

# **Standard Life Investments**

## **STANDARD LIFE INVESTMENTS (USA) LIMITED**

### **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**



Registered in Scotland Number SC21 5736

**General Information**

**Directors**

J T Boyce

C M Clark

W H Perry

**Company Secretary**

D J Burns

**Registered Office**

1 George Street

Edinburgh

EH2 2LL

United Kingdom

**Independent Auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Atria One

144 Morrison Street

Edinburgh

EH3 8EX

United Kingdom

**Directors' report  
for the year ended 31 December 2015**

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 2015.

**Directors**

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

N K Skeoch resigned as a Director on 1 September 2015.

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

**Result for the year**

The result for the year ended 31 December 2015 is a profit of £7,232,000 (2014: £3,505,000).

**Future outlook**

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

**Dividend**

The Directors did not recommend paying a dividend in 2015 (2014: £nil).

**Annual general meeting**

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

**Independent Auditors**

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

**Disclosure of information to Auditors**

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

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

**By order of the Board of Directors**



**D J Burns, Company Secretary**  
London, 10 February 2016

**Strategic report  
for the year ended 31 December 2015**

**Review of the Company's business**

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

**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) on a divisional basis. The Company is an indirect subsidiary of SLIH, therefore a member of the Group. The Company's Directors therefore believe that an analysis using KPIs for the Company is not necessary or appropriate for gaining an understanding of the development, performance and position of the Company. The KPIs of the Group can be found in the Group's annual report and financial statements.

**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 17 to this report and financial statements. Other key business risks include competition from other providers of investment management services.

**Employees**

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

The Company keeps staff informed of progress and policies through line management channels, training courses, conferences and an internal communication programme, which consists of various in-house publications and briefing seminars with staff.

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

**Environmental matters**

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

**On behalf of the Board of Directors**



**C M Clark, Director  
London, 10 February 2016**

### **Statement of Directors' responsibilities**

The Directors are responsible for preparing the Strategic Report and Directors' 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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union, and IFRSs as issued by the International Accounting Standards Board (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 2015**

		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Revenue</b>			
Management fee income		43,720	31,039
Other operating income		839	592
<b>Net revenue</b>		<b>44,559</b>	<b>31,631</b>
<b>Operating expenses</b>			
Administrative expenses		(37,416)	(27,545)
<b>Total operating expenses</b>		<b>(37,416)</b>	<b>(27,545)</b>
<b>Operating profit</b>		<b>7,143</b>	<b>4,086</b>
Finance income	<b>5</b>	47	25
Finance cost		(1)	-
Net foreign exchange gains		564	848
<b>Profit before tax</b>		<b>7,753</b>	<b>4,959</b>
Tax expense	<b>6</b>	(521)	(1,454)
<b>Profit for the year attributable to equity holders of the Company</b>		<b>7,232</b>	<b>3,505</b>

The notes on pages 9 to 24 form part of these financial statements.

The Company has not recorded any other comprehensive income during the years to 31 December 2015 and 31 December 2014 and has therefore not disclosed a separate statement of comprehensive income.

**Statement of financial position  
as at 31 December 2015**

		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	<b>7</b>	2,328	63
Deferred tax asset	<b>8</b>	4,932	1,046
Investment in subsidiary	<b>9</b>	231	167
<b>Total non-current assets</b>		<b>7,491</b>	<b>1,276</b>
<b>Current assets</b>			
Current tax recoverable	<b>8</b>	56	-
Trade and other receivables	<b>10</b>	4,842	3,094
Cash and cash equivalents	<b>11</b>	18,650	15,523
<b>Total current assets</b>		<b>23,548</b>	<b>18,617</b>
<b>Total assets</b>		<b>31,039</b>	<b>19,893</b>
<b>Equity</b>			
Share capital	<b>12</b>	5,459	11,600
Retained earnings / (accumulated losses)	<b>13</b>	7,232	(6,141)
<b>Total attributable to equity holders of the Company</b>		<b>12,691</b>	<b>5,459</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income	<b>15</b>	572	385
Trade and other payables	<b>14</b>	3,586	3,086
<b>Total non-current liabilities</b>		<b>4,158</b>	<b>3,471</b>
<b>Current liabilities</b>			
Current tax liability	<b>8</b>	442	1,081
Deferred income	<b>15</b>	146	78
Trade and other payables	<b>14</b>	13,602	9,804
<b>Total current liabilities</b>		<b>14,190</b>	<b>10,963</b>
<b>Total liabilities</b>		<b>18,348</b>	<b>14,434</b>
<b>Total equity and liabilities</b>		<b>31,039</b>	<b>19,893</b>

The notes on pages 9 to 24 form part of these financial statements.

The financial statements and accompanying notes on pages 5 to 24 were approved on behalf of the Board of Directors on 2 February 2016 and signed on its behalf on 10 February 2016 by the following Director:



**C M Clark, Director**

**Statement of changes in equity  
for the year ended 31 December 2015**

		Share capital	Retained earnings / (accumulated losses)	Total equity attributable to equity holders of the Company
	Note	£'000	£'000	£'000
<b>Balance at 1 January 2014</b>		<b>11,600</b>	<b>(9,646)</b>	<b>1,954</b>
<b>Comprehensive Income</b>				
Profit for the year		-	3,505	3,505
<b>Total comprehensive income for the year</b>		-	<b>3,505</b>	<b>3,505</b>
<b>Balance at 31 December 2014</b>		<b>11,600</b>	<b>(6,141)</b>	<b>5,459</b>
<b>Balance at 1 January 2015</b>		11,600	(6,141)	5,459
<b>Comprehensive Income</b>				
Companies Act equity restructuring	12	(6,141)	6,141	-
Profit for the year		-	7,232	7,232
<b>Total comprehensive income for the year</b>		<b>(6,141)</b>	<b>13,373</b>	<b>7,232</b>
<b>Balance at 31 December 2015</b>		<b>5,459</b>	<b>7,232</b>	<b>12,691</b>

The Company did not recognise any income or expense directly in equity (2014: £nil). The total recognised income for the year comprised of the profit for the year.

The notes on pages 9 to 24 form part of these financial statements.

**Statement of cash flows**  
**for the year ended 31 December 2015**

	Note	2015 £'000	2014 £'000
<b>Cash flows from operating activities</b>			
<b>Profit before tax</b>		7,753	4,959
Finance income classified as investing activity	5	(47)	(25)
		7,706	4,934
<b>Adjustments for:</b>			
Movement in operating assets and liabilities	16	2,805	1,323
Depreciation of property and equipment	7	358	516
Group relief included within operating assets and liabilities		2	434
Tax paid		(5,014)	(570)
Group relief paid		(3)	(456)
Taxation movement		(87)	-
<b>Net cash flows from operating activities</b>		<b>5,767</b>	<b>6,181</b>
<b>Cash flows (used in) / from investing activities</b>			
Purchase of property and equipment	7	(2,623)	(23)
Interest received	5	47	25
Investment in subsidiary	9	(64)	-
<b>Net cash flows (used in) / from investing activities</b>		<b>(2,640)</b>	<b>2</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,127</b>	<b>6,183</b>
Cash and cash equivalents at the beginning of the year		15,523	9,340
<b>Cash and cash equivalents at the end of the year</b>	11	<b>18,650</b>	<b>15,523</b>

The notes on pages 9 to 24 form part of these financial statements.

## **Notes to the financial statements for the year ended 31 December 2015**

### **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 (IFRS) issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), with interpretations issued by the IFRS Interpretations Committee (IFRIC), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on a going concern basis and under the historical cost convention.

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

There have been no new interpretations or amendments to existing standards that have impacted the Company.

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

There are no new standards, interpretations or amendments to existing standards that have been published that are expected to have a significant impact on the financial statements of the Company.

#### **(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.

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

##### ***(ii) Administrative expenses***

Administrative expenses are recognised on an accruals basis.

#### **(d) Foreign currency**

Foreign currency transactions and fair values are translated using the exchange rates applying to the functional currency, which is 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. The presentational currency of the financial statements is GBP as this is consistent with the Group.

#### **(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 three and six years.

**Notes to the financial statements (continued)****1. Accounting policies (continued)****(f) Income 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.

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 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.

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

**(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.

**(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 benefits 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.

**Notes to the financial statements (continued)****1. Accounting policies (continued)****(n) Investments in subsidiaries**

Subsidiaries are all entities, including structured entities, over which the Group has control. Control exists and consolidation is required if the Company has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power over the investee to affect its returns.

The Company uses the acquisition method of accounting for the value of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition costs are expensed when incurred.

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

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

**(o) Employee cash-based long term incentive payments**

The Standard Life Group operates cash based long term incentive plans (LTIPs) for certain senior employees. These are accounted for under IAS 19 'Employee Benefits' and are remeasured at fair value at each reporting date and at the settlement date, with any difference in value taken to the income statement.

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

Standard Life Group operates share incentive plans for all employees, share-based LTIPs 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 19. 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 LTIP 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 Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA), from third-party assets under management.

**Notes to the financial statements (continued)****3. Staff and other employee related costs**

The average number of staff employed by the Company during the year was 88 (2014: 70).

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
The aggregate remuneration payable in respect of employees was:		
Wages and salaries	20,587	13,823
Share based long term incentive plans	2,197	938
Cash based long term incentive plans	1,682	1,364
Social security costs	788	551
Pension costs	685	653
Health care and insurance	1,118	777
Other	771	391
<b>Total staff and other employee related costs</b>	<b>27,828</b>	<b>18,497</b>

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 2015 were £685,000 (2014: £653,000).

**4. Operating Profit**

Details of Directors' remuneration are contained in Note 18, 'Related party transactions'.

The following have been included in the operating profit:

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Staff and other employee related costs (Note 3)	27,828	18,497
Operating lease rentals	1,031	958
Depreciation of property and equipment (Note 7)	358	516
Auditors' remuneration (see below)	6	27
Fees payable to the Company's auditors for the audit of the financial statements	6	6
Tax compliance fees	-	21
<b>Total payable to the Company's auditors</b>	<b>6</b>	<b>27</b>

**5. Finance Income**

The Company had interest income for 2015 of £47,000 (2014: £25,000), derived from 'Cash and cash equivalents'.

**Notes to the financial statements (continued)****6. Tax charge**

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

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current tax</b>		
United Kingdom corporation tax	1,861	-
Double tax relief	(1,861)	-
Adjustment to United Kingdom tax in respect of prior years	442	-
Overseas tax	4,215	1,631
Adjustment to overseas tax in respect of prior years	(315)	43
<b>Total current tax</b>	<b>4,342</b>	<b>1,674</b>
<b>Deferred tax</b>		
Deferred tax credit arising in the current year	(3,180)	(220)
Prior year adjustment	(641)	-
<b>Total deferred tax</b>	<b>(3,821)</b>	<b>(220)</b>
<b>Total tax charge</b>	<b>521</b>	<b>1,454</b>

(b) Reconciliation of tax expense:

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Profit before tax	7,753	4,959
Tax at UK corporation tax rate of 20.25% (2014: 21.5%)	1,570	1,066
Effects of:		
Permanent differences	43	64
Adjustments in respect of prior years - UK current tax	442	-
Adjustments in respect of prior years - overseas current tax	(315)	43
Change in tax rate	251	44
Overseas tax	508	237
Prior year adjustment in respect of deferred tax	(641)	-
Deferred tax asset not previously recognised	(1,167)	-
Foreign exchange differences on tax charges	(170)	-
<b>Total tax charge</b>	<b>521</b>	<b>1,454</b>

From 1 April 2015 the main rate of UK corporation tax has decreased from 21% to 20%. Accordingly, this results in an average current tax rate of 20.25% for the year (2014: 21.5%).

**Notes to the financial statements (continued)****7. Property and equipment**

	<b>Computers</b>	<b>Furniture &amp; equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost:</b>				
At 1 January 2014	256	1,708	1,012	2,976
Additions	-	1	22	23
<b>At 31 December 2014</b>	<b>256</b>	<b>1,709</b>	<b>1,034</b>	<b>2,999</b>
Additions	200	547	1,876	2,623
<b>At 31 December 2015</b>	<b>456</b>	<b>2,256</b>	<b>2,910</b>	<b>5,622</b>
<b>Accumulated Depreciation:</b>				
At 1 January 2014	216	1,359	845	2,420
Depreciation for the year	30	318	168	516
<b>At 31 December 2014</b>	<b>246</b>	<b>1,677</b>	<b>1,013</b>	<b>2,936</b>
Depreciation for the year	45	127	186	358
<b>At 31 December 2015</b>	<b>291</b>	<b>1,804</b>	<b>1,199</b>	<b>3,294</b>
<b>Net Book Value:</b>				
<b>At 31 December 2015</b>	<b>165</b>	<b>452</b>	<b>1,711</b>	<b>2,328</b>
<b>At 31 December 2014</b>	<b>10</b>	<b>32</b>	<b>21</b>	<b>63</b>

**8. Tax assets & liabilities****(a) Tax assets and liabilities**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Deferred tax assets (see (b) below)	4,932	1,046
Current tax recoverable	56	-
<b>Tax assets</b>	<b>4,988</b>	<b>1,046</b>
Current tax liabilities	442	1,081
	<b>442</b>	<b>1,081</b>

**(b) Recognised deferred tax**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
<b>Deferred tax assets comprise:</b>		
Employee benefits	1,976	946
Accrued bonuses	2,939	-
Depreciable assets	17	100
<b>Net deferred tax assets</b>	<b>4,932</b>	<b>1,046</b>

**Movements in net deferred tax assets comprise:**

At 1 January	1,046	826
Amounts credited to the income statement (Note 6)	3,821	220
Foreign exchange gain	65	-
<b>At 31 December</b>	<b>4,932</b>	<b>1,046</b>

Deferred tax assets are recognised to the extent that it is probable that when they reverse the associated tax deduction will be capable of being offset against taxable profits and gains in future periods. The value attributed to them takes into account the certainty or otherwise of the recoverability. Their recoverability is measured against anticipated taxable profits and gains based on business plans.

**Notes to the financial statements (continued)****8. Tax assets & liabilities (continued)**

In the prior year it was anticipated that the tax deduction associated with the reversal of the deferred tax assets would be offset against United Kingdom taxable profits. For this reason, the deferred tax assets were recognised at the future United Kingdom corporation tax rate of 20%.

From 1 January 2015 onwards, the company is not expected to have any future United Kingdom taxable profits as these will be eliminated by the double taxation relief available in respect of the United States Federal tax suffered. As the tax deduction associated with the reversal of the deferred tax assets will therefore be offset against future US Federal taxable profits, the deferred tax assets have been recognised at the future US Federal tax rate of 35%.

**9. Investment in subsidiary**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
<b>At 1 January</b>	167	167
Additional investment	64	-
<b>At 31 December</b>	<b>231</b>	<b>167</b>

The following are particulars of the Company's subsidiary undertaking:

<b>Name</b>	<b>Country of registration/ incorporation</b>	<b>Share class</b>	<b>% owned</b>	<b>Nature of business</b>
Standard Life Investments Securities LLC	United States	Ordinary	100	Broker dealer

**10. Trade and other receivables**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed by Standard Life Group undertakings	4,429	2,791
Other debtors	196	-
Prepayments	217	303
<b>Total trade and other receivables</b>	<b>4,842</b>	<b>3,094</b>

All 'Trade and other receivables' are current and have a maturity of less than one year or have no contractual maturity date. All of the financial assets above are non-interest bearing. Note 17 to these financial statements provides an analysis of the credit and foreign currency risks from the financial assets noted above.

**11. Cash and cash equivalents**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank and in hand	680	1,321
Short term bank deposits	17,970	14,202
<b>Total cash and cash equivalents</b>	<b>18,650</b>	<b>15,523</b>

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

All of the 'Cash and cash equivalents' balances at the statement of financial position date were held with counterparties rated (Standard & Poor's) A or above (2014: A or above).

**Notes to the financial statements (continued)****12. Share capital**

	Allotted, Called Up and Fully Paid			
	2015		2014	
	No.	£'000	No.	£'000
Ordinary Shares of £1 each	5,459,594	5,459	11,600,000	11,600
	<b>5,459,594</b>	<b>5,459</b>	<b>11,600,000</b>	<b>11,600</b>

On 18th May 2015, by special resolution, the Board of Directors approved the reduction of Share Capital from 11,600,000 ordinary shares of £1.00 each by 6,140,406 shares (equivalent to £6,140,406) to 5,459,594 ordinary shares of £1.00 each. The amount by which Share Capital was reduced was credited to Retained Earnings as disclosed in the Statement of Changes in Equity.

**13. Retained earnings/(accumulated losses)**

	2015	2014
	£'000	£'000
<b>At 1 January</b>	<b>(6,141)</b>	<b>(9,646)</b>
Profit for the year attributable to equity holders of the Company	7,232	3,505
Companies Act equity restructuring	6,141	-
<b>At 31 December</b>	<b>7,232</b>	<b>(6,141)</b>

**14. Trade and other payables**

	2015	2014
	£'000	£'000
Amounts owed to Standard Life Group undertakings	11	19
Accruals	17,177	12,871
<b>Total trade and other payables</b>	<b>17,188</b>	<b>12,890</b>
<b>Presented as:</b>		
Non-current	3,586	3,086
Current	13,602	9,804
<b>Total trade and other payables</b>	<b>17,188</b>	<b>12,890</b>

All 'Trade and other payables', with the exception of certain accruals, are current and expected to be settled within 12 months or have no contractual maturity date. All of the financial liabilities listed above are non-interest bearing.

**15. Deferred income**

	2015	2014
	£'000	£'000
<b>At 1 January</b>	<b>463</b>	<b>509</b>
Additions during the year	357	32
Released to the income statement	(102)	(78)
<b>At 31 December</b>	<b>718</b>	<b>463</b>
<b>Presented as:</b>		
Non-current	572	385
Current	146	78
<b>Total deferred income</b>	<b>718</b>	<b>463</b>

**Notes to the financial statements (continued)****16. Movement in operating assets and liabilities**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
<b>Movement in operating assets:</b>		
Trade and other receivables	(1,748)	(711)
	<b>(1,748)</b>	<b>(711)</b>
<b>Movement in operating liabilities:</b>		
Deferred income	255	(46)
Trade and other payables	4,298	2,080
	<b>4,553</b>	<b>2,034</b>
<b>Movement in operating assets and liabilities</b>	<b>2,805</b>	<b>1,323</b>

**17. 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 are 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 adopted Standard Life Group risk policies and has approved certain Group specific policies which determine 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 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 FCA who also monitor capital management 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.

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

**(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.

<b>2015</b>			
<b>Financial assets</b>			
	<b>Loans and receivables</b>	<b>Non-financial assets</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Property and equipment	-	2,328	2,328
Deferred tax asset	-	4,932	4,932
Current tax recoverable	-	56	56
Investment in subsidiary	-	231	231
Trade and other receivables	4,625	217	4,842
Cash and cash equivalents	18,650	-	18,650
<b>Total assets</b>	<b>23,275</b>	<b>7,764</b>	<b>31,039</b>

<b>2014</b>			
<b>Financial assets</b>			
	<b>Loans and receivables</b>	<b>Non-financial assets</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Property and equipment	-	63	63
Deferred tax asset	-	1,046	1,046
Investment in subsidiary	-	167	167
Trade and other receivables	2,791	303	3,094
Cash and cash equivalents	15,523	-	15,523
<b>Total assets</b>	<b>18,314</b>	<b>1,579</b>	<b>19,893</b>

<b>2015</b>			
	<b>Financial liabilities</b>	<b>Non-financial liabilities</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Deferred income	-	718	718
Current tax liabilities	-	442	442
Trade and other payables	17,188	-	17,188
<b>Total liabilities</b>	<b>17,188</b>	<b>1,160</b>	<b>18,348</b>

<b>2014</b>			
	<b>Financial liabilities</b>	<b>Non-financial liabilities</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Deferred income	-	463	463
Current tax liabilities	-	1,081	1,081
Trade and other payables	12,890	-	12,890
<b>Total liabilities</b>	<b>12,890</b>	<b>1,544</b>	<b>14,434</b>

**Notes to the financial statements (continued)****17. Financial risk management (continued)****(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.

**(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. Trade and other receivables are with Standard Life Group entities which have had no defaults in the past.

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

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 (2014: A or above).

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

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Trade and other receivables	4,625	2,791
Cash and cash equivalents	18,650	15,523
	<b>23,275</b>	<b>18,314</b>

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 (2014: £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.

This Company was incorporated in Scotland and domiciles in the USA.

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

The impact of a fall in asset values at a point in time would primarily impact revenue, which is accrued based on those values, and is not hedged. A 10% change in market levels would result in a change in profit after tax of £3,487,000 (2014: £2,437,000).

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

	<b>2015</b>				
	<b>HK Dollar</b>	<b>CAD Dollar</b>	<b>Sterling</b>	<b>US Dollar</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade and other receivables	79	196	4,339	11	4,625
Cash and cash equivalents	-	160	17,975	515	18,650
	<b>79</b>	<b>356</b>	<b>22,314</b>	<b>526</b>	<b>23,275</b>

**Notes to the financial statements (continued)****17. Financial risk management (continued)**

	2014			
	CAD Dollar	Sterling	US Dollar	Total
	£'000	£'000	£'000	£'000
Trade and other receivables	-	2,783	8	2,791
Cash and cash equivalents	166	14,227	1,130	15,523
	<b>166</b>	<b>17,010</b>	<b>1,138</b>	<b>18,314</b>

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

	10% increase /(decrease) in currency against Sterling			
	2015 US Dollar	2014 US Dollar	2015 US Dollar	2014 US Dollar
	£'000	£'000	£'000	£'000
Impact on profit after tax	47	102	(38)	(84)

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:

	5bps increase		5bps decrease	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Impact on profit after tax:				
Cash and cash equivalents	7	6	(7)	(6)

**(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**

	2015		
	Trade and other receivables	Cash and cash equivalents	Total
	£'000	£'000	£'000
Due on demand	-	18,650	18,650
No contractual maturity	4,625	-	4,625
	<b>4,625</b>	<b>18,650</b>	<b>23,275</b>

**Notes to the financial statements (continued)****17. Financial risk management (continued)****Financial assets**

	<b>2014</b>		
	<b>Trade and other receivables</b>	<b>Cash and cash equivalents</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Due on demand	-	15,523	15,523
No contractual maturity	2,791	-	2,791
	<b>2,791</b>	<b>15,523</b>	<b>18,314</b>

**Financial liabilities**

	<b>2015</b>	<b>2014</b>
	<b>Trade and other payables</b>	<b>Trade and other payables</b>
	<b>£'000</b>	<b>£'000</b>
Due within 1 month	177	123
Due within 1 year	13,414	9,662
Due between 1 and 5 years	3,586	2,847
More than 5 years	-	239
No contractual maturity	11	19
	<b>17,188</b>	<b>12,890</b>

**(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 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 defined within the operational risk framework.

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, as well as monitoring key risk indicators which can highlight changing risk profiles.

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

The impact of a material change to the operational risk profile of the Group, such as through a one-off transaction, the launch of new products etc. is assessed and managed through the risk governance processes.

**Notes to the financial statements (continued)****18. Related party transactions****a) 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 Financial Statements of Standard Life plc are available to be downloaded from the website [www.standardlife.com](http://www.standardlife.com).

**b) 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 (excluding key management personnel) during the year and year end balances arising from such transactions:

		<b>2015</b>	
		<b>Amounts owed by related parties</b>	<b>Amounts owed to related parties</b>
	<b>Revenues</b>	<b>Expenses</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Parent	43,068	2,681	4,292
Fellow subsidiaries	652	-	137
	<b>43,720</b>	<b>2,681</b>	<b>4,429</b>
		<b>2014</b>	
		<b>Amounts owed by related parties</b>	<b>Amounts owed to related parties</b>
	<b>Revenues</b>	<b>Expenses</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Parent	31,039	2,934	2,779
Fellow subsidiaries	515	-	12
	<b>31,554</b>	<b>2,934</b>	<b>2,791</b>

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.

**c) Compensation of key management personnel**

All key management personnel of the Company are Directors. 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 time spent managing the entity. The key management personnel compensation apportioned to the Company was as follows:

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Short-term employee benefits	1,355	1,333
Post-employment benefits	-	1
Other long-term benefits	827	763
	<b>2,182</b>	<b>2,097</b>

There was £2,022,000 (2014: £1,422,000) owing to key management personnel at the statement of financial position date.

Three Directors of the Company (2014: four) are participants in Long Term Incentive Schemes. The benefits arising under the incentive schemes are recorded in the period in which entitlement is determined. Of these Directors, there were three (2014: four) Directors whose qualifying services were received or are receivable in the year.

**Notes to the financial statements (continued)****18. Related party transactions (continued)**

Three (2014: four) Directors exercised share options during the year.

At 31 December 2015 retirement benefits are accruing to no Directors in respect of services to the Company under a defined benefit scheme operated by the Standard Life Group (2014: nil) and no Directors (2014: nil) under a defined contribution scheme.

The highest paid Director of the Company received aggregate remuneration during the year of £1,101,000 (2014: £912,926). At 31 December 2015, the highest paid Director held accrued pension benefits of £nil (2014: £nil) under a defined benefit pension scheme operated by the Standard Life Group. The Company pension contributions for the highest paid Director for the year were £nil (2014: £nil).

The highest paid Director has exercised share options during the year and qualifying services in relation to the Company long term incentive schemes were received or are receivable during the year.

**19. 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**

<b>Recipients</b>	<b>Grant date</b>	<b>Conditions which must be met prior to vesting</b>
Executives and senior management of Standard Life Investments	Granted annually in March	Service and performance conditions as set out in the Standard Life Group Directors remuneration report

The awards in respect of employees working and domiciled in US are cash-settled.

The terms and conditions attaching to the ongoing arrangements are set out in the table below. The assumptions disclosed are based on the weighted average number of awards. The number of options outstanding during the year is as follows:

	<b>2015</b>	<b>2014</b>
	<b>Number of options</b>	
	<b>('000)</b>	<b>('000)</b>
Outstanding at start of year	987	1,404
Granted	1,349	379
Forfeited	-	(277)
Exercised	(322)	(519)
Outstanding at end of year	<b>2,014</b>	<b>987</b>

The weighted average remaining contractual life of options outstanding is 2.13 years (2014: 1.81). The exercise price for options granted under long term and short term incentive schemes is nil. Fair value of options granted under the Group's incentive schemes is determined using a relevant valuation technique, such as the Black Scholes option pricing model.

The following table shows the assumptions that were considered in determining the fair value of options granted during the year:

<b>Long term incentive plans</b>	
<b>Options granted during the year</b>	
Share price at grant date	480p
Weighted average fair value	480p
Exercise price	Nil
Dividends	The plans include the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date
Option term	3.25 years
<b>Options exercised during the year</b>	
Weighted average share price at time of exercise	466p

**Notes to the financial statements (continued)****19. Employee share-based payments (continued)**

No departures from share option schemes are expected at grant date, with any leavers being accounted for on departure. All options are exercisable for a period of six months after the vesting date.

**20. Commitments**

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

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	1,069	1,014
Expiring during years two to five	4,186	4,057
Expiring after more than five years	-	1,428
	<b>5,255</b>	<b>6,499</b>

**21. Related undertakings**

The Companies Act 2006 requires disclosure of certain information about the Company's related undertakings. Details on the Company's subsidiaries are shown in Note 9. The Company has no other significant holdings and therefore has no other disclosures in related undertakings.

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

There have been no significant events after the reporting period.

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## **Independent auditors' report to the Members of Standard Life Investments (USA) Limited**

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

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#### **Our opinion**

In our opinion, Standard Life Investments (USA) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its result and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

The financial statements, included within the Annual Report, comprise:

- the statement of financial position as at 31 December 2015;
- the Income statement for the year then ended;
- the statement of cash flows for the year then ended;
- the statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

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

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

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

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

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

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

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

We have no exceptions to report arising from this responsibility.

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#### **Directors' remuneration**

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

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## **Independent auditors' report to the Members of Standard Life Investments (USA) Limited**

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

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#### **Our responsibilities and those of the directors**

As explained more fully in the 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

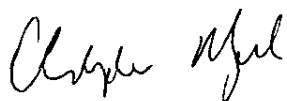
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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

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

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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



Christopher Meyrick (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Edinburgh

10 February 2016