements of the remuneration provided to executive directors and senior management are:

Element	Fixed or variable	Policy	How it operates
<b>Base salary</b>	Fixed	<ul style="list-style-type: none"> <li>To pay a fair salary commensurate with the individual's role, responsibilities and experience, and having regard to the market rates being offered for similar roles in the asset management sector and other comparable companies.</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed annually, with any increases effective from 1 January.</li> <li>Any increases to reflect inflation are applied in a manner consistent with other Group employees; any other increases to be justified by reference to promotion or changes in responsibilities.</li> </ul>
<b>Pension and other benefits</b>	Fixed	<ul style="list-style-type: none"> <li>To make contributions for the benefit of employees to appropriate defined contribution pension arrangements, subject to normal practice in the relevant country.</li> <li>Legacy defined benefit plans from corporate acquisitions are closed to all future accrual at the earliest reasonable opportunity.</li> <li>The policy relating to other fringe benefits for executive directors is generally the same as for other Aberdeen employees.</li> </ul>	<ul style="list-style-type: none"> <li>Employer contribution of up to 20% of basic salary, depending on relevant market practice in each country; rates of pension contribution within each country are consistent between executives and other employees.</li> <li>Executive directors receive medical insurance and life assurance.</li> </ul>
<b>Annual bonus</b>	Variable	<ul style="list-style-type: none"> <li>In line with practice amongst other asset management companies, individual bonuses are not subject to an absolute cap. However, the aggregate size of the bonus pool is dependent on the Group's overall performance and profitability.</li> <li>75% of the annual bonus is deferred for the executive directors into shares of Aberdeen Asset Management PLC. Other senior employees have the opportunity to defer half of their 75% deferral into holdings in funds managed by Aberdeen, with the balance compulsorily deferred into shares of Aberdeen Asset Management PLC.</li> <li>No matching applies to the deferred bonus.</li> </ul>	<ul style="list-style-type: none"> <li>The committee determines the KPIs that will be applied in considering the overall size of the bonus pool.</li> <li>The committee considers individual bonus awards for executives taking account of their personal contribution to the performance of the Group, and the levels of incentive pay for similar roles in the market.</li> <li>The deferred element of bonus vests in three equal tranches after 1, 2 and 3 years.</li> <li>Bonus is non-pensionable.</li> </ul>

## Balance between elements of remuneration

The bar chart below shows the weighting of the main remuneration components for executive directors. As the chart indicates, performance-related remuneration represents between 65% and 90% of the total, and three-quarters of the performance-related remuneration is delivered in Aberdeen shares.

### Relative sizes of remuneration components

Salaries for Anne Richards and Hugh Young have been apportioned to reflect the element which relates to the period from their date of appointment.

## Compliance with the FSA Remuneration Code

The committee has reviewed its remuneration policies to ensure compliance with the FSA Remuneration Code ("the Code") principles that apply to Aberdeen. The remuneration policy is designed to be consistent with the prudent management of risk, and the sustained, long-term performance of the Group. The review of the remuneration policy in light of the Code was undertaken with the involvement from Aberdeen's head of risk; he will also have an important role going forward in keeping the committee informed of Aberdeen's risk profile so that this can be taken into account in determining variable remuneration.

## Further details

### i) Base salary

Executive directors' base salaries will remain unchanged at the 1 January 2012 review date. This follows a significant market re-alignment of base salaries for executive directors at 1 January 2011, which was reported in last year's remuneration report.

### ii) Annual bonus for 2011 performance

The policy is to recognise corporate and individual achievements each year through an appropriate annual bonus scheme. The aggregate value of awards in any year is dependent on the Group's overall performance and profitability. Consideration is also given to the levels of bonuses paid in the market. Individual awards, which are payable to all members of staff and are non-pensionable, are determined by a rigorous assessment of achievement against defined objectives, and are reviewed and approved by the committee.

Awards to individuals in any year are made 25% in cash and 75% deferred. The deferred component for the executive directors is held in the form of Aberdeen shares. For the first time, the committee has decided that, apart from the executive directors, all other eligible members of staff will be able to elect for half their deferred award to be invested in the shares of funds managed by Aberdeen. Both the shares and funds components of the deferred bonus vest in equal tranches over the three year period following the award.

The deferral policy is intended to assist in retention of talent, and to create additional alignment of executives' interests with Aberdeen's sustained performance and, in respect of the deferral into funds, managed by Aberdeen, to align the interest of asset managers with our clients.

The table below summarises performance outcomes for 2011, relative to a number of KPIs that were taken into account by the committee in considering annual bonus awards:

	2011	2010	2009
Change in underlying profit before taxation	+44%	+147%	-10%
Change in underlying EPS (diluted)	+41%	+110%	-30%
Underlying operating margin	39.5%	34.8%	22.7%
Conversion of underlying operating profit to core operating cash flow	129%	115%	83%

In addition to these KPIs, there are specific personal objectives for the year, which are linked to the principal strategic objectives of the Group. For 2011, the principal objectives selected by the committee for the executive directors focused on the delivery of organic growth, the meeting of budgets and operating efficiencies, and ensuring key client and staff retention.

The table below shows the bonuses awarded to each of the executive directors for 2011 performance, and the split between cash and deferred shares.

Individual	Cash £000	Deferred £000 <sup>A</sup>	Total £000
Martin Gilbert	1,000	3,000	4,000
Andrew Laing	194	581	775
Bill Ratray	187	563	750
Anne Richards	425	1,275	1,700
Hugh Young	1,000	3,000	4,000

<sup>A</sup> The deferred component will vest in three equal tranches in December 2012, 2013 and 2014.

Bonus figures in the table above represent the full value of awards, although the deferred element will only vest in future periods.

### iii) Long Term Incentive Plan (LTIP)

No awards have been made under the LTIP since December 2009. The 2007 award reached its vesting date in December 2010. Awards made in 2008 and 2009 remained unvested as at 30 September 2011, and are due to vest in December 2011 and December 2012, respectively.

The participant will not obtain absolute ownership of any LTIP awards until the end of the measurement period and then only to the extent that the performance targets have been satisfied. Participants are entitled to receive any dividends paid on the shares during the measurement period, even though the shares held will not have vested unconditionally. Such dividends paid to directors are disclosed in the audited section of the report.

Vesting of awards is dependent on the extent to which growth in the Group's adjusted earnings per share exceeds growth in the composite index, which measures the weighted average performance of the stock markets in which the Group's assets under management are invested, as set out in the following table.

Excess of EPS Growth over average Movement in stock markets	Proportion of award vesting
Less than 5% per annum	0%
5% per annum	30%
10% per annum	100%
Between 5% and 10% per annum	Pro rata

The composite index is derived from movements in the following indices, which are considered as being representative of the assets managed by the Group and includes the following:

FTSE All-Share	MSCI Emerging Markets
FTSE Europe excluding UK	MSCI World
FTSE Asia Pacific excluding Japan	Barclays Capital Sterling Aggregate Bond
FTSE Japan	Barclays Capital US Aggregate Bond
IPD Pan European Property Index	Barclays Capital Euro Aggregate Bond
JP Morgan EMBI Global Diversified	Barclays Capital Global Aggregate Bond
HFRI Composite	Barclays Capital Aus Aggregate Bond
	Russell 1000

Further, the LTIP rules state that no award will vest unless, in the opinion of the committee, the underlying financial performance of the Company over the relevant measurement period has been satisfactory.

The table below summarises the vesting outcomes of awards made in previous years.

Award date	Vesting date	Growth in adjusted Aberdeen EPS <sup>A</sup>	Growth in stock market composite index	Excess growth	Proportion of awards vesting
Dec 2005	Dec 2008	+268.4%	+35.6%	+202.8%	100.0%
Dec 2006	Dec 2009	-28.5%	+18.1%	-46.6%	0%
Dec 2007	Dec 2010	+42.1%	+15.4%	+26.7%	84.7%
Dec 2008	Dec 2011	+114.3%	+15.2%	+99.1%	100.0%

<sup>A</sup> EPS is earnings per share. If the committee deems appropriate, EPS is subject to adjustments to exclude the effects of (i) amortisation and impairment of intangible assets; (ii) impairment of goodwill; (iii) charges arising from share options and LTIP awards; and (iv) exceptional items.

#### iv) Share option scheme

The Group has an executive share option scheme which is approved by HM Revenue and Customs and was approved by shareholders prior to its introduction. In March 2004, the scheme reached the end of the ten year period during which the grant of options was permitted. All options outstanding are now capable of being exercised, having met their performance criteria. Incentive options were also issued under the Group's LTIP in 2008.

Details of share options held by the executive directors are shown in the audited section of the report.

#### Shareholder dilution

As at the date of this report, LTIP Conditional Ownership Awards, LTIP Incentive Options and executive share options are outstanding over the following numbers of shares:

	Number of Shares	Percentage of issued share capital %
LTIP Conditional Ownership Awards	563,817	0.05
LTIP Incentive Options	13,696,915	1.2
Executive share options	2,176,100	0.2

Details of the awards which have been made to directors of the Company under the LTIP are shown on page 43.

#### v) Other benefits

Private health care and life assurance is provided to all executive directors.

#### vi) Pension

The Group provides defined contribution pension arrangements for its employees, with contribution rates of up to 20% of basic salary, according to normal practice in the various countries in which the Group operates.

In light of changes to pensions legislation introduced in the UK from 6 April 2006 and subsequent legislative changes from 6 April 2010, some of the Group's UK employees including the UK based executive directors, have elected for employer contributions to the scheme to cease. In these cases, the committee has approved cash allowances to be paid, such that the overall cost to the Group is no greater than the pension contribution which would otherwise have been made. Any similar requests which may be made by employees in future will be treated in the same manner. No such request will arise in respect of the Group's legacy defined benefit schemes, all of which are closed to future accrual.



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### **Total shareholder return**

The Regulations require the inclusion of a graph which illustrates the total shareholder return (TSR) for a holding in the Company's shares against a broad equity market index. The FTSE All-Share Index has been used as it includes all UK listed stocks, including the Company's ordinary shares. The graph below also includes as a comparator the FTSE All-Share General Financial Index. The committee considers this to be an appropriate index against which to measure performance because it includes all other UK-listed financial stocks. Both of these indices are calculated on a total return basis assuming reinvestment of dividends.

As the graphs show Aberdeen's TSR for the five-year period was significantly above the two comparator indices.

### **Total shareholder return (dividends reinvested) Cumulative : 5 years ending 30 September 2011**

Source: Thomson Reuters.

### **External directorships**

Executive directors are permitted to accept a limited number of directorships outside the Group, recognising that this can assist in their personal development. All such appointments are approved in advance by the Board. Where the appointment is accepted in furtherance of the Group's business, any fees received are remitted to the Company. If the appointment is not connected to the Group's business, the director is entitled to retain any fees received. The Group earned fees of £44,000 for Martin Gilbert's services as a non-executive director of several companies. Martin Gilbert earned and retained fees of £270,000 for acting as chairman of both FirstGroup plc and Chaucer Holdings PLC.

### **Shareholding requirement**

The Board has a policy which requires executive directors to acquire and retain a beneficial shareholding in the Company equivalent to 100% of salary, to be acquired over a period of no more than five years. The holdings of the executive directors, except Hugh Young who was appointed during the year, comfortably exceed this requirement, as shown in the directors' report on pages 30 to 32.

### **Service contracts**

The policy is to provide executive directors with service contracts requiring the Company to give the executive directors twelve months' notice and requiring the executive directors

to give the Company six months' notice of termination. If the Company decides to terminate the director's appointment without giving the required period of notice then the director is entitled to be paid one year's remuneration, which will include the value of all benefits including any bonus to which the director would otherwise have been entitled. The directors' contracts also provide for termination on three months' notice if, in the opinion of the Board and having given the director adequate opportunity to improve, the director has failed to perform at a satisfactory standard. In such a case, the directors' contracts do not provide for any liquidated damages to be paid.

Name	Date of contract	Notice period from Company	Notice period from directors	Provision of compensation for loss of office
Martin Gilbert	30 August 1996	Twelve months	Six months	One year's gross remuneration
Andrew Laing	30 August 1996	Twelve months	Six months	One year's gross remuneration
Bill Rattray	30 August 1996	Twelve months	Six months	One year's gross remuneration
Anne Richards	9 December 2004	Twelve months	Six months	One year's gross remuneration
Hugh Young	30 August 1996	Twelve months	Six months	One year's gross remuneration

### Non-executive directors

Non-executive directors are engaged under letters of appointment and they do not have contracts of service. The letters of appointment are available for inspection at the Company's registered office during normal business hours and are available on the Company's website. The appointment will normally terminate on:

- i) a director choosing to resign voluntarily; or
- ii) a director being prohibited from serving by law, bankruptcy or illness; or
- iii) annually, if the nominations committee does not approve the extension of his/her appointment; or
- iv) a director being found guilty of misconduct; or
- v) a director not being re-elected by the shareholders following retirement by rotation at an Annual General Meeting.

The non-executive directors do not participate in the annual bonus scheme or the LTIP.

The remuneration of non-executive directors is determined by the Board. The level of fees is reviewed on a regular basis against market data. The chairman, who also chairs the nominations committee, currently receives a fee of £200,000 per annum.

Fees are paid to the other non-executive directors at the following current annual rates:

Fee component	
Base fee	£48,000
Supplement for senior independent director	£10,000
Supplement for chairmanship of each of audit, remuneration and risk committees	£16,000
Supplement for membership of each of audit, remuneration and risk committees	£8,000

Directors' emoluments (audited information)

	Salary & fees £000	Pension allowance £000	Non-cash benefits £000	Bonus in cash £000	Deferred bonus £000	Total 2011 £000	Total 2010 £000
<b>EXECUTIVE</b>							
Martin Gilbert	500	–	1	1,000	3,000	4,501	3,751
Andrew Laing	350	61	2	194	581	1,188	1,021
Bill Rattray	350	61	1	187	563	1,162	985
Anne Richards	175	35	1	425	1,275	1,911	–
Hugh Young	172	–	68 <sup>A</sup>	1,000	3,000	4,240	–
<b>Total</b>	<b>1,547</b>	<b>157</b>	<b>73</b>	<b>2,806</b>	<b>8,419</b>	<b>13,002</b>	<b>5,757</b>
<b>NON-EXECUTIVE</b>							
Roger Cornick	187	–	–	–	–	187	150
Giles Weaver	75	–	–	–	–	75	54
Anita Frew	75	–	–	–	–	75	52
Jim Pettigrew	69	–	–	–	–	69	37
Simon Troughton	62	–	–	–	–	62	44
Sir Malcolm Rifkind	55	–	–	–	–	55	50
Julie Chakraverty	23	–	–	–	–	23	–
Donald Waters	18	–	–	–	–	18	55
<b>Total</b>	<b>564</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>564</b>	<b>442</b>
<b>Total</b>	<b>2,111</b>	<b>157</b>	<b>73</b>	<b>2,806</b>	<b>8,419</b>	<b>13,566</b>	<b>6,199</b>

<sup>A</sup> Benefits paid to expatriate employees Includes allowances for housing, medical and travel.

Bonus figures in the table above represent the full value of awards, although the deferred element will only vest in future periods. Salaries for Anne Richards and Hugh Young have been apportioned to reflect the element which relates to the period from their date of appointment.

Potential LTIP awards to executive directors and current year dividend entitlements are set out on page 43.

**Directors' interests in ordinary shares arising from deferred element of annual bonus awards (audited information)**

	Interest at 1 October 2010	Awarded during the year	Vested in year	Issue price	Interest at 30 September 2011	Vesting date
Martin Gilbert	799,331	–	(799,331) <sup>B</sup>	164.2p	<b>799,331</b>	Dec 2010
	1,811,166	–	(603,722) <sup>B</sup>	84.2p	<b>1,811,166</b>	Dec 2010 and 2011
	817,668	–	(272,556) <sup>B</sup>	139.9p	<b>817,668</b>	Dec 2010, 2011 and 2012
	–	1,382,682	–	179.0p	<b>1,382,682</b>	Dec 2011, 2012 and 2013
Andrew Laing	83,740	–	(83,740) <sup>B</sup>	164.2p	<b>83,740</b>	Dec 2010
	237,531	–	(79,177) <sup>B</sup>	84.2p	<b>237,531</b>	Dec 2010 and 2011
	114,384	–	(38,128) <sup>B</sup>	139.9p	<b>114,384</b>	Dec 2010, 2011 and 2012
	–	282,822	–	179.0p	<b>282,822</b>	Dec 2011, 2012 and 2013
Bill Rattray	83,740	–	(83,740) <sup>B</sup>	164.2p	<b>83,740</b>	Dec 2010
	237,531	–	(79,177) <sup>B</sup>	84.2p	<b>237,531</b>	Dec 2010 and 2011
	107,235	–	(35,745) <sup>B</sup>	139.9p	<b>107,235</b>	Dec 2010, 2011 and 2012
	–	272,347	–	179.0p	<b>272,347</b>	Dec 2011, 2012 and 2013
Anne Richards <sup>A</sup>	253,366	–	–	84.2p	<b>253,366</b>	Dec 2011
	305,026	–	–	139.9p	<b>305,026</b>	Dec 2011 and 2012
	502,794	–	–	179.0p	<b>502,794</b>	Dec 2011, 2012 and 2013
Hugh Young <sup>A</sup>	751,209	–	–	84.2p	<b>751,209</b>	Dec 2011
	786,498	–	–	139.9p	<b>786,498</b>	Dec 2011 and 2012
	1,264,371	–	–	179.0p	<b>1,264,371</b>	Dec 2011, 2012 and 2013

<sup>A</sup> At date of appointment.<sup>B</sup> Vested but not yet exercised.

These interests represent ordinary shares which will vest on the dates stated.

#### Directors' interests in share options (audited information)

	Date of grant	2010	2011	Exercise price	Earliest exercise	Latest exercise	Status of performance
Martin Gilbert	23.01.04	413,000	<b>413,000</b>	59.0p	Jan 2007	Jan 2014	Achieved
Andrew Laing	11.6.03	89,000	<b>89,000</b>	42.0p	Jun 2006	Jun 2013	Achieved
	23.01.04	89,000	<b>89,000</b>	59.0p	Jan 2007	Jan 2014	Achieved
		178,000	<b>178,000</b>				
Bill Rattray	23.01.04	144,000	<b>144,000</b>	59.0p	Jan 2007	Jan 2014	Achieved
Anne Richards <sup>A</sup>	17.06.08	450,000	<b>450,000</b>	130.25p	Jun 2011	Jun 2018 <sup>B</sup>	Achieved
Hugh Young <sup>A</sup>	17.06.08	450,000	<b>450,000</b>	130.25p	Jun 2011	Jun 2018 <sup>B</sup>	Achieved

<sup>A</sup> Options held under the Long Term Incentive Plan.

<sup>B</sup> Exercisable in three equal tranches in June 2011, June 2012 and June 2013.

The middle market price of the Company's ordinary shares at 30 September 2010 was 173.1p and the range during the year was 162.9p to 240.0p.

#### Directors' interests in Long Term Incentive Plan (audited information)

	Held at 1 October 2010	Vested in year	Lapsed in year	Issue price	Held at 30 September 2011	Vesting date	Partial settlement of share awards in year
Martin Gilbert	76,127 <sup>A</sup>	(64,484)	(11,643)	164.2p	–	Dec 2010	–
	148,456	–	–	84.2p	<b>148,456</b>	Dec 2011	£11,283
	67,022	–	–	139.9p	<b>67,022</b>	Dec 2012	£5,094
Andrew Laing	60,902 <sup>A</sup>	(51,587)	(9,315)	164.2p	–	Dec 2010	–
	118,765	–	–	84.2p	<b>118,765</b>	Dec 2011	£9,026
	57,192	–	–	139.9p	<b>57,192</b>	Dec 2012	£4,347
Bill Rattray	60,902 <sup>A</sup>	(51,587)	(9,315)	164.2p	–	Dec 2010	–
	118,765	–	–	84.2p	<b>118,765</b>	Dec 2011	£9,026
	53,617	–	–	139.9p	<b>53,617</b>	Dec 2012	£4,075

<sup>A</sup> These shares partially lapsed as a consequence of not having met their performance criterion.

The remuneration report was approved by the Board of Directors on 2 December and signed on its behalf by:

**Simon Troughton**

Non-executive director



# Corporate governance report

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The Company has complied throughout the year with the provisions set out in section 1 of the UK Corporate Governance Code (the Code) except where noted in the report below. This report describes Aberdeen's corporate governance arrangements, explaining how the Group has applied the principles of the Code.

## The Board

The Board currently comprises the chairman, eight non-executive directors and five executive directors. Partha Dasgupta, Anne Richards and Hugh Young were appointed on 22 March 2011 and Julie Chakraverty was appointed on 4 May 2011. Donald Waters retired on 20 January 2011 and Partha Dasgupta resigned on 6 May 2011; all other members of the Board served throughout the year. The roles of the chairman and chief executive are separate, clearly defined and have been approved by the Board. The chairman, Roger Cornick, is responsible for the effective conduct of the Board and for shareholder relations, while the chief executive, Martin Gilbert, is responsible for the day to day management of the Group. Anita Frew continues as the senior independent director having succeeded Donald Waters.

In considering director independence, the Board has taken into consideration the guidance provided by the Code. Of the non-executive directors, two have been appointed by shareholders and are therefore not considered to be independent. The Board, having given thorough consideration to the matter, considers the other six non-executive directors to be independent, notwithstanding the fact that two will have served on the Board for more than nine years by the date of the 2012 Annual General Meeting.

As reported last year, the Board has given careful consideration to its structure and its balance and is continuing to refresh Board and committee membership in an orderly manner. Sir Malcolm Rifkind stepped down as chairman of the remuneration committee following the conclusion of the 2011 Annual General Meeting and was succeeded by Simon Troughton. Sir Malcolm will retire from the Board at the conclusion of the 2012 Annual General Meeting. Sir Malcolm continues to act as a member of the Board with a high degree of independence of character and judgement and the Board considers that Sir Malcolm remains an independent non-executive director.

Giles Weaver joined the Board in November 2000 and is chairman of the risk committee. Giles has agreed to remain on the Board until the conclusion of the 2013 Annual General Meeting. Taking into consideration his independence of character and judgement, his asset management background and other relevant external experience, the Board reiterates its view that Giles remains an independent non-executive director.

Following Partha Dasgupta's resignation from the Board, for personal reasons, the Company has not been in compliance with the Code as the number of non-independent directors has exceeded the number of independent directors. The Board is fully aware of this and expects to make further appointments at appropriate intervals so that an appropriate balance is maintained between independent, executive and representative board members.

The Board has conducted a thorough evaluation of its effectiveness, again undertaken by an external consultant, and further details are provided later in this report.

The Board confirms that it has considered and authorised any conflicts or potential conflicts of interest in accordance with the Company's existing procedures and has also implemented specific guidelines to address any potential conflicts that may arise in the future. The Board has specifically considered the other appointments held by directors, details of which are contained in their biographies on pages 26 to 28 and has confirmed that it believes that each is able to devote sufficient time to fulfil the duties required of them under the terms of their contracts or letters of appointment.

The Board met eight times during the year to review financial performance and strategy and to follow a formal schedule of matters reserved for its decision, which includes the setting of Company goals, objectives, budgets and other plans. Comprehensive board papers, comprising an agenda and formal reports and briefing papers, are sent to directors in advance of each meeting. Throughout their period in office, directors are continually updated, by means of written and oral reports from senior executives and external advisers, on the Group's business and the competitive and regulatory environments in which it operates, as well as on legal, environmental, social, governance and other relevant matters.

In addition to its formal business, the Board received a number of briefings and presentations from senior executives, local management and external advisers covering a wide range of topics relevant to the Group's business. The Board also has a policy of making periodic visits to the Group's key overseas offices in order to meet local management and clients and to obtain an understanding of the local business environment. The Board visited the Frankfurt, Philadelphia and Singapore offices during the year. Directors also continue to visit other overseas offices on an individual basis during the year in order to meet with local management and staff.

All directors have access to independent professional advice, if required, at the Company's expense, as well as to the advice and services of the company secretary. New directors appointed to the Board receive a full, formal and tailored induction, which includes meetings with relevant members of senior management, in order to help them gain a detailed

understanding of the Group and its activities. During the year under review, all new directors undertook induction training. The training plan provided the new directors with a wide range of data, including copies of previous meeting papers and other governance information, such as the current strategy and details of the companies' processes and procedures. The training plan also offered the opportunity to meet with members of the Board and the executive in order to better understand their roles.

The company secretary, under the direction of the chairman, is responsible for facilitating this induction programme, ensuring good information flow between the Board, its committees and management and assisting with directors' continuing professional development needs. Directors are also advised, at the time of their appointment, of the legal and other duties and obligations arising from the role of director of a listed company and are reminded of these duties and obligations on a regular basis.

Directors are required to seek election at the first Annual General Meeting following their appointment and all directors have previously submitted themselves for re-election by shareholders at annual intervals, in line with the guidance contained within the UK Corporate Governance Code. Details of the attendance at Board meetings of individual directors are shown in the table below:

	Maximum possible attendance	Meetings attended
Roger Cornick	8	8
Anita Frew	8	8
Sir Malcolm Rifkind	8	8
Giles Weaver	8	8
Martin Gilbert	8	8
Bill Rattray	8	8
Andrew Laing	8	8
Simon Troughton	8	8
Gerhard Fusenig	8	8
Kenichi Miyanaga	8	8
Jim Pettigrew	8	8
Anne Richards	4	4
Hugh Young	4	4
Julie Chakraverty	3	3
Donald Waters	3	3
Partha Dasgupta	1	–

## Performance evaluation

A formal process has been established, led by the chairman, for the annual evaluation of the performance of the Board, its appointed committees and each director, to ensure that they continue to act effectively and efficiently and to fulfil their respective duties, and to identify any training requirements.

The Board appointed an external consultant, Independent Board Evaluation, to carry out this year's review. The consultant undertook interviews with each director and attended one of the scheduled Board meetings and a meeting of each of the Board committees. Independent Board Evaluation followed this up with discussions with the Board and committee chairmen to discuss the results and thereafter, presented their recommendations to the Board. The recommendations have been analysed and were discussed at subsequent meetings of the Board and each of the committees as well as in individual discussions between the chairman and each director.

The non-executive directors also met without the chairman present to discuss the results of the evaluation of the chairman's performance, having taken into consideration the views of the executive directors, and the results of this meeting were subsequently discussed between the senior independent director and the chairman. Additionally, the non-executive directors held a meeting without the executive directors present at which executive directors' performance was discussed.

We are long-standing supporters of diversity in the boardroom and we are supportive of the Financial Reporting Council's aims to encourage diversity in the boardroom. We are also supportive of Lord Davies' aim to raise the proportion of women on UK boards; the Board comprises fourteen Directors of whom three (21%) are women. We remain of the opinion that appointments to the Board should be made relative to a number of different criteria, including diversity of gender, background and personal attributes, alongside the appropriate skill set, experience and expertise. We will continue to insist that long lists and short lists reflect that position.

## Board committees

The Board has appointed the following committees to assist in the execution of its duties. All committees operate on written terms of reference, which are reviewed annually and which are available on the Company's website, and the chairman of each committee reports to each meeting of the Board. Each of the committees is authorised to obtain, at the Company's expense, external legal or other professional advice to assist in the performance of its duties. Only the members of each committee are entitled to attend its meetings but others, such as senior management and external advisers, may be invited to attend, as appropriate.

Current membership of the committees is shown in the directors' biographies on pages 26 to 28. The composition of these committees is reviewed annually, taking into consideration the recommendations of the nominations committee.

## Audit committee

### Composition of the committee

The audit committee is chaired by Jim Pettigrew. He is supported by three independent non-executive directors, Julie Chakraverty, Anita Frew and Giles Weaver. Anita and Giles each served on the committee throughout the year and Julie joined in May 2011 following her appointment to the Board. The Board is satisfied that all of the committee's members have recent and relevant commercial and financial knowledge and experience to satisfy the provisions of the Code, by virtue of their having held various executive and non-executive roles in investment management and business management. Additionally, Jim Pettigrew and Giles Weaver are chartered accountants.

### Responsibilities of the committee

The committee's role is to assist the Board in discharging its duties and responsibilities for financial reporting, internal control and risk management, and the appointment and remuneration of independent external auditors. The committee is also responsible for reviewing the scope and results of audit work and its cost effectiveness, and the independence and objectivity of the auditors. In order to ensure the objectivity and independence of the auditors, the committee has approved a comprehensive policy to regulate the provision of non-audit services by the Group's external auditors. The policy provides details of the types of service which are and are not permitted and those which require the explicit prior approval of the committee. Permitted non-audit services include: the provision of tax compliance services; the provision of certain recruitment services; and acting as reporting accountant in appropriate circumstances, provided there is no element of valuation work involved. The provision of tax advisory services, due diligence / transaction services and litigation services may be permitted with the committee's prior approval. The provision of internal audit services, valuation work and any other activity that may give rise to any possibility of self-review are not permitted under any circumstance. The committee also has responsibility for reviewing the Company's arrangements on whistle blowing, ensuring that appropriate arrangements are in place for employees to be able to raise, in confidence, matters of possible impropriety, with suitable subsequent follow-up action.

### Report on the committee's activities during the year

During the year, the committee discharged its responsibilities, under its terms of reference, by:

- a) reviewing the Group's draft 2010 financial statements and 2011 interim results statement prior to discussion and approval by the Board, and reviewing the external auditor's reports thereon;
- b) reviewing the continuing appropriateness of the Group's accounting policies;
- c) reviewing the external auditor's plan for the audit of the Group's 2011 financial statements, receiving and reviewing confirmations of auditor independence and approving the terms of engagement and proposed fees for the 2011 audit;
- d) making recommendations to the Board for a resolution to be put to shareholders to approve the re-appointment of the external auditor;
- e) reviewing management's annual report on the Group's system of internal control and its effectiveness, reporting to the Board on the results of this review and receiving regular updates on key risks and controls;
- f) reviewing the internal audit department terms of reference, its work programme and regular reports on its work during the year;
- g) receiving reports from the Group's head of risk; and
- h) reviewing the committee's terms of reference, carrying out an annual performance evaluation exercise and noting the satisfactory operation of the committee.

The committee receives regular reports from the Group's external and internal auditors and can, and does, request supplementary reports from management to enable it to fulfil its duties under its terms of reference.

The committee carried out a review of the effectiveness of the external audit process in the year under review and considered the re-appointment of KPMG Audit Plc. The review covered all aspects of the global audit service including, amongst other factors, the quality of the staff, the expertise, the resources and the independence of KPMG Audit Plc. The committee also took into consideration the levels of fees paid for the global services provided by the auditors. Consideration was also given to the likelihood of a withdrawal of the auditor from the market and, it was noted that there were no contractual obligations which would restrict the choice of alternative auditor. The committee agreed that it was appropriate to recommend to the Board that KPMG Audit Plc be reappointed as auditors for a further year and, accordingly a resolution will be put to shareholders at the 2012 Annual General Meeting recommending their reappointment.

### Meetings and attendance

The committee operates under formal terms of reference and held four meetings during the year, with representatives of senior management and KPMG Audit Plc in attendance at each meeting. In addition, the risk committee is scheduled to hold four meetings per annum, three of which are to be held on the same days as the meetings of the audit committee, in order to facilitate appropriate interaction between the two committees. To assist in this interaction, a standing agenda item for the



meetings of the audit committee is to receive an oral report from the chairman of the risk committee providing an update on matters relevant to the audit committee of those issues considered by the risk committee. There was full attendance at all meetings by members, as shown in the table below:

	Maximum possible attendance	Meetings attended
Jim Pettigrew	4	4
Anita Frew	4	4
Giles Weaver	4	4
Julie Chakraverty	1	1
Donald Waters	2	2

## Nominations committee

### Composition of the committee

The nominations committee is chaired by Roger Cornick and he is supported by two independent non-executive directors, Anita Frew and Simon Troughton. All members served on the committee throughout the year.

### Responsibilities of the committee

The committee is responsible for reviewing the structure, size and composition of the Board and for recommending new directors for appointment to the Board. The Board as a whole has responsibility for the appointment of new directors and for nominating them for election by shareholders at the first opportunity following their appointment. The committee is also responsible for considering and making recommendations to the Board on succession planning for directors and other senior executives.

### Report on the committee's activities during the year

During the year, the committee reviewed the proposals for rotation and re-election of directors at the Annual General Meeting; considered and made recommendations to the Board for the appointment of four new directors (one of whom subsequently resigned from the Board for personal reasons); discussed the results of the annual performance evaluation exercise and the results of the FSA governance review; noted the satisfactory operations of the committee and reviewed its terms of reference.

In respect of the appointment of Julie Chakraverty, the committee appointed an external search consultant and provided a full specification of the skill set required from a new appointee. In addition, Julie was interviewed by the members of the committee and other members of the Board and thereafter approved by the FSA prior to being appointed.

## Meetings and attendance

The committee operates under formal terms of reference and held three meetings during the year and there was full attendance at all meetings by the members, as shown in the table below:

	Maximum possible attendance	Meetings attended
Roger Cornick	3	3
Anita Frew	3	3
Simon Troughton	3	3

## Remuneration committee

### Composition of the committee

The remuneration committee is chaired by Simon Troughton who succeeded Sir Malcolm Rifkind after the conclusion of the 2011 Annual General Meeting, and he is supported by three independent non-executive directors, Sir Malcolm Rifkind, Anita Frew and Giles Weaver. All members of the committee served throughout the year.

### Responsibilities of the committee

The role of the committee is to monitor, review and make recommendations to the Board on the Group's remuneration policy, as set out in the report on pages 33 to 43, and to make recommendations to the Board on the remuneration packages of the executive directors and other senior employees of the Group. The committee is also responsible for approving the design of all share incentive plans and for recommending their approval by the Board and by shareholders.

### Responsibilities of the committee

The report on the committee's activities is contained in the remuneration report, as set out on pages 33 to 43.

### Meetings and attendance

The committee operates under formal terms of reference and held four meetings during the year. In addition, and in accordance with the requirements of its terms of reference, the members of the committee were also consulted on a range of issues during the year, including specific matters related to both recruitment and redundancy. The committee also received updates from the executive and from the external advisors, Hewitt New Bridge Street Consultants, on a range of relevant topics, including market updates and the requirements of the FSA Remuneration Code. There was full attendance at all meetings by members, as shown in the table below:

	Maximum possible attendance	Meetings attended
Simon Troughton	4	4
Sir Malcolm Rifkind	4	4
Anita Frew	4	4
Giles Weaver	4	4

### Risk Committee

#### Composition of the committee

The risk committee is chaired by Giles Weaver and he is supported by three independent non-executive directors, Anita Frew, Jim Pettigrew and Simon Troughton. Each member served throughout the year, apart from Simon Troughton who joined the committee in May 2011.

#### Responsibilities of the committee

The committee has oversight of the risk management framework and, more specifically, the effectiveness of risk management, governance and compliance activity within the Group. The committee will also advise the Board on considerations and processes relevant to setting the risk appetite and related tolerances. In addition, the committee has a responsibility to review the implementation of appropriate procedures to identify and control all fundamental operational, financial, reputational and regulatory risks within the Group. The committee has appointed PricewaterhouseCoopers to provide independent technical support and advice to the committee and to assist in the development of the risk management framework.

#### Report on the committee's activities during the year

During the year the Committee discharged its responsibilities, under its terms of reference and, in particular:

- reviewed the effectiveness of risk management, governance and compliance activity within the Group;
- advised the Board on considerations and processes for setting the Company's risk appetite and related tolerances;
- ensured that senior management has in place procedures and mechanisms to identify and control all fundamental prudential operational, financial, reputational, and regulatory risks;
- reviewed and recommended the internal capital adequacy assessment process;
- ensured that all risks were being addressed by management in line with the Company's risk appetite; and,
- reviewed the committee's terms of reference, carrying out an annual performance evaluation exercise and noting the satisfactory operation of the committee.

### Meetings and attendance

The committee operates under formal terms of reference and held four meetings during the year, three of which were held on the same day as the meetings of the audit committee, in order to facilitate appropriate interaction between the two committees. There was full attendance at all meetings by members, as shown in the table below:

	Maximum possible attendance	Meetings attended
Giles Weaver	4	4
Anita Frew	4	4
Jim Pettigrew	4	4
Simon Troughton	1	1

### Group management board

The operational management of the Group is delegated by the Board to the Group management board which comprises the executive directors and other heads of department. Brief biographies of its members are provided on page 29. The Group management board met three times each month, has specific terms of reference which have been approved by the Board and has responsibility for implementing the Board's strategy.

### Relationships with shareholders

The Company places great importance on communication with investors and aims to keep shareholders informed by means of regular communication with institutional shareholders, analysts and the financial press throughout the year. Annual and interim reports and interim management statements are widely distributed to other parties who may have an interest in the Group's performance and these documents, together with copies of investor presentations, are also made available on the Company's website. The chief executive and finance director make regular reports to the Board on investor relations and on specific discussions with major shareholders and the Board receives copies of all research published on the Company. Investors are encouraged to attend the Annual General Meeting at which they have an opportunity to ask questions.

The Annual General Meeting is normally attended by all directors, and the chairmen of each of the Board committees are available to answer questions. The senior independent director is always available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director has failed to resolve or for which such contact is inappropriate. The Company continues to offer major shareholders the opportunity to meet any or all of the chairman, the senior independent director and any new directors. The Group will continue its policy of announcing the number of proxy votes cast on resolutions at the Annual General Meeting and any other general meetings.

## Internal control

The Board recognises the importance of a sound risk management solution to safeguard company and client assets, protect the interests of shareholders and stakeholders, and meet its responsibilities as a UK listed and regulated fund management group.

Consequently, the Board and management have taken steps to build and continually improve an effective risk management framework and are committed to ensuring that it is embedded within the business and monitored up to Board level. As such, the audit and risk committees support the Board in discharging its oversight duties with regard to internal control, risk management and capital adequacy and have responsibility for ensuring the Group strategy is informed by and aligned with the Board's risk appetite, as set forth in a formal Board statement. The Board is also responsible for the internal capital adequacy assessment process, a document required by the UK regulator, which summarises the risk management framework and regulatory capital requirements of the UK regulated entities.

The risk management framework includes a sound system of internal controls that is designed to:

- identify and appraise all risks related to achieving the Group's objectives including all business, operational, reputational, financial and regulatory risks;
- manage and control risk appropriately rather than eliminate it;
- provide reasonable, but not absolute, assurance against material misstatement or loss;
- ensure the appropriate internal controls are embedded within the business processes and form part of the Group's culture which emphasises clear management responsibility and accountabilities;
- respond quickly to evolving risks within the Group and the external business environment; and,
- include procedures for reporting any control failings or weaknesses to the appropriate level of management together with the details of corrective action.

Responsibility lies with the risk management committee, operating under terms of reference approved by the Board and chaired by the group head of risk, for embedding the system of controls within the day-to-day operations of the Group and maintaining a strong control culture which emphasises clear management accountabilities. The committee drives the process of reporting and monitoring critical risks, issues and high priority projects. It serves to reconcile the key risks and issues identified by the business with those raised by the Group's monitoring functions and provides assurance to the Board that risks and issues are adequately escalated and managed.

Membership of the committee comprises executive directors and senior management from all business functions. The committee meetings are also attended by the heads of the primary control oversight functions comprising the following:

- The compliance department reviews the effectiveness of controls that ensure compliance with regulatory requirements in each jurisdiction in which the Group operates.
- The legal department is responsible for ensuring that the Group complies with statutory requirements globally.
- The business risk department is responsible for the management and oversight of operational risk.
- The market risk department covers the risk profiles within the various investment strategies as well as the credit risk associated with the counterparties with whom Aberdeen conducts its business.
- The internal audit department reviews the effectiveness of all controls, either by reviewing the methods and findings of the other independent monitoring functions, or by directly auditing the controls operated by management.

The heads of these functions, with the exception of internal audit, each report to the group head of risk who, in turn, reports to the chief executive and also attends and reports at meetings of the board of directors, the risk and the audit committees. The head of internal audit reports to the chief executive as well as having unrestricted access to the chairman of the audit committee.

The Board is ultimately responsible for the Group's system of internal controls and the ongoing management of significant matters. Furthermore, the audit committee is responsible for ensuring appropriate internal controls are in place for the group financial consolidation and reporting processes. These bespoke controls are monitored and maintained through the risk management framework which addresses key financial reporting risks, including risks arising from changes in the business or accounting standards. Effectiveness is assessed through quarterly self-certification and independent testing of the controls. The integrity of the Company's external reporting is further supported by a number of processes and steps to provide the assurance over the completeness and accuracy of the content. These include internal management reviews; external verification; reviews by the audit committee and by the board of directors.

Various reports addressing the effectiveness and embedding of the risk management framework and system of internal controls are regularly submitted to the Board or to one of the Board committees. In particular, a year end annual risk control report is reported to the Board summarising the control environment and oversight framework reported during the year. Identifying, evaluating and managing the Group's significant risks is an ongoing process, which is in accordance with the Turnbull guidance and which is regularly reviewed by the Board and has been in place throughout the year to 30 September 2011 and up to the date of approval of these financial statements.

### Corporate responsibility

On an ongoing basis, the Board reviews the environmental, social and governance (ESG) matters which are important to both the short and long term value of the Group. Primary responsibility for these matters rests with Andrew Laing, the deputy chief executive and chairman of the corporate social responsibility (CSR) steering committee, but reporting to the Board also comes from a number of other sources including the Group's risk division via the automated risk management framework.

The Board has identified the risks and opportunities posed by ESG factors and is of the opinion that the policies and procedures in place are working effectively. Director induction training takes account of ESG matters.

The most important ESG matters for the Group remain the retention of talent and client relationships. The Board has received specified reports from the executive on each of these matters, identifying the risks and have initiatives in place to ensure they are managed accordingly. In addition, the Board recognises that Aberdeen's operations have an impact on the environment and, as a result, have enhanced the environmental management system in place throughout the world wide offices.

Full details of how the Group is mitigating its ESG risks and expanding its capabilities, can be found in the Group's CSR report, which is available on the Group and CSR website, at [www.aberdeen-asset.com/csr](http://www.aberdeen-asset.com/csr).

### Managing CSR at Aberdeen

Over the past year, we have expanded and further developed our CSR programme across our global business. The CSR steering committee, led by Andrew Laing, continues to coordinate and orchestrate the developments across the Group and reports to the Board of directors on progress in each pillar area. The individual sub-committees are comprised of employees from across the business and they implement specific projects for the seven pillar areas: corporate governance, responsible investing, the environment, people and human rights, health and safety, supplier issues, and community / charitable activities.

In our CSR report for 2011, we report on specific developments within each area which affect our global business. Highlights include the development of the Aberdeen Asset Management Charitable Foundation and the expansion of our environmental management system.

As with last year, we continue to work with our employees, clients and stakeholders to improve our responsible practices. We have had quite a bit of feedback this past year on our work and will endeavour to keep using this feedback to improve our business operations as well as our goals for corporate responsibility.

### Stewardship

The Group invests for its clients' portfolios in companies globally and actively seeks to invest in those companies with sound corporate governance practices. The Group is committed to exercising responsible ownership with a conviction that companies adopting best practices in corporate governance will be more successful in their core activities and deliver enhanced returns to shareholders. The Group complies with the principles of the UK Stewardship Code and full details on how it discharges its stewardship responsibilities are set out on the Group website.

The Group's corporate governance principles provide a framework for investment analysis, engagement and proxy voting for investee companies worldwide and are set out on the Group's website. The Group recognises its obligation to monitor its investee companies and to participate actively in the corporate governance process. In the Group's active equity business, corporate governance and engagement are key components of the investment process. A review of the corporate governance practices of a potential investee company is part of the initial screening process and an investment will only be made after meeting with the management team. After investing in a company, regular meetings are held with management to discuss strategic, operational and governance matters. Engagement is therefore embedded in the investment process which is reinforced with all voting decisions being taken by the Group's investment managers. The Group endeavours to exercise proxy votes at all shareholder meetings where authorised to do so by clients and periodically reports on its proxy voting decisions, engagement activities and findings to clients who request that information. Details of the proxy voting decisions taken at shareholder meetings of investee companies are posted on the Group website.

The Group also provides socially responsible investment services to meet the demand from clients who want their investments to reflect an ethical bias. During the year under review, the Group engaged in dialogue with over 150 companies to improve our understanding of their ESG issues.

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## Our People

We know that our employees are a fundamental part of the growth and continual success of the Aberdeen Group. The Group has over 1,800 professionals working within the 23 countries we operate in globally. We believe that robust employment practices contribute to strong long term business development and we strive to be an employer of choice in all the countries where we operate. We understand that different cultures require different approaches but work to ensure that in each country our policies enable the workforce to deliver their potential. Global policies, including those on employment and equal opportunities are detailed on the Group's website at [www.aberdeen-asset.com/Aberdeen.nsf/groupcsr/policiespeople](http://www.aberdeen-asset.com/Aberdeen.nsf/groupcsr/policiespeople).

## Diversity

As a major global organisation we depend upon the skills and hard work of many different people. There are over 50 nationalities represented across our global workforce. We see our diversity as an advantage, as we believe that a diverse workforce is better able to service the needs of our clients. Where possible, we monitor the composition of our employees and applicants and aim to provide an environment in which everyone is treated equally. We do not tolerate harassment or bullying. Details of the Group's equal opportunities policy is available on the Company's website and this policy is supplemented by specific policies that reflect local employment legislation and expectations.

## Health and safety

The Group believe that their employees are one of its most valuable assets and therefore are committed to providing each employee with a safe and healthy working environment.

We believe making Aberdeen a safe place to work is a pivotal part of its long term strategy. By providing key members of staff with the relevant external training and all other staff with the relevant in-house training this ensures compliance with all statutory health and safety requirements.

The health and safety committee are currently improving and reviewing the policy and procedures whilst working with our employees to ensure our focus is maintained. Details of all incidents no matter how small are held on the HR database. There were no reportable incidents in the year. Ongoing development, improved communications and improved resources have allowed staff more accessibility to this valuable information.

## Community and charity

Since our beginning, Aberdeen has been an active supporter of the communities in which we operate, both in the UK and around the world.

During the year we have worked to formalise and expand our philanthropic efforts across the Group, continuing to concentrate on smaller charities focussed on children, health and supporting older people. We have rolled out a volunteering programme globally and in 2012, we plan to launch the Aberdeen Asset Management Charitable Foundation, the aim of which is to create more streamlined processes and efficient, impactful giving across the Group.

We continue to support charities through the giving of money but also through the provision of time and resource. Our volunteer leave programme provides employees with the opportunity to take up to two days per annum for voluntary work and, since its launch in April, 7% of employees globally have volunteered.

In the UK, Aberdeen was awarded the Gold Payroll Giving Quality Mark Award as more than 10% of employees donate through the Give as You Earn (GAYE) payroll giving scheme. Through this scheme, Aberdeen offers to match all regular contributions made by employees up to a maximum of £1,000 per month.

## Environment

The Group's environmental activities are coordinated by the global environmental committee, which is chaired by the global head of infrastructure, who reports directly to Andrew Laing, the deputy chief executive. Regional committees are in place in each of Aberdeen's global regions (Asia, EMEA and the Americas) to oversee the implementation of programmes and initiatives at a local level.

Through the committee structure and in line with the Aberdeen Corporate Social Responsibility Policy, the Group has continued to maintain its Environmental Management System (EMS) in line with the requirements of BS EN ISO14001:2004 during the year under review. The EMS gives the Group a greater understanding of the actual and potential impacts of its operations, as well as an awareness of the environmental legal requirements with which it must comply such as the Carbon Reduction Commitment Energy Efficiency Scheme in the UK.

During the reporting year, the Group's regional environmental committees have continued to facilitate the implementation of initiatives locally and work towards objectives relating to waste management; energy / utilities; business travel; facilities, suppliers and contractors; and other business considerations. Further to the 60% of operations (by headcount) covered by the Group's formal EMS, regional committees also work with other offices to encourage the sharing of best practice.

To enable the committees to monitor progress in three key areas, the Group set targets for the 2010/11 reporting year against the previous year. A detailed overview of these targets, and the Group's progress towards them, is provided in the Aberdeen Asset Management Corporate Social Responsibility Report, published separately.

### Energy consumption / Carbon management

Reducing the energy intensity of the Group's operations is a key objective within the EMS. The monitoring of scope 1 and 2 CO<sub>2</sub> emissions has been expanded from the UK during the reporting year to include other offices covered by the EMS. Data is submitted both to the Carbon Disclosure Project and to the UK Environment Agency in line with the requirements of the Carbon Reduction Commitment Energy Efficiency Scheme.

During the reporting year, surveys were undertaken at the Group's Aberdeen, Edinburgh and London office in order to identify opportunities for reducing energy consumption and CO<sub>2</sub> emissions. At Bow Bells House, London, a programme for the rolling replacement of halogen lamps with LEDs has been implemented, whilst improvements were also taken into consideration during the refurbishment of the Group's Singapore office. In Australia, the Group purchases electricity from renewable sources.

### Travel

The Group acknowledges that travel, whilst essential to the business, represents an area of significant environmental impact. In addition to the continued monitoring of staff business travel during the year under review, the Group has piloted HD video-conferencing facilities in its London and Edinburgh offices to reduce the need for travel. Reducing the impact of the Group's travel remains a priority and in the forthcoming year the Group environmental committees will be working to facilitate a reduction in emissions per employee. Staff in the UK also remain eligible for the Group's cycle to work scheme.

### Waste

Building on work undertaken in previous years, the Group has continued to increase the provision of waste segregation facilities in order to promote recycling, working with facilities managers where necessary. The Group's regional environmental committees have worked to ensure that waste is recycled where possible.

### Water consumption

The Group recognises the importance of water conservation, which whilst not a key area of focus is taken into consideration within the Group's EMS. In the past, a number of initiatives have been established to encourage this, including the use of sensors in taps and reduced flow mechanisms. The Group's regional environmental committees will continue to work to ensure that all offices have proactive measures in place to reduce water consumption on an ongoing basis. The Group does not have access to data on water consumption across all its offices due, primarily, to shared occupancy.

### Key performance indicators

In the UK, the Group has been monitoring environmental performance in three key areas since 2009. This data has now been aligned with Aberdeen's reporting year in the table below, and will continue to be the basis for the monitoring of progress towards targets going forward.

Variable	Absolute figure			Relative figure		
	2009/10	2010/11	Units	2009/10	2010/11	Units
Carbon footprint – office energy	2179	2191	tonnes CO <sub>2</sub>	2.97	2.79	tonnes CO <sub>2</sub> / FTE
Carbon footprint – business travel	2302	2668	tonnes CO <sub>2</sub>	3.13	3.40	tonnes CO <sub>2</sub> / FTE
General waste	49.1	47.1	Tonnes	66.8	59.9	Kgs / FTE
Recycled waste	71.0	85.6	Tonnes	96.7	109.0	Kgs / FTE

# Statement of directors' responsibilities in respect of the Annual Report and Accounts

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The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company 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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditor's report to the members of Aberdeen Asset Management PLC

We have audited the financial statements of Aberdeen Asset Management Plc for the year ended 30 September 2011 set out on pages 55 to 116.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 53, 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP)

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 31, in relation to going concern;
- the part of the Corporate Governance Statement on pages 44 to 52 relating to the company's compliance with the nine provisions of the June 2008 UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

*G. Bainbridge*

**G Bainbridge (Senior Statutory Auditor)**  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
37 Albyn Place  
Aberdeen  
AB10 1JB

2 December 2011



# Accounting policies

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## Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards endorsed by the EU (adopted IFRS).

The financial statements have been prepared on the historical cost basis, except that certain of the Group's financial instruments are stated at their fair values and the measurement of long-term employee benefits at present value of the obligation less fair value of any assets held to settle the obligation. The principal accounting policies, which have been consistently applied, unless otherwise stated, are set out below.

## Statement of compliance

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with adopted IFRS. In publishing these financial statements, the Company is taking advantage of the exemption provided by section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of the approved financial statements.

## Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the directors' report on page 31.

## Accounting estimates and judgements

Preparation of the financial statements necessitates the use of estimates, assumptions and judgements, which affect the reported values of assets, liabilities and contingent liabilities at the balance sheet date as well as affecting the reported income and expenses for the year. Although the estimates are based on management's knowledge and judgement of information and financial data, the actual outcome may differ from these estimates. The key assumptions which affect these results for the year and the balances as at the year-end are specifically identified, where appropriate, in the following notes to the Group financial statements:

- a) Periods used for amortisation of intangible assets – note 13
- b) Impairment testing of goodwill and intangible assets – note 13
- c) Deferred tax assets – note 17
- d) Pensions – note 34

### Standards not affecting the reported results nor the financial position

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on amounts reported in these financial statements.

		Effective date
IFRIC 19	'Extinguishing Financial Liabilities with Equity Instruments'	1 July 2010

### New standards and interpretations not applied

The International Accounting Standards Board has issued the following standards, which are relevant to the Group's reporting but which have not yet been applied and have an effective date after the date of these financial statements:

Endorsed by the EU and available for early adoption:

		Effective date
IAS 24 (revised 2009)	'Related Party Disclosures'	1 January 2011
Amendment to IFRIC 14	'Prepayments of a Minimum Funding Requirement'	1 January 2011
IFRS 10	'Consolidated financial statements'	1 January 2013

Standards and interpretations not endorsed:

IFRS 9 (November 2009)	'Financial Instruments: Classification and Measurement'	1 January 2013
Improvements to IFRS (May 2010)	'Improvements to IFRS 2010'	1 July 2010 – 1 January 2011
Amendments to IFRS 7 (October 2010)	'Transfers of financial assets'	1 July 2011
Amendments to IAS 12 (December 2010)	'Deferred Tax: recovery of underlying assets'	1 January 2012
IFRS 11	'Joint arrangements'	1 January 2013
IFRS 12	'Disclosure of Interest in Other Entities'	1 January 2013
IFRS 13	'Fair Value Measurement'	1 January 2013
Amendments to IAS 1 (June 2011)	'Financial statement presentation'	1 July 2012

The directors are still assessing the impact of these standards on the Group's financial results in the period of initial application.

## Basis of consolidation

The consolidated financial information contained within these financial statements incorporates the results, cash flows and financial position of the Company and its subsidiaries for the period to 30 September 2011. Subsidiaries are entities controlled by the Company and are included from the date that control commences until the date that control ceases. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intercompany transactions, balances, income and expenses between Group entities are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## Business combinations

Purchases of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values at the acquisition date of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

Where applicable, consideration for an acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its fair value at acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Revised 2008) are recognised at their fair values at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payments; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed at the acquisition date, and is subject to a maximum of one year.

## Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and such revenue can be reliably measured. Revenue, net of commissions, is recognised as services are provided and includes management fees, transaction fees and performance fees.

Initial income from the sale of shares in open end investment companies is taken to the balance sheet and amortised over the period of the asset management service, which is estimated based on the Group's experience of the average holding periods by investors.

The Group is entitled to earn performance fees from a number of clients where the actual performance of the clients' assets exceeds defined benchmarks by an agreed level of outperformance over a set time period. Performance fees are recognised when the quantum of the fee can be reliably estimated and it is probable that the fee will be received.

## Finance revenue

Finance revenue comprises interest and dividends. Interest income is recognised using the effective interest rate method as it accrues. Dividend income is recognised when the Group's right to receive payment is established which, in the case of listed securities, is the ex-dividend date.

## Finance costs

Finance costs comprise interest payable on borrowings recognised using the effective interest rate method. They also include non-utilisation fees charged on the undrawn portion of the revolving credit facility.

### Exceptional income and costs

Where the Group incurs significant non-recurring expenditure or earns significant non-recurring income in respect of items that arise outwith the Group's normal business activities and which are sufficiently material to warrant separate disclosure then the expenditure incurred is separately recognised on the face of the income statement as exceptional in order to provide more helpful information to investors.

### Leases

All Group leases are operating leases, being leases where the lessor retains substantially all the risks and rewards of ownership of the leased asset.

Rental payments made under operating leases are charged to the income statement on a straight line basis over the term of the lease. Lease incentives received by the Group are recognised as a reduction in the rental expense, recognised on a straight line basis over the term of the lease.

Rental income from sub-leases is recognised on a straight-line basis over the term of the relevant sub-lease.

### Pension costs

The principal pension scheme operated by the Group is a group personal pension scheme. In addition, overseas subsidiaries make contributions to various trade and state defined contribution schemes. Contributions to these defined contribution pension schemes are recognised as an expense in the income statement as they become payable under the rules of the schemes.

The Group also operates a number of legacy defined benefit pension schemes which arose on acquisitions, one of which is operated by the Company. All schemes are closed to new membership and to future service accruals. The Group's net obligation in respect of these schemes is calculated separately for each scheme by estimating the amount of future benefit that members have earned in return for their service in prior periods; that benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The benefits are discounted at a rate equal to the yield on high credit rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The surplus or deficit in respect of defined benefit schemes is expressed as the excess or shortfall of the fair value of the assets of the scheme compared to the present value of the scheme liabilities and is recognised as an asset or liability of the Group or Company.

Interest costs on the liability, expected return on plan assets and the costs of curtailments and settlements are recognised in the income statement.

Actuarial gains and losses are recognised directly in other comprehensive income in the period in which they occur. When the calculation results in a benefit to the Group or Company, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

### Other employee benefits

#### Bonus payments

These are recognised when there is a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

#### Share based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the service period to vesting, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

#### Employee Benefits Trust

The Group has an Employee Benefits Trust (EBT) which owns shares in the Company for the purposes of administering the Group's LTIP and deferred share schemes. The EBT is consolidated into the Group and Company's financial statements, with any shares held by the EBT deducted from equity. Any consideration received for such shares is recognised within retained earnings. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of equity shares.

## Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding basis used for tax purposes.

Deferred tax is provided using the balance sheet liability method and is calculated at the tax rates that are expected to apply when the asset is realised or the liability settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised, except:

- in respect of taxable or deductible temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that they will not reverse in the foreseeable future.
- where the deferred tax asset or liability arises from the initial recognition of goodwill.
- where the deferred tax asset or liability arises from the initial recognition of an asset or liability in a transaction that:
  - is not a business combination; and
  - at the time of the transaction, affects neither accounting profit nor loss.

## Property, plant & equipment

Property, plant & equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Expenditure on property, plant & equipment is capitalised on initial recognition. Subsequent expenditure is only capitalised when it is probable that there will be future economic benefits attributable to the item and the cost of the item can be measured reliably. All other expenditure is recognised as an expense in the income statement as incurred.

Property, plant & equipment is depreciated so as to write off the cost of assets, on a straight line basis, over their estimated useful lives as follows:

- Heritable property: 50 years
- Leasehold property: over the period of the lease

- Property improvements: shorter of five years or the period of the lease
- Computers, fixtures and fittings: three to ten years
- Motor vehicles: four years

Depreciation is recognised as an expense in the income statement.

The carrying value of these assets is reviewed at each reporting date to consider whether there is any indication that the value of any asset may be impaired; if any such indication exists and where the carrying value exceeds the estimated recoverable amount, the asset is written down to its recoverable amount, being the greater of fair value less costs to sell and value in use. Any impairment losses are recognised in the income statement.

An item of property, plant & equipment is derecognised upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the income statement in the year the asset is derecognised.

## Intangible assets

### Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised in the balance sheet.

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. An impairment review is carried out at least annually and any impairment is recognised immediately in the income statement and not subsequently reversed. Goodwill is allocated to the appropriate cash-generating unit for the purpose of impairment testing.

### Management contracts and distribution agreements

Intangible assets, such as management contracts and distribution agreements acquired as part of a business combination, are capitalised where it is probable that future economic benefits attributable to the assets will flow to the Group and the fair value of the assets can be measured reliably.

Management contracts and distribution agreements are recorded initially at fair value and then amortised, if appropriate, over their useful lives. The fair value at the date of acquisition is calculated using discounted cash flow methodology and represents the valuation of the net residual income stream arising from the management contracts or distribution agreements in place at the date of acquisition. The contracts are included in the balance sheet as an intangible asset.

The useful lives of management contracts in respect of certain open end funds are considered to be indefinite and are therefore not subject to amortisation. The indefinite nature of these contracts is re-assessed on an annual basis to ensure that the policy remains appropriate. The Group tests for impairment of these assets annually, or more frequently if there is an indication that the carrying amount may not be recoverable. The recoverable amount is the greater of fair value less costs to sell and value in use. Management contracts in respect of segregated mandates and certain open end funds are considered to have a finite life and are therefore amortised on a straight line basis over their estimated average contract term of between five and ten years, with amortisation charged to the income statement. The useful lives of distribution agreements are determined by the expiry date of the agreement.

#### Software

Purchased intangible assets have a finite life and are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight line basis according to the useful economic life of the intangible asset which, for software, is estimated at three years. Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

All other expenditure is expensed as incurred. At each reporting date, an assessment is made as to whether there is any indication that an asset in use may be impaired. If any such indication exists and the carrying values exceed the estimated recoverable amount, the asset is written down to its recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and value in use.

#### Impairment

The Group performs annual impairment reviews in respect of goodwill and intangible fixed assets with indefinite lives. The Group carries out impairment reviews in respect of intangible fixed assets with definite lives, property, plant & equipment and other assets, including fixed asset investments, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount for any asset or cash-generating unit is the higher of its value in use and its fair value less costs to sell.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Impairment losses in respect of goodwill are not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the

recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### Financial instruments

Financial instruments are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. They are categorised as described below.

The fair value of financial instruments that are actively traded on organised financial markets is determined by reference to market bid prices at the close of business on the balance sheet date. For investments where there is no active market, the fair value is determined using valuation techniques. These techniques include recent arm's length market transactions, reference to the current market value of another financial instrument which is substantially the same, discounted cash flow analysis and option pricing models.

Financial investments at fair value through profit or loss include investments acquired principally for the purpose of selling in the short term or if so designated by management. They are carried at fair value in the balance sheet and gains or losses are taken to the income statement in the period in which they arise. The following assets and liabilities are classified as financial instruments at fair value through profit or loss:

- **Current assets**
  - Assets backing investment contract liabilities
  - Stock of units and shares
  - Seed capital
  - Other investments
- **Current liabilities**
  - Investment contract liabilities

Available for sale financial assets are also carried at fair value in the balance sheet. Movements in fair value are taken to the fair value reserve until derecognition of the asset, at which time the cumulative amount dealt with through this reserve is recognised in the income statement.

Where there is objective evidence that an available for sale financial asset is impaired, the cumulative impairment loss is reclassified from equity to profit and loss with subsequent movements recognised in profit and loss.

The following assets are designated as available for sale:

- **Non-current assets**
  - Other investments

Loans and receivables and other financial liabilities are recognised at amortised cost using the effective interest rate method.

Convertible bonds that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments with a liability and equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible bonds is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method.

The Group has adopted trade date accounting. Accordingly, a financial investment is recognised on the date the Group commits to its purchase and derecognised on the date on which the Group commits to its sale.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, call deposits and investments in money market instruments with an original maturity of three months or less. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

### **Investment contracts**

The Group sells unit linked life and pension contracts through its insurance subsidiary, Aberdeen Asset Management Life and Pensions Limited (L&P). Management fees earned from these contracts are accounted for as described in the accounting policy for revenue.

L&P is consolidated in the Group financial statements on a line-by-line basis. Unit linked policyholder assets (described as assets backing investment contract liabilities) held by L&P and related policyholder liabilities are carried at fair value, with changes in fair value taken to profit or loss.

Amounts received from and paid to investors under these contracts are treated as deposits received or paid and therefore not recorded in the income statement. Charges to investors due under these contracts are recognised in the income statement. At the balance sheet date the value of these contracts is stated at an amount equal to the fair value of the net assets held to match the contractual obligations.

### **Investments in subsidiaries**

In the Company balance sheet, investments in subsidiaries are carried at cost less any provision for impairment.

## **Equity instruments**

### **Preference share capital**

The issued preference capital is classified as an element of equity as it is irredeemable, except at the Company's option, and dividend payments are discretionary. Dividends on preference shares are recognised as distributions within equity.

### **Perpetual subordinated capital securities**

The 7.9% perpetual subordinated capital securities are classified as an element of equity as the securities are irredeemable, except at the Company's option, and coupon payments are discretionary. Coupon payments, net of attributable tax, are recognised as distributions within equity.

### **Repurchase of share capital**

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. When these shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

### **Dividends**

Dividends on ordinary shares are recognised on the date of payment or, if subject to approval, the date approved by shareholders.

## **Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. No provision is established where a reliable estimate of the obligation cannot be made.

## **Foreign currencies**

The consolidated financial statements are presented in sterling, the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured in that functional currency.

*Transactions in foreign currencies are translated to the functional currency at the exchange rate ruling at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date and any*

exchange differences arising are taken to the income statement. Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated to the functional currency using the exchange rate at the date of the transaction and so no exchange differences arise. Non-monetary assets and liabilities stated at fair value in a foreign currency are translated at the exchange rate ruling at the balance sheet date. Where fair value movements in assets and liabilities are reflected in the income statement, the corresponding exchange movements are also recognised in the income statement. Where fair value movements in assets and liabilities are reflected directly in other comprehensive income, the corresponding exchange movements are also recognised directly in other comprehensive income.

The assets and liabilities of foreign operations are translated to sterling at the exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at rates approximating to the exchange rates ruling at the dates of the transactions. Exchange differences arising are recognised in other comprehensive income and accumulated in equity. On disposal of a foreign operation, all of the accumulated foreign exchange differences in respect of that operation are recycled to the profit and loss account.

### **Hedge of net investment in foreign operation**

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income, in the foreign currency translation reserve, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the associated cumulative amount in foreign currency translation reserve is transferred to profit or loss as an adjustment to the profit or loss on disposal.



# Group income statement

For the year to 30 September 2011

	Notes	2011			2010		
		Before exceptional items and amortisation £m	Exceptional items and amortisation £m	Total £m	Before exceptional items and amortisation £m	Exceptional items and amortisation £m	Total £m
<b>Revenue</b>	2	<b>784.0</b>	<b>-</b>	<b>784.0</b>	638.2	-	638.2
Operating costs		(474.7)	-	(474.7)	(416.3)	-	(416.3)
Exceptional items	4	-	-	-	-	(18.2)	(18.2)
Amortisation and impairment of intangible assets		-	(77.8)	(77.8)	-	(66.2)	(66.2)
<b>Operating expenses</b>		<b>(474.7)</b>	<b>(77.8)</b>	<b>(552.5)</b>	<b>(416.3)</b>	<b>(84.4)</b>	<b>(500.7)</b>
<b>Operating profit</b>		<b>309.3</b>	<b>(77.8)</b>	<b>231.5</b>	221.9	(84.4)	137.5
Net finance costs	7	(7.7)	-	(7.7)	(11.9)	-	(11.9)
Other gains and losses	8	0.3	-	0.3	-	-	-
<b>Profit before taxation</b>		<b>301.9</b>	<b>(77.8)</b>	<b>224.1</b>	210.0	(84.4)	125.6
Tax expense	9	(60.2)	20.0	(40.2)	(40.4)	22.1	(18.3)
<b>Profit for the year</b>		<b>241.7</b>	<b>(57.8)</b>	<b>183.9</b>	169.6	(62.3)	107.3
Attributable to:							
Equity shareholders of the Company				169.7			92.6
Other equity holders				14.2			14.7
				<b>183.9</b>			<b>107.3</b>
<b>Earnings per share</b>							
Basic	12			15.01p			8.32p
Diluted	12			14.06p			8.04p

# Statements of comprehensive income

For the year to 30 September 2011

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Profit for the year	183.9	107.3	156.8	151.9
Net actuarial gain (loss) on defined benefit pension schemes	6.0	(5.0)	(0.1)	(0.3)
Translation of foreign currency net investments	2.3	(8.0)	-	-
Realised (gain) loss on sale of available for sale investments	(3.0)	(0.3)	(2.8)	1.7
Tax on items of other comprehensive income	1.6	0.4	0.7	(0.9)
<b>Other comprehensive income (expense), net of tax</b>	<b>6.9</b>	<b>(12.9)</b>	<b>(2.2)</b>	<b>0.5</b>
<b>Total comprehensive income for the year</b>	<b>190.8</b>	<b>94.4</b>	<b>154.6</b>	<b>152.4</b>
Attributable to:				
Equity shareholders of the Company	176.6	79.7	140.4	137.7
Other equity holders	14.2	14.7	14.2	14.7

# Balance sheets

30 September 2011

		Group		Company	
	Notes	2011 £m	2010 £m	2011 £m	2010 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	13	1,060.0	1,134.3	64.8	65.1
Property, plant and equipment	15	20.1	19.8	10.3	10.2
Other investments	16	46.8	58.6	1,588.4	1,533.4
Deferred tax assets	17	22.5	29.7	8.0	15.2
Pension surplus	34	5.4	–	–	–
Trade and other receivables	18	4.4	16.8	–	5.0
<b>Total non-current assets</b>		<b>1,159.2</b>	<b>1,259.2</b>	<b>1,671.5</b>	<b>1,628.9</b>
<b>Current assets</b>					
Stock of units and shares	19	0.4	0.3	–	–
Assets backing investment contract liabilities	20	1,128.1	1,412.6	–	–
Trade and other receivables	18	325.8	283.1	209.8	216.1
Other investments	21	63.3	40.6	19.2	–
Cash and cash equivalents	22	209.5	150.8	50.1	0.1
<b>Total current assets</b>		<b>1,727.1</b>	<b>1,887.4</b>	<b>279.1</b>	<b>216.2</b>
<b>Total assets</b>		<b>2,886.3</b>	<b>3,146.6</b>	<b>1,950.6</b>	<b>1,845.1</b>
<b>Equity</b>					
Called up share capital	23	114.9	114.8	114.9	114.8
Share premium account	25	812.2	812.1	812.2	812.1
Other reserves	25	216.8	216.8	215.2	217.3
Retained (loss) profit	25	(123.7)	(170.5)	119.4	106.7
<b>Total equity attributable to shareholders of the parent</b>		<b>1,020.2</b>	<b>973.2</b>	<b>1,261.7</b>	<b>1,250.9</b>
Non-controlling interest		16.2	13.6	–	–
Perpetual capital securities	26	198.1	198.1	198.1	198.1
<b>Total equity</b>		<b>1,234.5</b>	<b>1,184.9</b>	<b>1,459.8</b>	<b>1,449.0</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Interest bearing loans and borrowings	27	82.0	158.5	82.0	158.5
Pension deficit	34	29.7	35.0	0.7	0.9
Provisions	29	2.2	3.6	2.2	3.6
Deferred tax liabilities	17	46.5	62.1	1.6	3.0
<b>Total non-current liabilities</b>		<b>160.4</b>	<b>259.2</b>	<b>86.5</b>	<b>166.0</b>
<b>Current liabilities</b>					
Investment contract liabilities	20	1,128.1	1,412.6	–	–
Interest bearing loans and borrowings	27	–	–	280.0	117.6
Trade and other payables	28	329.7	276.1	118.3	111.5
Current tax payable		33.6	13.8	6.0	1.0
<b>Total current liabilities</b>		<b>1,491.4</b>	<b>1,702.5</b>	<b>404.3</b>	<b>230.1</b>
<b>Total liabilities</b>		<b>1,651.8</b>	<b>1,961.7</b>	<b>490.8</b>	<b>396.1</b>
<b>Total equity and liabilities</b>		<b>2,886.3</b>	<b>3,146.6</b>	<b>1,950.6</b>	<b>1,845.1</b>

The financial statements were approved by the Board of Directors on 2 December 2011, and signed on its behalf by:

  
R C Cornick Chairman

  
W J Ratray Finance Director

# Statements of changes in equity

For the year to 30 September 2011

	Share capital £m	Share premium account £m	Capital redemption reserve £m
<b>Group</b>			
<b>Balance at 30 September 2009</b>	104.3	683.2	31.1
Profit for the period	–	–	–
Other comprehensive expense	–	–	–
<b>Total comprehensive (expense) income</b>	–	–	–
Arising on the issue of shares	9.0	106.8	–
Share based payment charge	–	–	–
Shares issued in respect of employee compensation schemes	1.2	15.2	–
Equity element of convertible bond, net of deferred tax	–	–	–
Purchase of own shares	–	–	–
Conversion of preference shares	0.3	6.9	–
Dividends paid to shareholders	–	–	–
Non-controlling interest in consolidated funds	–	–	–
<b>Balance at 30 September 2010</b>	114.8	812.1	31.1
Profit for the period	–	–	–
Other comprehensive income (expense)	–	–	–
<b>Total comprehensive income (expense)</b>	–	–	–
Arising on the issue of shares	0.1	0.1	–
Share based payment charge	–	–	–
Purchase of own shares	–	–	–
Dividends paid to shareholders	–	–	–
Non-controlling interest in consolidated funds	–	–	–
<b>Balance at 30 September 2011</b>	114.9	812.2	31.1
<b>Company</b>			
<b>Balance at 30 September 2009</b>	104.3	683.2	31.1
Profit for the period	–	–	–
Other comprehensive income (expense)	–	–	–
<b>Total comprehensive income</b>	–	–	–
Arising on the issue of shares	9.0	106.8	–
Share based payment charge	–	–	–
Shares issued in respect of employee compensation schemes	1.2	15.2	–
Equity element of convertible bond, net of deferred tax	–	–	–
Purchase of own shares	–	–	–
Conversion of preference shares	0.3	6.9	–
Dividends paid to shareholders	–	–	–
<b>Balance at 30 September 2010</b>	114.8	812.1	31.1
Profit for the period	–	–	–
Other comprehensive expense	–	–	–
<b>Total comprehensive (expense) income</b>	–	–	–
Arising on the issue of shares	0.1	0.1	–
Share based payment charge	–	–	–
Purchase of own shares	–	–	–
Dividends paid to shareholders	–	–	–
<b>Balance at 30 September 2011</b>	114.9	812.2	31.1

Merger reserve £m	Foreign currency translation reserve £m	Fair Value £m	Warrant/ other reserve £m	Retained earnings £m	Non controlling interest £m	Perpetual capital securities £m	Total equity £m
172.7	16.4	(5.3)	11.1	(196.6)	7.0	198.1	1,022.0
-	-	-	-	92.6	-	14.7	107.3
-	(8.0)	(0.4)	-	(4.5)	-	-	(12.9)
-	(8.0)	(0.4)	-	88.1	-	14.7	94.4
-	-	-	-	-	-	-	115.8
-	-	-	-	26.8	-	-	26.8
-	-	-	-	(16.4)	-	-	-
-	-	-	6.4	-	-	-	6.4
-	-	-	-	(2.2)	-	-	(2.2)
-	-	-	(7.2)	-	-	-	-
-	-	-	-	(70.2)	-	(14.7)	(84.9)
-	-	-	-	-	6.6	-	6.6
172.7	8.4	(5.7)	10.3	(170.5)	13.6	198.1	1,184.9
-	-	-	-	169.7	-	14.2	183.9
-	2.3	(2.3)	-	6.9	-	-	6.9
-	2.3	(2.3)	-	176.6	-	14.2	190.8
-	-	-	-	-	-	-	0.2
-	-	-	-	54.4	-	-	54.4
-	-	-	-	(98.1)	-	-	(98.1)
-	-	-	-	(86.1)	-	(14.2)	(100.3)
-	-	-	-	-	2.6	-	2.6
172.7	10.7	(8.0)	10.3	(123.7)	16.2	198.1	1,234.5
172.7	1.0	1.3	11.1	34.3	-	198.1	1,237.1
-	-	-	-	137.2	-	14.7	151.9
-	-	0.9	-	(0.4)	-	-	0.5
-	-	0.9	-	136.8	-	14.7	152.4
-	-	-	-	-	-	-	115.8
-	-	-	-	24.4	-	-	24.4
-	-	-	-	(16.4)	-	-	-
-	-	-	6.4	-	-	-	6.4
-	-	-	-	(2.2)	-	-	(2.2)
-	-	-	(7.2)	-	-	-	-
-	-	-	-	(70.2)	-	(14.7)	(84.9)
172.7	1.0	2.2	10.3	106.7	-	198.1	1,449.0
-	-	-	-	142.6	-	14.2	156.8
-	-	(2.1)	-	(0.1)	-	-	(2.2)
-	-	(2.1)	-	142.5	-	14.2	154.6
-	-	-	-	-	-	-	0.2
-	-	-	-	54.4	-	-	54.4
-	-	-	-	(98.1)	-	-	(98.1)
-	-	-	-	(86.1)	-	(14.2)	(100.3)
172.7	1.0	0.1	10.3	119.4	-	198.1	1,459.8

# Statements of cash flows

For the year to 30 September 2011

	Notes	Group		Company	
		2011 £m	2010 £m	2011 £m	2010 £m
Core cash generated from operating activities		399.3	254.6	203.7	195.9
Effects of short-term timing differences on open end fund settlements		7.9	0.4	–	–
<b>Cash generated from operations</b>		<b>407.2</b>	<b>255.0</b>	<b>203.7</b>	<b>195.9</b>
Net interest paid		(7.1)	(10.1)	(9.7)	(10.3)
Tax paid		(26.4)	(16.8)	–	–
<b>Net cash generated from operations</b>		<b>373.7</b>	<b>228.1</b>	<b>194.0</b>	<b>185.6</b>
Other non-recurring costs paid		(7.3)	(15.5)	–	(5.8)
<b>Net cash generated from operating activities</b>	5	<b>366.4</b>	<b>212.6</b>	<b>194.0</b>	<b>179.8</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of investments		50.2	51.8	38.6	40.8
Acquisition of businesses, net of cash acquired		(3.3)	(90.2)	–	(84.7)
Investment in existing subsidiary undertakings		–	–	(18.6)	(114.0)
Acquisition of intangible assets		(2.4)	(12.2)	(2.3)	(12.5)
Disposal of intangible assets		–	–	–	51.8
Acquisition of property, plant & equipment		(5.9)	(6.5)	(3.1)	(5.3)
Acquisition of investments		(62.1)	(22.7)	(40.8)	(15.3)
<b>Net cash used in investing activities</b>		<b>(23.5)</b>	<b>(79.8)</b>	<b>(26.2)</b>	<b>(139.2)</b>
<b>Cash flows from financing activities</b>					
Issue of ordinary share capital, net of expenses		–	115.8	–	115.8
Issue of convertible bond, net of expenses		–	87.4	–	87.4
Purchase of own shares		(98.1)	(2.2)	(98.1)	(2.2)
Repayment of borrowings		(77.9)	(178.3)	(77.9)	(178.3)
Dividends paid and coupon payments		(105.5)	(90.6)	(105.5)	(90.6)
<b>Net cash used in financing activities</b>		<b>(281.5)</b>	<b>(67.9)</b>	<b>(281.5)</b>	<b>(67.9)</b>
Net increase (decrease) in cash and cash equivalents		61.4	64.9	(113.7)	(27.3)
Cash and cash equivalents at 1 October		150.8	81.4	(117.5)	(91.0)
Effect of exchange rate fluctuations on cash and cash equivalents		(2.7)	4.5	1.3	0.8
<b>Cash and cash equivalents at 30 September</b>		<b>209.5</b>	<b>150.8</b>	<b>(229.9)</b>	<b>(117.5)</b>

# Notes to the financial statements

For the year to 30 September 2011

## 1 Segmental disclosures

The Group operates a single business segment of asset management for reporting and control purposes.

IFRS 8 Operating Segments requires disclosures to reflect the information which the Group management board, being the body that is the Group's chief operating decision maker, uses for evaluating performance and the allocation of resources. The Group is managed as a single asset management business, with multiple asset classes including equities, fixed income, property and alternative investment strategies that are managed across a range of products, distribution channels and geographic regions. Reporting provided to the Group management board is on an aggregated basis.

Under IFRS 8, the Group is required to disclose by geographical location revenue and amounts of non-current assets other than financial instruments, deferred tax assets and retirement benefit assets. Revenue below is allocated by geographical location based on where assets are managed and client location.

Year to 30 September 2011	UK £m	Europe £m	Singapore £m	Rest of Asia £m	US £m	Total £m
Revenue	311.1	125.7	206.7	103.3	37.2	784.0
Non-current assets	722.1	80.6	19.7	212.2	45.5	1,080.1

Year to 30 September 2010	UK £m	Europe £m	Singapore £m	Rest of Asia £m	US £m	Total £m
Revenue	260.0	114.6	131.4	90.7	41.5	638.2
Non-current assets	764.0	101.0	20.1	221.8	58.2	1,165.1

## 2 Revenue

	2011 £m	2010 £m
Revenue comprises:		
Management fees	739.2	596.9
Performance fees	36.3	30.3
Transaction fees	8.5	11.0
	784.0	638.2

### 3 Operating expenses

	2011 £m	2010 £m
Operating profit is stated after charging (crediting):		
Fees payable to the Company's auditors for the audit of the Company's accounts	0.1	0.1
Fees payable to the Company's auditors and its associates for other services		
– audit of the Company's subsidiaries pursuant to legislation	1.1	1.2
– other services pursuant to legislation (see below)	0.1	0.1
	1.3	1.4
– tax services	0.1	0.1
– all other services (see below)	0.1	0.1
	1.5	1.6
Operating lease payments	14.4	15.6
Depreciation	5.7	4.8
Amortisation of intangible assets	67.8	44.7
Impairment of intangible assets	10.0	21.5
Directors' emoluments	11.8	6.2
Exchange gain	(1.8)	(0.3)

#### Fees paid to the Company's auditors

Other services pursuant to legislation includes £40,000 (2010: £40,000) for the interim review.

Details of Directors' remuneration are given in the Remuneration report on pages 33 to 43.

### 4 Exceptional items

There were no exceptional items in the current period.

Exceptional costs incurred in 2010 related principally to (i) business acquisitions from Credit Suisse and Royal Bank of Scotland and (ii) provision for expected future lease costs for our former London office.

	2011 £m	2010 £m
Arising on Credit Suisse acquisition:		
Transitional service costs from vendor	–	4.1
Costs of migration and integration of back office data and systems	–	8.4
	–	12.5
Costs relating to businesses acquired from RBS	–	1.6
Acquisition and integration costs	–	14.1
Acceleration of property lease costs on office rationalisation	–	6.1
Exceptional gain on disposal of Belgian property business	–	(0.7)
Surplus provision for VAT cost on investment trusts	–	(1.3)
Total exceptional items	–	18.2



## 5 Analysis of cash flows

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Reconciliation of profit after tax to operating cash flow</b>				
Profit after tax	183.9	107.3	156.8	151.9
Depreciation	5.7	4.8	2.9	2.8
Amortisation and impairment of intangible assets	77.8	66.2	2.6	2.5
Other losses (gains)	1.2	–	(2.8)	–
Fair value (gains) losses on investments	–	(0.4)	(4.8)	1.7
Loss (gain) on disposal of investments and other assets	–	0.2	–	(1.7)
Share based element of remuneration	60.4	30.9	8.3	5.7
Net finance costs	7.7	11.9	10.5	12.4
Income tax expense (credit)	40.2	18.3	6.6	(15.7)
	376.9	239.2	180.1	159.6
Increase (decrease) in provisions	0.1	2.3	(1.4)	3.6
(Increase) decrease in stock	(0.1)	0.2	–	–
Decrease (increase) in trade and other receivables	0.9	(21.9)	16.0	8.0
Increase in open end fund receivables	(30.4)	(62.6)	–	–
Increase in trade and other payables	14.2	20.1	9.0	18.9
Increase in open end fund payables	38.3	62.2	–	–
Net cash inflow from operating activities	399.9	239.5	203.7	190.1
Net interest paid	(7.1)	(10.1)	(9.7)	(10.3)
Corporation tax paid	(26.4)	(16.8)	–	–
Net cash generated from operating activities	366.4	212.6	194.0	179.8

## 6 Employees

	2011 £m	2010 £m
<b>Group</b>		
Aggregate employee costs, including directors:		
Salaries and cash bonuses	165.2	159.0
Share-based element of remuneration (note 24)	60.4	30.9
Other benefits	5.5	4.3
Social security costs	22.7	15.2
Pension costs (note 34)	19.9	19.4
	273.7	228.8
	2011 Number	2010 Number
Average number of employees during the year	1,851	1,817

**6 Employees continued**

<b>Company</b>	<b>2011 £m</b>	<b>2010 £m</b>
Aggregate employee costs, including directors:		
Salaries and cash bonuses	30.4	25.9
Share-based element of remuneration (note 24)	8.3	5.7
Other benefits	0.7	0.9
Social security costs	4.0	3.1
Pension costs	4.0	4.1
	<b>47.4</b>	<b>39.7</b>
	<b>2011 Number</b>	<b>2010 Number</b>
Average number of employees during the year	391	338

**7 Net finance costs**

	<b>2011 £m</b>	<b>2010 £m</b>
Interest on 7.2% subordinated notes 2016	4.3	5.8
Interest on 3.5% convertible bonds 2014	4.9	3.8
Interest on overdrafts, revolving credit facilities and other interest bearing accounts	0.2	2.0
	<b>9.4</b>	<b>11.6</b>
Amortisation of issue costs on convertible bonds	0.6	0.5
Total finance costs	<b>10.0</b>	<b>12.1</b>
Finance revenue – interest income	(2.3)	(0.2)
Net finance costs	<b>7.7</b>	<b>11.9</b>

**8 Other gains and losses**

	<b>2011 £m</b>	<b>2010 £m</b>
Gains on disposal of available for sale investments	4.7	–
Changes in fair value of investments	(2.7)	–
Impairment of financial asset	(1.7)	–
	<b>0.3</b>	<b>–</b>

## 9 Tax expense

	2011 £m	2010 £m
<b>Current tax expense</b>		
UK corporation tax on profits for the year	23.2	5.7
Adjustments in respect of prior periods	(1.3)	(0.1)
	21.9	5.6
Foreign tax – current	24.2	19.7
Foreign tax – adjustments in respect of prior periods	0.3	(0.6)
Total current tax	46.4	24.7
<b>Deferred tax credit</b>		
Origination and reversal of temporary differences	(8.1)	(6.2)
Adjustments in respect of prior periods	1.9	(0.2)
Total tax expense in income statement	40.2	18.3

The deferred tax credit is analysed in note 17.

	2011 £m	2010 £m
<b>Reconciliation of effective tax rate</b>		
Profit before tax	224.1	125.6
Income tax calculated at the UK corporation tax rate 27% (2010: 28%)	60.5	35.2
Effect of lower tax rates applicable in foreign jurisdictions	(33.0)	(31.6)
Effect of capital gains deductions and exempt capital losses	0.8	(0.3)
Movement in unrecognised deferred tax asset	13.7	17.2
Change in UK tax rates on deferred tax balances	(1.7)	(0.9)
(Non-taxable income) disallowed expenses	(0.9)	0.5
Utilisation of unrecognised losses	(0.1)	(0.6)
Other timing differences	–	(0.3)
Adjustments in respect of prior years	0.9	(0.9)
Total tax expense in income statement	40.2	18.3

### Domestic tax rate

The UK tax rate for the period is 27% (2010: 28%).

All UK deferred tax assets and liabilities that will unwind after 1 April 2012 have been recognised at the rate of 25%, being the rate substantively enacted by the UK Parliament, effective from that date. There are further planned reductions in the UK tax rates, which are not yet substantively enacted.

### Factors affecting future tax charge

The Group's overseas profits are subject to overseas tax rates some of which are lower than the standard rate of UK corporation tax of 27% (2010: 28%).

**10 Profit for the financial year**

The profit dealt with in the accounts of the Company was £156.8 million (2010: £151.9 million).

**11 Dividends and coupons payable**

	2011 £m	2010 £m
<b>Dividend on convertible preference shares:</b>		
Dividend paid	0.3	2.7
<b>Coupon payments on perpetual capital securities</b>		
Coupon payments made during the year	19.4	20.4
<b>Dividends on ordinary shares</b>		
Declared and paid during the year:		
Final dividend for 2010 – 3.8p (2009: 3.2p)	42.9	32.2
Interim dividend for 2011 – 3.8p (2010: 3.2p)	42.9	35.3
	85.8	67.5
<b>Total dividends and coupon payments paid during the year</b>	<b>105.5</b>	<b>90.6</b>
<b>Proposed for approval at the Annual General Meeting (not recognised as a liability at 30 September)</b>		
Dividends on ordinary shares:		
Final dividend for 2011 – 5.2p (2010: 3.8p)	59.5	43.5

The total ordinary dividend for the year is 9.0p per share including the proposed final dividend for 2011 of 5.2p per share. This payment will trigger an adjustment to the subscription price applying to the warrants which form part of the 6.75% convertible preference share units issued in June 2005. Assuming approval of the final dividend payment at the forthcoming Annual General Meeting, the subscription price will reduce from 90p per ordinary share to 87p per ordinary share.

The coupon payments on perpetual capital securities are tax deductible. The deduction for 2011 is £5.2 million (2010: £5.7 million), giving rise to a net coupon of £14.2 million (2010: £14.7 million).

## 12 Earnings per share

The calculations of earnings per share are based on the following profits and numbers of shares.

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of ordinary shares that would be issued on the conversion of all the potentially dilutive shares into ordinary shares.

Underlying earnings per share figures are calculated by adjusting the profit to exclude exceptional items and, amortisation and impairment of intangible assets. The purpose of providing the underlying earnings per share is to allow readers of the accounts to clearly consider trends without the impact of exceptional and certain non-cash items.

	IAS 33		Underlying	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Basic earnings per share</b>				
Profit attributable to shareholders	183.9	107.3	183.9	107.3
Dividend on convertible preference shares	(0.3)	(2.7)	(0.3)	(2.7)
Coupon payments in respect of perpetual capital securities (net of tax)	(14.2)	(14.7)	(14.2)	(14.7)
Profit for the financial year	169.4	89.9	169.4	89.9
Amortisation and impairment of intangible assets, net of attributable taxation			57.8	49.2
Exceptional items, net of attributable taxation			–	13.1
Underlying profit for the financial year			227.2	152.2
Weighted average number of shares (millions)	1,128.4	1,080.1	1,128.4	1,080.1
Basic earnings per share	15.01p	8.32p	20.13p	14.09p
<b>Diluted earnings per share</b>				
Profit for calculation of basic earnings per share, as above	169.4	89.9	227.2	152.2
Add: interest on 2014 convertible bonds, net of attributable taxation	4.0	3.0	4.0	3.0
Add: dividend on convertible preference shares	0.3	2.7	0.3	2.7
Profit for calculation of diluted earnings per share	173.7	95.6	231.5	157.9
<b>Weighted average number of shares (millions)</b>				
For basic earnings per share	1,128.4	1,080.1	1,128.4	1,080.1
Dilutive effect of 2014 convertible bonds	48.6	38.4	48.6	38.4
Dilutive effect of convertible preference shares	4.4	35.5	4.4	35.5
Dilutive effect of LTIP awards	0.6	1.2	0.6	1.2
Dilutive effect of exercisable share options and deferred shares	53.8	34.2	53.8	34.2
	1,235.8	1,189.4	1,235.8	1,189.4
Diluted earnings per share	14.06p	8.04p	18.73p	13.28p

## 13 Intangible assets

Group	Goodwill £m	Management contracts £m	Distribution contracts £m	Software £m	Total £m
<b>Cost</b>					
At 1 October 2009	677.5	523.5	-	16.9	1,217.9
Additions	0.3	10.3	-	1.9	12.5
Arising on acquisition	16.6	28.3	45.2	-	90.1
Disposal	-	-	-	(1.7)	(1.7)
Fair value adjustment	(36.3)	-	-	-	(36.3)
Exchange movement	(4.4)	(7.3)	-	-	(11.7)
At 30 September 2010	653.7	554.8	45.2	17.1	1,270.8
Additions	-	-	-	2.5	2.5
Exchange movement	0.7	0.3	-	-	1.0
<b>At 30 September 2011</b>	<b>654.4</b>	<b>555.1</b>	<b>45.2</b>	<b>19.6</b>	<b>1,274.3</b>
<b>Amortisation and impairment</b>					
At 1 October 2009	-	59.5	-	10.8	70.3
Amortisation for year	-	37.1	6.0	1.6	44.7
Impairment losses	-	21.5	-	-	21.5
At 30 September 2010	-	118.1	6.0	12.4	136.5
Amortisation for year	-	56.9	9.0	1.9	67.8
Impairment losses	-	10.0	-	-	10.0
<b>At 30 September 2011</b>	<b>-</b>	<b>185.0</b>	<b>15.0</b>	<b>14.3</b>	<b>214.3</b>
<b>Net book value</b>					
<b>At 30 September 2011</b>	<b>654.4</b>	<b>370.1</b>	<b>30.2</b>	<b>5.3</b>	<b>1,060.0</b>
At 30 September 2010	653.7	436.7	39.2	4.7	1,134.3

<b>Company</b>	<b>Goodwill £m</b>	<b>Management contracts £m</b>	<b>Software £m</b>	<b>Total £m</b>
<b>Cost</b>				
At 1 October 2009	118.9	186.2	14.9	320.0
Additions	4.4	6.0	1.9	12.3
Transfer to subsidiary undertakings	(50.8)	(164.1)	–	(214.9)
Fair value adjustment	(36.3)	–	–	(36.3)
Reclassification	(1.4)	3.6	(2.2)	–
At 30 September 2010	34.8	31.7	14.6	81.1
Additions	–	–	2.3	2.3
<b>At 30 September 2011</b>	<b>34.8</b>	<b>31.7</b>	<b>16.9</b>	<b>83.4</b>
<b>Amortisation and impairment</b>				
At 1 October 2009	3.7	0.7	9.1	13.5
Amortisation for year	–	1.1	1.4	2.5
At 30 September 2010	3.7	1.8	10.5	16.0
Amortisation for year	–	1.0	1.6	2.6
<b>At 30 September 2011</b>	<b>3.7</b>	<b>2.8</b>	<b>12.1</b>	<b>18.6</b>
<b>Net book value</b>				
<b>At 30 September 2011</b>	<b>31.1</b>	<b>28.9</b>	<b>4.8</b>	<b>64.8</b>
At 30 September 2010	31.1	29.9	4.1	65.1

**13 Intangible assets continued****Impairment testing of goodwill and intangibles****Goodwill**

The Group has two cash generating units ("CGUs") for the purpose of assessing the carrying value of goodwill and intangible assets: (i) property asset management and (ii) investment management. Goodwill acquired in a business combination is allocated to the CGU expected to benefit from the synergies of the business combination. While no longer relevant to our current business model, we make estimated allocations of costs between the CGUs to enable continuity of assessment of impairment. The carrying value of goodwill and intangible assets attributable to each CGU is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Investment management	<b>906.8</b>	956.9	<b>64.8</b>	65.1
Property asset management	<b>153.2</b>	177.4	<b>-</b>	-
	<b>1,060.0</b>	1,134.3	<b>64.8</b>	65.1

The recoverable amount of each CGU is determined by value-in-use calculations which use cash flow projections based on the Group's approved budget for the year to 30 September 2012 and take into account the market conditions prevailing at the time. A long term growth rate is used to extrapolate the cash flows for later years. The long term growth rate assumption of 2% is in line with the long term nature of the Group's business and in line with the Board's view that the Group will operate as a going concern in the long term.

The principal assumptions are:

	<b>2011</b>	<b>2010</b>
	<b>%</b>	<b>%</b>
Annual increase in investment management assets under management	<b>6.0</b>	6.0
Annual increase in property assets under management	<b>6.0</b>	6.0
Annual increase in operating costs – investment management	<b>5.5</b>	5.5
– property asset management	<b>5.0</b>	5.0

The annual increases in operating costs assumed above include provision for inflation of salaries and other operating costs, as well as provision for the additional costs associated with the assumed increased levels of business. There are no changes to assumed management fee margins.

The following discount rates have been used in the impairment analysis. They are based on the Group's weighted average cost of capital using a risk free interest rate, together with a beta for the sector and allied to an equity risk premium. The rates calculated for each CGU take into account the relative risks associated with each CGU. The higher cost of capital for property is due to the smaller scale of these assets.

	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>Post tax</b>	<b>Pre tax</b>	<b>Post tax</b>	<b>Pre tax</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Investment management	<b>9.6</b>	<b>11.5</b>	9.6	12.5
Property asset management	<b>11.1</b>	<b>13.8</b>	11.1	14.4

The impairment review included a sensitivity analysis on the key assumptions underpinning the cash flow projections and the rate at which the projections were discounted to arrive at the final value-in-use. The sensitivity analysis included testing assumptions relating to future revenue growth and the assumptions surrounding the level of operating costs and margins.

The absolute levels, on a standalone basis, of the key assumptions which most closely resulted in a match in the values in use to the carrying values of goodwill were:



	2011 Investment management %	2011 Property asset management %	2010 Investment management %	2010 Property asset management %
Discount rate – pre tax	24.3	16.9	19.2	18.1
Long term growth rate	(49.3)	(8.4)	(19.6)	(12.1)
Inflation rate	26.4	8.7	21.9	9.9

The value in use, calculated for each CGU in accordance with the process described above, was compared with the carrying value of goodwill, intangible assets and property plant and equipment. The comparison resulted in a surplus of value in use over the carrying value of these assets for both CGUs as shown in the table below, and therefore no impairment of goodwill has been recognised in the year.

	2011 Investment management £m	2011 Property asset management £m	2010 Investment management £m	2010 Property asset management £m
Excess of recoverable amount over carrying value	2,332.0	79.5	1,307.0	99.0

#### Management contracts and distribution agreements

The Group reviewed the management contracts held at 30 September 2011 including contracts which are considered to have an indefinite life. Management contracts within the investment management CGU at 30 September 2011 include £99.3 million (2010: £99.3 million) of assets which are considered to have an indefinite life. These assets comprise contracts for the management of open end funds which have no limit of time or termination provisions. The Group also reviewed definite life assets for impairment indicators and performed impairment tests where required. The property management CGU has no management contracts that are considered to have an indefinite life. The definite life assets include the distribution agreement acquired in the RBS acquisition.

Impairment tests were performed using the higher of value in use calculations (using methods and assumptions described above in relation to goodwill) and estimates of fair value less costs to sell. Both measures of value were compared with the carrying value of the contracts. During 2010, developments in the German property market led to liquidity issues on open end funds managed by a number of groups, with many such funds having been closed to redemptions. In common with a number of other groups, Aberdeen decided that it would place one such fund, DEGI Europa, into a controlled wind-down over a three year period, and we took this into account in considering future cash flows from this asset. An impairment charge of £21.5 million was recognised in the year to 30 September 2010 in respect of DEGI intangibles. A further impairment charge of £10.0 million was recognised in the year to 30 September 2011 following the decision that DEGI International will be placed into a controlled wind-down over a three year period.

The categories of management contracts and distribution agreements, their carrying amounts at the year end, remaining amortisation periods and estimated useful lives are as follows:

	30 September 2011			30 September 2010		
	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)
Definite life – management contracts	270.8	1-8	6-10	337.4	2-9	6-10
Definite life – distribution contracts	30.2	3.3	5	39.2	4.3	5
Indefinite life – open end fund contracts	99.3	N/A	Indefinite	99.3	N/A	Indefinite
	400.3			475.9		

#### Company impairment review

A review of goodwill and management contracts held by the Company was carried out on the same basis as described above in respect of the Group's intangible assets. There were no indicators of impairment in respect of the management contracts held by the Company. No impairment of goodwill or management contracts has been recognised in the year.

#### 14 Acquisitions

There were no acquisitions in 2011.

On 29 January 2010 the Group completed the acquisition of certain long only multi-manager and fund of alternatives management agreements and contracts from The Royal Bank of Scotland plc ('RBS') for a cash consideration of £84.7 million. The benefits of the acquisition were to add fund of alternatives capability and strengthen the Group's distribution relationship with RBS Wealth Management, including Coutts. The acquisition included the assignment of a number of asset administration, consultancy, advisory and other service agreements, certain trademarks, shares in certain Cayman Island companies and the associated staff of the business. In addition, the Group has entered into a long-term distribution agreement with RBS, largely incorporating their private banking customer base at Coutts & Co.

Goodwill represents the value of the acquired workforce and synergies. All goodwill is deductible for tax purposes.

The Group and Company engaged external valuation specialists to advise on the correct allocation of the purchase price between goodwill, intangible assets and tangible assets. Values for the net assets of the acquired business, at the date of acquisition, are set out in the table below:

	RBS acquisition		
	At date of acquisition £m	Fair value adjustments £m	Fair value £m
Intangible assets	-	73.5	73.5
Cash	0.1	-	0.1
Trade receivables	13.8	-	13.8
Trade payables	(14.9)	-	(14.9)
Net assets of acquired business	(1.0)	73.5	72.5
Goodwill			12.2
			84.7
Discharged by:			
Cash consideration			84.7

This business has been integrated with the Group's existing asset management businesses therefore the results and cash flows can no longer be separately identified.

15 Property, plant & equipment

Group	Heritable property £m	Short leasehold property £m	Computers fixtures and fittings £m	Motor vehicles £m	Total £m
<b>Cost</b>					
At 1 October 2009	2.5	13.0	27.0	0.4	42.9
Additions	–	2.7	2.9	–	5.6
Reclassification	(0.1)	0.2	(0.1)	–	–
Disposals	–	(1.4)	(0.2)	–	(1.6)
Exchange movement	–	0.3	0.2	–	0.5
At 30 September 2010	2.4	14.8	29.8	0.4	47.4
Additions	–	1.8	4.4	0.1	6.3
Disposals	–	(2.6)	(16.6)	(0.1)	(19.3)
Exchange movement	–	–	0.2	–	0.2
<b>At 30 September 2011</b>	<b>2.4</b>	<b>14.0</b>	<b>17.8</b>	<b>0.4</b>	<b>34.6</b>
<b>Depreciation</b>					
At 1 October 2009	0.5	5.4	17.9	0.2	24.0
Charge for year	–	2.0	2.8	–	4.8
On disposals	–	(1.4)	(0.2)	–	(1.6)
Exchange movement	–	0.2	0.2	–	0.4
At 30 September 2010	0.5	6.2	20.7	0.2	27.6
Charge for year	–	2.5	3.0	0.2	5.7
On disposals	–	(2.6)	(16.2)	(0.1)	(18.9)
Exchange movement	–	–	0.1	–	0.1
<b>At 30 September 2011</b>	<b>0.5</b>	<b>6.1</b>	<b>7.6</b>	<b>0.3</b>	<b>14.5</b>
<b>Net book value</b>					
<b>At 30 September 2011</b>	<b>1.9</b>	<b>7.9</b>	<b>10.2</b>	<b>0.1</b>	<b>20.1</b>
At 30 September 2010	1.9	8.6	9.1	0.2	19.8

**15 Property, plant & equipment continued**

Company	Heritable property £m	Short leasehold property £m	Computers fixtures and fittings £m	Motor vehicles £m	Total £m
<b>Cost</b>					
At 1 October 2009	2.4	6.6	17.9	0.1	27.0
Additions	–	2.6	1.9	–	4.5
At 30 September 2010	2.4	9.2	19.8	0.1	31.5
Additions	–	0.2	2.8	–	3.0
Disposals	–	(1.6)	(14.3)	–	(15.9)
<b>At 30 September 2011</b>	<b>2.4</b>	<b>7.8</b>	<b>8.3</b>	<b>0.1</b>	<b>18.6</b>
<b>Depreciation</b>					
At 1 October 2009	0.5	2.9	15.0	0.1	18.5
Charge for year	–	1.5	1.3	–	2.8
At 30 September 2010	0.5	4.4	16.3	0.1	21.3
Charge for year	–	1.4	1.5	–	2.9
On disposals	–	(1.6)	(14.3)	–	(15.9)
<b>At 30 September 2011</b>	<b>0.5</b>	<b>4.2</b>	<b>3.5</b>	<b>0.1</b>	<b>8.3</b>
<b>Net book value</b>					
<b>At 30 September 2011</b>	<b>1.9</b>	<b>3.6</b>	<b>4.8</b>	<b>–</b>	<b>10.3</b>
At 30 September 2010	1.9	4.8	3.5	–	10.2

**16 Non-current other investments**

Group	Other investments £m
<b>Shares</b>	
At 1 October 2009	59.9
Additions	18.3
Fair value gains – reserves	2.9
Fair value losses – reserves	(2.9)
Fair value losses – income statement	(1.0)
Disposals	(19.8)
Exchange movement	1.2
At 30 September 2010	58.6
Additions	18.9
Fair value gains – reserves	0.1
Fair value losses – reserves	(0.6)
Fair value losses – income statement	(0.5)
Disposals	(29.4)
Exchange movement	(0.3)
<b>At 30 September 2011</b>	<b>46.8</b>

All of the above investments are classified as available for sale.

Movements in 2011 comprised additions of £17.9 million of investment in own funds and £0.4 million of private equity investments. Disposals included £19.2 million of investment in own funds and £0.6 million of residual private equity holdings.

The Company's investment in subsidiary undertakings are measured at cost less provision for impairment. The Company's other investments are classified as available for sale.

<b>Company</b>	<b>Subsidiary undertakings £m</b>	<b>Other investments £m</b>	<b>Total £m</b>
<b>Shares</b>			
At 1 October 2009	1,141.2	23.9	1,165.1
Additions: increase in existing subsidiary undertakings	369.4	–	369.4
other investments	–	15.2	15.2
Fair value adjustment	–	2.1	2.1
Amounts written off	–	(1.5)	(1.5)
Disposals	–	(16.9)	(16.9)
At 30 September 2010	1,510.6	22.8	1,533.4
Additions: increase in existing subsidiary undertakings	65.3	–	65.3
other investments	1.4	17.6	19.0
Fair value adjustment	–	0.1	0.1
Amounts written off	–	(0.4)	(0.4)
Disposals	–	(29.0)	(29.0)
<b>At 30 September 2011</b>	<b>1,577.3</b>	<b>11.1</b>	<b>1,588.4</b>

The principal companies in which the Group interest was more than 10% at 30 September 2011 were as follows:

<b>Subsidiary undertakings</b>	<b>Principal activity</b>	<b>% owned</b>	<b>Country of registration</b>	<b>Country of operation</b>
Aberdeen Asset Management Asia Limited	Fund management	100	Singapore	Singapore
Aberdeen Asset Managers Limited	Fund management	100	Scotland	UK
Aberdeen Asset Management, Inc	Fund management	100	USA	USA
Aberdeen Fund Management Limited	Fund management	100	England	UK
Aberdeen Global Services SA	Fund management	100	Luxembourg	Luxembourg
Aberdeen International Fund Managers Limited	Fund distribution	100	Hong Kong	Hong Kong
Aberdeen Asset Management AB	Property asset management	100	Sweden	Sweden
Aberdeen Asset Management Life & Pensions Limited	Life and Pensions	100	England	UK
Aberdeen Unit Trust Managers Limited	Unit trust management	100	England	UK

## 17 Deferred tax assets and liabilities

Deferred tax assets and liabilities recognised are as follows:

Group	Balance at 1 Oct 2009 £m	Recognised in profit or loss £m	Recognised in equity £m	Arising on business combination £m	Balance at 30 Sep 2010 £m	Recognised in profit and loss £m	Recognised in equity £m	Balance at 30 Sep 2011 £m
Available-for-sale financial assets	2.1	-	(0.1)	-	2.0	-	0.7	2.7
Defined benefit schemes	7.5	(1.0)	0.7	-	7.2	(2.7)	0.8	5.3
Share-based payments	0.7	5.4	-	-	6.1	1.8	0.7	8.6
Tax loss carry-forward	23.8	(10.9)	-	-	12.9	(7.1)	-	5.8
Other items	2.0	-	(0.5)	-	1.5	(1.4)	-	0.1
<b>Deferred tax assets</b>	<b>36.1</b>	<b>(6.5)</b>	<b>0.1</b>	<b>-</b>	<b>29.7</b>	<b>(9.4)</b>	<b>2.2</b>	<b>22.5</b>
Intangible assets	(111.8)	12.5	3.1	36.3	(59.9)	15.0	-	(44.9)
Convertible bonds	-	0.4	(2.6)	-	(2.2)	0.6	-	(1.6)
<b>Deferred tax liabilities</b>	<b>(111.8)</b>	<b>12.9</b>	<b>0.5</b>	<b>36.3</b>	<b>(62.1)</b>	<b>15.6</b>	<b>-</b>	<b>(46.5)</b>
	<b>(75.7)</b>	<b>6.4</b>	<b>0.6</b>	<b>36.3</b>	<b>(32.4)</b>	<b>6.2</b>	<b>2.2</b>	<b>(24.0)</b>

The Group has tax losses which arose in the UK of £87.5 million (2010: £96.0 million) and overseas of £89.9 million (2010: £98.2 million). Deferred tax assets of £5.8 million (2010: £12.9 million) have been recognised in respect of these losses as they will be used to offset taxable profits forecast in future years.

Company	Balance at 1 Oct 2009 £m	Recognised in profit or loss £m	Recognised in equity £m	Arising on business combination £m	Balance at 30 Sep 2010 £m	Recognised in profit and loss £m	Recognised in equity £m	Balance at 30 Sep 2011 £m
Defined benefit schemes	0.2	(0.1)	0.1	-	0.2	(0.1)	0.1	0.2
Share based payments	-	1.8	-	-	1.8	(0.6)	0.1	1.3
Tax loss carry forward	2.7	10.2	-	-	12.9	(7.7)	-	5.2
Other items	-	0.3	-	-	0.3	1.0	-	1.3
<b>Deferred tax assets</b>	<b>2.9</b>	<b>12.2</b>	<b>0.1</b>	<b>-</b>	<b>15.2</b>	<b>(7.4)</b>	<b>0.2</b>	<b>8.0</b>
Intangible assets	(45.9)	-	-	45.9	-	-	-	-
Convertible bonds	-	0.4	(2.6)	-	(2.2)	0.6	-	(1.6)
Financial instruments	-	(0.8)	-	-	(0.8)	-	0.8	-
<b>Deferred tax liabilities</b>	<b>(45.9)</b>	<b>(0.4)</b>	<b>(2.6)</b>	<b>45.9</b>	<b>(3.0)</b>	<b>0.6</b>	<b>0.8</b>	<b>(1.6)</b>
	<b>(43.0)</b>	<b>11.8</b>	<b>(2.5)</b>	<b>45.9</b>	<b>12.2</b>	<b>(6.8)</b>	<b>1.0</b>	<b>6.4</b>

## 18 Trade and other receivables

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Current assets</b>				
Due from trustees for open end fund redemptions	117.6	83.0	-	-
Due from investors for open end fund sales	8.1	12.3	-	-
	125.7	95.3	-	-
Other trade receivables	63.5	55.1	0.7	1.2
Amounts due by subsidiary undertakings	-	-	198.7	202.6
Other receivables	18.0	17.3	4.0	5.5
Accrued income	101.8	99.4	-	-
Prepayments	16.8	16.0	6.4	6.8
	325.8	283.1	209.8	216.1
<b>Non-current assets</b>				
Other receivables	4.0	5.8	-	-
Prepayments	0.4	11.0	-	5.0
	4.4	16.8	-	5.0

## 19 Stock of units and shares

	Group	
	2011 £m	2010 £m
Units and shares in managed funds	0.4	0.3

Stocks of units and shares are held in a number of open end funds managed by the Group and are classified as held for trading current assets.

## 20 Assets backing investment contract liabilities

The following assets are held by the Group's life assurance and pooled pensions subsidiary to meet their contracted liabilities:

	Group	
	2011 £m	2010 £m
Listed investments	674.3	884.0
Unit trusts	410.8	492.9
Cash and deposits	36.9	31.4
Other net assets	6.1	4.3
	1,128.1	1,412.6

The risks and rewards on these assets fall to the benefit of or are borne by the underlying policy holders. Therefore, the investment contract liabilities shown in the Group's balance sheet are equal and opposite in value to the assets held on behalf of the policyholders. The Group has no direct exposure to fluctuations in value of assets which are held on behalf of policyholders. The Group's exposure to these assets lies in the revenue earned from the assets which varies in line with movement in value of assets. The Group has no exposure to fluctuations in the value of the assets arising from changes in market prices or credit default.

## 21 Other investments

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Seed capital investments	29.8	-	19.2	-
Listed securities – held for trading	10.4	13.0	-	-
Liquid investments of pensions subsidiaries	23.1	27.6	-	-
	63.3	40.6	19.2	-

Seed capital investments consist of amounts invested in funds when the intention is to dispose of these as soon as practicably possible.

## 22 Cash and cash equivalents

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Cash at bank and in hand	209.5	150.8	50.1	0.1
Bank overdrafts	-	-	(280.0)	(117.6)
Cash and cash equivalents in the statement of cash flows	209.5	150.8	(229.9)	(117.5)

Cash and cash equivalents are subject to floating rates of interest. Cash at bank earns interest at floating rates based on daily bank deposit rates.

At 30 September 2011, the Group had £100 million (2010: £75 million) of undrawn committed borrowing facilities under its revolving credit arrangements (note 27).

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Sterling	7.3	46.2	(228.0)	(124.4)
US dollar	90.0	28.4	(4.8)	5.9
Euro	45.6	26.5	2.9	1.0
Nordic currencies	18.4	14.5	-	-
Other currencies	48.2	35.2	-	-
	209.5	150.8	(229.9)	(117.5)



## 23 Share capital

	2011 £m	2010 £m
<b>Allotted, called up and fully paid:</b>		
1,144,646,272 (2010: 1,144,282,989) Ordinary shares of 10p	114.5	114.4
3,941 (2010: 4,072) 6.75% Non-cumulative, non-voting perpetual preference shares of £100	0.4	0.4
	<b>114.9</b>	<b>114.8</b>

	2011 No. of ordinary shares millions	2010 No. of ordinary shares millions
At 1 October	1,144.3	1,003.1
Shares issued in respect of acquisition	–	90.0
Shares issued in respect of options exercised	0.2	0.2
Shares issued on conversion of preference share units	0.1	39.0
Shares issued to settle share-based payment during the year	–	12.0
At 30 September	<b>1,144.6</b>	<b>1,144.3</b>

During the year, a total of 217,300 ordinary shares of 10p each were issued at an average price of 49.1p pursuant to the exercise of options granted to employees under the 1994 Executive Share Option Scheme.

During the year, a total of 145,983 ordinary shares of 10p each were issued in respect of the conversion of 131 convertible preference share units. Each convertible preference share unit of £1,000 comprised one preference share and one warrant to subscribe to ordinary shares, of which £800 relates to the preference share and £200 to the warrant. Each preference share is entitled to a non-cumulative dividend accruing at a rate of £67.50 per share per annum payable annually in arrears on 30 June in each year (payments subject to the directors' discretion). The convertible preference shares are perpetual securities and have no maturity date but are redeemable in whole, but not in part, only at the option of the Company on 30 June 2012 or any dividend payment date thereafter at a price equal to the aggregate of £1,000 and any dividends accrued for the then current dividend period.

## 24 Share-based payments

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Employee expense</b>				
Deferred share awards	55.7	29.8	7.4	4.8
Expense arising from the award of shares and options under the LTIP	4.7	1.1	0.9	0.9
Total expense recognised as employee costs	<b>60.4</b>	<b>30.9</b>	<b>8.3</b>	<b>5.7</b>

**24 Share-based payments continued****Deferred share awards**

The Group has made the following deferred share awards, which are equity settled, do not have ongoing performance conditions, but have a time vesting condition:

Date of award	Share price on date of grant	Number			Balance at 30 Sept 2011	Earliest vesting dates
		Original award total	Leavers/ forfeited awards	Vested awards		
15 March 2007	188.7p	150,498	(7,500)	(142,998)	–	Dec 2009
1 December 2007	167.5p	8,879,284	(41,180)	(8,838,104)	–	Dec 2010
17 June 2008	135.2p	245,358	(15,000)	(93,929)	<b>136,429</b>	Jun 2011 – Jun 2013
1 December 2008	88.0p	40,171,397	–	(28,856,650)	<b>11,314,747</b>	Dec 2009 – Dec 2011
1 July 2009	127.0p	2,565,167	(75,410)	(71,832) <sup>A</sup>	<b>2,417,925</b>	Jul 2012
1 December 2009	138.6p	24,410,288	(1,552,136)	(7,874,907)	<b>14,983,245</b>	Dec 2010 – Dec 2012
17 September 2010	148.4p	22,238	–	–	<b>22,238</b>	Sep 2011
1 December 2010	179.0p	27,354,664	(595,647)	(179,622) <sup>A</sup>	<b>26,579,395</b>	Dec 2011 – Dec 2013
25 March 2011	205.3p	893,199	–	–	<b>893,199</b>	Dec 2011 – Dec 2013
1 April 2011	212.0p	254,220	–	–	<b>254,220</b>	Dec 2011 – Dec 2013
<b>Total</b>		<b>104,946,313</b>	<b>(2,286,873)</b>	<b>(46,058,042)</b>	<b>56,601,398</b>	

<sup>A</sup> Vested awards relate to 'good' leavers.

Awards made in 2006 and 2007 reach their earliest vesting dates at the end of a three year period subject to the continued employment of the participant. Awards made in 2008 to 2011 reach their earliest vesting dates in three equal tranches over a three year period, again subject to the continued employment of the participant. On reaching the earliest vesting date, participants may require immediate vesting or may choose to defer vesting until a later date; if deferred, participants may require vesting, without condition, at any time.

	Weighted average share price 2011	2011 Number	Weighted average share price 2010	2010 Number
Outstanding 1 October		<b>54,508,681</b>		53,639,535
Granted during the year	<b>180.11p</b>	<b>30,045,851</b>	138.03p	24,432,526
Exercised during the year	<b>186.19p</b>	<b>(26,372,157)</b>	138.70p	(21,909,151)
Forfeited during the year		<b>(1,580,977)</b>		(1,654,229)
Outstanding 30 September		<b>56,601,398</b>		54,508,681

**LTIP**

£4.3 million (2010: £1.6 million) of the LTIP charge arises from 20,400,000 incentive options granted on 17 June 2008. These awards vest, subject to the satisfaction of the performance conditions, one third after 3 years, one third after 4 years and one third after 5 years. The vesting in years 4 and 5 is adjusted for any employees who leave the company.

The performance criteria for the awards are linked to the growth in earnings per share over the measurement period (3 years from date of award ie 17 June 2011) compared with the average movement in the stock markets in which assets managed by the Group are invested. The share price at 17 June 2011 was 216.0p, compared to 130.25p at date of award.

## 25 Reserves

### Nature and purpose of reserves

#### Share premium account

The share premium account is used to record the issue of share capital above par value. This reserve is not distributable and can only be reduced with court approval.

#### Capital redemption reserve

The capital redemption reserve is created on the cancellation of share capital and the balance reflects the value of preference share capital redeemed by the company. This reserve is not distributable.

#### Merger reserve

The merger reserve is used to record share premium on shares issued by way of consideration in respect of acquisitions. The realised element of the merger reserve can be used to offset amortisation and impairment of intangible assets charged to the income statement. This reserve is not distributable.

#### Warrant and other reserve

The warrant reserve was created on the issue of the convertible preference share units in June 2005. Each convertible preference share unit issued comprised one preference share and one warrant to subscribe for ordinary shares, of which £800 related to the preference share and £200 to the warrant. The balance in the reserve reflects the value of unexercised warrants.

The equity element of the convertible bond, net of deferred tax, is shown within warrant and other reserves.

#### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

#### Fair value reserve

This reserve records fair value changes on available for sale investments until the investments are derecognised.

#### Retained earnings

Retained earnings comprises:

- all realised gains and losses through the Income Statement less dividend distributions;
- actuarial gains and losses recognised in the pension liability;
- gains and losses on available for sale assets and deferred tax on these movements;
- deferred tax on actuarial gains and losses;
- transactions relating to equity-settled share-based payments, and all deferred tax movements on share-based payments reflected through equity; and
- the purchase and sale of own shares in respect of share based payments.

The total movements in retained earnings relating to the issue of the LTIP shares represent the value of the shares issued to participants in any period less the annual amortisation of these shares which is charged through the income statement.

The Company reserve is distributable.

Group and company	2011				2010			
	Number of shares	% of issued shares	Cost £m	Market value £m	Number of shares	% of issued shares	Cost £m	Market value £m
Own shares	31,143,274	2.7	55.1	53.9	2,622,054	0.2	3.4	4.2

These shares are held by the Group's Employee Benefits Trust for the purpose of satisfying deferred share bonuses that will vest in future periods.

The maximum number held by the Employee Benefits Trust during the year was 37,193,852 (3.2% of issued shares); (2010: 15,443,586, 1.3%).

**25 Reserves continued**

Movements during the year are as follows:

	2011 millions	2010 millions
At 1 October	2.6	8.2
Own shares purchased	57.9	2.2
Own shares issued to trustees	-	12.0
Own shares disposed through vesting	(29.4)	(19.8)
At 30 September	31.1	2.6

The Company is authorised pursuant to section 701 of the Companies Act 2006 to make market purchases of ordinary shares.

**26 Perpetual subordinated capital securities**

	2011 £m	2010 £m
US \$400 million 7.9% Perpetual subordinated capital securities	196.5	196.5
Coupon outstanding at 30 September	1.6	1.6
	198.1	198.1

The 7.9% Perpetual subordinated capital securities were issued on 29 May 2007. They have no fixed redemption date but the Company may, at its sole discretion, redeem all (but not part) of these securities at their principal amount on 29 May 2012 or any subsequent coupon payment date. In addition, under certain circumstances defined in the terms and conditions of the issue, the Company may at its sole discretion:

- redeem all (but not part) of the securities at their principal amount at any time prior to 29 May 2012;
- on any coupon payment date, exchange all (but not part) of the securities for fully paid non-cumulative preference shares in the Company. The preference shares would entitle holders to receive a preferential dividend, if declared by the Board, at a fixed rate of 7.9% per annum of their nominal value. Such preference shares may be redeemed, at the Company's sole option, on any coupon payment date later than five years after their issue.

The Company has the option to defer coupon payments on the securities on any relevant payment date. Deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company:

- redemption; or
- substitution by preference shares.

No interest will accrue on any deferred coupon. Deferred coupons will be satisfied by the issue and sale of ordinary shares in the Company at their prevailing market value, to a sum as near as practicable to (and at least equal to) the relevant deferred coupons. In the event of any coupon deferral the Company would not declare or pay any dividend on its ordinary or preference share capital.

Coupon payments are made quarterly in arrears on 28 February, 29 May, 29 August and 29 November in each year from 29 August 2007.

## 27 Interest bearing loans and borrowings

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Non-current liabilities</b>				
7.2% subordinated notes 2016	-	79.3	-	79.3
Unamortised issue costs	-	(0.5)	-	(0.5)
3.5% convertible bonds 2014	83.7	82.0	83.7	82.0
Unamortised issue costs	(1.7)	(2.3)	(1.7)	(2.3)
	<b>82.0</b>	<b>158.5</b>	<b>82.0</b>	<b>158.5</b>
<b>Current liabilities</b>				
Bank overdraft	-	-	280.0	117.6

On 17 December 2009, the Group issued £90 million 3.5% convertible bonds 2014. The bonds have a term of five years and unless previously redeemed, converted, or purchased and cancelled the bonds will be redeemed at their principal amount on 17 December 2014. Interest is payable semi-annually in arrears on 17 June and 17 December. The bonds are convertible into ordinary shares of the Company at any time after 28 January 2010 at a conversion price of 185p.

US\$125 million 7.2% subordinated notes 2016 were issued on 7 July 2006. On the 7 July 2011 the Company exercised the option to prepay all of the notes.

The Company negotiated a revolving credit facilities totalling £100 million with Lloyds Banking Group and Barclays Capital in July 2011. The facilities run for the three year period to 6 July 2014. Interest is charged at 1.75% over LIBOR on drawn amounts, with non-utilisation fees of 0.6125% on undrawn balances. This replaces a previous facility of £75 million with the same lenders which expired in July 2011.

The Company's bank overdraft is part of a group working capital facility in support of which cross guarantees are provided by certain subsidiary undertakings. At 30 September 2011 the net amount guaranteed under this arrangement was £nil (2010: £nil). The Group's borrowings are subject to a number of covenants which, in accordance with standard practice, are reviewed and discussed with lenders from time to time. The Board, having regard to its business plans is confident that the Group will continue to comply with applicable conditions for the foreseeable future.

## 28 Trade and other payables

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Due to trustees for open end fund creations	20.7	16.5	-	-
Due to investors for open end fund redemptions	109.4	75.3	-	-
	<b>130.1</b>	<b>91.8</b>	<b>-</b>	<b>-</b>
Other trade creditors	7.3	11.2	4.1	6.2
Accruals	149.1	138.0	28.4	25.6
Tax and social security	12.1	4.0	3.4	1.8
Amounts due to subsidiary undertakings	-	-	76.6	72.8
Deferred income	2.6	1.4	-	-
Other creditors	28.5	29.7	5.8	5.1
	<b>329.7</b>	<b>276.1</b>	<b>118.3</b>	<b>111.5</b>

## 29 Provisions and contingent liabilities

	<b>Onerous lease £m</b>
<b>Group and Company</b>	
At 1 October 2010	3.6
Utilised in the year	(1.4)
<b>At 30 September 2011</b>	<b>2.2</b>

The Group has provided all expected costs related to the remaining lease period of our former London office. The provision takes into account sub-lease income. The provision is subject to uncertainties, including the cost of making good any dilapidations. The provision is disclosed as a non-current liability.

The Group may, from time to time, be subject to claims, actions or proceedings in the normal course of its business. While there can be no assurances, the directors believe, based on information currently available to them, that the likelihood of a material outflow of economic benefits is remote.

### 30 Operating leases

The Group and Company have non-cancellable operating lease rentals which are payable as follows:

	Land and buildings		Motor vehicles and plant and equipment	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Group</b>				
Within one year	18.3	17.3	0.4	0.3
Between two and five years	48.1	46.1	0.5	0.3
After five years	40.6	43.9	–	–
	<b>107.0</b>	<b>107.3</b>	<b>0.9</b>	<b>0.6</b>

During the year ended 30 September 2011, £14.4 million was recognised as an expense in the income statement in respect of operating leases (2010: £15.6 million).

	Land and buildings	
	2011 £m	2010 £m
<b>Company</b>		
Within one year	7.0	7.0
Between two and five years	20.7	22.6
After five years	30.5	32.2
	<b>58.2</b>	<b>61.8</b>

#### Sub-lease receivables

At the year end future minimum rentals under non-cancellable operating leases were as follows:

	Group		Company	
	Land and buildings		Land and buildings	
	2011 £m	2010 £m	2011 £m	2010 £m
Within one year	0.5	–	0.1	–
Between two and five years	4.1	0.9	0.2	0.9
After five years	5.2	10.7	5.2	5.0
	<b>9.8</b>	<b>11.6</b>	<b>5.5</b>	<b>5.9</b>

**31 Fair value of financial instruments**

Set out below is a comparison by category of the carrying amounts and fair values of all the Group and Company's financial instruments that are carried in the financial statements.

	Group				Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
<b>Financial assets</b>								
<b>Designated as fair value through profit or loss:</b>								
Stock of units and shares	0.4	0.3	0.4	0.3	-	-	-	-
Seed capital investments	29.8	-	29.8	-	19.2	-	19.2	-
Other investments	10.4	13.0	10.4	13.0	-	-	-	-
Liquid investments of life and pensions subsidiary	23.1	27.6	10.4	13.0	-	-	-	-
<b>Designated as available for sale:</b>								
Other investments	46.8	58.6	46.8	58.6	11.1	22.8	11.1	22.8
<b>Other financial assets:</b>								
Assets backing investment contract liabilities	1,128.1	1,412.6	1,128.1	1,412.6	-	-	-	-
Investments in subsidiaries	-	-	-	-	1,577.3	1,510.6	1,577.3	1,510.6
Cash and cash equivalents	209.5	150.8	209.5	150.8	50.1	0.1	50.1	0.1
Trade and other receivables	325.8	283.1	325.8	283.1	209.8	216.1	209.8	216.1
<b>Financial liabilities</b>								
Interest bearing loans and borrowings:								
- Fixed rate borrowings	83.7	161.3	83.7	156.1	83.7	161.3	83.7	156.1
- Floating rate borrowings	-	-	-	-	280.0	117.6	280.0	117.6
Insurance contract liabilities	1,128.1	1,412.6	1,128.1	1,412.6	-	-	-	-
Trade and other payables	329.7	276.1	329.7	276.1	118.3	111.5	118.3	111.5

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the above table:

**Securities**

The fair value of listed investments is based on market bid prices at the balance sheet date without any deduction for transaction costs.

The fair value of unlisted investments have been valued in accordance with International Private Equity and Venture Capital Valuation guidelines where relevant.

**Interest bearing loans**

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The valuations have considered similar issues available in the market and the liquidity of the assets and liabilities.

Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

The fair value of the liability component of the convertible bonds is determined using a 5.73 percent yield based on a similar instrument, assuming 3 years to maturity without conversion.



### Trade receivables and payables

Trade receivables and payables are typically settled in a short time frame. As a result, the fair value of these balances is considered to be materially equal to the carrying value, after taking into account potential impairments losses.

### Financial instruments relating to unit linked contracts

The Group's life assurance subsidiary provides unit linked wrappers which allow clients to benefit from investing in pooled funds. As explained in note 20, the risks and rewards of managing these assets are the same as other assets under management as the financial risks and rewards attributable to these assets also fall to be borne by, or to the benefit of, clients. Hence, while a number of significant financial instruments are recognised in the balance sheet in respect of the subsidiary, the key risk to the Group is the impact of the level of the fees which are earned from this entity which are directly impacted by the underlying value of the policyholder assets. While by necessity this Group subsidiary company has some insurance risks, these risks are completely reinsured, thereby negating any ultimate insurance risk to the Group's equity holders.

The assets above are all unit linked and held for the sole benefit of the policyholders within Aberdeen Asset Management Life and Pensions Limited. Investment and credit risk in respect of assets and liabilities held within unit linked funds is borne by the policyholders. Accordingly, these assets are not included in fair value measurements disclosure below.

### Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £m	Level 2 £m	Level 3 £m	2011 Total £m
<b>Fair value through profit or loss</b>				
Stock of units and shares in managed funds	0.4	–	–	0.4
Seed capital investments	29.8	–	–	29.8
Other investments	0.4	7.7	2.3	10.4
Liquid investments in life and pensions subsidiary	23.1	–	–	23.1
<b>Available for sale financial assets</b>				
Other investments	2.1	–	44.7	46.8
	55.8	7.7	47.0	110.5

	Level 1 £m	Level 2 £m	Level 3 £m	2010 Total £m
<b>Fair value through profit or loss</b>				
Stock of units and shares in managed funds	0.3	–	–	0.3
Other investments	0.8	8.3	3.9	13.0
Liquid investments in life and pensions subsidiary	27.6	–	–	27.6
<b>Available for sale financial assets</b>				
Other investments	11.9	–	46.7	58.6
	40.6	8.3	50.6	99.5

**31 Fair value of financial instruments** continued**Reconciliation of Level 3 fair value measurements of financial assets**

	Available for sale financial assets £m	Designated as held for trading £m	Total £m
<b>Balance at 1 October 2010</b>	46.7	3.9	50.6
Total gains or losses:			
– In income statement	(0.5)	(0.1)	(0.6)
– In other comprehensive income	(0.4)	–	(0.4)
Purchases	1.4	–	1.4
Settlements	(2.5)	(1.5)	(4.0)
<b>Balance at 30 September 2011</b>	<b>44.7</b>	<b>2.3</b>	<b>47.0</b>

There were no transfers between Level 1, Level 2 or Level 3 investments.

Investments classified as level 3 principally comprise investments in property funds. While the Group is not aware of significant differences between valuations received and reasonably possible alternatives, the value of these investments would be directly impacted by changes in the European and Asia property markets. The Group estimates that a 10% increase/decrease in the fair value of these investments will have a favourable/unfavourable impact on equity of £4.5 million.

**32 Financial risk management****Overview**

This note describes the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

**i) Risk management**

The Group is exposed to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market price risk
- foreign exchange risk
- interest rate risk

The Board of directors has overall responsibility for the establishment and ongoing management of the Group's risk management framework and the implementation and operation of the Board's policies are handled by the Group's risk management committee.

The Group's risk committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Board has approved the risk appetite statement, which sets out the quantum and types of risk that the Group is willing to accept in pursuing its objectives. The risk appetite statement is a top-down framework against which policies, systems and limits can be set. The Group's risk committee monitors compliance with the risk appetite statement through a series of key performance indicators.

The Group's audit committee is responsible for overseeing financial reports and internal control. Internal audit assist the Group audit committee in its oversight role by undertaking both regular and ad hoc reviews of risk management controls and procedures and report the results of these reviews directly to the audit committee.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees are involved and understand their roles and obligations.

## ii) Credit risk

Credit risk is the risk of financial loss to the Group if a client or counterparty to a financial instrument is unable to pay in full amounts when due, and arises principally from the Group's cash and cash equivalents and trade receivables and accrued income.

As detailed in note 31, the carrying value of financial instruments approximate their fair value, with the exception of interest bearing loans and borrowings. The Group's maximum exposure to credit risk is represented by the carrying amount of its financial assets.

A breakdown of the Group's relevant financial assets by credit rating is set out below.

### Group

	AAA £m	AA £m	A £m	Not rated £m	Total £m
<b>As at 30 September 2011</b>					
Cash and cash equivalents	–	159.2	43.9	6.4	209.5
Liquid investments in life and pensions subsidiary	11.8	–	–	11.3	23.1
	11.8	159.2	43.9	17.7	232.6

	AAA £m	AA £m	A £m	Not rated £m	Total £m
<b>As at 30 September 2010</b>					
Cash and cash equivalents	–	25.1	111.9	13.8	150.8
Liquid investments in life and pensions subsidiary	19.0	–	–	8.6	27.6
	19.0	25.1	111.9	22.4	178.4

### Company

	AAA £m	AA £m	A £m	Not rated £m	Total £m
<b>As at 30 September 2011</b>					
Cash and cash equivalents	–	50.0	0.1	–	50.1

	AAA £m	AA £m	A £m	Not rated £m	Total £m
<b>As at 30 September 2010</b>					
Cash and cash equivalents	–	–	–	0.1	0.1

No other relevant financial assets are rated.

The Group adopts a low risk strategy in respect of its treasury management, at all times ensuring, as far as possible, that its capital is preserved and financial risks are managed in line with the Group's treasury policy approved by the audit committee. The treasury function for the Group is managed on a daily basis by the Group finance department who manage the Group's cash resources within the treasury policy. We continuously monitor the credit ratings of all institutions where we deposit money.

Trade receivables and accrued income represent amounts recognised in revenue in the Group income statement which have not been settled by clients. Outstanding balances are monitored locally by senior management and historically the level of default has not been significant and in the majority of cases there is an ongoing relationship with the client.

**32 Financial risk management** continued

An analysis of ageing of financial assets is shown below

**Group**

	Neither past due nor impaired £m	Past due and not impaired				Total £m
		Less than 30 days £m	Between 30 and 90 days £m	Between 90 days and 1 year £m	Beyond 1 year £m	
<b>As at 30 September 2011</b>						
Trade receivables	51.9	6.3	2.7	2.6	–	63.5

	Neither past due nor impaired £m	Past due and not impaired				Total £m
		Less than 30 days £m	Between 30 and 90 days £m	Between 90 days and 1 year £m	Beyond 1 year £m	
<b>As at 30 September 2010</b>						
Trade receivables	43.0	4.3	4.0	3.8	–	55.1

All other financial assets are neither past due nor impaired except for a £1.7 million (2010: nil) provision for impairment against investments held for trading.

**Company**

	Neither past due nor impaired £m	Past due and not impaired				Total £m
		Less than 30 days £m	Between 30 and 90 days £m	Between 90 days and 1 year £m	Beyond 1 year £m	
<b>As at 30 September 2011</b>						
Trade receivables	0.4	–	0.2	0.1	–	0.7

	Neither past due nor impaired £m	Past due and not impaired				Total £m
		Less than 30 days £m	Between 30 and 90 days £m	Between 90 days and 1 year £m	Beyond 1 year £m	
<b>As at 30 September 2010</b>						
Trade receivables	1.0	0.1	–	0.1	–	1.2

All other financial assets are neither past due nor impaired.

Details of provisions against trade receivables at 30 September are as follows:

	Group	
	2011 £m	2010 £m
<b>Trade receivables provision:</b>		
Balance at 1 October	0.5	0.1
Bad debt charge in the year	0.1	0.4
Balance at 30 September	0.6	0.5

This provision is held against gross trade receivable balances of £0.7 million at 30 September 2011 (2010: £0.5 million).

Fees are billed to clients as soon as values are available and settlement is due within agreed contractual terms. As a result, the average level for debtors and accrued income outstanding, at any point in time, will represent approximately 4 months revenue.

At 30 September 2011 the Group had six (2010: nine) individual clients with greater than £1 million outstanding. The total outstanding was £22.7 million (2010: £21.3 million). Three of these clients are funds and three clients are institutional mandates.

The Group, in some situations, may be exposed to a concentration of credit risk, particularly from some of its larger clients or groups of connected clients. This may arise during the period from recognition of management fees in the income statement and settlement of fees by clients. Very few clients have external credit ratings.

The Group operates and manages a number of OEICs and in doing so it seeks as far as possible to match the purchase and sale of investments in order to match the receipt or payment of funds from or to clients. Where these positions are not matched the Group may be required to fund any shortfall although due to the short settlement period for these transactions the risk relating to unsettled transactions is considered to be small. In addition should any investor default on any payment due the Group would be entitled to recover any costs from the investor.

### iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due or can only do so at a significantly increased cost.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's facilities include the £100 million revolving credit facility, which is undrawn. The Group has net cash balances of £209.5 million at 30 September 2011. Therefore, the current headroom between available facilities and amounts drawn is substantial and the Group's intention will be to maintain the headroom at a healthy level in the future.

**32 Financial risk management** continued

The expected cash flows related to the Group's financial liabilities are as follows:

As at 30 September 2011	Within 1 year or repayable on demand £m	Within 1–2 years £m	Within 2–5 years £m	More than 5 years £m	Total £m
3.5% convertible bonds 2014	–	–	104.2	–	104.2

As at 30 September 2010	Within 1 year or repayable on demand £m	Within 1–2 years £m	Within 2–5 years £m	More than 5 years £m	Total £m
3.5% convertible bonds 2014	–	–	104.2	–	104.2
7.2% subordinated notes 2016	–	–	–	113.6	113.6
	–	–	104.2	113.6	217.8

**Liquidity risk – Company**

The expected cash flows related to the Company's financial liabilities are as follows:

As at 30 September 2011	Within 1 year or repayable on demand £m	Within 1–2 years £m	Within 2–5 years £m	More than 5 years £m	Total £m
Bank overdraft	280.0	–	–	–	280.0
3.5% convertible bonds 2014	–	–	104.2	–	104.2
	280.0	–	104.2	–	384.2

As at 30 September 2010	Within 1 year or repayable on demand £m	Within 1–2 years £m	Within 2–5 years £m	More than 5 years £m	Total £m
Bank overdraft	117.6	–	–	–	117.6
3.5% convertible bonds 2014	–	–	104.2	–	104.2
7.2% subordinated notes 2016	–	–	–	113.6	113.6
	117.6	–	104.2	113.6	335.4

All other Group and Company financial liabilities are repayable within 1 year or on demand.

#### iv) Market price risk

Market price risk is the risk that the fair value or future cash flows of financial instruments will change due to movements in market prices, other than foreign exchange rates or interest rates. These financial instruments include the Group's investments in seed capital and is invested to support the launch of new funds. Seed capital is typically invested in quoted funds for less than one year. These investments have been measured at fair value through profit or loss. Investments in property funds are usually for longer term (eg 5 to 7 years) and are measured as available for sale. These securities are managed on an individual basis and all buy and sell decisions are approved by the Group management board. The objective of market price risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Board sets the limits for investing seed capital and regularly monitors the exposure.

The following financial assets are exposed to market risk:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Financial assets at fair value through profit or loss</b>				
Financial investments	10.4	13.0	-	-
Stock of units and shares	0.4	0.3	-	-
Seed capital	29.8	-	19.2	-
<b>Available for sale financial assets</b>				
Financial investments	46.8	58.6	11.1	22.8
	<b>87.4</b>	<b>71.9</b>	<b>30.3</b>	<b>22.8</b>

The Group's defined benefit pension schemes hold assets which are exposed to market price risk. Details of these assets are shown in note 34.

Sensitivity analysis is disclosed below.

#### v) Foreign currency risk

The Group is exposed to foreign currency risk at a transactional and translational level. Transaction risk is the risk that the domestic value of a foreign currency denominated cash flow will vary adversely. Translation risk arises from transacting the balances of overseas subsidiaries which report their results in a currency other than sterling.

##### Foreign currency transaction risk

The Group undertakes transactions in a number of currencies and foreign currency risk arises through fluctuations in foreign currency changing the fair value or future cash flows of financial instruments.

Revenues are earned principally from fees which are calculated on the basis of the value of AuM managed for clients and many mandates include investments valued in currencies other than sterling. The fact that we operate on a global basis, with offices in a number of countries worldwide, means that a proportion of operating costs is also incurred in foreign currencies. Further, coupons on the 7.9% perpetual capital securities are incurred in US dollars. Variations in the sterling value of these operating costs and interest cost will, to an extent, offset any similar impact of fluctuating exchange rates on revenues and the Board has therefore decided that it is not appropriate to undertake any specific hedging of the Group's US dollar exposure.

**32 Financial risk management** continued

The Group's financial assets and liabilities are denominated in the following currencies:

**Group**

	Total £m	Sterling £m	US\$ £m	Euro £m	Nordic currencies £m	Singapore dollar £m	Other currencies £m
<b>As at 30 September 2011</b>							
<b>Financial assets</b>							
Non current asset investments	46.8	19.6	3.1	3.5	20.5	0.1	–
Trade and other receivables	325.8	210.7	60.0	26.0	11.1	4.4	13.6
Stock	0.4	0.4	–	–	–	–	–
Cash and cash equivalents	209.5	7.3	90.0	45.6	18.4	6.2	42.0
Current asset investments	33.5	23.1	10.0	–	–	0.4	–
Seed capital	29.8	18.5	8.7	0.1	–	2.0	0.5
	<b>645.8</b>	<b>279.6</b>	<b>171.8</b>	<b>75.2</b>	<b>50.0</b>	<b>13.1</b>	<b>56.1</b>
<b>Financial liabilities</b>							
Trade and other payables	329.7	221.8	47.4	26.9	11.0	8.8	13.8
Interest bearing loans and borrowings	83.7	83.7	–	–	–	–	–
	<b>413.4</b>	<b>305.5</b>	<b>47.4</b>	<b>26.9</b>	<b>11.0</b>	<b>8.8</b>	<b>13.8</b>
<b>As at 30 September 2010</b>							
<b>Financial assets</b>							
Non current asset investments	58.6	22.7	–	1.3	34.5	–	0.1
Trade and other receivables	283.1	185.4	35.0	1.9	33.3	15.1	12.4
Stock	0.3	0.3	–	–	–	–	–
Cash and cash equivalents	150.8	46.2	28.4	26.5	14.5	4.5	30.7
Current asset investments	40.6	28.4	12.2	–	–	0.4	–
	<b>533.4</b>	<b>283.0</b>	<b>75.6</b>	<b>29.7</b>	<b>82.3</b>	<b>20.0</b>	<b>43.2</b>
<b>Financial liabilities</b>							
Trade and other payables	276.1	192.2	28.2	7.3	28.5	8.0	11.9
Interest bearing loans and borrowings	161.3	82.0	79.3	–	–	–	–
	<b>437.4</b>	<b>274.2</b>	<b>107.5</b>	<b>7.3</b>	<b>28.5</b>	<b>8.0</b>	<b>11.9</b>



**Company**

	<b>Total £m</b>	<b>Sterling £m</b>	<b>US\$ £m</b>	<b>Euro £m</b>	<b>Nordic currencies £m</b>	<b>Other currencies £m</b>
<b>As at 30 September 2011</b>						
<b>Financial assets</b>						
Non current asset investments	11.1	11.1	–	–	–	–
Trade and other receivables	209.8	77.9	3.3	85.0	11.5	32.1
Cash and cash equivalents	50.1	50.1	–	–	–	–
Seed capital	19.2	18.5	0.1	–	–	0.6
	<b>290.2</b>	<b>157.6</b>	<b>3.4</b>	<b>85.0</b>	<b>11.5</b>	<b>32.7</b>
<b>Financial liabilities</b>						
Trade and other payables	118.3	102.8	11.6	0.6	–	3.3
Interest bearing loans and borrowings	363.7	361.7	4.8	(2.8)	–	–
	<b>482.0</b>	<b>464.5</b>	<b>16.4</b>	<b>(2.2)</b>	<b>–</b>	<b>3.3</b>
<b>As at 30 September 2010</b>						
<b>Financial assets</b>						
Non current asset investments	22.8	21.5	–	1.3	–	–
Trade and other receivables	216.1	73.5	40.0	81.3	14.6	6.7
Cash and cash equivalents	0.1	0.1	–	–	–	–
	<b>239.0</b>	<b>95.1</b>	<b>40.0</b>	<b>82.6</b>	<b>14.6</b>	<b>6.7</b>
<b>Financial liabilities</b>						
Trade and other payables	111.5	91.5	12.7	0.5	–	6.8
Interest bearing loans and borrowings	278.9	199.6	79.3	–	–	–
	<b>390.4</b>	<b>291.1</b>	<b>92.0</b>	<b>0.5</b>	<b>–</b>	<b>6.8</b>

**32 Financial risk management** continued**Foreign currency translation risk**

The foreign currency net financial assets and liabilities of subsidiaries which adopt a different reporting currency are as follows:

	2011 £m	2010 £m
US dollar	55.2	25.0
Euro	26.7	8.0
Nordic currencies	41.9	60.7
Singapore dollar	50.6	20.3
Other	34.0	28.7

**vi) Interest rate risk**

The Group is exposed to interest rate risk through borrowing at both fixed and floating rates. The risk is managed by maintaining an appropriate mix. The Group's debt consists of convertible debt and the revolving credit facility, which was undrawn at 30 September 2011. The convertible bonds, which we issued in December 2009, bear interest at a fixed rate throughout their five year life. Interest rate on the revolving credit facility, which has been undrawn throughout the year, is at LIBOR plus a margin.

The Group also receives variable rate interest on cash deposits.

Group	2011			2010		
	Fixed rate £m	Variable rate £m	Total £m	Fixed rate £m	Variable rate £m	Total £m
3.5% convertible bonds 2014	83.7	–	83.7	82.0	–	82.0
7.2% subordinated notes 2016	–	–	–	79.3	–	79.3
	83.7	–	83.7	161.3	–	161.3

Company	2011			2010		
	Fixed rate £m	Variable rate £m	Total £m	Fixed rate £m	Variable rate £m	Total £m
Bank overdraft	–	280.0	280.0	–	117.6	117.6
3.5% convertible bonds 2014	83.7	–	83.7	82.0	–	82.0
7.2% subordinated notes 2016	–	–	–	79.3	–	79.3
	83.7	280.0	363.7	161.3	117.6	278.9

The interest rate profiles of the Group and Company's financial assets excluding the assets backing the liabilities relating to the Group's life assurance subsidiaries at 30 September were as follows:

	2011			2010		
	Floating rate £m	No interest £m	Total £m	Floating rate £m	No interest £m	Total £m
<b>Group</b>						
Non current asset investments	7.2	39.6	46.8	5.2	53.4	58.6
Trade and other receivables	–	325.8	325.8	–	283.1	283.1
Stock	–	0.4	0.4	–	0.3	0.3
Cash and cash equivalents	209.5	–	209.5	150.8	–	150.8
Current asset investments	11.8	21.7	33.5	19.0	21.6	40.6
Seed capital	–	29.8	29.8	–	–	–
<b>Total</b>	<b>228.5</b>	<b>417.3</b>	<b>645.8</b>	<b>175.0</b>	<b>358.4</b>	<b>533.4</b>
<b>Company</b>						
Non current asset investments	7.2	3.9	11.1	5.3	17.5	22.8
Trade and other receivables	–	209.8	209.8	–	216.1	216.1
Cash and cash equivalents	50.1	–	50.1	0.1	–	0.1
Seed capital	–	19.2	19.2	–	–	–
<b>Total</b>	<b>57.3</b>	<b>232.9</b>	<b>290.2</b>	<b>5.4</b>	<b>233.6</b>	<b>239.0</b>

The no interest financial assets do not have a maturity date. They principally comprise available for sale investments, seed capital, assets and other debtors.

The floating rate financial assets principally comprise cash and deposit balances which earn interest at rates which fluctuate according to money market rates.

The carrying value and maturity profile of the Group and Company's financial instruments that are exposed to interest rate risk are shown in the following tables:

**Group**

	2011 Within 1 year £m	2010 Within 1 year £m
<b>As at 30 September</b>		
<b>Floating rates</b>		
Cash and cash equivalents	209.5	150.8

**Company**

	2011 Within 1 year £m	2010 Within 1 year £m
<b>As at 30 September</b>		
<b>Floating rates</b>		
Cash and cash equivalents	50.1	0.1
Bank overdraft	(280.0)	(117.6)
	<b>(229.9)</b>	<b>(117.5)</b>

**32 Financial risk management** continued**vii) Sensitivity analysis**

The following analysis provides an indication of the impact of changes in the significant market risk variables on the fair value and cash flows of the Group's financial instruments.

The sensitivity analysis covers the financial instruments at each of the balance sheet dates and assumes changes in market variables. It should however be noted that due to the inherent uncertainty in world financial markets the assumptions made may differ significantly from the actual outcome particularly as market risks tend to be interdependent and are therefore unlikely to move in isolation.

The following assumptions have been made in respect of the market risks:

- Sterling exchange rates are assumed to increase or decrease by 10%
- Market interest rates are assumed to increase or decrease by 1%
- Market prices are assumed to increase or decrease by 10% at each reporting date

The impact of the assumptions on the financial assets and liabilities net of tax, are as follows:

**Group**

	Impact on profit or loss £m	Impact on profit or loss £m	Impact on equity £m	Impact on equity £m
<b>As at 30 September 2011</b>				
<b>Exchange rate movement</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Currency				
Sterling/USD exchange rates	6.0	(6.0)	5.5	(5.5)
Sterling/Euro	1.7	(1.7)	2.7	(2.7)
Sterling/Nordic currencies	0.2	(0.2)	4.2	(4.2)
<b>Market price movement</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Financial investments at fair value through profit or loss	3.2	(3.2)	-	-
Financial investments available for sale	-	-	3.0	(3.0)
<b>Interest rate movement</b>	<b>+1%</b>	<b>-1%</b>	<b>+1%</b>	<b>-1%</b>
Sterling market interest rates	1.4	(1.4)	-	-
	Impact on profit or loss £m	Impact on profit or loss £m	Impact on equity £m	Impact on equity £m
<b>As at 30 September 2010</b>				
<b>Exchange rate movement</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Currency				
Sterling/USD exchange rates	2.1	(2.1)	(5.4)	5.4
Sterling/Euro	1.1	(1.1)	0.9	(0.9)
Sterling/Nordic currencies	-	-	6.4	(6.4)
<b>Market price movement</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Financial investments at fair value through profit or loss	0.9	(0.9)	-	-
Financial investments available for sale	-	-	3.3	(3.3)
<b>Interest rate movement</b>	<b>+1%</b>	<b>-1%</b>	<b>+1%</b>	<b>-1%</b>
Sterling market interest rates	0.3	(0.3)	-	-

**Company**

	Impact on profit or loss £m	Impact on profit or loss £m	Impact on equity £m	Impact on equity £m
<b>As at 30 September 2011</b>				
<b>Exchange rate movement</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Currency				
Sterling/USD exchange rates	(1.0)	1.0	-	-
Sterling/Euro	7.0	(7.0)	-	-
Sterling/Nordic currencies	1.0	(1.0)	-	-
<b>Market price movement</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Financial investments at fair value through profit or loss	1.6	(1.6)	-	-
Financial investments available for sale	-	-	0.1	(0.1)
<b>Interest rate movement</b>	<b>+1%</b>	<b>-1%</b>	<b>+1%</b>	<b>-1%</b>
Sterling market interest rates	(1.7)	1.7	-	-

	Impact on profit or loss £m	Impact on profit or loss £m	Impact on equity £m	Impact on equity £m
<b>As at 30 September 2010</b>				
<b>Exchange rate movement</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Currency				
Sterling/USD exchange rates	3.7	(3.7)	(7.9)	7.9
Sterling/Euro	6.6	(6.6)	0.1	(0.1)
Sterling/Nordic currencies	1.2	(1.2)	-	-
<b>Market price movement</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Financial investments at fair value through profit or loss	0.9	(0.9)	-	-
Financial investments available for sale	-	-	0.4	(0.4)
<b>Interest rate movement</b>	<b>+1%</b>	<b>-1%</b>	<b>+1%</b>	<b>-1%</b>
Sterling market interest rates	(1.4)	1.4	-	-

The impact on the Company of changes in the Sterling/Euro exchange rates mainly relates to a Euro denominated loan that is designated as long term to a subsidiary undertaking and therefore does not impact foreign exchange risk of the Group.

**viii) Capital management**

The Board's policy with respect to capital is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to provide a sufficient base to sustain the future development of the business while at the same time ensuring compliance with regulatory capital requirements. The Board receives a quarterly update on our capital position compared with the stated risk appetite. Further information on the status of our regulatory capital is given below.

The capital structure of the Group consists of equity instruments, profit and loss reserves and other equity reserves. We consider that both preference shares and perpetual capital securities in issue to be equity instruments. These items form our 'tier 1' regulatory capital and we consider this to be our principal measure of capital.

The Group uses cash generated from the business to generate a progressive dividend. The Group seeks to avoid any further dilutive issuance of new shares. For example, the Group plans to satisfy future vesting of deferred share schemes by purchasing shares in the market through the Employee Benefit Trust.

### 32 Financial risk management continued

#### Regulatory capital requirements

In accordance with the Capital Requirements Directive (CRD) the Group is required to maintain a minimum level of capital as prescribed in the UK by the Financial Services Authority (FSA). The Group currently holds a waiver obtained from the FSA from the requirement to meet the minimum capital requirement under the consolidated supervision rules of the CRD. The waiver has been in place since 3 August 2009 and is currently effective until 3 August 2014.

At 30 September 2011 there were 36 regulated companies in the Group, 7 of which are registered in the United Kingdom and are regulated by the FSA. With the exception of Aberdeen Asset Management Life and Pensions Limited which is a regulated insurance firm, all others are regulated investment firms. Only the regulated investment firms are part of the Group consolidation for regulatory capital reporting purposes. The Group has 29 overseas regulated companies all of which are subject to regulatory capital requirements which are determined by their local regulator.

The measurement of Capital Resources and Capital Resource Requirements (CRR), which are referred to as the Pillar 1 capital requirements under CRD, are set out in regulatory rules. The CRR for UK regulated investment firms is the higher of:

- the sum of the credit risk capital requirement and the market risk capital requirement; and
- the fixed overhead requirement

The credit risk relates to the risk of a third party becoming unable to meet its obligations to a firm.

The risk is calculated by using risk weighted percentages which are applied to the various exposure amounts. Market risk represents the risk of a loss being incurred from fluctuations in exchange rates, calculated as a percentage of the total of the long or short positions, denominated in foreign currencies, whichever is the greater. The fixed overhead requirement is calculated as a quarter of a firm's relevant fixed annual expenditure in the year's audited financial statements.

The regulated companies are required to submit financial returns to the FSA, or the local regulatory authority for overseas companies, setting out the calculation of the regulatory capital surplus (or deficit). The Group's regulated companies are required to submit returns quarterly or semi-annually and the Group must submit a consolidated return semi-annually.

The Group is required, as part of the CRD, to conduct an Internal Capital Adequacy Assessment Process (ICAAP), referred to as Pillar 2 capital requirements. The objective of this process is to ensure that firms have adequate capital to enable them to manage their risks not deemed to be adequately covered under the Pillar 1 minimum requirements. This is a forward looking exercise which includes stress testing on major risks, considering how the firm would cope with a significant market downturn for example, and an assessment of the Group's ability to mitigate the risks.

All the regulated companies in the Group maintained surpluses of regulatory capital throughout the year.

### 33 Related party transactions

In the ordinary course of business, the Company and its subsidiary undertakings carry out transactions with related parties, as defined by IAS 24 'Related Party Disclosures'. Material transactions for the year are set out below.

The principal subsidiary undertakings of the Company are shown in note 16. During the year, the Group entered into the following transactions with related parties:

#### a) Compensation of key management personnel of the group

	2011 £m	2010 £m
Short-term employee benefits	10.0	7.8
Share based payments	11.5	10.2
Pension contributions	0.5	0.5
Total	22.0	18.5
Deferred elements of employee benefits outstanding at the year end:		
Amounts owed to related parties (including amounts deferred from previous years)	32.2	25.8

The remuneration policy is described in more detail in the Remuneration report on pages 33 to 43.

#### b) Transactions with subsidiaries

Details of transactions between the Company and its subsidiaries, which are related parties of the Company are shown below:

	2011 £m	2010 £m
Interest receivable	3.8	4.2
Interest payable	0.6	0.7
Management fees	85.5	59.8
Dividends	180.7	189.2
Transfer of goodwill and intangibles to subsidiaries	–	214.9
Amounts due from subsidiaries	198.7	202.6
Amounts due to subsidiaries	76.6	72.8

**33 Related party transactions** continued**c) Transactions and balances with related parties****Post employment benefit plans**

The Group operates and participates in several post employment benefit plans as detailed in note 34.

The Group contributed the following amounts to defined benefit and defined contribution plans and had amounts outstanding at 30 September each year as follows:

	Employer contributions		Outstanding at 30 September	
	2011 £m	2010 £m	2011 £m	2010 £m
CGA Staff Pension Fund	0.3	0.3	-	-
Murray Johnstone Retirement Benefits Plan	4.0	2.4	-	-
Edinburgh Fund Managers Group plc Retirement & Death Benefits Plan	3.2	3.4	-	-
DEGI Pension Plan	-	-	-	-
Other defined benefit plans	0.7	0.4	-	-
Defined contribution schemes	18.7	15.5	-	0.8

**d) Transactions with parties with significant influence**

Credit Suisse holds just under 20% of the ordinary shares of the Company and are entitled to Board representation. Transactions between the Group and Credit Suisse are considered to be related party transactions.

The following transactions have taken place between the two entities during the year:

	2011 £m	2010 £m	Outstanding at 30 Sep 2011 £m	Outstanding at 30 Sep 2010 £'000
Sub-advisory fee received on pooled funds	5.6	31.2		
Administration and distribution fees paid to Credit Suisse	(0.7)	(17.6)		
	4.9	13.6	(0.2)	(0.9)



### 34 Retirement benefits

The Group's principal form of pension provision is by way of three defined contribution schemes operated world-wide. The Group also operates several legacy defined benefit schemes: the CGA Staff Pension Fund (within the Company), the Murray Johnstone Limited Retirement Benefits Plan and the Edinburgh Fund Managers Group plc Retirement & Death Benefits Scheme and the DEGI Pension Plan. These defined benefit schemes are closed to new membership and to future service accrual.

The total contributions charged to the income statement in respect of the schemes operated by the Group were as follows:

	2011 £m	2010 £m
i) In respect of the Group's defined contribution schemes:		
Pension cost charged to operating profit: UK schemes	9.3	9.0
Overseas schemes	7.9	6.5
	17.2	15.5
ii) In respect of the Group's defined benefit schemes:		
Pension cost charged to operating profit: UK and DEGI schemes	1.3	2.7
Other schemes	1.4	1.2
	2.7	3.9

The pension obligations are recognised as non-current liabilities in the balance sheet and are stated gross of the related deferred tax asset. The pension surplus is recognised as a non-current asset in the balance sheet and is stated gross of the deferred tax liability.

The pension surplus and deficits of the Group are summarised as follows:

	2011 £m	2010 £m
<b>Pension surplus (deficits)</b>		
Edinburgh Fund Managers Retirement & Death Benefits Plan	5.4	(2.2)
Murray Johnstone Limited Retirement Benefits Plan	(20.9)	(23.6)
CGA Staff Pension Fund	(0.7)	(0.9)
DEGI Pension Plan	(5.2)	(6.1)
Deficit in main schemes (see (4) below)	(21.4)	(32.8)
Other defined benefit pension schemes	(2.9)	(2.2)
	(24.3)	(35.0)

**34 Retirement benefits continued****Disclosure relating to the Group's defined benefit obligations**

The information given in (1) and (4) below reflects the aggregate disclosures in respect of the Group's three UK defined benefit pension arrangements and the DEGI scheme in Germany. The information given in (2) reflects the three UK schemes only. The information provided in (3) relates to the DEGI pension scheme.

**1) Plan assets**

	2011		2010	
	£m	%	£m	%
<b>Plan assets</b>				
Equities and alternatives	39.2	30.9	56.7	48.6
Gilts and other bonds	40.9	32.2	10.0	8.6
LDI funds	38.7	30.5	36.9	31.6
Other	6.9	5.4	8.2	7.0
Cash	1.3	1.0	4.9	4.2
	127.0	100.0	116.7	100.0

**Basis used to determine the expected rate of return on plan assets**

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for the future returns of each asset class. The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long-term rate of return on assets assumptions for the portfolio.

**2) Major assumptions used by UK schemes' actuaries**

	2011 %	2010 %
<b>Expected rate of return</b>		
Equities and alternatives	6.5	6.9
Gilts and other bonds	3.5	3.9
LDI funds	3.4	3.6
Cash	0.5	0.5
	2011 %	2010 %
Discount rate	5.1	5.0
Pension increases		
– pre July 1997 accrual (Edinburgh 3%)	5.0	5.0
– post July 1997 accrual	3.2	3.2
Contributory salary increases (applies to Murray Johnstone only)	5.2	5.2
Rate of price inflation (RPI)	3.2	3.2
Rate of price inflation (CPI)	2.7	n/a

The weighted average assumptions used to determine the net pension cost are as follows:

	2011 %	2010 %
Discount rate	5.0	5.5
Expected long-term rate of return on plan assets during the financial year	5.0	5.3
Rate of compensation increase (applies to Murray Johnstone only)	5.2	5.3
Rate of price inflation (RPI)	3.2	3.3

#### Mortality assumptions

The mortality assumptions for the UK defined benefit schemes at 30 September 2011 follow the SINA LIGHT CMI 2009 1% (YOB) tables. The impact of these assumptions on life expectancies is shown in the table below:

	2011 Years	2010 Years
<b>Impact of mortality assumptions</b>		
Expected age at death for a male currently aged 40 retiring in the future at age 60	89.6	88.0
Expected age at death for a female currently aged 40 retiring in the future at age 60	90.9	90.8
Expected age at death for a current male pensioner aged 60	88.2	86.9
Expected age at death for a current female pensioner aged 60	89.3	89.8

#### 3) Major assumptions used by the DEGI scheme actuaries

	2011 %	2010 %
<b>Major assumptions used by DEGI scheme actuaries</b>		
Discount rate	5.7	4.4
Rate of compensation increase	2.0	2.0
Expected long-term rate of return on plan assets	5.7	4.4
Rate of price inflation	2.0	2.0
Assumed retirement age	RVAGAnpG2007	RVAGAnpG2007

The mortality tables used for the DEGI scheme were RT2005G with 80% invalidity.

**34 Retirement benefits continued****4) Aggregate disclosure obligations**

The following disclosure relates to the Group's three UK schemes plus the DEGI scheme in Germany:

	2011 £m	2010 £m
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	149.5	133.7
Past service cost	–	0.9
Interest cost	7.3	7.3
Amendments	–	(0.2)
Actuarial (gain) loss recognised	(4.3)	13.2
Benefits paid from scheme	(4.0)	(5.0)
Exchange movement	(0.1)	(0.4)
Benefit obligation at end of year	148.4	149.5
<b>Change in scheme assets</b>		
Fair value of plan assets at beginning of year	116.7	101.4
Expected return on scheme assets	5.9	5.5
Actuarial gain on scheme assets	0.4	8.8
Employer contributions	8.0	6.2
Benefits paid from scheme	(4.0)	(5.0)
Exchange movement	–	(0.2)
Fair value of scheme assets at end of year	127.0	116.7
Deficit recognised at end of year	(21.4)	(32.8)
	2011 £m	2010 £m
<b>Movement in deficit during the year</b>		
Deficit in schemes at beginning of year	(32.8)	(32.3)
Movement in year:		
Transfer and amendments	–	0.2
Employer contributions	8.0	6.2
Pension expense recognised in income statement	(1.3)	(2.7)
Amounts recognised in the statement of comprehensive income	4.7	(4.4)
Exchange movement	–	0.2
Net deficit in schemes at end of year	(21.4)	(32.8)
Surplus in scheme at end of year	5.4	–
Deficits in schemes at end of year	(26.8)	(32.8)
	(21.4)	(32.8)

Amounts recognised in the statement of comprehensive income in the year include the amount shown above for the Group's main defined benefit schemes plus an actuarial gain of £1.3 million for other schemes.

The Group expects to pay approximately £9.3 million to the UK defined benefit schemes in the next financial year.

	2011 £m	2010 £m
<b>Expense recognised in the income statement</b>		
Interest cost	7.3	7.3
Expected return on scheme assets	(5.9)	(5.5)
Current and past service cost	-	0.9
	1.4	2.7
<b>Actual return on scheme assets</b>	6.2	14.3
<b>Amount recognised in other comprehensive income</b>		
Actuarial gain (loss) in the year	4.7	(4.4)
Cumulative amount recognised	(36.3)	(41.0)

#### 5) Five year summary

The following disclosures relate to all Group schemes.

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
<b>Defined benefit schemes – five year history</b>					
Benefit obligations at 30 September	(154.1)	(154.8)	(138.6)	(106.1)	(111.1)
Fair value of plan assets at 30 September	129.8	119.8	105.2	94.2	92.8
Net pension deficit	(24.3)	(35.0)	(33.4)	(11.9)	(18.3)
<b>Difference between expected and actual return on plan assets</b>					
Amount	2.4	8.6	(1.6)	(14.4)	0.1
Percentage of plan assets	1.8%	7.2%	-1.6%	-15.3%	0.1%
<b>Experience gains and losses on benefit obligations</b>					
Amount	1.7	(13.4)	1.8	6.5	(0.1)
Percentage of benefit obligations	1.1%	-8.6%	1.3%	6.1%	-0.1%
<b>Total gains and losses</b>					
Amount	2.7	(5.0)	(25.4)	7.2	10.5
Percentage of benefit obligations	1.8%	-3.2%	-18.3%	6.8%	9.5%

#### Relationship between Aberdeen Asset Management and the Trustees of the defined benefit schemes

The schemes assets are held in separate Trustee-administered funds to meet long-term pension liabilities to past employees. The Trustees of the funds are required to act in the best interests of the funds' beneficiaries.

#### 6) Company disclosures

	Company	
	2011 £m	2010 £m
Net liability for defined benefit obligations at 1 October	0.9	0.9
Contributions paid	(0.3)	(0.3)
Actuarial losses recognised	0.1	0.3
Net liability for defined benefit obligations at 30 September	0.7	0.9

# Responsibility statement

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We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

**R C Cornick**  
Chairman

**W J Rattray**  
Finance Director

2 December 2011

# Five year summary

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Revenue	784.0	638.2	421.9	430.1	347.9
Operating expenses					
- Operating costs	(474.7)	(416.3)	(326.2)	(330.8)	(251.3)
- Exceptional integration costs	-	(18.2)	(44.5)	(25.0)	(20.3)
- Exceptional settlement costs	-	-	-	-	(46.8)
- Amortisation and impairment of intangible assets	(77.8)	(66.2)	(30.1)	(13.8)	(9.4)
Total operating expenses	(552.5)	(500.7)	(400.8)	(369.6)	(327.8)
Other operating income	-	-	-	4.8	12.1
Operating profit before amortisation, impairment and exceptional items	309.3	221.9	95.7	100.0	100.0
Amortisation, impairment and exceptional operating items	(77.8)	(66.2)	(30.1)	(13.8)	(9.4)
Exceptional gains and charges	-	(18.2)	(44.5)	(20.9)	(58.4)
Operating profit	231.5	137.5	21.1	65.3	32.2
Net finance costs	(7.4)	(11.9)	(10.6)	(4.9)	(8.5)
Profit before taxation	224.1	125.6	10.5	60.4	23.7
Tax on profit on ordinary activities	(40.2)	(18.3)	(3.8)	(13.6)	7.0
Profit for the year	183.9	107.3	6.7	46.8	30.7
Earnings (loss) per share – IAS 33 basis					
- Basic	15.01p	8.32p	(1.71p)	4.57p	3.61p
- Diluted	14.06p	8.04p	(1.71p)	4.52p	3.50p
Underlying profit before taxation	£301.9m	£210.0	£85.1m	£95.1m	£91.5m
Underlying earnings per share					
- Basic	20.13p	14.09p	6.52p	9.45p	12.29p
- Diluted	18.73p	13.28p	6.31p	9.01p	11.09p
Dividend per share	9.0p	7.0p	6.0p	5.8p	5.5p
Assets under management at year end	£169.9bn	£178.7bn	£146.2bn	£111.1bn	£95.3bn

# Principal offices

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Details of other office locations can be found on the  
Group's website at [www.aberdeen-asset.com](http://www.aberdeen-asset.com)

# Corporate information

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## **Company Secretary**

Scott E Massie

## **Registered Office**

10 Queen's Terrace  
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## **Registered Number**

82015

## **Registrar**

### **Equiniti Limited**

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## **Auditors**

### **KPMG Audit Plc**

Chartered Accountants  
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## **Stockbrokers**

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