Standard Life Investments

# STANDARD LIFE INVESTMENTS (USA) LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011



Registered in Scotland Number SC215736

# General Information

## Directors

C M Clark

J Morris

W Perry

R A Renaud

N K Skeoch

S Weeple

## Company Secretary

D J Burns

## Registered Office

1 George Street

Edinburgh

EH2 2LL

United Kingdom

## Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

68 - 73 Queen Street

Edinburgh

EH2 4NH

United Kingdom

# Directors' annual report
**for the year ended 31 December 2011**

The Directors present their report together with the audited financial statements of Standard Life Investments (USA) Limited (the Company) for the year ended 31 December 2011.

## Directors

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

C M Clark was appointed as a Director on 3 November 2011.

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

## Principal activities

The principal activity of the Company is to provide investment management services to other members of the Standard Life Group, and to third parties.

## Business review

The result for the year ended 31 December 2011 is a loss of £1,348,000 (2010: loss of £2,576,000). The Directors consider the results to be satisfactory in the context of the Company's longer term business plans and objectives.

## Future outlook

The Directors are confident of improving on the performance in the future.

## Dividend

The Directors did not recommend paying a dividend in 2011 (2010: £nil).

## Key performance indicators (KPIs)

The Directors of Standard Life Investments (Holdings) Limited (SLIH) manage the operations of the Standard Life Investments (Holdings) Limited Group (the Group), in which the Company is a wholly owned subsidiary, on a divisional basis. The Company's Directors therefore believe that an analysis using key performance indicators for the Company is not necessary or appropriate for gaining an understanding of the development, performance and position of the Group.

## Principal risks and uncertainties

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

The main business risks to which the Company is exposed, and its financial risk management objectives and policies are considered in Note 16 to this report and financial statements. Other key business risks include competition from other providers of investment management services.

## Creditor payment policy

It is the Company's policy to negotiate payment terms with principal suppliers and to pay in accordance with the terms agreed. For other suppliers, where goods and services have been supplied to specification, payment is made in accordance with the terms offered by the supplier. There was an average of 13 days (2010: 14 days) taken to make payment for services provided in 2011.

## Annual general meeting

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

## Independent Auditors

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

## Directors' annual report (continued)
**for the year ended 31 December 2011**

### Disclosure of information to auditors

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

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

**By order of the Board of Directors**

**D J Burns, Company Secretary**

**Edinburgh, 8 March 2012**

## Statement of Directors' responsibilities for preparing the financial statements for the year ended 31 December 2011

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the independent auditors' report, is made to help shareholders distinguish the respective responsibilities of the Directors and the auditors in relation to the financial statements for 2011.

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company's financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements of the Standard Life Group must be prepared in accordance with IFRSs issued by the International Accounting Standards Board, as adopted for use in the European Union, the Companies Act 2006 and Article 4 of the IAS Regulation. The Directors have elected to prepare the Company's financial statements on the same basis.

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

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

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

## Income statement
**for the year ended 31 December 2011**

| | Note | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| **Revenue** | | | |
| Management fee income | | 6,993 | 5,292 |
| Other operating income | | 3,781 | 3,431 |
| **Net revenue** | | **10,774** | **8,723** |
| **Operating expenses** | | | |
| Administrative expenses | | (12,677) | (12,212) |
| **Total operating expenses** | | **(12,677)** | **(12,212)** |
| **Operating loss** | **4** | **(1,903)** | **(3,489)** |
| Finance income | **5** | 12 | 5 |
| Net foreign exchange gains / (losses) | | 144 | (30) |
| **Loss before tax** | | **(1,747)** | **(3,514)** |
| Tax credit | **6** | 399 | 938 |
| **Loss for the year attributable to equity holders of the Company** | | **(1,348)** | **(2,576)** |

The notes on pages 9 to 22 form part of these financial statements.

The Company has not recorded any other comprehensive income during the years to 31 December 2011 and 31 December 2010 and has therefore not disclosed a separate statement of comprehensive income.

# Statement of financial position
## as at 31 December 2011

| | Note | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property and equipment | 7 | 1,360 | 82 |
| Deferred tax asset | 8 | 559 | 615 |
| **Total non-current assets** | | **1,919** | **697** |
| **Current assets** | | | |
| Current tax recoverable | 8 | 3 | 20 |
| Trade and other receivables | 9 | 1,749 | 1,458 |
| Cash and cash equivalents | 10 | 3,904 | 2,848 |
| **Total current assets** | | **5,656** | **4,326** |
| **Total assets** | | **7,575** | **5,023** |
| **Equity** | | | |
| Share capital | 11 | 11,600 | 9,100 |
| Retained earnings | 12 | (9,885) | (8,537) |
| **Total attributable to equity holders of the Company** | | **1,715** | **563** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred income | 14 | 575 | - |
| Trade and other payables | 13 | 1,117 | 970 |
| **Total non-current liabilities** | | **1,692** | **970** |
| **Current liabilities** | | | |
| Deferred income | 14 | 73 | - |
| Trade and other payables | 13 | 4,095 | 3,490 |
| **Total current liabilities** | | **4,168** | **3,490** |
| **Total liabilities** | | **5,860** | **4,460** |
| **Total equity and liabilities** | | **7,575** | **5,023** |

The notes on pages 9 to 22 form part of these financial statements.

Approved on behalf of the Board of Directors and authorised for issue on 8 March 2012 by the following Director:

**N K Skeoch, Director**

Registered in Scotland Number SC215736

## Statement of changes in equity
**for the year ended 31 December 2011**

| | Note | Share capital £'000 | Retained earnings £'000 | Total equity attributable to equity holders of the Company £'000 |
|---|---|---|---|---|
| **Balance at 1 January 2010** | | 6,100 | (5,961) | 139 |
| **Comprehensive expense** | | | | |
| Loss for the year | | - | (2,576) | (2,576) |
| **Total comprehensive expense for the year** | | - | **(2,576)** | **(2,576)** |
| **Transactions with owners** | | | | |
| Preference share issue | 11 | 3,000 | - | 3,000 |
| **Balance at 31 December 2010** | | **9,100** | **(8,537)** | **563** |
| **Balance at 1 January 2011** | | 9,100 | (8,537) | 563 |
| **Comprehensive expense** | | | | |
| Loss for the year | | - | (1,348) | (1,348) |
| **Total comprehensive expense for the year** | | - | **(1,348)** | **(1,348)** |
| **Transactions with owners** | | | | |
| Preference share issue | 11 | 2,500 | - | 2,500 |
| **Balance at 31 December 2011** | | **11,600** | **(9,885)** | **1,715** |

The Company did not recognise any income or expense directly in equity (2010: £nil). The total recognised income for the year comprised of the loss for the year.

The notes on pages 9 to 22 form part of these financial statements.

## Statement of cash flows
### for the year ended 31 December 2011

| | Note | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Loss before tax** | | (1,747) | (3,514) |
| Interest income classified as investing activity | 5 | (12) | (5) |
| Depreciation of property and equipment | 7 | 154 | 78 |
| | | (1,605) | (3,441) |
| **Adjustments for:** | | | |
| Movement in operating assets and liabilities | 15 | 1,109 | 1,760 |
| Group relief included in operating assets and liabilities | | (279) | 733 |
| Taxation received | | 751 | - |
| **Net cash flows used in operating activities** | | **(24)** | **(948)** |
| **Cash flows (used in)/from investing activities** | | | |
| Purchase of property and equipment | 7 | (1,432) | (51) |
| Interest received | 5 | 12 | 5 |
| **Net cash flows (used in) / from investing activities** | | **(1,420)** | **(46)** |
| **Cash flows from financing activities** | | | |
| Issue of preference shares | 11 | 2,500 | 3,000 |
| **Net cash flows from financing activities** | | **2,500** | **3,000** |
| **Net increase in cash and cash equivalents** | | 1,056 | 2,006 |
| Cash and cash equivalents at the beginning of the year | | 2,848 | 842 |
| **Cash and cash equivalents at the end of the year** | 10 | **3,904** | **2,848** |

The notes on pages 9 to 22 form part of these financial statements.

# Notes to the financial statements
**For the year ended 31 December 2011**

## 1. Accounting policies

### (a) Basis of preparation

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

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

The financial statements have been prepared under the historical cost convention.

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

All amounts classified as current are expected to be settled/recovered in less than 12 months unless otherwise stated in the notes to these financial statements.

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

The Company has adopted the following amendments to IFRSs, International Accounting Standards (IASs) and interpretations which are effective from 1 January 2011 and management considers that the implementation of these amendments and interpretations has had no significant impact on the Company's financial statements:

IAS 24 (revised) Related Party Disclosures

Annual Improvements 2010

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's annual accounting periods beginning on or after 1 January 2012 or later periods. The Group has not early adopted the standards, amendments and interpretations described below:

Amendment to IAS 12 Income Taxes (effective for annual periods beginning on or after 1 January 2012)

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

***(iv) New standards, interpretations and amendments to published standards that are deemed not relevant to the Company***

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2011 or later periods. These are listed below and are deemed not relevant to the Company:

Amendment to IAS 32 Financial Instruments: Presentation – classification of rights issues

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Amendment to IFRIC 14 Prepayment of a Minimum Funding Requirement

***(v) Standards, interpretations and amendments to published standards that are not yet effective and which are not relevant to the Company***

Amendment to IFRS 1 First time adoption of IFRS (effective for annual periods beginning on or after 1 July 2011)

Amendment to IAS 1 Presentation of Financial Instruments (effective for annual periods beginning on or after 1 July 2012)

Amendment to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 July 2011)

IFRS 10 Consolidated Financial Statements (effective for periods beginning on or after 1 January 2013)

IFRS 11 Joint Arrangements (effective for periods beginning on or after 1 January 2013)

IFRS 12 Disclosure of Interests in Other Entities (effective for periods beginning on or after 1 January 2013)

**1. Accounting policies (continued)**

Amendment to IAS 28 Investments in Associates and Joint Ventures (2011) (effective for periods beginning on or after 1 January 2013)

Amendment to IAS 27 Separate Financial Statements (2011) (effective for periods beginning on or after 1 January 2013)

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)

IFRS 9 Financial instruments

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

**(b) Revenue recognition**

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

All fees and costs associated with the provision of investment management services are recognised, subject to recoverability, as the services are provided.

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

The majority of 'Other operating income' consists of amounts received relating to costs recharged to other subsidiaries within the Group.

**(c) Expense recognition**

***(i) Impairment of non-financial assets***

The carrying amounts of assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. Where there is an indication of impairment, an impairment review is performed and an impairment loss recognised in the income statement to the extent that the carrying amount exceeds its recoverable amount.

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

***(ii) Administrative expenses***

'Administrative expenses' are recognised on an accruals basis.

**(d) Foreign currency**

Foreign currency transactions and fair values are translated using the exchange rates applying to the functional currency, which is US Dollars, prevailing at the dates of the transactions or at the date the fair value was determined, with related foreign currency exchange gains or losses reflected in the income statement.

**(e) Property and equipment**

Property and equipment is capitalised at cost and depreciation is charged to the income statement, within 'Administrative expenses', on a straight-line basis, over their estimated useful lives of between two and five years.

**(f) Income tax**

***(i) Current tax***

The current tax credit is based on the taxable results for the year, using tax rates enacted or substantively enacted at the statement of financial position date, including any adjustments in respect of prior years. Amounts are charged or credited to the income statement or equity as appropriate.

***(ii) Deferred tax***

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

Deferred tax is recognised in the income statement except when it relates to items recognised directly in the statement of changes in equity in which case it is credited or charged directly to retained earnings through the statement of changes in equity.

**1. Accounting policies (continued)**

**(g) Financial assets - designation**

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. The Company's loans and receivables comprise 'Trade and other receivables' and 'Cash and cash equivalents' in the statement of financial position.

**(h) Trade and other receivables**

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

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

**(i) Cash and cash equivalents**

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

**(j) Trade and other payables**

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

**(k) Leases**

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

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

**(l) Pension costs and other post retirement benefits**

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

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

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

**(m) Offset of financial assets and liabilities**

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

**(n) Employee share-based payments**

Standard Life Group operates share incentive plans for all employees, share-based long term incentive plans for senior employees and may award annual performance shares to all eligible employees when targets for each scheme are met. The schemes are all in respect of Standard Life plc shares and further details are set out in Note 18. The majority of schemes are treated as equity-settled share-based payment schemes under IFRS 2 Share-based payment. The awards in respect of employees employed by and domiciled in the USA are cash-settled.

## 2. Key estimates and judgements

The preparation of financial statements, in conformity with IFRS, may require the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

### Key judgements made in selecting accounting policies and critical accounting estimates

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

***Long Term Incentive Plans***

The key judgement in respect of Standard Life Group's Long Term Incentive Plan is in relation to the number of awards the Directors expect to vest at each individual vesting date. This judgement is arrived at using a number of factors including expectations of the Group's future cumulative pre-variable compensation EBIT from third-party assets under management.

## 3. Staff and other employee related costs

The average number of staff employed by the Company during the year was 34 (2010: 31).

| | 2011 | 2010 |
|---|---|---|
| | **£'000** | **£'000** |
| The aggregate remuneration payable in respect of employees was: | | |
| Wages and salaries | 6,185 | 7,220 |
| Social security | 230 | 492 |
| Pension costs | 83 | 78 |
| Health care and insurance | 395 | 368 |
| Long-term incentive plans | 1,552 | 679 |
| Other | 610 | 613 |
| **Total staff and other employee related costs** | **9,055** | **9,450** |

The staff who manage the affairs of the Company are either members of a defined contribution pension scheme operated by the Company or participate in defined contribution or defined benefit schemes to which the Company makes a contribution. Contributions to the schemes are expensed when employees have rendered services in exchange for such contributions, generally in the year of contribution. The contributions recognised as an expense for the year ended 31 December 2011 were £83,000 (2010: £78,000).

## 4. Operating loss

The following have been included in the operating loss:

| | 2011 | 2010 |
|---|---|---|
| | **£'000** | **£'000** |
| Auditors' remuneration | 6 | 6 |
| Depreciation of property and equipment (Note 7) | 154 | 78 |
| Operating lease rentals | 736 | 480 |
| Staff and other employee related costs (Note 3) | 9,055 | 9,450 |

## 5. Finance income

The Company had interest income for 2011 of £12,000 (2010: £5,000), which is derived from 'Cash and cash equivalents'.

## 6. Tax credit

(a) Analysis of the tax credit for the year:

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| **Current tax** | | |
| United Kingdom corporation tax | (457) | (737) |
| Adjustment to tax credit in respect of prior years | 2 | 2 |
| Overseas tax | - | 2 |
| **Total current tax** | **(455)** | **(733)** |
| **Deferred tax** | | |
| Deferred tax charge / (credit) arising in the current year (Note 8(b)) | 56 | (205) |
| **Total deferred tax** | **56** | **(205)** |
| **Total tax credit** | **(399)** | **(938)** |

(b) Reconciliation of tax credit :

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| Loss before tax | (1,747) | (3,514) |
| Tax at UK corporation tax rate of 26.5% (2010: 28%) | (463) | (984) |
| Effects of: | | |
| Permanent differences | 13 | 25 |
| Prior year adjustment in respect of current tax | 2 | 2 |
| Disallowable expenses | 7 | - |
| Change in tax rate | 42 | 23 |
| Overseas tax | - | 2 |
| Permanent differences | - | (6) |
| **Total tax credit** | **(399)** | **(938)** |

From 1 April 2011 the main rate of UK corporation tax has decreased from 28% to 26%. Accordingly, this results in an effective current tax rate of 26.5% for the year.

## 7. Property and equipment

| | Computers | Furniture & equipment | Leasehold Improvements | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| ***Cost:*** | | | | |
| At 1 January 2010 | 137 | 555 | 388 | 1,080 |
| Additions | 20 | 31 | - | 51 |
| **At 31 December 2010** | **157** | **586** | **388** | **1,131** |
| Additions | 31 | 777 | 624 | 1,432 |
| **At 31 December 2011** | **188** | **1,363** | **1,012** | **2,563** |
| ***Accumulated Depreciation:*** | | | | |
| At 1 January 2010 | 118 | 546 | 307 | 971 |
| Depreciation for the year | 16 | 11 | 51 | 78 |
| **At 31 December 2010** | **134** | **557** | **358** | **1,049** |
| Depreciation for the year | 16 | 68 | 70 | 154 |
| **At 31 December 2011** | **150** | **625** | **428** | **1,203** |
| ***Net Book Value:*** | | | | |
| **At 31 December 2011** | **38** | **738** | **584** | **1,360** |
| **At 31 December 2010** | **23** | **29** | **30** | **82** |

## 8. Tax assets & liabilities

### (a) Tax assets and liabilities

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| Deferred tax assets (see (b) below) | 559 | 615 |
| Current tax recoverable | 3 | 20 |
| **Tax assets** | **562** | **635** |
| | | |
| Current tax liabilities | - | - |
| | - | - |

### (b) Recognised deferred tax

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| **Deferred tax assets comprise:** | | |
| Employee benefits | 548 | 575 |
| Depreciable assets | 11 | 40 |
| **Net deferred tax assets** | **559** | **615** |
| | | |
| **Movements in net deferred tax assets comprise:** | | |
| At 1 January | 615 | 410 |
| Amounts (charged) / credited to the income statement (Note 6) | (56) | 205 |
| **At 31 December** | **559** | **615** |

Deferred tax balances have been measured at 25% (2010: 27%), this being the tax rate substantively enacted at the statement of financial position date.

## 9. Trade and other receivables

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| Amounts owed by Standard Life Group undertakings | 1,542 | 1,403 |
| Prepayments | 207 | 55 |
| **Total trade and other receivables** | **1,749** | **1,458** |

All 'Trade and other receivables' are current and have a maturity of less than one year. All of the financial assets above are non-interest bearing. Note 16 to these financial statements provides an analysis of the credit and foreign currency risks from the financial assets noted above.

## 10. Cash and cash equivalents

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| Cash at bank and in hand | 467 | 745 |
| Short term bank deposits | 3,437 | 2,103 |
| **Total cash and cash equivalents** | **3,904** | **2,848** |

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

All of the 'Cash and cash equivalents' balances at the statement of financial position date were held with counterparties rated (Standard & Poor's) A or above (2010: A or above).

## 11. Share capital

| | Authorised | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | No. | £'000 | No. | £'000 |
| Ordinary Shares of £1 each | 1,000,000 | 1,000 | 1,000,000 | 1,000 |
| Redeemable Preference Shares of £1 each | 19,000,000 | 19,000 | 19,000,000 | 19,000 |

| | Allotted, Called Up and Fully Paid | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | No. | £'000 | No. | £'000 |
| Ordinary Shares of £1 each | 100,000 | 100 | 100,000 | 100 |
| Redeemable Preference Shares of £1 each | 11,500,000 | 11,500 | 9,000,000 | 9,000 |

On 29 March 2011 the Company issued 2,500,000 redeemable preference shares at a value of £1 per share.

The redeemable preference shares are zero coupon, carry no voting rights and, on giving 30 days notice, are redeemable by the Company at any time. The redemption price for each redeemable preference share is £1. On a liquidation or reduction of capital, the surplus assets of the Company remaining after payment of its liabilities are applied first in paying, to the holders of the redeemable preference shares, an amount equal to the subscription price (inclusive of any premium) paid for such shares and the balance remaining thereafter is distributed amongst the holders of the ordinary shares.

## 12. Retained earnings

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| **At 1 January** | **(8,537)** | **(5,961)** |
| Loss for the year attributable to equity holders of the Company | (1,348) | (2,576) |
| **At 31 December** | **(9,885)** | **(8,537)** |

## 13. Trade and other payables

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| Amounts owed to Standard Life Group undertakings | 26 | 2 |
| Accruals | 5,186 | 4,458 |
| **Total trade and other payables** | **5,212** | **4,460** |
| **Presented as:** | | |
| Non-current | 1,117 | 970 |
| Current | 4,095 | 3,490 |
| **Total trade and other payables** | **5,212** | **4,460** |

All 'Trade and other payables' with the exception of certain accruals are expected to be settled within 12 months and are classified as current. All of the financial liabilities listed above are non-interest bearing.

## 14. Deferred income

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| **At 1 January** | - | - |
| Additions during the year | 651 | - |
| Released to the income statement | (3) | - |
| **At 31 December** | **648** | - |
| **Presented as:** | | |
| Non-current | 575 | - |
| Current | 73 | - |
| **Total deferred income** | **648** | - |

## 15. Movement in operating assets and liabilities

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| **Movement in operating assets:** | | |
| Trade and other receivables | (291) | (178) |
| | **(291)** | **(178)** |
| **Movement in operating liabilities:** | | |
| Deferred income | 648 | - |
| Trade and other payables | 752 | 1,938 |
| | **1,400** | **1,938** |
| **Movement in operating assets and liabilities** | **1,109** | **1,760** |

## 16. Financial risk management

### (a) Standard Life Group approach to risk management

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

### (b) Standard Life Investments (Holdings) Limited and its subsidiaries (the Group) approach to risk and capital management

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

The Group takes and manages risks to achieve its corporate, financial and regulatory objectives. The types of risk inherent in the pursuit of these objectives and the extent of exposure to these risks form the Group's risk profile. The Board has approved a risk policy which outlines the framework for identifying, assessing, monitoring and controlling risk.

Capital is managed within the regulatory framework in which the Group operates. This makes use of an Internal Capital Adequacy Assessment Process (ICAAP), approved by the Board, to identify the risks to which the business is exposed and to quantify their impact on economic capital, including changes thereto by way of stress and scenario tests. The ICAAP estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk. The Group is required at all times to maintain at least this level of capital. The Company does not have its own ICAAP but is a component of the Group ICAAP. The Group's calculation thereof is subject to review by the Financial Services Authority (FSA) who also monitor compliance by way of quarterly and annual submissions made by the Group and periodic visits.

The ICAAP is subject to high level quarterly review within the Group, with detailed annual review and approval by the Board. The potential impact of any significant risks identified outwith these timescales would be subject to immediate review.

## 16. Financial risk management (continued)

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

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

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

| | 2011 | | |
|---|---|---|---|
| | Financial assets | | |
| | Loans and receivables | Non-financial assets | Total |
| | £'000 | £'000 | £'000 |
| Property and equipment | - | 1,360 | 1,360 |
| Deferred tax asset | - | 559 | 559 |
| Current tax recoverable | - | 3 | 3 |
| Trade and other receivables | 1,542 | 207 | 1,749 |
| Cash and cash equivalents | 3,904 | - | 3,904 |
| **Total assets** | **5,446** | **2,129** | **7,575** |

| | 2010 | | |
|---|---|---|---|
| | Financial assets | | |
| | Loans and receivables | Non-financial assets | Total |
| | £'000 | £'000 | £'000 |
| Property and equipment | - | 82 | 82 |
| Deferred tax asset | - | 615 | 615 |
| Current tax recoverable | - | 20 | 20 |
| Trade and other receivables | 1,403 | 55 | 1,458 |
| Cash and cash equivalents | 2,848 | - | 2,848 |
| **Total assets** | **4,251** | **772** | **5,023** |

| | 2011 | | |
|---|---|---|---|
| | Financial liabilities | Non-financial liabilities | Total |
| | £'000 | £'000 | £'000 |
| Deferred income | - | 648 | 648 |
| Trade and other payables | 5,212 | - | 5,212 |
| **Total liabilities** | **5,212** | **648** | **5,860** |

| | 2010 | | |
|---|---|---|---|
| | Financial liabilities | Non-financial liabilities | Total |
| | £'000 | £'000 | £'000 |
| Trade and other payables | 4,460 | - | 4,460 |
| **Total liabilities** | **4,460** | **-** | **4,460** |

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

None of the assets are categorised as FVTPL and therefore are not disclosed in fair value hierarchy levels.

Due to the short term nature of current financial assets and current financial liabilities, the amortised cost is approximate to the fair value.

## 16. Financial risk management (continued)

### *(iii) Credit risk*

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

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

Cash deposits, comprising the majority of 'Cash and cash equivalents', are placed for terms of less than 3 months, with counterparties selected according to the criteria noted above.

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

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| Trade and other receivables | 1,542 | 1,403 |
| Cash and cash equivalents | 3,904 | 2,848 |
| | **5,446** | **4,251** |

At the statement of financial position date, none of the financial assets above were impaired and 'Trade and other receivables' classified as past due amounted to £nil (2010: £nil).

### *(iv) Market risk*

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

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

The impact of a fall in asset values at a point in time would primarily impact revenue, which is accrued based on those values, and is not hedged. A 10% change in market levels would result in a change in management fee income and profit before tax of £699,000 (2010: £529,000) and a change in equity of £508,000 (2010: £381,000).

The Company transacts most of its business in US Dollars and has exposure to foreign exchange movements through its foreign currency denominated cash balances, all unhedged. The Company's currency exposure at the statement of financial position date was as follows:

| | 2011 | | |
|---|---|---|---|
| | **Sterling** | **US Dollar** | **Total** |
| | £'000 | £'000 | £'000 |
| Trade and other receivables | 1,489 | 260 | 1,749 |
| Cash and cash equivalents | 3,440 | 464 | 3,904 |
| | **4,929** | **724** | **5,653** |

| | 2010 | | |
|---|---|---|---|
| | **Sterling** | **US Dollar** | **Total** |
| | £'000 | £'000 | £'000 |
| Trade and other receivables | 1,444 | 14 | 1,458 |
| Cash and cash equivalents | 2,102 | 746 | 2,848 |
| | **3,546** | **760** | **4,306** |

**16. Financial risk management (continued)**

A 10% movement in the exchange rate between Sterling and the material foreign currency, US Dollar, would have the following impact:

| | 10% increase in currency | | 10% decrease in currency | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | US Dollar | US Dollar | US Dollar | US Dollar |
| | £'000 | £'000 | £'000 | £'000 |
| Impact on loss before tax | 72 | 76 | (72) | (76) |

The Company is exposed to interest rate risk through its 'Cash and cash equivalents' as disclosed in the statement of financial position. A sensitivity impact of interest rate change, based on Bank of England base rates prevailing at year end, on the profits of the Company is shown below:

| | 10% increase in interest rates | | 10% decrease in interest rates | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £'000 | £'000 | £'000 | £'000 |
| Impact on loss before tax: | | | | |
| Cash and cash equivalents | 2 | 1 | (2) | (1) |

***(v) Liquidity risk***

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

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

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

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

| **Financial assets** | 2011 | | |
|---|---|---|---|
| | Trade and other receivables | Cash and cash equivalents | Total |
| | £'000 | £'000 | £'000 |
| Due on demand | - | 3,904 | 3,904 |
| No contractual maturity | 1,542 | - | 1,542 |
| | **1,542** | **3,904** | **5,446** |

| **Financial assets** | 2010 | | |
|---|---|---|---|
| | Trade and other receivables | Cash and cash equivalents | Total |
| | £'000 | £'000 | £'000 |
| Due on demand | - | 2,848 | 2,848 |
| No contractual maturity | 1,403 | - | 1,403 |
| | **1,403** | **2,848** | **4,251** |

## 16. Financial risk management (continued)

**Financial liabilities**

| | 2011 | 2010 |
|---|---|---|
| | Trade and other payables | Trade and other payables |
| | £'000 | £'000 |
| Due within 1 month | 579 | 3,490 |
| Due within 1 year | 3,490 | 970 |
| Due between 1 and 5 years | 1,117 | - |
| No contractual maturity | 2 | - |
| | **5,188** | **4,460** |

### *(vi) Operational risk*

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

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

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

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

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

## 17. Related party transactions

### Parent and ultimate controlling party

The Company's parent undertaking is Standard Life Investments Limited, whilst its ultimate controlling party is Standard Life plc.

Copies of the Annual Report and Accounts of Standard Life plc are available to the public from Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.

### Transactions between and balances with related parties

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

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

| | 2011 | | | |
|---|---|---|---|---|
| | Revenues | Expenses | Amounts owed by related parties | Amounts owed to related parties |
| | £'000 | £'000 | £'000 | £'000 |
| Key management personnel | - | 1,826 | - | 1,089 |
| Parent | 6,993 | 523 | 1,008 | - |
| Other (including fellow subsidiaries) | 3,769 | - | 534 | 26 |
| | **10,762** | **2,349** | **1,542** | **1,115** |

## 17. Related party transactions (continued)

| | 2010 | | | |
|---|---|---|---|---|
| | Revenues | Expenses | Amounts owed by related parties | Amounts owed to related parties |
| | £'000 | £'000 | £'000 | £'000 |
| Key management personnel | - | 2,070 | - | 1,354 |
| Parent | 5,292 | 347 | 652 | - |
| Other (including fellow subsidiaries) | 3,431 | - | 751 | 2 |
| | **8,723** | **2,417** | **1,403** | **1,356** |

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

### Compensation of key management personnel

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

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| Short-term employee benefits | 1,459 | 1,388 |
| Post-employment benefits | 3 | 3 |
| Other long-term benefits | 364 | 679 |
| | **1,826** | **2,070** |

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

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| Aggregate emoluments | 1,826 | 2,070 |
| Amounts receivable under long-term incentive schemes | 364 | 679 |

Five Directors of the Company (2010: three) are participants in Long Term Incentive Schemes. The benefits arising under the incentive schemes are recorded in the period in which entitlement is determined.

Retirement benefits are accruing to two Directors in respect of their services to the Company under a defined benefit scheme operated by the Standard Life Group (2010: one). Non-executive Directors are not entitled to retirement benefits in respect of their service to the Company.

The highest paid Director of the Company received aggregate remuneration during the year of £699,000 (2010: £754,000). At 31 December 2011, the highest paid Director held accrued pension benefits of £24,000 (2010: £21,000) under a defined benefit pension scheme operated by the Standard Life Group.

## 18. Employee share-based payments

The Company does not operate any share-based payment schemes. During the year the Company's ultimate parent company, Standard Life plc, operated a number of share-based payment schemes, including a Standard Life Investments scheme in which the Company has participants. This is detailed below:

### Standard Life Investments (SLI) Long-Term Incentive Plan

Under the terms of the 2011, 2010 and 2009 Standard Life Investments Long-term incentive plans, share options are awarded to participants based on performance results of Standard Life Investments over a three year period. The performance target is based on Standard Life Investments' earnings before interest and tax (EBIT) from third party assets under management, before variable compensation, subject to an investment performance underpin based on the three year money-weighted average investment performance of all assets under management against relevant benchmarks. The participants are also entitled to receive dividends in the form of an entitlement to additional shares. At the grant date the participants are advised of the range of options that will be awarded.

## 18. Employee share-based payments (continued)

The actual number of options that ultimately vest is determined at the end of the three year performance period. The terms and conditions of the Standard Life Investments long-term incentive plans shown below represent the maximum number of options that can vest.

The majority of the awards granted under the Standard Life Investments long-term incentive plans are equity-settled share-based payment transactions. The awards in respect of employees working and domiciled in USA are cash-settled.

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

| Arrangement | 2011 | 2010 | 2009 |
|---|---|---|---|
| Date of Grant | 31 Mar 11 | 16 Jun 10 | 06 Nov 09 |
| Number of instruments granted | 1,013,774 | 928,340 | 670,562 |
| Share price at date of grant | 207p | 188p | 213p |
| Contractual life (years) | 3.75 years | 3.96 years | 3.8 years |
| Expected option life at grant date (years) | 3.25 years | 3.5 years | 2.95 years |
| Expected outcome of meeting performance criteria (at the grant date) | 50% | 50% | 50% |
| Fair value per granted instrument determined at the grant date | 207p | 188p | 213p |
| Fair value per cash settled instrument granted determined at 31 December 2011 | 206p | 216p | 217p |

The information that follows applies to options outstanding at the end of each period.

| | 2011 | 2010 |
|---|---|---|
| Range of exercise prices | n/a | n/a |
| Weighted average exercise price | n/a | n/a |
| Number of options ('000) | 2,688 | 2,157 |
| Weighted average remaining life - Expected | 1.50 | 1.10 |
| Weighted average remaining life - Contractual | 2.00 | 1.57 |

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

| | 2011 | 2010 |
|---|---|---|
| | Number of options | |
| | ('000) | ('000) |
| Outstanding at start of year | 2,157 | 1,229 |
| Granted | 1,014 | 928 |
| Forfeited | 94 | - |
| Exercised | (577) | - |
| Outstanding at end of year | 2,688 | 2,157 |

## 19. Commitments

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

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| Within one year | 778 | 772 |
| Expiring during years 2 to 5 | 2,333 | 3,088 |
| Expiring after more than 5 years | 4,504 | 4,471 |
| | **7,615** | **8,331** |

## 20. Events after the statement of financial position date

There have been no significant events after the reporting period.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STANDARD LIFE INVESTMENTS (USA) LIMITED

We have audited the financial statements of Standard Life Investments (USA) Limited for the year ended 31 December 2011 which comprise the income statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

**Respective responsibilities of directors and auditors**
As explained more fully in the statement of Directors' Responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. . In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss and cash flows for the year then ended;

- have been properly prepared in accordance with IFRSs as adopted by the European Union; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion 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 matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Allan McGrath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
8 March 2012