Standard Life Aberdeen

Building a diversified world-class investment company

Strategic report and financial highlights 2017

Financial highlights

		Pro forma basis	Reported basis
Adjusted profit before tax	KPI R	**£1,039m** (2016: £1,054m)	**£854m** (2016: £718m)
Cost/income ratio	KPI R	**66%** (2016: 64%)	**64%** (2016: 62%)
Adjusted diluted earnings per share	KPI	**28.9p** (2016: 28.8p)	**29.9p** (2016: 29.3p)
Assets under management and administration (AUMA)	KPI	**£654.9bn** (2016: £647.6bn)	
Net flows	KPI	**£31.0bn outflow** (2016: £36.8bn outflow)	
Investment performance Percentage of AUM above benchmark over three years	KPI R	**63%**	
Full year dividend per share	KPI		**21.30p** (2016: 19.82p)

We include measures below which have not been determined to be KPIs but we believe are integral to the Group's performance.

IFRS profit after tax attributable to equity holders	**£699m** (2016: £368m)
Diluted earnings per share	**29.6p** (2016: 18.6p)

Non-financial highlights

Women in Finance Charter commitments

Board
31 Dec 2017: 25%
(June 2020 target: 33%)

Executive
31 Dec 2017: 27%
(June 2020 target: 33%)

Ranked in top 3% of companies in FTSE4Good Index

Employee Engagement/Enablement was a KPI in the Standard Life plc Annual report and accounts 2016. In 2017 we focused our survey on sentiment towards the merger – see page 29 for results of this survey. We intend to report Engagement/Enablement results as a KPI in the Annual report and accounts 2018.

KPI Key performance indicators (KPIs) are defined as the measures by which the development, performance or position of the business can be measured effectively.

The KPIs that we use were revised following the merger to reflect the increased asset management focus of the Group. Several KPIs previously used by Standard Life Group are no longer reported following this review. The KPIs that we use may not be directly comparable with similarly named measures used by other companies. For further information see the Supplementary information section in the Annual report and accounts 2017.

R Measure is a key input to a metric used for Executive remuneration.

Standard Life plc renamed as Standard Life Aberdeen plc
Standard Life plc was renamed as Standard Life Aberdeen plc on 14 August 2017.

Integrating environmental, social and governance (ESG) factors
The consideration of ESG factors is fundamental to us as an investor, asset owner and corporate. Details of our approach to ESG are integrated throughout this report, and in our Corporate sustainability and stewardship report 2017 which can be found at **www.standardlifeaberdeen.com/annualreport**

Reported and Pro forma results
The merger of Standard Life plc and Aberdeen Asset Management PLC (Aberdeen) completed on 14 August 2017, with the merger accounted for as an acquisition of Aberdeen by Standard Life plc on that date. The Reported results reflect this accounting treatment. Pro forma results for the Group are prepared as if Standard Life Group and Aberdeen had always been merged and are included in these results to assist in explaining trends in financial performance by showing a full 12 months performance for the combined Group for both the current year and prior year. The difference between the Reported results and Pro forma results is the results of Aberdeen in the period prior to completion of the merger.

Our vision and purpose

In August 2017 Standard Life plc and Aberdeen Asset Management PLC merged to become Standard Life Aberdeen, one of the world's largest investment companies.

Our purpose is to invest for a better future. We do it to make a difference – to the lives of our clients and customers, our people and our shareholders. To achieve our purpose, we aim to build a world-class investment company.

We have a commitment to excellence in everything that we do – supported by innovation and collaboration from our talented people. We aim to develop products and services for evolving client needs, create a culture of inclusion and respect, and build beneficial relationships with all of our stakeholders.

Wherever we are in the world we strive to make a positive long-term impact. This means delivering world-class investment solutions that help clients achieve their long-term objectives. It also means operating ethically, encouraging good practices among companies we invest in, and providing support and expertise for the benefit of the communities in which we operate.

The proposed transaction with Phoenix Group Holdings (Phoenix), announced on 23 February 2018, completes our transformation to a fee based, capital light business.

How to navigate this report

Page cross reference

For more information visit our corporate website:
www.standardlifeaberdeen.com/annualreport

The Strategic report and financial highlights 2017 contains extracts from the Group's Annual report and accounts 2017. For further information and a fuller understanding of the results and the state of affairs of the Group, please refer to the full Annual report and accounts 2017 which can be found on our website at www.standardlifeaberdeen.com/annualreport

Access to the website is available outside the UK, where comparable information may be different.

The auditors' report on the full accounts for the year ended 31 December 2017 was unqualified, and their statement under section 496 of the Companies Act 2006 (whether the Strategic Report and the Directors' Report are consistent with the accounts) was unqualified.

Realising our ambitions

2017 was a momentous year for our organisation. I am very pleased to be writing this foreword for the first time as Chairman of Standard Life Aberdeen plc, the UK's largest active investment management company. The merger of Standard Life plc and Aberdeen Asset Management PLC, two highly complementary businesses, was the beginning of the exciting next chapter of our story. The proposed sale of the capital heavy insurance business and enhanced strategic partnership with Phoenix completes our transformation into a world-class investment company.

I'm happy to say we're on track to deliver on the plan we set out for you last year as our integration progresses at pace. Pooling our expertise has shown us that neither of the two predecessor companies was fully realising its true potential when serving its customers and clients around the world and we are determined to make the most of this opportunity to become even more client-focused, more expert and more proficient.

The proposed transaction with Phoenix completes our strategic transformation and will bring a number of benefits including an enhanced long-term strategic partnership with Phoenix, providing investment content to their customers and the opportunity for wider collaboration as their asset manager of choice. We have retained our valuable and fast growing UK retail platforms and financial advice businesses. This ensures that we maintain Standard Life's important and strong relationships with financial advisers. The sale is subject to approvals and is expected to complete in H2 2018.

Developing our strategy

We are building a business which operates on a world-wide scale. Across the company, we continue to pursue a strategy for growth, expanding our global distribution channels while broadening and deepening our customer and client offerings. Good businesses can never stand still but with so much change having occurred in recent years, the occasional pause for breath to strengthen our core offerings is of course appropriate. We are very conscious in our asset management business of the need to make our core offerings world class to increase value for our clients, customers and shareholders.

In our asset management business, we've seen momentum across a wide range of products, including particularly strong demand for emerging market debt and multi-asset solutions, including MyFolio and our diversified growth funds. We're winning new mandates across a wide range of investment strategies as we continue to innovate and launch new funds – all designed to meet the growing demand for 'new active' investment solutions. We have had performance concerns with some of our funds, but overall performance has begun to return and I'm optimistic about an improving outlook for flows in 2018.

The news that that we did not reach an agreement with Lloyds Banking Group to continue to manage their assets on existing terms was disappointing. We will be discussing the implications of this with Lloyds Banking Group and Scottish Widows.

In the UK, we saw impressive growth from our workplace pensions, advice and wealth channels, driven by the changes to pension freedoms and, at the other end of the retirement journey, through auto enrolment. We've maintained our strong position in the adviser platform market as our market-leading platforms attract record assets – and our advice business 1825 grew further with the announcement of two new acquisitions.

Final dividend of 14.30p

I am pleased to announce a final dividend for 2017 of 14.30p per share. This will give shareholders a total 2017 dividend of 21.30p per share, should they vote to approve it at our next Annual General Meeting, and will be paid on 30 May 2018. We are committed to a progressive dividend policy as dividends are a very real demonstration of our financial strength and how well our business has performed.

The UK and Brexit

It is a feature of successful businesses like ours that they are able to chart a course through uncertain times whilst successfully pursuing their ambitions. Brexit negotiations are, of course, reaching a critical stage. As a business headquartered in the UK with significant operations throughout Europe, we have confirmed that we will have arrangements in place to allow us to continue to offer services to our European customers. Working closely with European regulators, our intention is to use our hubs in Dublin and Luxembourg to do this. There is a lot to do in a short space of time and we are amongst those firms pressing governments in the UK and Europe to clarify how any transitional or implementation period will work and, frankly, to start taking the detailed decisions which we all need to move ahead.

With the uncertainties of Brexit overhanging the UK, globalisation, for a British company, is one of the most effective responses. Asset managers are now some of the UK's most global businesses and we are no exception to that, with offices in 50 locations serving clients and customers from over 80 countries. We will certainly be developing our overseas activities further. Our own businesses in India and China where we operate alongside distinguished local partners go from strength to strength. In India our life business, HDFC Life, had a very successful IPO and now, somewhat pleasingly, trades on the Indian stock market as one of the most highly-rated insurance companies in the world. I'm very optimistic about the outlook for both India and China.

Managing our risks and governance

We remain very aware of the risks that face our business as we grow and globalise. We continue to strengthen our risk management capabilities and oversight and you can read about this on pages 52 to 53 of this report. Likewise, strong and effective governance at all levels is more essential than ever. I pay a lot of personal attention to this as ultimately it is my responsibility, along with my Board colleagues and all our executives, to ensure that our governance frameworks work as they should and are best in class. A very important part of this is culture – not just talking about how our company should operate, but believing and doing what we mean. We want, by the end of 2018, to have a completely shared culture across the merged company without a hint of 'them' or 'us'. I'm optimistic we will achieve this, not least because I already see imbued in both our heritages, traditional Scottish values of trust, caution and conservatism coupled with an entrepreneurial 'let's go and do it' attitude. These values are going to serve us very well going forward.

We have to do more to promote diversity and inclusion in our business because, although we have already taken some action in this area, it has not been enough. We are giving a major emphasis to this in 2018 and it will be front of mind when we train, develop, recruit and promote people. We owe this to the communities in which we operate. Likewise, we will continue to up our engagement in the whole area of sustainability and corporate stewardship. This comes naturally to us but we need to do more and to be held accountable for what we do. People are increasingly sceptical about the ability of business to serve society rather than concentrate on its own selfish interests. We need to do all we can to demonstrate that the same scepticism shouldn't apply in our case.

A strong Board and management

Strong management and a competent, involved Board are key ingredients in any company's success. The decision to appoint two Co-Chief Executives of the merged company raised some eyebrows. However, this was a deliberate Board decision because of the breadth and depth of effort that was needed to take full advantage of the opportunities presented by the merger and to allow us to drive the very important cost and operating synergies across the business. We were very fortunate to have two very talented individuals to take up these roles who have vastly complementary skills and who work very well together. I'm very pleased how well it has worked out in practice, and it has also enabled us to streamline and simplify the senior management structures that sit below this level. This relationship is serving the business well and I see no reason why it will not be in place for a number of years.

Likewise, your new Board greatly benefited from pooling the expertise of both sets of the predecessor directors when it was first established and that continuity has been an important factor in getting the merged company off to a good start. We did say at the time that we would progressively reduce the size of the Board going forward, and as the first stage of this, three directors will be stepping down at the next AGM. Lynne Peacock served on the Board of Standard Life plc for six years and has latterly been a very distinguished Chairman of Standard Life Assurance Ltd, Julie Chakraverty served on the Board of Aberdeen Asset Management for six years most latterly as the Senior Independent Director, and Akira Suzuki has represented the interests of Mitsubishi UFJ Trust and Banking Corporation (MUTB) on the Board of Aberdeen Asset Management since 2013. MUTB's level of shareholding in the merged company is below the level at which Board representation would be customarily granted. I'm very grateful to all of them for their dedication and exemplary service. It is important to have new blood joining us from time to time and we are presently seeking to recruit an additional director with skills in the areas of platform and technology, ideally with an international background. As ever we will consider the general composition of the Board and our broader diversity aims when we make this appointment.

It has been very pleasing that, on behalf of our shareholders and other stakeholders, we have been able greatly to shift the shape of your company over the last 10 years in order to get it fighting fit and to take advantage of the many changes there have been in the external environment. A strong and independent Board has been central to this, and I have been very fortunate in the Directors who have served alongside me. Prior to the merger, my Board colleagues, encouraged by me, had started to think of arrangements for my succession. This was put on hold when the merger took place and I was asked to consider staying on for a period of around two years, subject of course to performance, in order to help ensure stability and to get the new company off to a good start. I was willing to do this but I have told my colleagues that I want to step down by the end of 2019 meaning that arrangements to choose my successor will need to commence in 2018. I will be sad to leave this great company but I have no doubt that someone excellent will be found to take my place.

Lastly, I'm very conscious that we asked an awful lot of all our people in 2017 and that they responded magnificently. To achieve a merger as complex as the one we did in a relatively short space of time takes a huge amount of effort, not just from those directly involved but also from those keeping the rest of our businesses operating safely and also growing. I'm very grateful to everyone involved. We know there is a lot to do in 2018 to reap the benefits of the merger, to implement our new partnership with Phoenix, to strengthen our proficiency in the solutions we offer and to improve our service to our clients and customers. We are all determined to do this.

Sir Gerry Grimstone
Chairman

Implementing our strategy

Our Co-CEOs Keith Skeoch and Martin Gilbert share responsibility for a number of core aspects of the role such as leading the executive committee, developing and promoting our strategy and objectives, and monitoring operational performance and strategic direction. They also have very clear individual responsibilities.

Key responsibilities
- Growing our international business activities
- Distribution including client engagement
- Business development
- Marketing and Brand

Martin Gilbert
Co-Chief Executive

Key responsibilities
- Investment management
- Pensions and Savings
- India and China insurance business
- Support functions – Finance, HR, Operations, Risk and Regulatory Culture, Legal and Secretariat

Keith Skeoch
Co-Chief Executive

How has the business performed over the year?

KS We're making good strategic progress in building a world-class investment company. We have continued to deliver for clients, helping to grow assets and dividends and our integration is on track. Investment performance has been mixed, and we have seen net outflows over the year. However, with over £80bn of gross inflows, there's momentum behind us.

We continue to innovate, launch new funds and win new mandates. Our pensions and savings business has had a particularly strong year with record flows. The successful IPO of HDFC Life and proposed IPO of HDFC Asset Management in India, as well as our recent registration as a private securities fund manager in China, further demonstrate the strength and diversity of our business.

MG We are in a strong position. Over the past year we have been through an unprecedented period of change in order to create our new global business and set ourselves up for the exciting opportunities ahead.

Our clients around the world are behind our strategy. They understand the possibilities that our enhanced scale, breadth of proposition and wide global distribution offers.

We're proud of the hard work we've done to get here and remain confident of delivering long-term value for our clients, our people and our shareholders.

What have you learned from managing the business alongside each other?

MG We've seen in practice what we originally felt would be the case – we need to focus our attention on different elements of the business, especially during this period of integration. Keith's doing a great job of leading and developing the fundamentals that our business is built on. This then gives me a strong platform to engage with our partners and clients so we can build our presence and reputation worldwide.

KS When you're sharing the management of the business with someone whose input and decision making you trust and respect, I think it can only be a good thing. We have very clear roles, complementary skills and we work well together. We have different ways of doing things, and I think that's valuable – it means you approach challenges and problems in a different way.

Can you explain the proposed transaction with Phoenix?

MG
KS Under the proposed transaction we are selling our capital heavy insurance business which will complete our transformation to a fee based, capital light investment company. Importantly, we will have retained our fast growing retail platforms, financial advice, and access to Workplace distribution.

Phoenix is a market-leader in their specialist role of administering long-standing life and pension policies. We are excited about the potential to combine our expertise and capabilities with the significant experience they have in delivering efficient administration of products for millions of customers.

Phoenix has made it clear that Standard Life's management team and its depth of talent will be essential to the transaction and the future success of its business. It has also committed to maintaining operational headquarters in Edinburgh.

We have also reached agreement with Phoenix to significantly expand our strategic partnership which reinforces our market-leading insurance asset management capabilities, while the proposed sale releases material capital for future reinvestment.

How is the merger integration going?

MG There's still a lot to do but it's going well. The integration programme will run for three years and we're already making really good progress. We expect to have completed around 75% of the work involved within the first two years.

The big challenge is in the size of the businesses we're bringing together, but the early signs are very encouraging. The merger brings together many valuable insights and complementary skills, so one of the things that will define the integration's success is a real commitment from all of our people to collaborate effectively. I'm also pleased that we've brought many people together geographically in a number of offices, including our new combined office in Edinburgh. Technology has a big part to play as well and we're making good progress with our plans to integrate the platforms and systems we use.

What has been the impact of the merger on people working for the business?

KS A merger will always bring a degree of uncertainty for people in relation to their roles and I've been very encouraged by our people's continued level of commitment and their desire to ensure we do the right things for our clients and customers. What we are encouraging people to do now is to think about the future. We want them to engage with the opportunities for themselves, and to help us make the strategic logic for the merger a reality.

One of the things that was important to do early on was give our people a chance to influence how our company and its culture should look in the future. We have sought our people's feedback in a number of different ways – both positive elements and areas causing concern – and I'm very pleased that most people can see the opportunity the merger presents. From reading the responses, it's clear that there is a genuine sense of optimism, but also a strong desire to hear directly from leaders along the way. Senior leadership engagement with our people is an ongoing priority.

What do you see as the biggest challenges for the savings and investments landscape?

MG Trust in financial services continues to be pretty low. The recommendations that the Financial Conduct Authority published last year, in terms of improving simplicity and transparency in what financial services companies offer, were sensible and balanced. I believe that developments like this can help rebuild trust and encourage businesses to look for opportunities to improve things even further.

When you think of the responsibilities we have as stewards of our clients' investments, we have a huge role in helping to rebuild trust in our industry and we take our responsibilities seriously. We integrate environmental, social and governance principles across our investment processes, and use our influence to encourage companies to adopt good practices when it comes to investment. We see considering these issues as an important way of protecting investors and we believe it really adds to the value we offer to them.

What is the business doing to keep up with the pace of innovation in the industry?

KS Strategic partnerships and working with a broader network of partners will play an increasingly important role in the industry, especially for companies focused on growing globally. It allows access to markets through established and locally recognised brands, while also providing services in an economically efficient way.

Collaboration within our business is also hugely important. If we are to continue to innovate and keep up with the pace of change in our industry, we need to work together and find effective ways of sharing our ideas and insights.

One example of this that we're excited about is our Innovation Panel. The panel is made up of representatives from around our global business and builds on the previous work of Aberdeen's Innovation Committee. Members of our Board also sit on the panel and they are able to bring external perspectives too. Its role is to investigate opportunities, threats and disruptors impacting the asset management and pensions and savings industries to ensure that colleagues – regardless of role or location – have the chance to offer ideas and solutions to some of the opportunities and challenges we face.

We have a wealth of skills and experience across all divisions and regions. By working together to understand how the future landscape will impact our business model, we can accelerate our progress towards achieving our strategic objectives and help ensure the future growth and success of our business.

We're also very active in collaborating with external organisations and in our wider industry. We play an important role in leading discussion and championing thought leadership among our peers.

Some short-term fund performance has been challenging. What is the longer-term outlook?

KS The nature of long-term investing is that we will not always deliver short-term performance across all strategies. The return environment in 2017 was challenging for some of the many strategies and products we offer clients. For example, in a market that's been driven by short-term growth and concentrated on a small number of stocks, quality-focused equity strategies have not performed as well. However, we believe that all of our strategies have merit for clients over the long term. As we integrate and develop the business, we continue to look to ensure that our investment processes are strong, well-resourced and fit-for-purpose to deliver the outcomes and risk profiles our clients demand.

We have broad and deep investment capabilities with over 1,000 investment professionals worldwide. At the moment, clients are increasingly looking for products and services that focus on good outcomes rather than relative returns. This makes the potential value to clients of active investing even more evident, particularly next-generation active solutions – or 'new active' products – which focus more on long-term investment outcomes.

The global market for 'new active' has almost doubled since 2008, and the scale of the merger means we can better meet this growing demand.

We recognise that passive investment does have a place for some investors too, and the quantitative expertise that Aberdeen has brought in this area helps to diversify the capabilities we offer to clients who choose passive investing, either as a standalone approach, or as a component of a wider investment strategy.

How will your brand strategy support the longer-term ambitions of the business?

MG Brand is becoming increasingly important for asset managers, and if you're operating globally you have to recognise that. The name for our asset management business recognises the strengths in both teams coming together, which traditionally have had strong brand presences in different parts of the market – Aberdeen Asset Management in emerging markets and Asia, Standard Life Investments in developed markets and 'new active' investment solutions. The Aberdeen Standard Investments brand will be a really important tool as we keep growing our presence globally.

In the UK, the Standard Life brand has a strong heritage and reputation in the pensions and savings arena. It's a brand name, for example, that four out of five adults in the UK recognise. We felt that it was important to preserve that and continue to build on its strengths.

What are your priorities for the rest of 2018?

MG Getting the integration right will let us focus on what's always been the priority for our businesses: execution of strategy and continuing to do the best we can for our clients to deliver long-term investment performance. When you consider that we now have clients in 80 countries, they expect us to be able to provide a very broad range of capabilities. An important area of focus in 2018 will be on finding the most effective ways to share skills and insights, so we can continue to diversify the capabilities that we offer.

Getting the integration right also means creating an inclusive culture for our employees. An important element of this is improving our gender balance at all levels – which includes consideration of both the pay gap between men and women, and how we fill roles across the company. It's important that we make progress in this area over the year ahead. We believe this can have a positive impact for our business and our people, as well as on our industry and wider society

KS A key priority will be to ensure the successful completion of the proposed transaction with Phoenix. The sale is expected to complete in H2 2018 and is subject to shareholder, regulatory and other necessary approvals. However, we also recognise the importance of continued focus on business as usual activities during this process.

Another priority will be to deliver investment performance whatever scenario arises as a result of the UK's departure from the European Union, we need to ensure that we have plans in place to let us provide continuity for our clients. We're already making good progress with discussing the proposed timelines and outcomes with regulators. We believe the main impact will be on the European activities performed by our UK-domiciled regulated entities. Our contingency plans will focus on making use of our existing entities domiciled in other EU member states, such as our operations in Dublin and Luxembourg, and on creating additional EU-regulated entities where we feel they're needed.

The investment case for Standard Life Aberdeen

Strength of global asset management and UK pensions and savings businesses

We are building a world-class investment company. Aberdeen Standard Investments is the largest active asset manager in the UK and one of the largest in Europe. We are also a market leader for UK adviser platforms, underpinned by strong relationships, and are expanding our 1825 financial advice business.

See page 8 – Focused business lines

Global distribution capability with enhanced proximity to clients

We have customers and clients in 80 countries, served by offices worldwide. We also have a range of strategic relationships across the world. Our local insight helps us meet clients' and customers' evolving needs.

See page 12 – Global presence, local delivery

Valuable associate and joint venture businesses in India and China

We have developed extensive reach in these key savings markets. The successful IPO of HDFC Life and proposed IPO of HDFC Asset Management in India provide greater transparency of the value of these businesses.

See page 8 – Focused business lines

Well positioned to take advantage of trends shaping the savings and investment landscape globally

We operate in a complex market environment that reflects the changing needs of our clients. We have a strong strategic focus on reacting and adapting effectively to these changes and trends.

See page 14 – Market driven approach

Broad and compelling client offering

Through the scale that our merger creates, we now offer clients a broader range of investment capabilities with expertise across all major asset classes, and innovative products and services to help them achieve their financial goals.

See page 10 – Broad and deep investment capabilities

A business model to create value and deliver a progressive dividend

Our simple business model is designed to create value for shareholders and bring significant benefits to all our stakeholders – including our clients, customers and employees.

See page 17 – A proven model for creating value

What is your long-term vision for Standard Life Aberdeen?

KS To operate as a world-class investment company that delivers for our clients, people and shareholders. The integration of our businesses gives us the scale to compete globally – helping us to grow our distribution capabilities, our strategic relationships, the assets we manage and our revenue streams. Growth in these areas gives us the opportunity to reinvest in our talent and technology.

The proposed sale of the capital heavy insurance business completes our transformation to a fee based, capital light investment company.

However challenging the market environment is in the long term, one of the things that will influence our ability to achieve our long-term goals is staying close to client needs. The work that Martin leads on the client engagement front, and the insight this gives us, plays a really important role. Our approach will always be centred around creating a market-leading business for clients, one that sets the pace for innovation and for adapting to global market movements.

A wider and deeper range of investment capabilities will help us keep up with client needs as they continue to change – from the largest institutions to individual customers investing in pensions or ISAs.

MG Being world class is about being a company that understands its responsibilities and knows how to think and act to create the best outcomes, for all stakeholders. As a global business, this includes building a brand that resonates with clients and customers – with products and services to match – while also growing value for shareholders. As an employer, it includes creating an environment that supports meaningful careers, promotes inclusion and attracts talented people from all backgrounds.

Everything we do is built around trying to have a positive long-term impact on the lives of our stakeholders.

Focused business lines

Standard Life Aberdeen has the scale and global reach to offer a broader range of investment capabilities to meet the evolving needs of our clients and customers around the world.

We strive for excellence in all we do for our clients and customers. Our commitment to teamwork allows us to draw on the shared expertise and complementary talents of our people. We aim to deliver the innovation and service to help us perform in today's competitive and fast-changing investment and regulatory landscape.

Business overview

Aberdeen Standard Investments

Aberdeen Standard Investments, our asset management business, is dedicated to delivering positive long-term outcomes for our clients.

Standard Life Investments and Aberdeen Asset Management have combined under the Aberdeen Standard Investments brand with the scale to deliver the innovation, market insight and responsiveness needed in today's competitive and fast-changing market.

With our increasingly global reach, we have the resources and expertise to transform new investment ideas into practical investment solutions that deliver positive outcomes for clients.

This business segment also includes our 38.2% stake in HDFC Asset Management, one of the largest mutual fund companies in India. HDFC Asset Management announced in November 2017 that its Board of Directors approved initiation of the process of an initial public offering (IPO). The IPO is subject to relevant regulatory and other necessary approvals.

Read more on page 40

Standard Life

Our Pensions and Savings business, Standard Life, continues to build on nearly two centuries of experience.

Standard Life is a leading provider of long-term savings and investment propositions and has established a market-leading position through a long-term commitment to support the needs of our customers. We are primarily based in the UK, with operations also in Ireland and Germany. In total, we serve around 4.5 million customers. We continue to invest in our distribution capability and adviser platform offering and also in product and service innovation.

Close collaboration with Aberdeen Standard Investments allows us to support customers across the value chain and enhance our ambition to become a truly world-class investment company.

On 23 February 2018, we announced the proposed transaction with Phoenix which is expected to complete in H2 2018, subject to shareholder, regulatory and other necessary approvals.

Read more on page 46

India and China life

Through a combination of associate and joint venture life businesses, we have extensive reach in two of the fastest growing savings markets – India and China.

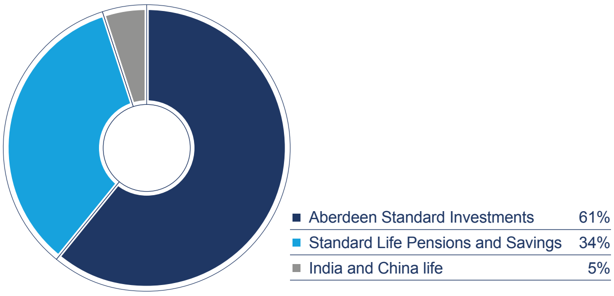
The IPO of HDFC Life, our associate life business in India, successfully completed in November 2017. We have retained board representation and have a major shareholding of 29.3% of the newly listed business, which ensures we remain invested in a leading business in a market with significant growth potential.

In March 2017, we announced the proposed sale of Standard Life (Asia), our wholly owned Hong Kong insurance business to Heng An Standard Life (HASL), our joint venture business in China. The proposed sale remains subject to regulatory and other necessary approvals.

Read more on page 50

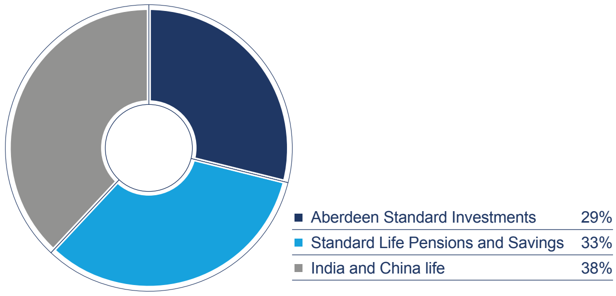
Adjusted profit before tax[1]
(Pro forma basis)

£1,039m



IFRS profit after tax attributable to equity holders[1]
(Reported basis)

£699m



[1] Diagram excludes loss from 'Other'. See page 39 for more information.

Products and distribution

Aberdeen Standard Investments

In the wholesale investment market, we support wealth managers, private banks and financial advisers, as well as making our investment products available directly to private investors. In the institutional market we are a chosen investment partner of pension funds, insurers, sovereign wealth funds, governments and local authorities, charities and financial institutions, to which we provide both pooled and segregated investment management. We manage investment funds and solutions across a broad spectrum of asset classes and geographic markets, including equities, fixed income, multi-asset, private markets/alternatives, real estate and quantitative.

Through our global network of offices, the role of our distribution team is to access potential investors and develop trusted, long-term relationships founded on high quality client service. We have a targeted approach to growth by concentrating on distributing Aberdeen Standard Investments products in the markets where we have a strong track record. Distribution of our products is supported by the promotion of the Aberdeen Standard Investments brand through a co-ordinated series of local and regional brand awareness initiatives and sponsorship opportunities.

We have a number of strategic distribution partnerships around the world. These include Phoenix Group in the UK, John Hancock in North America, Bosera in China, Challenger in Australia and Sumitomo Mitsui Trust Bank and Mitsubishi UFJ Trust and Banking Corporation in Japan. We also partner with HDFC in India through our associate business, HDFC Asset Management.

Standard Life Pensions and Savings

In our UK business, products and services are offered through two main channels:

- Retail: pensions and savings where the relationship is either directly with the customer, or with their financial adviser
- Workplace: pensions, savings and flexible benefits to employees through their employers

Retail distribution is primarily through our Wrap and Elevate financial adviser platform offerings. Workplace distribution is via employers and their advisers. Since auto enrolment began in 2012, over one million members have enrolled into our qualifying workplace pension schemes. 1825, our financial advice business, has continued to build a national presence across the UK and offers a full financial planning and personal tax advice service.

Our mature book includes older fee based business that was predominantly written before demutualisation and spread/risk products, such as annuities and protection, which provide a sustained contribution to our profits.

The Europe business comprises Ireland and Germany, where savings and investment products are offered to a variety of customers and clients. Distribution is primarily via brokers and advisers.

India and China life

HDFC Life sells individual and group life insurance policies in India via a network of around 400 branches along with access to partner branches of over 130 bancassurance relationships.

HASL has over 90 offices in China offering life and health insurance products on both a group and individual basis. Sales are predominantly made direct to customers and clients. HASL also maintains relationships with banks and insurance brokers.

Standard Life (Asia) sells insurance and savings products via insurance brokers in Hong Kong.

These businesses help to look after the life insurance needs of over 60 million lives insured from individual and group customers.

Broad and deep investment capabilities

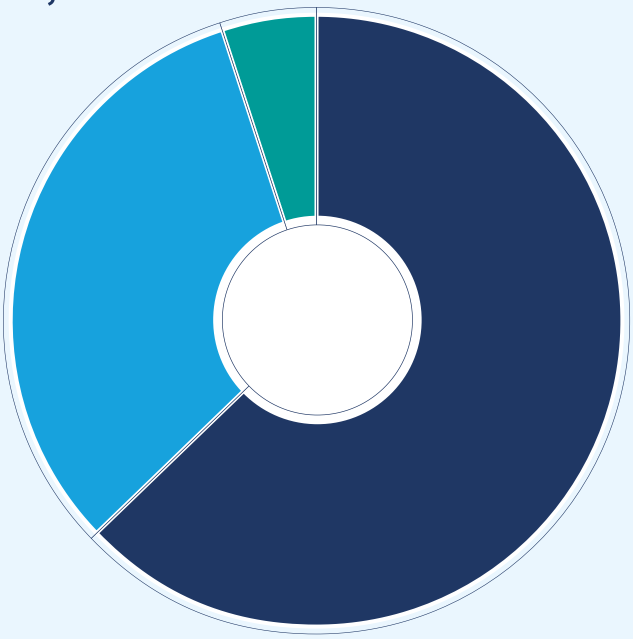
Through the merger we have created a well diversified investment company which is supported by investment professionals with broad skills across all major asset classes. As a result of the complementary nature of our offerings, clients now have access to a greater choice of investment capabilities to better serve their needs.

We operate across multiple distribution channels delivering greater diversification by client type and geography.

We are focused on providing innovative, world-class investment solutions to meet the current and future needs of our clients and customers across the globe. The breadth of our investment capabilities, coupled with our leading position in the UK savings market, benefit the customers, clients, employers and financial advisers that we serve. In addition, the increased capabilities further enhance the solutions we are able to provide through our global strategic partnerships.

Total adjusted operating income (Pro forma basis)

£2,928m



Aberdeen Standard Investments (Fee)	63%
Standard Life Pensions and Savings (Fee)	32%
Standard Life Pensions and Savings (Spread/risk)	5%

Diversifying revenue generation

Our revenues reflect the increasingly diverse nature of our business across our client and customer base, distribution channels, investment strategies and asset classes – leveraging the strengths of our existing relationships across the combined business.

We expect to see diversity in our revenue streams increase further as we progress through our integration and deliver the broader investment proposition to a growing global market.

See pages 32 to 39 for further details on our financial performance

Transformed investment capabilities

Aberdeen	Aberdeen Standard Investments	Standard Life Investments
• Emerging markets • Asia Pacific	**Equities** **£157.6bn**	• Developed markets • Global
• Emerging market debt • Asia Pacific fixed income	**Fixed income** **£144.0bn**	• Developed market credit • Global unconstrained
• Diversified growth and income • Balanced/implemented solutions	**Multi-asset** **£90.0bn**	• Absolute return • MyFolio
• Private equity (incl. venture) • Alternative investment strategies	**Private markets/ alternatives** **£25.7bn**	• Private equity • Infrastructure equity
• UK core/core plus • European (incl. residential)	**Real estate** **£39.2bn**	• UK core/core plus • European value add
• Smart beta • Better beta	**Quantitative** **£68.5bn**	• Systematic macro
• Liquidity funds • Bespoke cash mandates	**Cash/liquidity** **£50.7bn**	• Liquidity funds • Collateral Management

Broad and compelling client offering

As a result of the merger, we have been able to transform the investment capabilities we offer to clients, with complementary skills and capabilities across all major asset classes. We are also better positioned to offer increasingly sophisticated investment products to meet evolving client needs.

We now benefit from increased strength in developed and emerging markets across equities, fixed income, multi-asset, private markets/alternatives, real estate and quantitative investing. Within each of the asset classes there is a low level of overlap between the products we offer, allowing the combined Group's clients to choose from a broader range of investment capabilities.

The enlarged scale of the business, and the complementary skills of the investment professionals we bring together, improve our ability to develop innovative investment solutions for clients. The overall investment approaches of the companies we have brought together – long-term, team-based, and supported by proprietary research and insights – are also aligned. We are committed to active investment management throughout the risk-return spectrum, and believe it continues to offer customers and clients an effective way of realising their investment objectives over the long term.

In addition to our broad investment skills, we also believe that the complementary nature of our distribution networks give us a significant competitive advantage as we look to make the most of opportunities to grow our business and generate further revenue.

See pages 42 to 43 for further information on the asset classes detailed above

Global presence, local delivery

We have created a global investment company with strong brands, established institutional and wholesale distribution franchises, and a leading platform offering in the UK.

We manage assets on behalf of clients and customers in 80 countries looked after by employees based in over 50 locations.

This proximity to local markets feeds our investment insight. It allows us to understand the needs of our clients and how best to respond to developing market trends.

The merger also gives us the opportunity to enhance and make the most of the strong partnerships we have worldwide. These include long-standing strategic partnerships in the UK, North America, India, China and Japan.

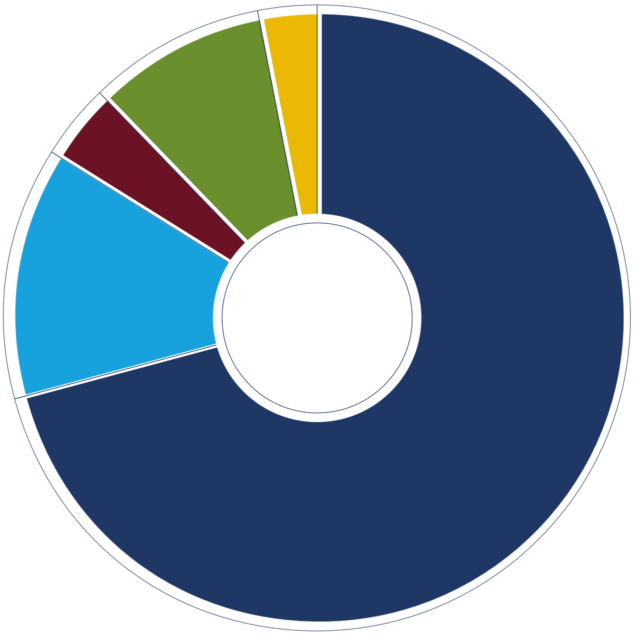
Clients across
80
countries

1,000+
investment professionals

50+
locations

Assets under management and administration by geography of client

£655bn



UK	71%
Europe, Middle East and Africa	13%
Asia Pacific	4%
Americas	9%
India	3%

Delivering through strategic partnerships

As an increasingly global business, we recognise the importance of local insight and the need to adapt to market environments. Our strategic partnerships are invaluable in accelerating our market access and brand recognition in countries around the world, as well as increasing our exposure to retail assets and mature books in an efficient way.

In India and China, we have well-established associate and joint venture life businesses, HDFC Life and Heng An Standard Life (HASL). These life and pensions businesses benefit from the local expertise of our partners, and our experience in the UK pensions and savings market, in order to serve a growing demand for life and pensions products. In addition, through our investment in HDFC Asset Management, one of India's largest and most profitable asset managers, we are well positioned in the Indian asset management sector where the growth potential is also significant.

In Japan, we have built an important relationship with Mitsubishi UFJ Trust and Banking Corporation (MUTB), one of the largest retail and commercial banking groups in the country.

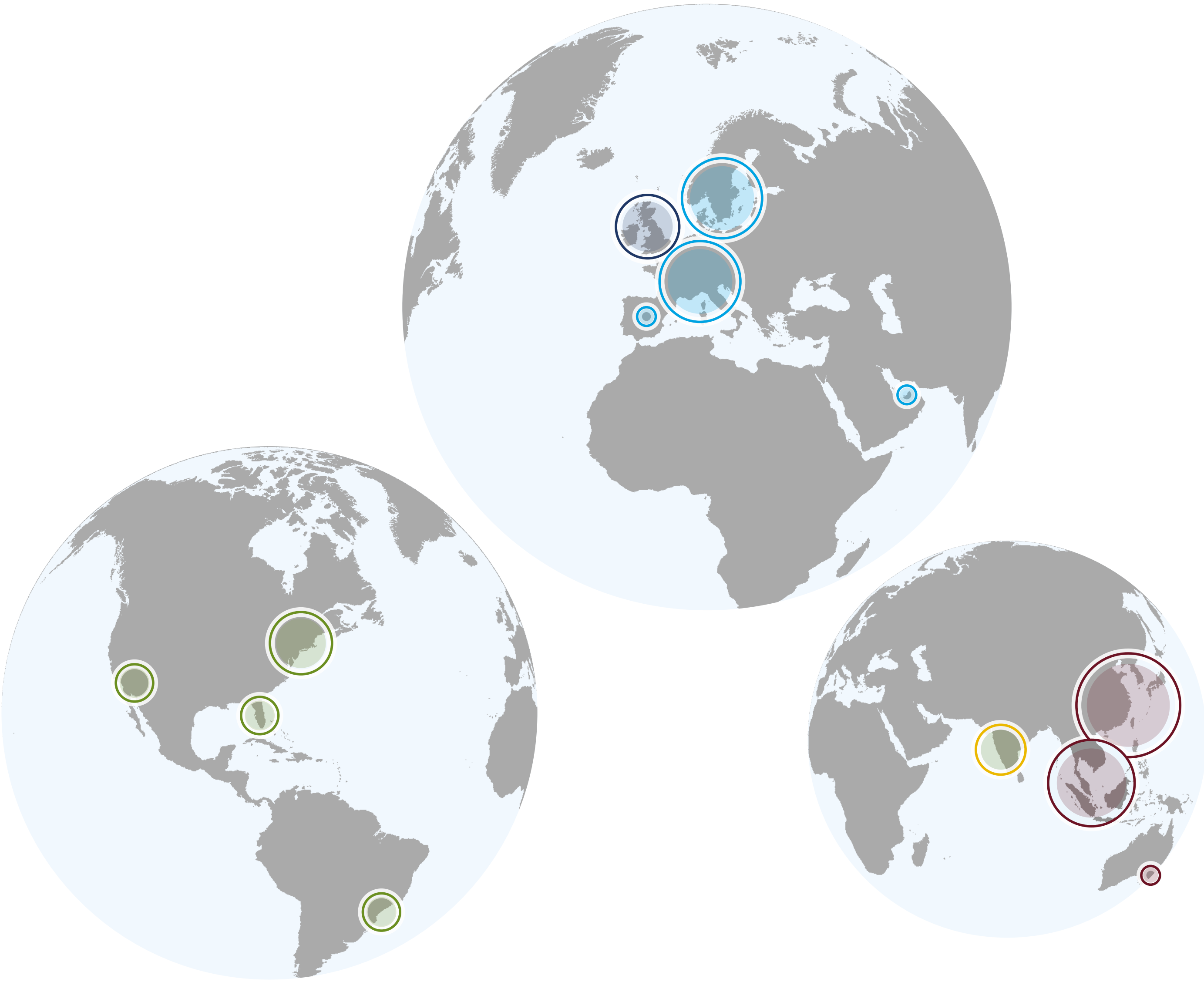
Japan has a strong and growing defined contribution market and we will continue to explore how we can deliver expanded client solutions to meet this demand. We also have a strong strategic alliance in Japan with Sumitomo Mitsui Trust Bank, one of the country's largest asset managers.

We have forged further asset management partnerships around the world to drive product innovation and open up possibilities for clients. These include John Hancock in the United States, Bosera Asset Management in China, Challenger in Australia, and Manulife in Canada and in Asia.

We also benefit from a partnership with Phoenix, one of the largest closed life insurance consolidators in the UK. The announcement on 23 February will further strengthen this mutually beneficial strategic relationship.

Our global locations

Headquartered in Scotland, we have a global presence that allows us to stay close to customer and client needs wherever we operate.



Americas

Boston
Los Angeles
Miami
New York City
Philadelphia
Sao Paulo
Stamford
Toronto

UK

Aberdeen
Birmingham
Bristol
Edinburgh (HQ)
Leeds
London

Europe, Middle East and Africa

Abu Dhabi
Amsterdam
Brussels
Budapest
Copenhagen
Dublin
Frankfurt
Geneva
Graz
Helsinki
Jersey
Luxembourg City
Madrid
Milan
Munich
Oslo
Paris
Potsdam
Stockholm
Stuttgart
Zurich

Asia Pacific

Bandung
Bangkok
Beijing
Hong Kong
Jakarta
Kaohsiung
Kuala Lumpur
Melbourne
Seoul
Shanghai
Singapore
Surabaya
Sydney
Taipei
Tokyo

India

Mumbai

Understanding our markets in a changing landscape

Change in the savings and investments landscape intensified and accelerated in 2017 – reflecting some major trends in an increasingly globalised society.

Financial market context

"2017 was a year that saw good economic growth with low volatility in financial markets, while political factors did not cause the problems that many expected."
Rod Paris, Chief Investment Officer

Across global markets in 2017 we saw a strong recovery in corporate cash flow and company profitability, on the back of a strengthening improvement in the global economy. For the first time since the immediate recovery following the financial crisis, there was sustained growth in North American, European and Asian economies, demonstrated by welcome increases in global trade and business investment. The US government focused less on trade barriers and more on tax cuts than the market had expected at the start of the year. Brexit has caused the UK economy to lag behind, a situation we expect to continue. Certain sectors stood out in 2017, especially technology in the US and Asia, as investors looked for growth opportunities.

Equity investors benefited from a surprising lack of market volatility, particularly in the US and many emerging markets. The Standard & Poor's 500 Index for example, which includes the largest US companies, saw consecutive monthly increases throughout 2017 – an outcome last achieved in the early 1950s. Asset flows were also strong into corporate bonds, real estate and private equity, compressing yields yet further.

Political tensions, such as election results across Europe, have been important considerations for investors in recent years. However, the improving economic backdrop, combined with continued support from central bank policy, helped to reduce the extent to which political factors impacted investment decisions during 2017.

Markets are anticipating central banks raising interest rates and scaling back 'quantitative easing' – a policy that's helped to increase the amount of money in the financial system. However, amidst an environment of strong global economic growth and healthy balance sheets, persistently low inflation makes central banks' decision-making far from straightforward. We must continue to watch actions closely as unexpected, or hasty, moves could have a significant impact on markets.

Overall, we continue to operate against a complex backdrop. To date, both interest rates and household income growth remain low, while corporate governance, technological disruption, and the need for people to take greater responsibility for their investment decisions are areas of increasing importance and all in an increasingly politicised world. Against this backdrop, the need for clients to have innovative investment solutions that will help them achieve growth, income and preserve capital effectively becomes ever more important.

Responding to the changing investment landscape

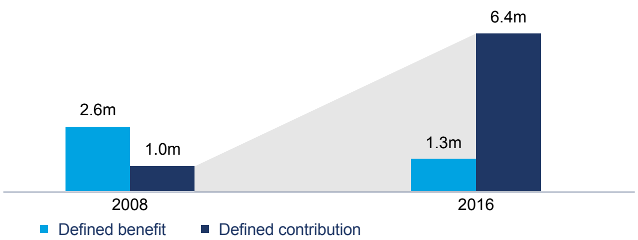
"Our business model is designed to be sustainable and resilient over the long term. We are well positioned to benefit from four trends that continue to shape the global savings and investment landscape."
Keith Skeoch, Co-Chief Executive

1 Democratisation of financial risk

Changes to the savings landscape over the last decade have moved risk and responsibility to individuals and it represents a continuing global trend. For example, in the USA, the UK, and across Europe, there is a growing requirement for people to take more individual responsibility for their financial futures. This includes the continued shift from defined benefit to defined contribution pension plans.

This trend is driving the need for simpler products and services to help clients and customers invest and save effectively. As people are living longer, there's also a growing need for products and investment solutions that help them plan effectively to provide for a longer retirement.

Active membership of UK private sector occupational pension schemes (millions)



Source: Adapted from data from the Office for National Statistics licensed under the Open Government Licence v.2.0.

This trend is also driving the need for financial advice and guidance which, in turn, has led to increasing demand from financial advisers for platforms that help them to operate more efficiently and to offer the support that their clients expect.

Our response

We aim to give people the confidence and expertise to make the right financial decisions. Our focus on active investment management helps us to meet the growing demand for outcome-oriented products.

In the UK, we have a leading position in the market for defined contribution workplace pensions. We support around 1.8 million workplace pension savers in the UK, including over 1 million UK employees who are saving through auto enrolment. We work with employers to engage their employees in their workplace pension and provide tools and materials to support them.

We continue to develop our UK-wide financial planning business, 1825, to meet the growing demand for financial advice.

2 Rebuilding trust in financial services

The global financial crisis damaged trust in financial services organisations. We must play our part in helping to rebuild this trust by demonstrating we are committed to doing the right thing, being transparent in the way we operate and, through our products and services, offering value to our customers and clients.

Recent regulatory developments aim to help address this challenge. The Financial Conduct Authority (FCA) announced how it proposes to tackle the issues identified in its study of the UK asset management market, with a focus on the need to consider value for money for investors. The updated Markets in Financial Instruments Directive (MiFID) legislative framework – which comprises both a directive (MiFID II) and a regulation (MiFIR) – is one of the most impactful and wide-reaching pieces of financial regulation to affect our industry to date. It aims to significantly improve transparency and investor protection in financial markets. This includes improving how market participants – from investment banks, asset managers and advisers, to trading venues and distributors – report on their trading processes, costs and charges, and the measures that they are taking to achieve the best results for clients.

In the UK, policymakers are focused on ensuring that reforms including auto enrolment and pension freedoms are working well for consumers. This means a focus on fair charging structures and ensuring people can properly compare and understand their options.

Our response

We aim to act responsibly in all of our investment activities – and as stewards of our clients' investments we have a duty to do this. This involves assessing the risks and opportunities that could have a material impact on financial performance – including ESG issues, which we believe can have a big influence on investment returns. You can read more about this on page 45.

We support the FCA's recommendations and we will continue to work closely with them to encourage positive change. We believe that the recommendations will help people to understand the benefits of different approaches to investing and strengthen both confidence and competitiveness in the industry. Across our businesses, we put in place significant programmes of work to deliver against the requirements of MiFID II, ahead of the changes that came into effect on 3 January 2018. We will continue to focus closely on this area as the changes are embedded across our industry.

We have a responsibility to ensure our customers have easy access to the services, information, and support they need to grow their life savings. Through auto enrolment we have helped to make a positive difference to the life savings of people in the UK.

3 Innovation, technology and digitalisation

Clients and customers want innovative products and services to improve the way they access, invest and keep track of their assets, and it's important for our business that we keep up with this trend. As they take on more responsibility for their financial decisions, our services need to make the process of doing this as simple as possible – whether online, by phone or face to face.

Our response

We are investing in technology that helps us to become more scalable and operate more efficiently, and the merger allows us to bring together the best of our platforms. Through the programme we're running to integrate our asset management businesses, one of the main aims is to deliver modern, consistent experiences across all of our platforms to meet the expectations of clients, customers and advisers. Our work to improve the experience we offer our pensions and savings customers includes integrating our workplace solutions with our clients' existing technology, and developing our capability in offering automated advice based on customer data, or 'robo-advice'.

4 Slow growth, low inflation, compressed return environment

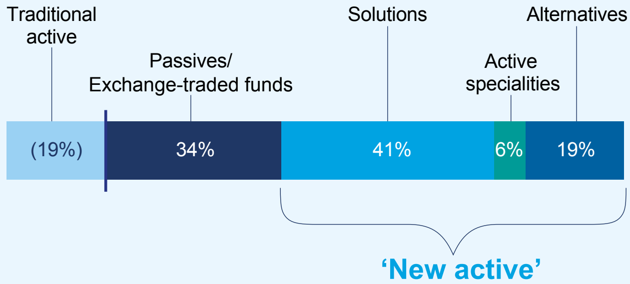
Clients are looking for simple and transparent products with clear outcomes that will meet their investment needs. There has been a rise in passive investing in recent years, where investment portfolios are constructed to mirror a market index. While we recognise that passive investment does have a place for some investors, we're seeing a continued demand for active investment solutions, particularly 'new active' solutions managed by a fund manager, but with a strong focus on achieving the outcomes that clients want. 'New active' solutions are forecast to represent almost two thirds of net inflows into investment funds globally over the next few years.

Our response

We are committed to active investment management. We see it as an important way of protecting investors and improving their future financial prospects. The merger puts us in a strong position to meet the growing demand and develop the breadth and depth of our expertise in key areas of industry growth. The rise in passive investing also highlights that active approaches may not fit with all investment needs. The diversified capabilities that the merger provides mean that we can complement our active expertise with quantitative investment capabilities, which make use of systematic models and data in order to build investment portfolios. We can offer quantitative approaches on a standalone basis or combine these with active investing – for example, through 'smart beta' capabilities. We see increased opportunities for our quantitative investments to be used within low-cost workplace investment solutions or our MyFolio range of funds.

2016 – 2020 Global estimated flows

c66% 'new active'[1]



[1] Proportion of global estimated net inflows into growth categories.

Source: BCG, July 2016

How we engage and listen to our stakeholders

We listen, understand and then act on a wide variety of operational, people and environmental issues to help move our business forward.

Our clients and customers

- Senior leaders in our investment business stay close to our clients' needs worldwide by prioritising meetings in person with them
- We communicate with our customers in a relevant, targeted way, using a mix of direct, printed and digital messages
- We use technology to stay in touch including optimising our social media channels
- Our largest clients and adviser relationships receive dedicated relationship management support, enabling us to better understand their needs and respond proactively
- We actively seek feedback to inform ongoing improvements

Our shareholders

- Our annual general meetings – which alternate between London and Edinburgh – enable us to hear shareholders' views while giving them the opportunity to hear directly from our Chairman and Board
- Our Annual report and accounts is made available on our website and we send a concise newsletter to our retail shareholders
- We have a programme of regular meetings with institutional investors and analysts around the world

Our stakeholders

Our people

- We encourage an open dialogue between colleagues and leadership teams
- Along with more informal discussions, our teams interact via email through our intranet sites and at regular face-to-face events
- Our employee intranet is based on the principle of conversation, allowing employees to engage and share views and information
- We have a range of executive-sponsored people networks that champion inclusion
- Employee groups gather views and represent employees through regular interaction with senior executives
- We encourage feedback and adjust our approach accordingly

Wider society

- Our corporate sustainability and stewardship strategy is informed through engagement with our employees, charities, regulators and subject matter experts
- We meet with the boards of companies we invest in to discuss their approach to a variety of environmental, social and governance topics and to encourage best practice
- We have active and productive relationships with regulators in the UK and around the world in countries in which we operate
- We engage with government to assist in policy development and ensure the needs of our customers are understood
- We are represented on a number of industry bodies, and senior leaders regularly represent us on industry panels, to contribute our expertise on long-term savings and investments issues

Stakeholder interests throughout the merger process

The rationale for the merger has always been about driving strategic, long-term value. To deliver on this, it is imperative to the success of our combined business that we consider and act in the interests of all our stakeholders. The Directors are also fully aware of their responsibilities in this area under section 172 of the Companies Act 2006.

In evaluating the rationale for the merger we first considered what benefits it could deliver for customers and clients – and we identified that the value Aberdeen Asset Management brings in emerging markets and Asia could be combined with the strength of Standard Life Investments in developed markets and multi-asset. The bringing together of our investment componentry and distribution channels will help us to deliver innovative investment and savings solutions that meet evolving customer and client needs.

These strongly complementary capabilities will help to drive the growth of our combined business, bringing diversification and growth in revenues and earnings.

This, alongside the synergies we have identified, allows us to deliver the financial benefits for our shareholders.

Our growing business needs to be compelling for our people with the potential to take the best from each company to create an inclusive and dynamic culture. While synergies will come in part from some of our people leaving, as far as possible this will come from natural employee turnover. We will also continue to take all appropriate steps to mitigate the number of compulsory redundancies where possible.

Our merger gives us global scale and, as a large employer in Scotland and around the world, we take seriously our responsibility to the communities in which we operate. We know it is important to all our stakeholders that we use our scale to have a positive impact, so our combined teams continue to work closely on aligning and enhancing our approach to being a sustainable, ethical business.

A proven business model for creating value

Our business model

Increasing assets

We aim to grow assets by offering capabilities, products and solutions that meet the needs of new and existing clients.

Our investment performance and market movements also impact our level of assets.

Growing revenue

Revenue is primarily generated from the management and administration fees we charge based on the value of the assets we look after for clients and customers.

Lowering unit costs

We aim to reduce our unit costs by controlling expenses and investing strategically to improve both the scalability and efficiency of our business.

As most costs are relatively fixed and revenue can be impacted by market volatility, we aim to control our costs to be efficient over different cycles.

Driving profit

Increasing assets, growing revenue and lowering unit costs enables us to drive our profit and cash flow that allow us to further invest in growing our business.

Optimising the balance sheet

We ensure that we have the appropriate level of capital to support our operations and provide protection for our policyholders, while continuing to focus on growing our capital-efficient fee business. We balance investing for business growth with continuing to pay growing dividends to shareholders.

How we generate and preserve value

Lasting client and customer relationships

We aim to build meaningful, long-term relationships through brands and strategic partners that have strong reputations in different parts of the market. We aim to help clients and customers make informed choices by providing innovative solutions and digital services to meet their needs, and by delivering the investment performance they expect.

Investment capabilities

The scale of our business allows us to deliver positive outcomes for our customers and clients through an increasing breadth and depth of investment capabilities. We aim to build on our successful track record of delivering long-term investment performance.

Talented people

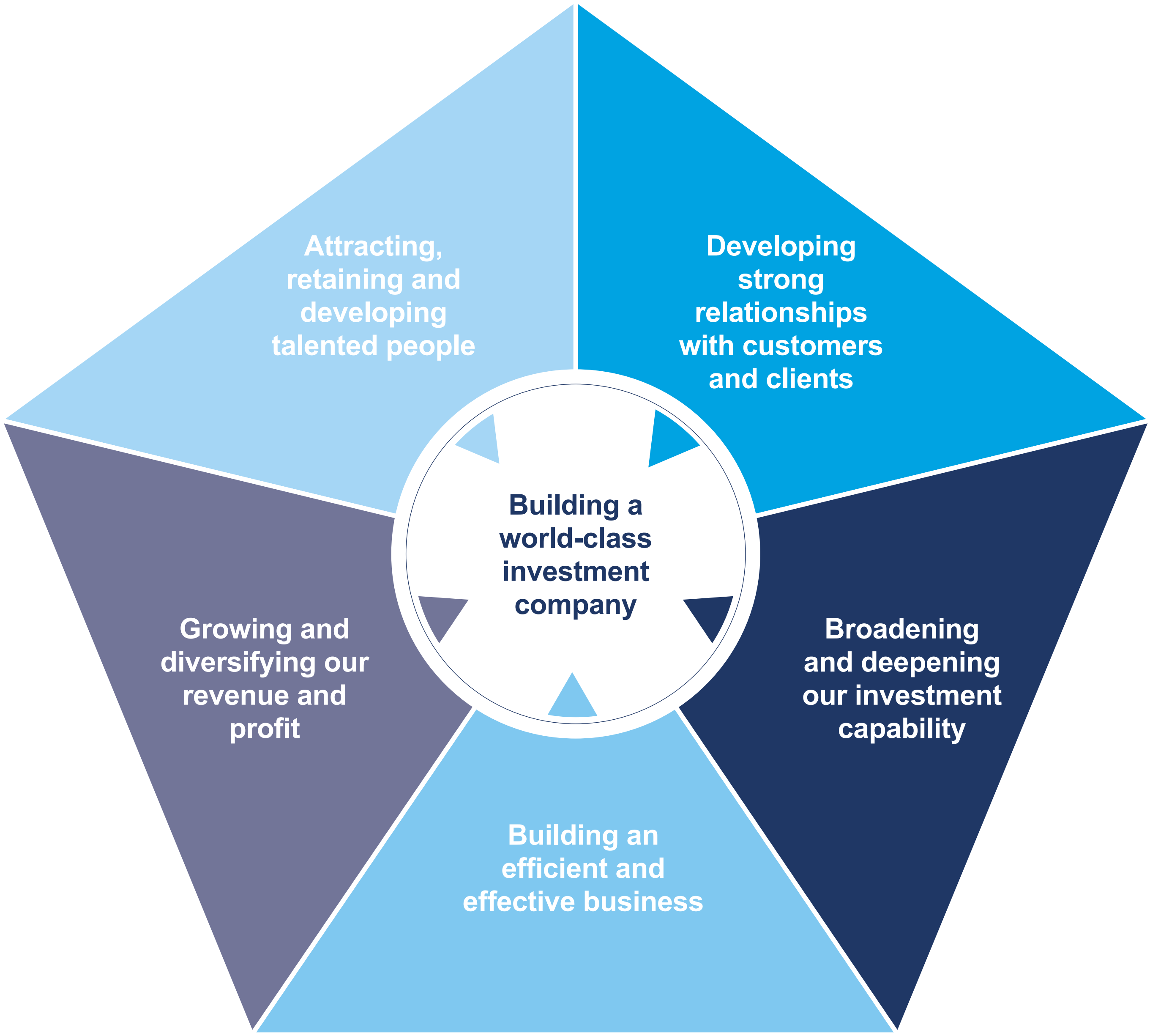
The management and performance of our business, including funds and solutions, is down to our talented people across the globe, who collaborate and strive for excellence in all they do. As well as ensuring our people are engaged and rewarded appropriately, we offer a range of personal development programmes to help progress their skills, knowledge and careers.

Financial strength and our heritage

We are a well-capitalised business. We operate efficiently and effectively – actively managing our balance sheet to ensure we hold enough capital to allow us to invest for future business growth, while aiming to continue to deliver a progressive dividend to shareholders. We use our experience to make sure we continue to do the right thing for all our stakeholders.

Our long-term strategic objectives

Our strategic objectives are the key areas we are focusing on to deliver against our business model, to help us make the most of our market opportunities.



Delivering our strategic objectives

Through the skills and commitment of our workforce, we deliver innovative global solutions and market-leading services which allow us to build stronger and deeper relationships. The breadth and depth of our world-class investment solutions help our clients and customers to plan with confidence to achieve their long-term objectives.

Through developing strong relationships and delivering a range of investment capabilities we aim to **increase assets** and **grow our revenue**. By building an efficient and effective business, we can continue to **lower our unit costs** and **optimise our balance sheet**.

Diversification helps to improve the resilience of our business model and the returns and value it delivers for our shareholders.

Building a world-class investment company

Priority	Key activities	Highlights	Key risks
Developing strong relationships with customers and clients	• Launched a programme to enhance the client experience and create a single, consistent approach to client management • Improved our processes in order to better engage with pension customers in their lead-up to retirement • Continued our work to address the findings of the Financial Conduct Authority's thematic review into the sale of non-advised annuities	**Investment performance** **1 year: 70%** **3 years[1]: 63%** **5 years: 64%** **Recognised for 20 years of excellence in defined contribution pensions[2]**	• Investment performance • Strategic transition and delivery • Distribution and client management • Client and customer preferences and demand • Oversight of third parties • Client and customer outcomes
Broadening and deepening our investment capability	• Transformed the breadth and depth of our investment capabilities as a result of the merger • Continued to innovate with 22 funds launched during 2017 • Further enhanced our range of ESG investment capabilities • Successful launch of the innovative Secure Income & Cash Flow fund	**Assets under management and administration (AUMA)[1]** **£654.9bn** (2016: £647.6bn) **Net flows[1,3]** **£31.0bn outflow** (2016: £36.8bn outflow)	• Investment performance • Strategic transition and delivery • Client and customer preferences and demand • Talent management
Building an efficient and effective business	• Integration progressing well and now expect to deliver at least £250m of annual cost savings • Delivered a next-generation investment data platform for our asset management business • Continued work to upgrade our technology systems for our customers, clients and advisers in our Pensions and Savings business • Announced proposed transaction with Phoenix which will complete our transformation to a fully fee based, capital light business	**Cost/income ratio[1,3]** **66%** (2016: 64%) **AUMA[1,3]** **£654.9bn** (2016: £647.6bn) **Adjusted profit before tax[1,3]** **£1,039m** (2016: £1,054m)	• Strategic transition and delivery • Distribution and client management • Political change • Change management • IT failure and security • Oversight of third parties • Process execution failure • Regulatory and legal • Liquidity risk
Growing and diversifying our revenue and profit	• Expanded our global capabilities and distribution with Aberdeen Standard Investments now serving clients in over 80 countries and operating from 50 office locations • Completed IPO of HDFC Life in November 2017, generating £359m from the sale of part of our stake • Revenue benefited from diversification across our growth channels. However, revenue was impacted by net outflows partly due to weaker short-term investment performance in 2016.	**Adjusted profit before tax[1,3]** **£1,039m** (2016: £1,054m) **IFRS profit after tax attributable to equity holders[4]** **£699m** (2016: £368m) **Full year dividend per share[1]** **21.30p** (2016: 19.82p)	• Investment performance • Strategic transition and delivery • Distribution and client management • Market risk • Counterparty failure • Longevity risk
Attracting, retaining and developing talented people	• As we integrate our businesses post-merger, we have progressed appointments to senior roles and also began employee consultations in key areas • Focused on providing a diverse and inclusive working environment • Surveyed colleagues across the Group to capture their views, to help define our culture • Improved our online learning curriculum to support personal development, career development and wellbeing for all employees	**Ranked 4th in the UK Social Mobility Employer Index** **Named as one of the UK's best employers for race by Business in the Community** **Accredited for our support to carers by Carer Positive, a Scottish Government-funded initiative**	• Strategic transition and delivery • Political change • Talent management

Read more on key risks on pages 54 to 59

[1] KPI. [2] Professional Pensions UK Pension Awards 2017. [3] Pro forma basis. [4] Reported basis.

Developing strong relationships with customers and clients

Objective

We develop relationships with our customers and clients based on trust and our ability to effectively meet their needs. We aim to understand what they want and put that at the centre of our decision making.

Across our asset management business, the key to this relationship is knowing our clients' ambitions and delivering the investment outcomes they expect. In our Pensions and Savings business, we aim to develop relationships with our customers which make us their first choice for their life savings.

Market forces

Customers are increasingly taking on more responsibility for their financial future and this drives a need for clear and supportive financial guidance and advice, as well as products and services they understand.

Changes in the way customers interact with service providers mean we need to offer a broad range of support and digital services.

Industry regulation focused on improving the transparency of client transactions and value is a positive development and we are focused on adapting our operations to not only meet but, where possible, exceed requirements.

2017 performance

In our asset management business we launched a programme to enhance the client experience and create a single, consistent approach to client management. By launching new funds across a range of different asset classes, we also broadened the capabilities we have to meet clients' diverse investment needs. There's more detail on page 22.

In our Pensions and Savings business, we have continued to engage with pension customers in the lead-up to retirement to help them understand their options as a result of the pensions freedoms legislation. Following improvements in our process, 80% of people who sign up to access their plan details online now complete the registration, up from just 27% last year, allowing them to have a more meaningful digital relationship with us.

We have also continued our work to address the findings of the Financial Conduct Authority's thematic review into the sale of non-advised annuities. The review showed that a portion of annuity sales that we made since July 2008 did not adequately explain to customers that they may have been eligible for an enhanced annuity. We expect the review to be fully operational during 2018 and will start writing to affected customers at that time.

Outlook and 2018 objectives

With the expanded set of investment capabilities resulting from integration, the combined strength of both companies' existing brands, and the combined global distribution platform, we expect meaningful opportunities to deepen client relationships and grow assets.

- Further develop our UK retail platforms and financial advice businesses in order to continue to meet the evolving needs of customers and clients
- Deliver on investment in local distribution in Asia and the US to deepen relationships with existing clients
- Upgrade our infrastructure to further enable engagement at scale
- Continue to grow our advice capability through 1825, to help the growing number of customers who face significant complexity when planning their future
- Fully integrate our Elevate platform proposition, giving advisers the full benefit of our leading platform franchise

A compelling proposition

The strength of our relationships with customers and clients relies on our ability to provide them with effective products and services. We're an investment company, which means we manage assets, but we also administer savings products and services and can offer financial planning and advice. As a result, customers can benefit from the complementary nature of our capabilities, enhancing engagement and our ability to serve their needs.

As an active asset manager throughout the risk spectrum, we offer market-leading investment products that have clear investment outcomes to match our clients' ambitions. Our approach is supported by a team of investment experts and a philosophy which is focused on anticipating market change and carefully managing risks.

As a pensions and savings provider, we offer innovative products and services that allow customers, or their advisers, to manage their investments. We make the most of technology to ensure people can easily access, update and consolidate their assets.

As we grow our advice capability, we are able to offer financial planning and advice to help our customers and clients achieve a wide range of financial goals.

Broadening and deepening our investment capability

Objective

Broadening and deepening our investment capability gives us the potential to attract a wider range of future customers and clients while enhancing existing relationships.

Success is measured by delivering investment performance that meets the desired outcomes of our customers and clients over the long term. We're committed to active investment management throughout the risk-return spectrum, and our focus on offering 'new active' investment solutions helps us to achieve the outcomes that clients want.

The complementary investment capabilities and solutions that our combined business bring together also demonstrate our breadth as a forward-looking, responsible investor. The merger also allows our business to generate scale for continuing investment and innovation in product design.

Market forces

We are well positioned to benefit from global trends that are shaping the savings and investments landscape. This includes the potential for slower economic growth and a compressed return environment over the longer term, which we expect will drive demand for active asset management.

2017 performance

Investment performance was mixed over the year, with 70% of assets under management ahead of benchmark. Strength across most fixed income and tactical asset allocation products contrasted with mixed performance in equities. 63% of assets were ahead of benchmark over three years. Our investment processes and performance results are actively monitored and evaluated by our Investment Governance and Oversight Function.

The integration of investment teams and capabilities is progressing well, with a focus on building a forward-looking and collaborative investment platform to deliver outcomes that our clients expect. Bringing together the broad and deep capabilities of the combined business, and sharing insight across these, will enable us to deliver strong and consistent investment performance over the long term. As we integrate and position our business we are focused on evolving investment processes to address performance challenges.

Across the combined business, we launched 22 new funds across a range of different asset classes, including equities, multi-asset, fixed income and private markets. New funds, with specific investment objectives, are part of our ongoing aim to meet the changing investment needs of our customers and clients.

We take our responsibilities as an investor seriously, and the merger brings together significant resource and expertise to improve our approach to stewardship. You can read more about this on page 45.

Outlook and 2018 objectives

After very strong gains for risk assets in 2017, we expect more subdued market returns in 2018. Our main objectives are to integrate investment capabilities as well as innovate and seek new, diverse investment opportunities:

- Maximise investment insight from broad nature of investment activities globally – including active fundamental approaches, and systematic and quantitative approaches
- Take advantage of increased collaboration across our different investment capabilities, to provide effective outcome-oriented solutions for clients
- Further strengthen our private markets capabilities such as private equity, real estate and illiquid credit
- Develop quantitative investing capabilities – including enhanced index, and 'smart beta' approaches which combine the benefits of active and passive
- Further integrate and market our stewardship and ESG capabilities across all asset classes to help make a positive impact on society and add value to investment performance

Our first combined investment trust

In recent years the e-commerce industry across Europe has grown rapidly. This has seen growing demand from retailers for logistic properties: from large, specialised warehouses where goods are picked, sorted and distributed, to smaller local units used to help transport goods to their final destination. Aberdeen Standard Investments is the second largest real estate investment manager in Europe, and we have an established track record of managing real estate assets in this area of the market.

In response to this growing demand, we launched our first investment trust as a combined business: Aberdeen Standard European Logistics Income PLC. The trust raised £187.5m of equity through an Initial Placing and Offer for Subscription, and the first day of trading in the shares was 15 December 2017.

Our discussions with a broad range of investors had suggested that there would be wide interest in the launch and this has proven to be the case – with pension funds, multi-asset managers, wealth managers and retail investors subscribing to the initial offer.

Our strategic objectives

Building an efficient and effective business

Efficiency from our merger integration programme

We have a very experienced team leading the merger integration of our businesses.

When we announced the merger we originally targeted annual cost savings of approximately £200m and expected that these synergies would result in integration costs of approximately £320m in aggregate. The integration is progressing well and we have now increased this target to at least £250m of annual cost savings. The estimated integration costs have increased to around £370m in order to achieve these higher synergies.

These merger cost synergies include opportunities to consolidate our operating, trading and other platforms, as well as reduce the number of third party service providers we use.

We also aim to reduce overlap in our distribution networks – combining operations that are close together geographically – and to merge some of the common functions that have been part of each business before the merger.

Cost savings will also come from a phased reduction of around 900 roles over three years from a total of around 9,000 employees. This has increased from our original estimate of 800 roles. We continue to aim to manage much of this through natural employee turnover, and to do everything we can to minimise compulsory redundancies.

Objective

We are focused on ensuring we have an operating platform that's modern, flexible and scalable. We are also focusing on efficiency, allowing us to deliver new products to market faster while managing our costs effectively. We aim to make sure that the surrounding architecture, which includes our IT systems, the processes we follow and external service providers we use, gives us greater flexibility and helps us to reduce ongoing maintenance costs.

Market forces

Our clients, customers and advisers expect a modern and consistent user experience through the different channels they use to interact with companies.

Regulation is also shaping how we interact with clients, including European Union regulations to improve the quality and transparency of transaction reporting on different types of products.

Our reliance on a wide range of IT systems and online functionality, to meet customer preferences and improve efficiency, exposes us to the risk of key systems underperforming and security risks such as cyber-attacks. You can read more about these risks on page 56.

2017 performance

We're supportive of industry changes that will improve regulation. We've run significant programmes of work to deliver against the requirements of European Union regulations brought in to improve the quality and transparency of transaction reporting on different types of product. These include the updated Markets in Financial Instruments Directive legislation MiFID II, and the Packaged Retail and Insurance-based Investment Products (PRIIPs) regulation, ahead of their January 2018 deadline.

As part of our programme to improve how we collect, store and interpret data, we delivered an improved technology platform in our asset management business. This is to ensure that our investment professionals have easy access to quality, timely investment data, and better insights into our clients' changing needs across the globe, to make more informed investment decisions on their behalf. We also made improvements to our order management system – the core investment platform for our fund managers – to take advantage of new features that improve our effectiveness and help us comply with new regulations.

We've also been upgrading the technology infrastructure for our Pensions and Savings business, to allow greater agility to meet changing customer demand and offer a more customer-orientated digital experience. The process of undertaking a significant IT transformation suitable for the future has been challenging, and we incurred an impairment charge of £31m following the discontinuation of part of an IT transformation project. However, good progress has been made with simplifying our infrastructure, delivering benefits to customers and corporate clients.

We've remained committed to ensuring that our IT capabilities can protect our customer and corporate information from misuse and cyber crime, and can minimise the impact of disruption to our operations. This includes maintaining security programmes, partnerships with third party specialists and a dedicated internal IT function.

Our cyber security policy and standards are aligned with industry good practice and the UK Government's 'Cyber Essentials' scheme, and we are certified for business continuity according to the internationally-recognised ISO22301 standard. Internal teams and external consultants carry out regular, independent assurance and benchmarking to measure the effectiveness of our security controls.

Since the merger completed, we have brought together 2,600 of our people. This includes moves in London, New York, Singapore, and the opening of our new headquarters for the combined business at St Andrew Square in Edinburgh. Co-locating colleagues in Edinburgh and across the globe has helped us to improve collaboration and begin to create cost efficiencies.

Outlook and 2018 objectives

- Maintain momentum with our merger integration programme, consolidate our operations and save costs
- Successfully complete the proposed transaction with Phoenix. This will significantly simplify the Group, supporting extraction of further efficiencies across the business.
- Focus on integrating the technology infrastructure in our asset management business to increase scalability and reduce ongoing costs
- Continue our investment in emerging technologies to unlock a competitive advantage and transform the way we provide information to our clients

Growing and diversifying our revenue and profit

Objective

We remain focused on growing and diversifying revenue and profit, to deliver sustainable value for our shareholders and other key stakeholders. We aim to do this by building a world-class investment company that is well diversified by geography, distribution channel, client type, asset class and across the value chain. We're well positioned to capture revenue by providing our customers and clients with asset management, administration and advice.

We will continue to pursue organic growth opportunities from our own resources and activities – while also carefully targeting appropriate acquisitions and new strategic partnerships.

Market forces

We expect 'new active' investment solutions will be the main driver of global client demand. We are well positioned as the combined business brings together our respective strengths in the provision of next generation solutions.

As people take more responsibility for their financial futures, we've continued to see a growing demand for financial advice and guidance. This presents an opportunity for us to diversify and grow our sources of revenue – in particular, through our financial advice business 1825.

2017 performance

Our range of investment capabilities continues to expand and we are also increasing our penetration across global markets. The merger accelerated this diversification in 2017 in terms of investment capabilities, talent, client types and geographic reach.

In November 2017, the IPO of HDFC Life successfully completed. As a result, we received £359m for the proportion of shares we sold to facilitate the IPO and have also maintained a major shareholding in a leading business in a market with significant growth potential. See page 50 for more information.

Revenue generation in 2017 was impacted by outflows in our asset management business reflecting mixed short-term investment performance.

Outlook and 2018 objectives

- Deliver the cost synergy benefits following the merger with a continued focus on achieving growth in financial performance
- Pursue a structured programme to seek further opportunities to grow and diversify our business, including by selective bolt-on acquisitions
- Proposed IPO of HDFC Asset Management in India provides greater transparency of the value of this well positioned and well performing business

Revenue enhancement opportunities

Enhanced opportunities to grow and diversify our revenue and profit following the merger include:

- Asset and revenue growth opportunities through specifically leveraging complementary investment capabilities. This includes Standard Life Investments' capabilities in multi-asset and risk managed return products being deployed into Aberdeen's institutional client base; and Aberdeen's capabilities across various product categories (in particular emerging market equities, Asia Pacific equities and in quantitative strategies) being deployed into Standard Life's Pensions and Savings retail business and the Phoenix business.
- Opportunities arising through enhanced access to a number of global markets with structural growth potential, including in India, China, Hong Kong, Latin America and the Middle East. This is in addition to our positions in Japan and in the US, two of the world's largest retirement markets.
- Revenue opportunities arising as a result of the deeper pool of investment componentry created as a result of our merger, which will allow the development of innovative investment solutions for our strategic partners

Our strategic objectives

Attracting, retaining and developing talented people

Objective

Investing in our employees' development is crucial to our long-term success. Having people who bring a diverse range of talents and perspectives, and who feel engaged in their roles, is fundamental to building lasting customer and client relationships, contributing to our businesses' performance, reputation and long-term shareholder value.

Market forces

As a company operating on a global scale, the marketplace for talented people is very competitive. A priority for us is ensuring that we provide opportunities and a culture that can attract a diverse pipeline of talent at all levels.

This includes investing in mentoring, coaching and development programmes for our people as part of their career development. We also have a robust succession planning process in place, which includes ongoing talent management for people who have the potential and drive to become our future business leaders.

Social mobility is an area of growing importance in society and our industry. We remain committed to supporting social mobility, including programmes for people in the early stages of their careers. It's an important part of our strategy to build and sustain a more diverse and inclusive workforce, one that also reflects the diversity and perspectives of our customers and clients.

2017 performance

Through the increase in scale that the merger has created, the opportunities we have to attract talent from across the globe have grown. At the same time, change on this scale can create uncertainty – so to help retain talent, we have a responsibility to all of our people to address issues that may arise.

We made a number of executive appointments shortly after the announcement of the merger, to help provide certainty and stability for our people and for our clients and customers. We also have clear succession plans in place for all key roles.

During our three-year integration we need to make sure that everyone, from new recruits through to leadership teams, has the capabilities to support our company's objectives. We began work on the organisational restructure in late August, with consultation processes starting across many areas of the business. Throughout this process we've kept employees regularly updated.

As part of the integration we are working to align our policies and processes. This includes the work we've started to align our appraisal and remuneration processes, using a system based on individual and business unit performance.

Ongoing training and career development support help us make sure our people feel engaged with their roles, and have the skills and knowledge to help us support clients and customers. Around 1,300 managers took part in programmes to improve their ability to manage and lead through change, which included extensive online resources. And we've continued to provide support for employees aiming for a future role on a plc board, including opportunities to volunteer on a local government body or as a charity trustee.

Since the merger we have integrated our employee networks, expanding their global reach to include over 1,900 members. Our networks support their members and raise awareness of issues which affect the communities they represent. There's more about their areas of focus on page 30.

Outlook and 2018 objectives

- Continue to invest in our people – providing learning and development opportunities and further improving our strong talent pipeline
- Develop a shared company culture relevant to all of our stakeholders, and promote the importance of cooperation and collaboration in achieving this
- Support employees as we progress through the proposed transaction with Phoenix. Phoenix has indicated that they intend to maintain operational headquarters in Edinburgh.
- Work across our global locations to build and sustain a more diverse and inclusive workplace
- Continue reviewing and improving our approach to how we measure engagement and enablement, and how we respond to our people's views

Developing our culture

Successful cultural integration following the merger is vital to our strategy. After we completed the merger we asked employees to take part in a survey to measure their mood and sentiment, to describe how it currently feels to work for us and how they would like it to feel in the future.

60% (5,486) of our employees took part in the survey. Key findings included:

- 87% of participants felt the merger represented an opportunity, while 2% felt the opposite and 11% were yet to be convinced
- 52% said they felt positive about coming to work and 28% felt neutral, with the remaining 20% feeling negative
- When asked to choose from a selection of words to describe the current company culture, 70% chose positive words, 7% chose neutral words and 23% selected negative words

While the results showed positivity towards the opportunities that the merger presents, they also highlighted that there are still improvements to be made. During 2018, one of our priorities will be to demonstrate that we're listening to our people's views and taking the right action, particularly in light of the proposed transaction with Phoenix.

We will also continue gathering insight to build a culture that fits with the needs of all of our stakeholders. This will include making mood, sentiment and culture an area we measure as part of our full employee engagement survey.

You can read more about our work to create an effective organisational culture on pages 30 to 31.

Creating a supportive and inclusive culture

To achieve our strategic aims, we need to provide inclusive and engaging employment, encourage collaboration, and enable people to reach their potential.

Defining the right culture

The scale of the merged business offers our people the potential for further opportunities to achieve their career goals. To make these opportunities valuable, we need a culture that's supportive and relevant.

In any merger, integrating two cultures is an area of significant risk. So before defining the shared values that support our desired culture, we need a deep understanding of the existing cultures within each business.

There are a number of shared values that make the merger beneficial – from a focus on delivering excellent customer and investment outcomes to supporting a diverse and inclusive workplace. Our integration strategy aims to protect and build on these strengths as we deliver a programme of work to articulate our desired company values and leadership behaviours.

Since August, we have been gathering insight from across the combined business. This has included interviews and focus groups, and using technology and digital collaboration tools to get input from as many individuals as possible. We've also run a programme of internal communications to keep our employees updated on our progress. This all builds on the results of our company-wide mood and sentiment survey, which you can read about on page 29.

Improving diversity and inclusion

Our business leaders have created an inclusion strategy that defines our priorities over the next three to five years. It aims to embed inclusion in everything we do, and improve transparency in how we talk about and report on diversity in our business. While this will take time to implement, we have made this a priority.

In creating an inclusive workplace, we aim to empower our employees to take an active and collaborative approach. Our diversity and inclusion strategy groups, for example, are made up of employees from across the combined business. Their role is to help us shape an approach that reflects the diverse needs of our people and make the most of their talents, while also supporting us in achieving our business objectives.

You can read our Inclusion strategy on our website
www.standardlifeaberdeen.com/annualreport

Our employee networks support the members of the diverse groups and communities our employees represent, and raise awareness of issues that affect them. The areas of focus for our networks include:

- Cultural issues facing black, Asian and minority ethnic communities
- People living with disabilities, and with issues around mental health and wellbeing
- Issues around gender balance and equality
- Issues affecting the lesbian, gay, bisexual and transgender communities – the LGBT+ Network
- Support for employees who are carers
- Support for current and former members of the armed forces and their families
- Professional and personal development for young employees

In addition to supporting employees, these networks also work with the company to deliver business outcomes. In 2017, for example, we partnered with the LGBT+ Network to develop and launch a new transgender policy.

Engaging with wider society

As a global investment company we have a responsibility not just as an employer, but also in terms of the influence we can have on our industry and wider society. Our involvement with external initiatives helps us to evaluate the progress we've made and what we can do in the future. It also plays a big role in helping us attract and develop diverse talent.

- We were ranked fourth in the first ever UK Social Mobility Employer Index – and we continue to support programmes to help people across society gain skills and opportunities for work, such as the Edinburgh Guarantee scheme and Investment 2020
- In recognition of our support to employees who are also carers, we were accredited by Carer Positive – an initiative funded by the Scottish Government – as an 'Established' employer in Scotland. Our carers' network also won the 'Network of the Year' award in the UK from the Employers Network for Equality and Inclusion.
- We were named as one of the UK's Best Employers for Race by Business in the Community, a charity that engages businesses in helping to build a fairer society
- We're a signatory to the UK Armed Forces Corporate Covenant, committing to activities that support current and former members of the armed forces, as well as their families and reservists, in the workplace. These activities include the support, business expertise and funding we offer the Scottish Veterans Fund.

Inspiration Awards

In September we held our Inspiration Awards event. The awards recognise the contribution our people make in their local communities, as well as the achievements of individuals and teams in helping to make our business innovative and sustainable.

Wellbeing

An important part of helping our people to remain engaged and motivated at work is ongoing support for their wellbeing. We use insight and research to inform our wellbeing strategy and the activities which support it.

We support physical wellbeing in a number of ways – from offering employee benefits such as private health care and discounted sports club membership, to hosting guest speakers covering topics including nutrition, sleep and cancer awareness. In 2017 we also launched a financial wellness programme in the UK, which included presentations and webinars to help employees better understand how they can make the most of their personal finances.

We also want our employees to feel they have a supportive workplace where they can talk openly about mental health issues. During the year we ran activities to support national and global initiatives that raise awareness of mental health issues, including Time to Talk Day, World Mental Health Awareness Week and Children's mental health week in the UK. We shared stories and organised events – from mindfulness sessions, to seminars on managing stress, to workshops on maintaining a supportive working environment.

Engaging through charitable giving and volunteering

We have a combined history of engaging with the communities in which our people and customers live and work. We collaborate with charities in these communities, across the UK and globally.

Our funding is directed to have a meaningful and measurable impact that aligns with our company's strategic objectives. We seek partnerships that engage employees and provide an opportunity for them to use their time and skills to create additional value. We offer paid volunteering leave to our people in support of this.

Our people took part in fundraising and volunteering activities globally throughout 2017, and we will work to grow this activity with our increased size and capabilities.

You can read more in our Corporate sustainability and stewardship report 2017 on our website
www.standardlifeaberdeen.com/annualreport

The gender pay gap

Under new legislation, UK companies with more than 250 employees are required to report their gender pay gap – the difference between the average amount that women and men are paid across the whole workforce. We believe increasing transparency is vital to close the gender pay gap and we welcome this legislation as a catalyst for change.

As at April 2017, men were paid on average 34% more than women at Aberdeen, and 42% more than women in the Standard Life Group. This is an area in which we want to perform better. Our pay gap is primarily driven by the fact that we have more men than women in our senior roles. We are committed to improving our gender balance, and we believe progress here will positively impact our business, our industry and our society.

We also believe in working across our industry to support actions that will address gender equality for our sector. We were among the first signatories to the HM Treasury's Women in Finance Charter, pledging to improve gender balance in our senior management populations with specific targets, and so help to reduce the gender pay gap across our industry. In October 2017 we publicly reported the actions taken and committed to next steps in making progress over the next 12 months.

You can read our full gender pay gap disclosure, analysis and what we are doing to tackle our gender pay gap in our report on our website
www.standardlifeaberdeen.com/annualreport

Our gender targets

Making sustainable progress in achieving a better gender balance at all levels takes time – and an enduring commitment and focus. To help us address this, we have a long-term plan that focuses on three main areas:

- Our culture: understanding and removing the barriers for women reaching senior management or which result in many leaving our industry altogether
- Our industry: addressing industry-wide practices and influencing across our sector to help make senior roles more accessible to women
- Our people: providing every opportunity for our people to reach their potential, regardless of gender

As part of our Women in Finance Charter commitments, we have published the following targets for women in our different roles:

Level	Target by June 2020 %	Actual 31 Dec 2017 %[3]	Actual 31 Dec 2017 Number
Board	33	**25**	**4 of 16**
Executive[1]	33	**27**	**49 of 183**
Entire global workforce	50[2]	**47**	**4,569 of 9,651**
Entire UK workforce	50[2]	**47**	**3,634 of 7,803**

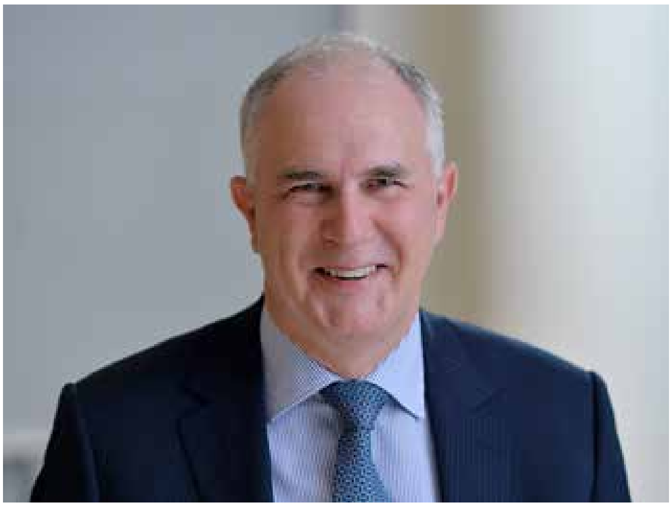
1 People employed in roles across the two leadership levels below CEO, excluding admin employees.

2 Target has a tolerance of 3%.

3 Data is prepared in accordance with our reporting methodology and the KPIs are within KPMG's limited assurance scope. Both KPMG's limited assurance report and our reporting methodology can be found at **www.standardlifeaberdeen.com/annualreport**

To demonstrate progress in developing our talent pipeline we will continue to track the gender balance in the succession pool, for those ready for our most senior roles within the next three to five years. At February 2018, women were in 44% of these roles, and we expect this figure to increase each year.

Robust financial performance supporting shareholder returns



Bill Rattray
Chief Financial Officer

Q Can you explain the key financial benefits of the merger and are you on track to deliver the expected cost synergies?

A The merger gives the business the scale and reach needed to compete globally, evidenced by adjusted profit before tax on a Pro forma basis now exceeding £1bn.

The announcement that Lloyds Banking Group and Scottish Widows are seeking to terminate arrangements for the assets we manage for them was disappointing. However, revenues from these assets represent less than 5% of our full year 2017 pro forma fee based revenue. We have recognised an impairment charge of £40m relating to this intangible asset in our 2017 results.

When we announced the merger we originally targeted annual cost savings of approximately £200m and expected that these synergies would result in integration costs of approximately £320m in aggregate. The integration is progressing well and we have now increased this target to at least £250m of annual cost savings. The estimated integration costs have increased to around £370m in order to achieve these higher synergies.

As at 31 December 2017, actions have been taken to deliver £73m of annualised cost savings, which will begin to take effect in 2018.

Q The Group recently raised US$750m through a debt issue and around £360m from the IPO of HDFC Life, how will this extra cash be used?

A Firstly, US$500m of the proceeds of the debt issue will be used to repay more expensive existing debt, which will save approximately £13m of annual interest costs. We remain well capitalised and the actions taken this year mean that we retain a strong cash buffer within Standard Life Aberdeen plc. This allows us to support the merger integration whilst continuing our progressive dividend policy. It also provides capacity to fund the organic growth of the business and bolt-on acquisitions should suitable opportunities arise.

Q How is Aberdeen's performance reflected within the combined Group results and is it disclosed separately?

A The Aberdeen Standard Investments business segment reflects the combined performance of Standard Life Investments and Aberdeen Asset Management.

The substance of the transaction to create Standard Life Aberdeen plc was that of a merger between Standard Life Group and Aberdeen. However, under IFRS, the transaction is viewed as an acquisition of Aberdeen by Standard Life Group. Therefore, the Group's results on an IFRS basis include Aberdeen only from the merger date onwards. The estimated 2017 results for Aberdeen since the merger are provided in the commentary where they are appropriate to help explain financial performance. We have also provided Pro forma basis results, where appropriate, to help explain how 2017 compares to 2016.

Aberdeen Standard Investments already operates as a single business and will become increasingly integrated in the coming months.

We announced the proposed transaction with Phoenix on 23 February 2018. Further details of this post balance sheet event are disclosed in the Directors' report and in Note 48 of the Group financial statements in the Annual report and accounts 2017.

Reported and Pro forma results

This report includes results on both a Reported basis and on a Pro forma basis.

IFRS requires the Aberdeen results to be included only from the date of the merger, 14 August 2017, onwards. The financial statements have been prepared on this basis, which we refer to as the Reported basis. However, we believe that it is helpful to also provide additional information which is more readily comparable with the historic results of the combined businesses. Therefore we also discuss the results on a Pro forma basis, combining the full 12-month results of the two companies for both the current year and prior years. Pro forma basis reporting is applicable to the results of the Standard Life Aberdeen Group and the Aberdeen Standard Investments segment. For certain metrics such as AUMA and flows, only Pro forma basis reporting is provided.

A reconciliation between the results on a Pro forma basis and a Reported basis is included on page 35.

Alternative performance measures

We assess our financial performance using a variety of measures. Some of these measures are defined under IFRS such as IFRS profit. Others, such as adjusted profit, are not defined under IFRS and are therefore termed alternative performance measures (APMs). APMs are used to help provide a fuller understanding of the performance of our business.

APMs should be read together with the Group's IFRS consolidated income statement, IFRS consolidated statement of financial position and IFRS consolidated statement of cash flows, which are presented in the Group financial statements section in the Annual report and accounts 2017. Further details on alternative performance measures including reconciliations to relevant IFRS metrics are provided in the Supplementary information section in the Annual report and accounts 2017.

Definitions of key financial terms are included in the Glossary

Assets and flows

The merger transformed the scale of the business, adding over £300bn of assets under management and administration (AUMA). On a Pro forma basis, AUMA increased slightly to £655bn, benefiting from markets and investment performance offset by net outflows.

Flows and AUMA (Pro forma basis)	Gross inflows		Net flows		AUMA	
	2017 £bn	2016 £bn	**2017 £bn**	2016 £bn	**2017 £bn**	2016 £bn
Aberdeen Standard Investments growth	**50.9**	55.1	**(22.1)**	(26.1)	**303.9**	309.1
Standard Life Pensions and Savings growth	**18.4**	13.5	**8.1**	5.9	**127.9**	111.1
Eliminations	**(4.0)**	(3.5)	**(0.9)**	(1.1)	**(21.5)**	(19.0)
Total growth channels	**65.3**	65.1	**(14.9)**	(21.3)	**410.3**	401.2
Aberdeen Standard Investments mature (Third party)	**12.3**	12.9	**(12.5)**	(11.5)	**179.6**	181.3
Aberdeen Standard Investments mature (Standard Life Pensions and Savings)	**3.3**	3.5	**(2.7)**	(2.1)	**92.2**	90.2
Aberdeen Standard Investments mature total	**15.6**	16.4	**(15.2)**	(13.6)	**271.8**	271.5
Standard Life Pensions and Savings mature	**1.5**	1.5	**(4.1)**	(4.4)	**60.2**	60.5
Eliminations	**(3.3)**	(3.5)	**2.7**	2.1	**(92.2)**	(90.2)
Total mature books	**13.8**	14.4	**(16.6)**	(15.9)	**239.8**	241.8
India and China life	**1.0**	0.9	**0.5**	0.4	**4.8**	4.6
Total	**80.1**	80.4	**(31.0)**	(36.8)	**654.9**	647.6

Assets under management and administration

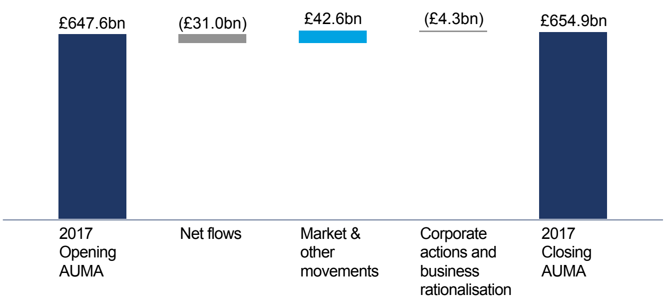
AUMA on a **Pro forma basis** increased by 1% to £654.9bn (2016: £647.6bn), benefiting from positive investment returns which were largely offset by net outflows.

Growth channel AUMA increased by 2% to £410.3bn (2016: £401.2bn) and now accounts for 63% (2016: 62%) of total AUMA.

Eliminations represent AUMA which is administered by Pensions and Savings and also managed by Aberdeen Standard Investments, and is therefore included in both the Pensions and Savings and Aberdeen Standard Investments segments. At a Group level an elimination adjustment is therefore required. Total eliminations increased to £113.7bn (2016: £109.2bn).

The movement in AUMA also includes £4.3bn of corporate actions, including £3.7bn of business rationalisation outflows relating to the closure of an uneconomic multi-manager fund range and the rationalisation of Aberdeen's US fixed income business.

Movement in AUMA
(Pro forma basis)



Gross and net flows

Gross inflows on a **Pro forma basis** remained strong at £80.1bn (2016: £80.4bn), with record gross flows in UK Retail driven by our Wrap and Elevate platforms, and continued strong inflows in Aberdeen Standard Investments.

Net outflows in our growth channels reduced considerably to £14.9bn (2016: £21.3bn) reflecting lower redemptions in Aberdeen Standard Investments, combined with strong net inflows in Pensions and Savings. Our mature books, which are in long-term run-off, saw net outflows broadly in line with expectations at £16.6bn (2016: £15.9bn).

Aberdeen Standard Investments growth channel net outflows were £22.1bn (2016: £26.1bn) with net outflows from equities reduced to £8.2bn (2016: net outflows £13.9bn). Sentiment improved towards Asia and Emerging Markets but our flows continue to be impacted by a period of weaker investment performance. Net outflows from GARS increased to £10.7bn (2016: £4.3bn) as investment performance sentiment resulted in a slow down in gross inflows and an increased rate of redemptions.

Standard Life Pensions and Savings growth channels delivered increased net inflows of £8.1bn (2016: £5.9bn) as a result of record net inflows in UK Retail. This was driven by strong demand for our Wrap and Elevate platforms, boosted by transfers from defined benefit to defined contribution pension schemes, which helped the UK Retail channel achieve a 73% increase in net flows to £6.4bn (2016: £3.7bn).

India and China life net inflows increased to £0.5bn (2016: £0.4bn) with higher flows for both HDFC Life and Heng An Standard Life.

Further information on AUMA and net flows is included in the Supplementary information section in the Annual report and accounts 2017. Definitions of growth channels and mature books are included in the Glossary.

Revenue

Pro forma fee based revenue up 3% to £2,763m, driven by Pensions and Savings asset growth.

Fee based revenue

On a **Reported basis**, fee based revenue increased by 28% to £2,111m (2016: £1,651m) mainly due to the inclusion of Aberdeen revenue of £407m in the period since the merger completed. Pensions and Savings fee based revenue increased to £964m (2016: £861m) as AUA benefited from strong net inflows and positive market movements, as well as a full year of ownership of Elevate (acquired Q4 2016).

On a **Pro forma basis**, fee based revenue increased by 3% to £2,763m (2016: £2,686m), primarily reflecting the Pensions and Savings fee growth set out above.

In Aberdeen Standard Investments the impact of net outflows was broadly offset by favourable market and foreign exchange movements. Performance fees represent 1% of total fee based revenue at £26m (2016: £33m).

The average fee revenue yield (excluding performance fees) for Aberdeen Standard Investments growth channels decreased slightly to 51bps (2016: 52bps), driven by the change in asset mix away from higher margin funds.

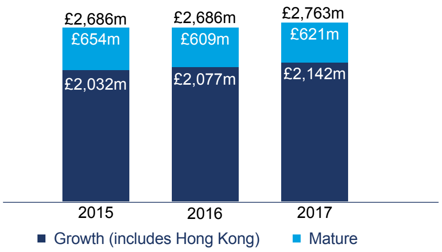
The UK Pensions and Savings average fee revenue yield reduced to 53bps (2016: 58bps) reflecting the impact of changes to business mix, including the growing proportion of newer style propositions, and the fact that some elements of revenue do not rise in line with market-related AUA growth.

Spread/risk margin

Spread/risk margin in our Pension and Savings business, which mainly relates to income earned on annuities, increased to £165m (2016: £134m). Operating assumption and actuarial reserving changes provided a benefit of £91m (2016: £42m) primarily relating to mortality assumptions. 2017 also benefited from favourable mortality experience, including a £7m reserve release in H1 in respect of overseas annuitants.

The 2016 result included a £22m benefit from an acceleration of payments from our main with profits fund relating to changes to the Scheme of Demutualisation in response to the transition to Solvency II.

Fee based revenue (Pro forma basis)



Costs

Pro forma adjusted operating costs rose 8% to £1,994m including Pensions and Savings business growth and IT related costs.

Adjusted operating expenses

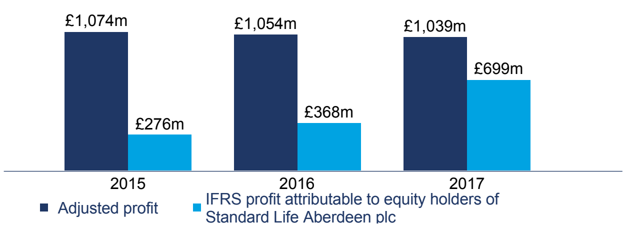
On a **Reported basis**, total adjusted operating expenses increased to £1,527m (2016: £1,156m) including Aberdeen costs of £276m in the period since the merger completed.

The residual increase was driven by higher Pensions and Savings costs of £769m (2016: £655m). The acquisition of Elevate in October 2016 and the growth of 1825 increased adjusted operating expenses by £42m. 2017 also includes a £31m impairment of intangible assets, which arose due to the discontinuation of part of an IT transformation project and a £16m cost of specific customer remediation.

On a **Pro forma basis**, adjusted operating expenses increased to £1,994m (2016: £1,853m) mainly due to the higher costs in Pensions and Savings discussed above.

The cost/income ratio deteriorated to 66% (2016: 64%) reflecting the higher costs noted above, although this ratio is inflated by the impairment charge which we would not expect to recur. When we announced the merger we originally targeted annual cost savings of approximately £200m and expected that these synergies would result in integration costs of approximately £320m in aggregate. The integration is progressing well and we have now increased this target to at least £250m of annual cost savings. The estimated integration costs have increased to around £370m in order to achieve these higher synergies.

Adjusted profit before tax (Pro forma basis) **and IFRS profit** (Reported basis)



Profit

Adjusted profit before tax is down by 1% to £1,039m on a Pro forma basis and is up by 19% to £854m on a Reported basis. IFRS profit attributable to equity holders of Standard Life Aberdeen plc increased by 90% to £699m.

Adjusted profit before tax

Adjusted profit before tax is a key measure which we believe provides a fuller understanding of the performance of the business by identifying and analysing adjusting items.

On a **Reported basis**, adjusted profit before tax increased to £854m (2016: £718m), primarily due to the inclusion of Aberdeen adjusted profit before tax of £131m for the period since the merger completed.

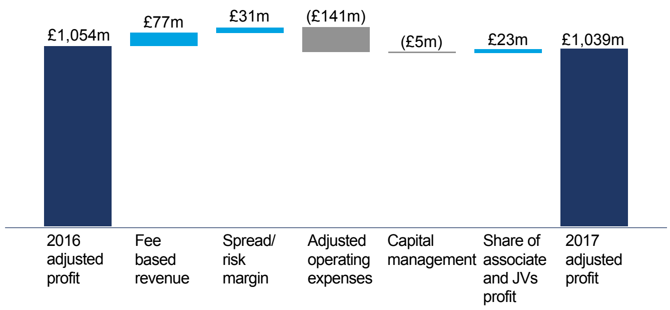
Our share of profit before tax from associates and joint ventures' continued to grow and included benefit of favourable exchange rate movements. Profit from HDFC Life increased to £48m (2016: £34m) and HDFC Asset Management rose to £41m (2016: £35m).

This impact was offset by reduced capital management results largely due to a lower net interest credit from the pension scheme surplus, resulting from lower yields at the start of 2017, and the interest expense on the $750m debt issued in October 2017.

Adjusted profit before tax on a **Pro forma basis** decreased by 1% to £1,039m, driven by lower profitability at Aberdeen Standard Investments which saw additional costs compared to 2016 and flat revenue.

On a **Pro forma basis** capital management generated a gain of £6m (2016: £11m) and includes fair value gains on investment securities in Aberdeen Standard Investments of £30m (2016: £22m) largely offset by coupons paid on perpetual capital securities of £27m (2016: £26m). 2017 was also impacted by a lower net interest credit from the pension scheme surplus and the interest expense on the new $750m debt instrument.

Movement in adjusted profit before tax
(Pro forma basis)



Profitability	Pro forma basis 2017 £m	Pro forma basis 2016 £m	Remove Aberdeen results pre-merger completion 2017 £m	Remove Aberdeen results pre-merger completion 2016 £m	Reported basis 2017 £m	Reported basis 2016 £m
Fee based revenue	**2,763**	2,686	**(652)**	(1,035)	**2,111**	1,651
Spread/risk margin	**165**	134	**–**	–	**165**	134
Total adjusted operating income	**2,928**	2,820	**(652)**	(1,035)	**2,276**	1,785
Total adjusted operating expenses	**(1,994)**	(1,853)	**467**	697	**(1,527)**	(1,156)
Adjusted operating profit	**934**	967	**(185)**	(338)	**749**	629
Capital management	**6**	11	**–**	2	**6**	13
Share of associates' and joint ventures' profit before tax	**99**	76	**–**	–	**99**	76
Adjusted profit before tax	**1,039**	1,054	**(185)**	(336)	**854**	718
Adjusting items					**(40)**	(269)
Share of associates' and joint ventures' tax expense					**(41)**	(13)
Profit attributable to non-controlling interests (preference shares and perpetual notes)					**(8)**	–
Total tax					**(66)**	(68)
Profit for the year attributable to equity holders of Standard Life Aberdeen plc					**699**	368
Adjusted diluted earnings per share	**28.9p**	28.8p			**29.9p**	29.3p
Diluted earnings per share					**29.6p**	18.6p

Following the merger with Aberdeen, the Group renamed 'operating profit before tax' as 'adjusted profit before tax' and changes to the basis of calculation were also made. Comparatives have been restated. See Note 2 of the Group financial statements in the Annual report and accounts 2017 for more information. For further details on our IFRS results, see the Group's IFRS consolidated income statement on page 147 in the Annual report and accounts 2017.

IFRS profit

IFRS profit on a **Reported basis** increased to £699m (2016: £368m) due to the inclusion of post-merger Aberdeen profits and a £229m reduction in the loss from adjusting items to £40m (2016: loss £269m). Adjusting items are shown in the table below. The largest item is the £319m profit on disposal of interests in associates which includes £302m from the sale of 5.4% of the shares in HDFC Life in the IPO in November 2017, leaving our remaining share in the business at 29.3%.

Short-term fluctuations in investment return and economic assumption changes generated a profit of £67m (2016: £13m) in the Pensions and Savings business, including a benefit from a narrowing of credit spreads.

Restructuring and corporate transaction expenses increased to £173m (2016: £67m). As a result of the merger, 2017 included Standard Life Group transaction costs of £59m and integration and merger related costs of £50m. Further detail on restructuring and corporate transaction expenses is provided in the Supplementary information section in the Annual report and accounts 2017.

The amortisation and impairment of intangible assets acquired in business combinations increased to £138m (2016: £38m). This includes an amortisation charge of £62m resulting from intangible assets recognised as a result of the merger and an impairment charge of £40m relating to the Lloyds Banking Group customer relationship intangible asset.

Adjusting items also includes £100m (2016: £175m) relating to an increase in the provision for historic annuity sales practices, following further analysis and an update to assumptions based on sample testing following the receipt of the FCA redress calculator in early 2018. Other adjusting items include the £24m impairment recognised in H1 2017 relating to the proposed sale of our wholly owned Hong Kong insurance company to our Chinese life joint venture company, Heng An Standard Life.

Analysis of adjusting items (Reported basis)	**2017 £m**	2016 £m
Profit on disposal of interests in associates	**319**	–
Short-term fluctuations in investment return and economic assumption changes	**67**	13
Restructuring and corporate transaction expenses	**(173)**	(67)
Amortisation and impairment of intangible assets acquired in business combinations	**(138)**	(38)
Provision for annuity sales practices	**(100)**	(175)
Coupon payments on perpetual notes classified as equity	**10**	–
Other	**(25)**	(2)
Total adjusting items	**(40)**	(269)

Share of associates and joint ventures tax expense increased to £41m (2016: £13m) largely relating to a change in our treatment of tax on Indian dividends.

Earnings per share

On a **Reported basis** adjusted diluted earnings per share has increased to 29.9p (2016: 29.3p). On a **Pro forma basis** adjusted diluted earnings per share was flat at 28.9p (2016: 28.8p).

Tax expense

The total IFRS tax expense attributable to equity holders' profits on a **Reported basis** was £66m (2016: £68m) including a credit of £42m (2016: credit £58m) relating to adjusting items. The effective tax rate on total IFRS profit is 8% (2016: 14%). The main factors which have brought the effective rate below the UK corporation tax rate of 19.25% (2016: 20%) are:

- The gain arising from the IPO of HDFC Life was exempt from tax under normal tax rules
- During the year the Group made a charitable donation of £81m to the Standard Life Foundation which was tax deductible
- We revalued tax assets relating to Standard Life's Pensions and Savings German business to reflect an updated transfer pricing approach based on the changed economics of that business and the expected impact of Brexit restructuring
- Our share of profits from our associate and joint venture holdings is shown on a post-tax basis and no further tax charge is then applied to this profit, reducing the effective tax rate

These items were partially offset by merger corporate transaction expenses which are not deductible for tax purposes. We would expect the effective rate on total IFRS profit to be lower than the UK corporation tax rate in future years due to the impact of IFRS accounting for associates and joint ventures, as above, and the lower tax rate which applies to profits earned by our Asian subsidiaries.

The tax expense attributable to adjusted profit before tax totalled £149m (2016: £139m), of which £41m (2016: £13m) represents equity holders' share of tax which is borne directly by our associates and joint ventures. The effective tax rate on adjusted profit is 17.4% (2016: 19.4%). We would expect the effective rate on adjusted profit to be lower than the UK corporation tax rate in future years, principally due to the profits of our Asian subsidiaries which are taxed at a rate lower than the UK corporation tax rate.

Total tax contribution

Total tax contribution is a measure of all the taxes the group pays to and collects on behalf of governments in the territories in which we operate. We have reported this on a Standard Life Group basis for 2017 and 2016 and this therefore excludes any tax contribution from Aberdeen. From 2018, we will report our total tax contribution for the combined Standard Life Aberdeen Group. Our total tax contribution on this basis was £1,200m (2016: £1,149m). Of the total, £473m (2016: £451m) was taxes borne by the Standard Life Group whilst £727m (2016: £698m) represents tax collected by us on behalf of tax authorities. Taxes borne are slightly higher than 2016 due to stamp duty relating to the merger. Taxes collected are comprised of pay-as-you-earn (PAYE) deductions from pension payments made to customers, tax deducted from employee payroll payments and VAT collected. The increase in taxes collected is mainly due to an increase in VAT collected on property transactions.

Tax policy

Understanding tax risk, how to manage it, and how it impacts all our stakeholders are important elements of running our business responsibly. The Group proactively manages tax risks and employs an experienced in-house tax team to oversee the tax affairs of the Group. We have a tax risk management policy that is approved annually by the Board.

You can read our tax strategy on our website
www.standardlifeaberdeen.com/annualreport

Balance sheet

We continue to maintain strong liquidity and solvency positions.

Adjusted cash generation

This measure provides insight into our ability to generate cash that supports further investment in the business and the payment of dividends to our shareholders. Adjusted cash generation has decreased to £841m, driven by lower profitability at Aberdeen Standard Investments partly offset by higher cash generation in Pensions and Savings.

As explained on page 281 in the Annual report and accounts 2017, the methodology for calculating adjusted cash generation has been revised following the merger. This change better aligns adjusted cash generation for the Aberdeen Standard Investments segment with the IFRS statement of cash flows.

Analysis of adjusted cash generation (Pro forma basis)	**2017 £m**	2016 £m
Aberdeen Standard Investments	**551**	643
Standard Life Pensions and Savings	**332**	267
India and China life	**10**	8
Other	**(52)**	(25)
Adjusted cash generation	**841**	893

Solvency II

Our Solvency II position presented here reflects draft returns and does not reflect any adjustment for the proposed sale of the majority of the Pensions and Savings business to Phoenix.

We are strongly capitalised with a Solvency II capital surplus (**Investor view**) of £3.8bn (2016: £3.3bn) representing a solvency cover of 225% (2016: 214%). The Investor view of our solvency position gives insight into the solvency capital provided by equity and debt investors. The £0.5bn increase in Investor view surplus in 2017 includes a £0.4bn increase from the IPO of HDFC Life.

The Solvency II Investor view capital surplus of £3.8bn would change by £0.2bn or less following a:

- 20% rise or fall in equities, or
- 100bps rise or fall in fixed interest yields, or
- 50bps rise or fall in credit spreads

The **Regulatory view** solvency cover prescribed by Solvency II regulations is 197% (2016: 177%). This capital surplus excludes £0.2bn (2016: £0.2bn) of capital in insurance subsidiaries that is not deemed to be freely transferrable around the Group.

In addition, the Regulatory view solvency cover is diluted by the inclusion of £0.7bn (2016: £1.2bn) of capital requirements for with profits funds and our defined benefit pension scheme. These capital requirements are covered in full by capital resources in those funds.

Liquidity management

Standard Life Aberdeen plc, the group holding company, holds substantial cash and liquid resources. At 31 December 2017 Standard Life Aberdeen plc held £1.2bn (2016: £0.9bn) of cash and liquid resources, comprises £693m (2016: £395m) of cash and short-term debt securities, £298m (2016: £304m) of bonds and £204m (2016: £201m) of holdings in pooled investment funds.

Dividends received from subsidiaries consisted of £180m (2016: £170m) from Standard Life Assurance Limited, £205m (2016: £287m) from Standard Life Investments (Holdings) Limited and £80m from Aberdeen Asset Management PLC (2016: £nil). Dividends from Standard Life Investments in 2016 included approximately £50m related to capital released following the integration of Ignis. Net remittance following the HDFC Life IPO was £359m of IPO proceeds plus £8m of accumulated dividends. In October 2017 Standard Life Aberdeen plc raised $750m subordinated debt on which it swapped the future obligations into GBP. £400m was injected into Aberdeen Asset Management PLC in advance of the anticipated repayment of capital notes in March 2018.

In May 2017 we extended the maturity date of our £400m syndicated revolving credit facility by a further year to 2022. This facility is held as a part of our contingency funding plans and is currently undrawn.

Holding company cash and liquid resources (Reported basis)	**2017 £m**	2016 £m
Opening 1 January	**900**	1,012
Net remittance following HDFC Life IPO	**367**	–
Dividends received from subsidiaries	**465**	457
Cash dividends paid to shareholders	**(469)**	(370)
Proceeds from 2017 debt issue	**565**	–
Cash investments in subsidiaries, associates and joint ventures	**(413)**	(208)
Expenses (including merger related)	**(128)**	(61)
Acquisition of shares by Employee Share Trust	**(79)**	–
Other	**(13)**	70
Closing 31 December	**1,195**	900

Note 47 of the Group financial statements in the Annual report and accounts 2017 includes a reconciliation between regulatory capital own funds and IFRS equity and also details of our capital management policies

Reconciliation of Standard Life Aberdeen Investor view and Regulatory view	**31 December 2017 (Draft returns)**				31 December 2016 (Standard Life Group final returns)			
	Investor view	**Less unrecognised capital**	**Add with profits funds and pension scheme**	**Regulatory view**	Investor view	Less unrecognised capital	Add with profits funds and pension scheme	Regulatory view
Own funds	**£6.8bn**	**(£0.2bn)**	**£0.7bn**	**£7.3bn**	£6.2bn	(£0.2bn)	£1.2bn	£7.2bn
Solvency capital requirement (SCR)	**(£3.0bn)**	**–**	**(£0.7bn)**	**(£3.7bn)**	(£2.9bn)	–	(£1.2bn)	(£4.1bn)
Solvency II capital surplus	**£3.8bn**	**(£0.2bn)**	**–**	**£3.6bn**	£3.3bn	(£0.2bn)	–	£3.1bn
Solvency cover	**225%**			**197%**	214%			177%

Dividends

Proposed dividend

Our progressive dividend policy is to grow the annual dividend from the prior year pence per share payment at a rate that is sustainable over the medium term.

The Board is recommending a final dividend for 2017 of 14.30p per share which is an increase of 7.1% on last year's final dividend. Subject to shareholder approval, this will be paid on 30 May 2018 to shareholders on the register at close of business on 20 April 2018.

The dividend payment which is expected to be £421m is strongly supported by adjusted cash generation. At 31 December 2017 Standard Life Aberdeen plc held £1.2bn of cash and liquid resources and £1.8bn of distributable reserves.

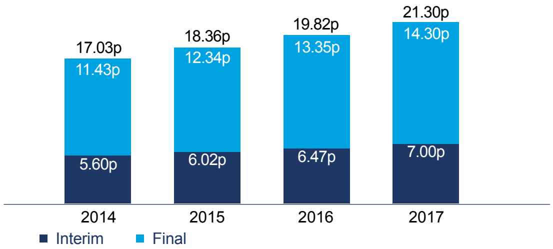
The final dividend, combined with the 2017 interim dividend of 7.00p, brings the total dividend for the year to 21.30p – an increase of 7.5% on the 2016 full year dividend.

How the dividend is funded

External dividends are funded from the cumulative dividend income that Standard Life Aberdeen plc receives from its subsidiaries. To provide some protection against fluctuations in subsidiary dividends, Standard Life Aberdeen plc holds a buffer of distributable cash and liquid resources. This buffer is dynamic and takes into account expected future subsidiary dividend flows and the risks to those dividends. Further information on the principal risks and uncertainties that may affect the business and therefore dividends is provided in the Risk management section of this Strategic report.

Dividend per share paid by the Company

21.30p



Viability statement

The Group's **prospects** are primarily assessed through the strategic and business planning process. Strategic planning is a continuous process which underpins business planning. It considers our business model and how this is designed to be sustainable and resilient in the long term as described on pages 14, 15, 17 and 18 of this report. Responding to market trends, and the robust assessment of principal risks, is key to ensuring our business model remains viable. Business planning is an annual process which projects the performance, regulatory capital and liquidity of the Group over a three-year period, and considers multiple scenarios including a severe downside scenario.

The Directors' assessment of prospects takes into account the Group's current capital and liquidity position, as set out on page 37, which shows a Solvency II regulatory capital surplus of £3.6bn and substantial cash and liquid resources held by Standard Life Aberdeen plc.

Assessment of viability: The Directors confirm that they have a reasonable expectation that Standard Life Aberdeen (SLA) will be able to continue in operation and meet its liabilities as they fall due over the next three years.

The assessment process is overseen by the Risk function and is subject to challenge from executive management and the Risk and Capital Committee, as well as Board consideration. The key processes used by the Board to assess viability are set out below. In particular, the stress and sensitivity analysis performed by each of Standard Life Group, Aberdeen and the combined Group provides insight into the exposures to our principal risks over the defined viability period.

Business plan scenarios: The severe downside used in 2017 assumes that the global economy tips into a severe recession; global equities and bond yields fall in 2018 and 2019 before increasing slightly in 2020. Our projected capital positions are a measure of the capital we need in the business to cover our risks, including financial and operational risks, under such stress scenarios. Our analysis shows that, whilst capital is eroded under this severe downside scenario, the strength and quality of our capital base means that regulatory solvency is maintained and our business remains viable.

Quantitative stress and scenario testing looks at plausible, negative individual and combined stresses that could adversely impact profits, capital and liquidity. Stresses are calibrated up to a 1-in-200 year probability level, or more extreme in certain scenarios. In addition to the business plan scenarios, a broad range of quantitative stress and scenario testing was performed separately pre-merger by Standard Life Group and Aberdeen, looking at the respective resilience to market, credit, expense and demographic shocks.

We also considered the effects of the merger and the subsequent changes in risk profile and concluded that SLA remains solvent under a range of stresses and can support potential cash outflows that may occur.

Reverse stress testing gives a quantitative and qualitative understanding of plausible but severe risk scenarios which could threaten business model viability. This analysis assists in determining if mitigating actions can be taken at the current time or if triggers should be put in place for future actions, should they be required in extreme stressed conditions. Both businesses carried out separate reverse stress testing prior to the merger. This analysis explored the potential failure due to significant reputational damage, loss of operations and/or insolvency across the following scenarios: Fraudulent behaviour involving insider trading; Loss of key personnel in key investment-related areas (e.g. equity products); Cyber Attack/Breach of security information; Failure of key third party service providers; Major shock to financial markets; and Market pressure on fund charges, flows and investment performance.

The analysis and projections completed as part of the due diligence gave consideration to the effects of the merger, and concluded that it is reasonable to expect the results of the combined entity to be consistent with the individual stress testing results. Reverse stress testing results confirmed that both entities are resilient to extreme stresses due to the embedded risk management framework, including monitoring, triggers and actions.

Oversight of risk within the business is delivered through the Internal Capital Adequacy Assessment Process (ICAAP) and the Own Risk and Solvency Assessment (ORSA) processes described in the Risk management section.

We consider that three years is an appropriate period for this viability assessment, which is in line with our core business planning process. It is the period over which major strategic actions, such as the launch of new investment propositions, are typically delivered. It also takes into account the uncertain economic environment and changing political and regulatory environment, and the timescale over which changes to major regulations and the external landscape affecting our business typically take place. We consider that the severe scenarios assessed as part of our reverse stress testing are appropriate over this three-year period.

Business performance

Our reportable segments have been identified in accordance with the way that we are structured and managed.

Analysis of adjusted profit (Pro forma basis)	Aberdeen Standard Investments		Standard Life Pensions and Savings		India and China life		Other		Eliminations		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Fee based revenue	1,912	1,920	964	861	12	17	–	–	(125)	(112)	2,763	2,686
Spread/risk margin	–	–	165	134	–	–	–	–	–	–	165	134
Total adjusted operating income	1,912	1,920	1,129	995	12	17	–	–	(125)	(112)	2,928	2,820
Total adjusted operating expenses	(1,278)	(1,231)	(769)	(655)	(11)	(22)	(61)	(57)	125	112	(1,994)	(1,853)
Adjusted operating profit	634	689	360	340	1	(5)	(61)	(57)	–	–	934	967
Capital management	2	(2)	21	22	–	–	(17)	(9)	–	–	6	11
Share of associates' and joint ventures' profit before tax	41	35	–	–	58	41	–	–	–	–	99	76
Adjusted profit before tax	677	722	381	362	59	36	(78)	(66)	–	–	1,039	1,054

Analysis of IFRS profit (Reported basis)	Aberdeen Standard Investments		Standard Life Pensions and Savings		India and China life		Other		Eliminations		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Fee based revenue	1,260	885	964	861	12	17	–	–	(125)	(112)	2,111	1,651
Spread/risk margin	–	–	165	134	–	–	–	–	–	–	165	134
Total adjusted operating income	1,260	885	1,129	995	12	17	–	–	(125)	(112)	2,276	1,785
Total adjusted operating expenses	(811)	(534)	(769)	(655)	(11)	(22)	(61)	(57)	125	112	(1,527)	(1,156)
Adjusted operating profit	449	351	360	340	1	(5)	(61)	(57)	–	–	749	629
Capital management	2	–	21	22	–	–	(17)	(9)	–	–	6	13
Share of associates' and joint ventures' profit before tax	41	35	–	–	58	41	–	–	–	–	99	76
Adjusted profit before tax	492	386	381	362	59	36	(78)	(66)	–	–	854	718
Restructuring and corporate transaction expenses	(58)	(23)	(38)	(38)	–	(3)	(77)	(3)	–	–	(173)	(67)
Amortisation and impairment of intangible assets acquired in business combinations	(117)	(25)	(8)	(13)	(13)	–	–	–	–	–	(138)	(38)
Gain on sale of share in associates	14	–	–	–	305	–	–	–	–	–	319	–
Provision for annuity sales practices	–	–	(100)	(175)	–	–	–	–	–	–	(100)	(175)
Other	10	(5)	66	19	(24)	–	–	(3)	–	–	52	11
Total adjusting items	(151)	(53)	(80)	(207)	268	(3)	(77)	(6)	–	–	(40)	(269)
Share of associates' and joint ventures' tax expense	(29)	(11)	–	–	(12)	(2)	–	–	–	–	(41)	(13)
Profit attributable to non-controlling interests (preference shares and perpetual notes)	(8)	–	–	–	–	–	–	–	–	–	(8)	–
Total tax expense	(61)	(63)	(31)	(25)	–	–	26	20	–	–	(66)	(68)
Profit for the year attributable to equity holders of Standard Life Aberdeen plc	243	259	270	130	315	31	(129)	(52)	–	–	699	368

Further details on how adjusted profit before tax and other alternative performance measures reconcile to the most appropriate measure prepared in accordance with IFRS are provided in the Supplementary information section in the Annual report and accounts 2017

Focused on delivering more choice and the highest level of client service

Under the Aberdeen Standard Investments brand, we aim to create a world-class asset management business, with the scale to deliver the innovation, market insight and responsiveness needed in today's competitive and fast-changing market.

The merger of our complementary investment businesses created one of the world's largest investment companies and one of the largest active fund managers in Europe, offering our clients access to a comprehensive range of developed and emerging market equities, multi-asset, fixed income, real estate, private markets/alternatives, cash/liquidity and quantitative solutions.

Our client focus

The investment needs of our clients drive everything we do. We look to support investors with a full range of investment opportunities and solutions, and provide the highest level of service and support. We have the resources to transform new investment ideas into practical investment products and the scale to deliver value to investors.

A global network with local expertise

The breadth and depth of our investment talent increased significantly as a result of the merger. We now have over 1,000 investment professionals across 24 investment centres, together with 50 distribution offices servicing clients in 80 countries. We also have a broad range of powerful strategic relationships across the world with major banks, insurers and other investment firms to support the needs of institutional, wholesale, pension and retail investors.

A diversified business

We are well diversified by revenue, asset class, client type and geography. This provides us with the resources and resilience to compete in a constantly changing investment and regulatory environment. Through our breadth of expertise, we aim to lead the way with innovative investment approaches which can target investors' specific needs for income, return, risk control or liability management – as well as seeking to provide sources of performance across different market cycles.

Prepare for Brexit

The UK Government continues to negotiate the exit of the UK from the European Union. Changes to arrangements in Europe would have an effect on how we provide access to investment opportunities for our European based clients. We will continue to work with all responsible for negotiating future arrangements in Europe in order to help develop solutions that will best serve our clients in the UK and the rest of Europe.

Leading active management

As one of the largest active managers in Europe, we will build on our shared commitment to active investment management underpinned by fundamental research. We offer a comprehensive range of developed and emerging market equities and fixed income, multi-asset, real estate, private markets/alternatives and quantitative solutions and now have the expertise and scale in key areas of industry growth to meet the needs of clients globally.

A forward-looking partner

The investment landscape continues to evolve. Demand for investment solutions focused on specific investor outcomes has grown rapidly. Multi-asset, target return, unconstrained and enhanced diversification approaches are some of the fastest-growing sectors of our market. By combining the strengths of our two investment businesses, we can deliver next-generation solutions and stay relevant to the changing needs of our clients.

Integrating two complementary investment businesses

While historically, the investment philosophies and processes adopted by Aberdeen and Standard Life Investments were distinct, we share a set of common investment beliefs. These will continue to be the foundations for our investment approaches:

- Fundamentals driven
- Micro and macro research
- Long term
- Team-based ethos
- Stewardship embedded
- Shared asset class insight

Adjusted profit before tax (KPI)

Pro forma basis	Reported basis
£677m	**£492m**
(2016: £722m)	(2016: £386m)

Assets under management (KPI)

Pro forma basis
£575.7bn
(2016: £580.6bn)

Investment performance[1] (KPI)

Pro forma basis
63%

Cost/income ratio (KPI)

Pro forma basis	Reported basis
65%	**62%**
(2016: 63%)	(2016: 58%)

Net flows (KPI)

Pro forma basis
£37.3bn outflows
(2016: £39.7bn outflows)

IFRS profit after tax[2]

Reported basis
£243m
(2016: £259m)

1 Percentage of total AUM ahead of benchmark over three years. Investment performance reporting has been aligned for the combined asset management business and therefore no comparative information is available on a combined basis.

2 IFRS profit after tax attributable to equity holders of Standard Life Aberdeen plc.

Assets and flows

Flows and AUM (Pro forma basis)	Gross inflows 2017 £bn	Gross inflows 2016 £bn	Net flows 2017 £bn	Net flows 2016 £bn	AUM 2017 £bn	AUM 2016 £bn
Equities	**16.2**	15.0	**(8.2)**	(13.9)	**104.5**	97.4
Fixed income	**8.4**	9.4	**(3.3)**	(5.3)	**51.4**	55.1
Multi-asset	**13.9**	16.7	**(6.9)**	(3.6)	**72.4**	79.1
Private markets/alternatives	**1.9**	1.6	**(0.8)**	(1.2)	**24.5**	25.7
Real estate	**3.6**	4.3	**(1.0)**	(1.6)	**28.5**	27.5
Quantitative	**0.2**	0.3	**(0.5)**	(0.2)	**2.2**	2.4
Cash/liquidity	**6.7**	7.8	**(1.4)**	(0.3)	**20.4**	21.9
Total growth	**50.9**	55.1	**(22.1)**	(26.1)	**303.9**	309.1
Total mature	**15.6**	16.4	**(15.2)**	(13.6)	**271.8**	271.5
Total Aberdeen Standard Investments	**66.5**	71.5	**(37.3)**	(39.7)	**575.7**	580.6

Total AUM on a **Pro forma basis** decreased 1% to £575.7bn as the impact of net outflows during the year was significantly offset by positive investment returns. Growth channel, which comprises Institutional, Wholesale and Wealth/Digital AUM decreased 2% to £303.9bn, and accounts for 53% of total AUM. Aberdeen total AUM as at 14 August 2017, the date of the merger, was £304.9bn.

Equities, multi-asset and fixed income account for 75% of growth channel AUM, demonstrating the scale and strength of our investment capabilities. The remaining 25% of growth channel AUM relates to private market/alternatives, liquidity, quantitative and real estate, as evolving client needs demand next generation investment solutions.

Gross and net flows

On a **Pro forma basis**, gross inflows from growth channels were £50.9bn (2016: £55.1bn), and redemptions were £73.0bn (2016: £81.2bn), resulting in growth channel net outflows of £22.1bn (2016: £26.1bn). Aberdeen total net outflows for the period 1 January 2017 to 13 August 2017 were £11.0bn.

Of the growth channel net outflows, £8.2bn (2016: £13.9bn) relates to equities. Sentiment improved towards Asia and Emerging Markets but our flows continue to be impacted by a period of weaker investment performance. Overall, demand for equities increased in 2017, whilst the rate of outflows continued to reduce, resulting in a 41% improvement in net outflows.

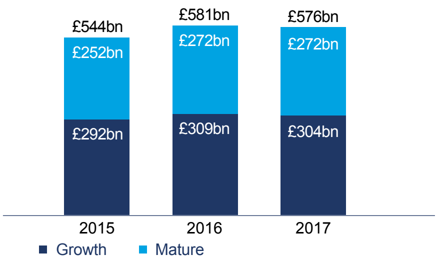
Multi-asset also saw net outflows of £6.9bn (2016: £3.6bn). GARS dominated flows in this asset class with net outflows of £10.7bn (2016: £4.3bn). Investment performance sentiment resulted in a slowdown in gross flows and increased rate of redemptions. GARS performance is ahead of benchmark but behind target over one, three and five years.

Multi-asset (excluding GARS) generated net inflows of £3.8bn (2016: £0.7bn). This included continued demand for MyFolio and Parmenion products which delivered net inflows of £2.0bn and £1.3bn respectively.

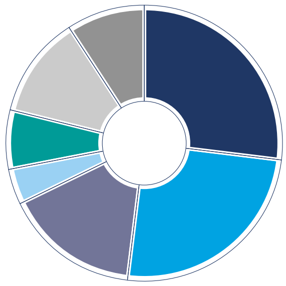
Mature books

Mature channel, which comprises Standard Life Pensions and Savings and third party strategic partner life business, including Lloyds Banking Group and Scottish Widows. AUM remained stable at £271.8bn. Our mature books business, which is in natural run-off, saw net outflows of £15.2bn (2016: £13.6bn) which were offset by positive investment returns. We consider these outflows to be structural and we expect this level of attrition from the insurance book. Fees associated with the mature AUM are lower margin.

AUM
(Pro forma basis)

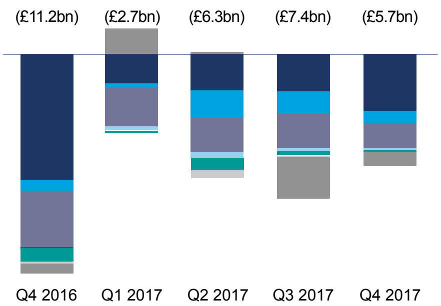


Total AUM asset class split
£575.7bn



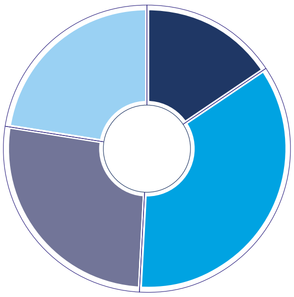
Equities	27%	Real estate	7%
Fixed income	25%	Quantitative	12%
Multi-asset	16%	Cash/liquidity	9%
Private markets/alternatives	4%		

Quarterly growth net flows
(Pro forma basis)



Asset class review

Equities



Developed markets	£16.3bn
Emerging markets	£37.0bn
Asia Pacific	£27.7bn
Global	£23.5bn
Total growth	**£104.5bn**

We manage a full range of equity strategies with distinct risk tolerances and return objectives to meet specific client outcomes. While different in their risk tolerances and return objectives, equity portfolios share a common approach: to consistently add value through fundamental stock selection and active management. The core features of our investment processes include:

- Fundamental research
- Ownership of ideas
- Risk focused
- Long-term view
- Investment stewardship

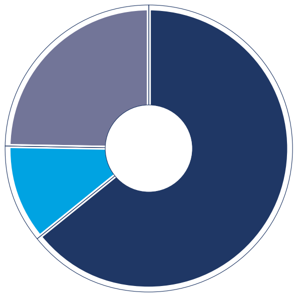
Review of the year

Equity markets continued to reach new highs in 2017, fuelled by increasing confidence in global growth and strong corporate earnings. Correlations declined, and in some regional markets the rally was fuelled in concentrated numbers of sectors and stocks. Against this backdrop, relative performance of our key equity strategies was mixed over the year.

With regards to client flows through the year, we witnessed reasonably stable gross inflows into the Aberdeen global emerging market equities franchise as investor appetite returned after significant redemptions at the end of 2016. However, recent weaker performance has created some challenges. Our broad small cap franchises experienced strong performance and gross inflows respectively across the year. SLI UK equity performance recovered strongly in 2017.

Across our combined equity franchise, we launched our Global Emerging Markets Socially Responsible Investing Fund and our Global Equity Impact Fund, the latter of which aims to invest in companies that are thriving by making a positive societal impact.

Fixed income



Developed markets – credit	£32.9bn
Developed markets – rates	£5.7bn
Emerging markets – fixed income	£12.8bn
Total growth	**£51.4bn**

With significant global fixed income assets under management and a diverse client base, we are one of the largest fixed income managers in Europe. We believe high conviction macro and corporate proprietary research undertaken by our fund managers around the world, is the best way to deliver robust risk-adjusted returns and add long-term value to our clients.

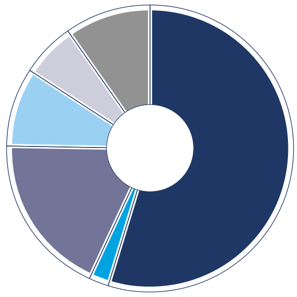
Risk oversight is fundamental as a means to reduce losses and help protect income. Our robust approach to risk monitoring ensures our portfolios are positioned to withstand a wide array of market conditions.

Review of the year

The year was characterised by bond markets remaining in fairly tight yield ranges. Volatility continued to fall through the year and political issues in Europe did not produce the risk scenarios that had concerned the markets. Fundamentally 2017 was a year when economic growth statistics beat expectations, particularly in Europe, although low inflation helped to ensure positive Government bond market performance. The environment remained supportive for corporate earnings, which drove strong returns for credit markets, while low interest rate volatility also protected returns.

Against this backdrop performance across our fixed income franchise remained solid, particularly in credit markets. Institutional demand for fixed income remains focused in corporate bonds and absolute return products, with new business flow good in these areas. There remains a need for yield, so clients are favouring emerging market debt and corporate bonds at present. Our performance was strong in both these two assets classes, and also in inflation linked bonds, which saw rising demand too from more than one region.

Multi-asset



Absolute return	£39.8bn
Diversified growth/income	£1.5bn
MyFolio	£13.3bn
Other multi-asset	£6.5bn
Parmenion	£4.4bn
Standard Life Wealth	£6.9bn
Total growth	**£72.4bn**

Multi-asset management lies at the heart of our business, enabling us to provide outcome-based solutions that meet a diverse range of client needs, such as growth, regular income, capital preservation and liability management. Core to our multi-asset approach is genuine diversification which we achieve by actively managing the blend of traditional and alternative asset class exposures, as well as advanced strategies in interest rates, inflation, currencies and volatility, that can respond to a broader range of economic drivers. Key features of our multi-asset solutions are:

- Breadth of investment coverage
- Experienced, skilled and collaborative team
- Portfolio risk and construction insight
- Access to long-term investing opportunities

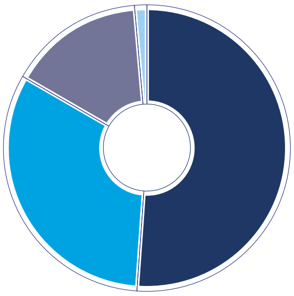
Review of the year

Absolute return strategies, e.g. GARS made good progress in recovering ground following their challenging 2016 and, while flows in this area remained negative in 2017, we have seen the start of a turnaround as investors start to question how much longer the rally in equity markets can last. These trends bode well for our multi-asset business which has proven highly attractive to investors in the wake of financial turbulence.

Our diversified growth and income portfolios enjoyed a successful year, performing well versus their peers and also gaining momentum in terms of flows.

Our MyFolio range, which competes in the risk-based fund market, experienced the largest calendar year asset inflows since inception.

Private markets/alternatives



Private equity	£12.4bn
Alternative investment solutions	£8.0bn
Infrastructure equity	£3.8bn
Private credit and solutions	£0.3bn
Total growth	**£24.5bn**

Our private markets and alternatives offering includes: private equity, infrastructure, private credit, real assets and alternative investment strategies, managed by our global investment teams. Our investment strategies range from indirect to direct, within private markets these are through fund, secondary, co-investment and direct investment activity. The alternative investment strategies capability spans across the entire range from alternative credit, traditional hedge fund strategies, liquid alternatives through to alternative risk premia. These strategies can be tailored to meet client needs.

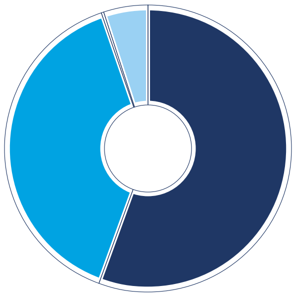
Review of the year

The merger has seen the creation of a global offering across our private markets and alternatives franchises. We continue to see strong client demand and the private markets teams have enjoyed fund raising success, including a first secured income and cash flow (private credit and real estate based) fund. We are also completing successful fund raisings for US private equity and Andean concession based infrastructure.

The alternative investment strategies business enjoyed industry recognition in winning the Institutional Firm of the Year at the Global HFM InvestHedge Awards, and fund raising success with a strong maiden calendar year for the Aberdeen Alternative Risk Premia Fund and the delivery of a number of customised programmes for institutional investors.

Looking forward, we have a number of new product offerings that are entering the market and will look to capitalise on growth and diversification opportunities across the full range of our capabilities.

Real estate



UK	£15.8bn
European	£11.1bn
Global	£0.1bn
Multi-manager	£1.5bn
Total growth	**£28.5bn**

Real estate has a track record of delivering robust, risk-adjusted returns over the long term, and can act as an effective portfolio diversifier. We offer global strategies and sector specific investment opportunities including direct real estate, listed real estate, hybrid real estate solutions, real estate debt and real estate multi-manager. High-quality original research is essential to our strategies, allowing us to select assets and markets offering the best solutions for clients based on their risk appetite and desired outcome. Following acquisition, we look to create further value by actively managing the asset. This includes ensuring operational efficiency, letting vacant space, negotiating favourable lease terms and redevelopment.

Review of the year

The UK market proved significantly more resilient than many predicted in 2017. Open ended funds experienced more stability in cash flows, while liquidity in the market remained elevated and underpinned valuation uplifts. Against this market context, demand from clients was increasingly focused on income solutions and derisking of portfolios. In a global context, the wider European market was particularly strong over the year. Increased tenant demand translated into robust income growth across our European funds. Across most of the markets, the logistics sector continues to benefit from a structural change in the delivery of goods from retailers increasing online sales. This theme underpinned our successful fund launch of the European Logistics Income plc in December 2017.

As a consequence of these market conditions, our UK funds provided robust performance for clients, while European funds generally delivered returns above client expectations.

Quantitative

We manage a range of products including passive, smart beta, and active quant strategies across quantitative equity, fixed income and derivative portfolios in all markets.

Our quantitative investment process focuses on academic research and investment theory, identifying excess risk adjusted returns and using them in our active quantitative portfolios in a systematic, cost-effective, and risk-controlled manner.

Review of the year

2017 proved to be a year when exposure to a diverse set of alternative factors proved to be an optimal risk adjusted strategy. Financially sound companies with strong balance sheets, good price momentum and earnings momentum proved to be a valuable hedge against generally underwhelming returns from value stocks. During the year our multi-factor approach to both index relative and absolute returns, which considers factors such as value, momentum, and quality among others, enhanced our already demonstrable track record of success in managing both active and passive systematic strategies.

A key priority for the year ahead is to continue to innovate our product offering. For 2018 we have an exciting product pipeline that will continue to resonate with asset owners who seek outcome-orientated products, greater portfolio diversification and competitively priced products in core categories.

Cash/liquidity

Liquidity funds are a particularly effective tool used by cash managers throughout the world, as they aim to preserve capital and often provide a return ahead of their cash benchmark. As a result, institutional investors have used them as a flexible solution for their working capital for many years. Liquidity funds can also help to diversify risk and potentially offer instant access.

Review of the year

The money market business continued to see interest from investors during the course of the year and relative performance was good compared to the competitor funds. AUM was stable and over 40 new liquidity fund clients were added. Looking ahead the combined assets in this area of the business make the Group one of the key managers of money market funds in Europe.

Revenue

Fee based revenue

On a **Reported basis**, fee based revenue increased by £375m to £1,260m (2016: £885m), including £407m of revenue from Aberdeen Asset Management in the period since the merger. This was partly offset by lower fee based revenue in Standard Life Investments reflecting the impact of net outflows in 2016 and 2017 combined with a change in the underlying asset mix.

On a **Pro forma basis**, fee based revenue remained stable at £1,912m. Aberdeen revenue year-on-year was relatively stable with the impact of net outflows broadly offset by favourable market and foreign exchange movements. Standard Life Investments revenue decreased as noted above. Performance fees represent 1% of total revenue at £26m (2016: £33m).

The average growth channel fee revenue yield has decreased slightly to 51bps (2016: 52bps), driven by a change in asset mix.

The revenue yield on the mature books remained stable at 14bps.

Revenue analysis (Pro forma basis)	**Fee based revenue**		**Fee revenue yield**	
	2017 £m	2016 £m	**2017 bps**	2016 bps
Equities	**667**	637	**68**	68
Fixed income	**145**	163	**29**	32
Multi-asset	**432**	458	**58**	59
Private markets/ alternatives	**119**	108	**41**	41
Real estate	**153**	165	**54**	57
Quantitative	**3**	3	**12**	14
Cash/liquidity	**14**	18	**7**	9
Total growth channels	**1,533**	1,552	**51**	52
Total mature books	**379**	368	**14**	14
Total	**1,912**	1,920	**33**	34

Costs

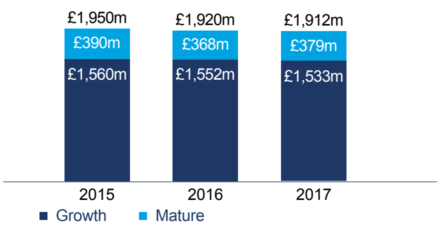
Adjusted operating expenses

On a **Reported basis**, adjusted operating expenses increased by £277m to £811m (2016: £534m). This reflects the inclusion of £276m of adjusted operating expenses from Aberdeen in the period since the merger, and stable expenses in Standard Life Investments due to a focus on costs in response to pressure on fee based revenue.

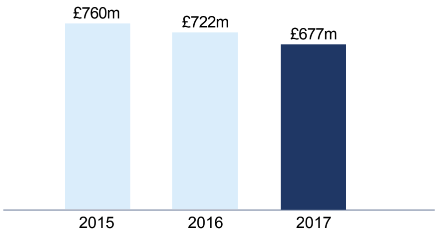
On a **Pro forma basis** adjusted operating expenses increased 4% to £1,278m (2016: £1,231m). Costs increased primarily due to the full year impact of an increase in headcount in 2016. The 2017 pre-merger Aberdeen results include a £20m one-off impact relating to the alignment of the accounting treatment of staff costs. Other cost increases were driven by additional expenses associated with the outsource of back office functions, accommodation costs, information services and research costs.

The cost/income ratio stands at 65%, compared to 63% in 2016, with the deterioration due to the increase in adjusted operating expenses and the reduction in fee based revenue.

Fee based revenue
(Pro forma basis)
£1,912m



Adjusted profit before tax
(Pro forma basis)
£677m



Profit

Adjusted profit before tax

On a **Reported basis**, adjusted profit before tax increased to £492m (2016: £386m). Of this increase, £131m relates to Aberdeen profits in the period since the merger, partly offset by lower adjusted profit from Standard Life Investments due to lower fee based revenue.

On a **Pro forma basis**, adjusted profit before tax decreased 6% to £677m (2016: £722m) as a result of increased operating expenses, with both Aberdeen and Standard Life Investments profit decreasing year-on-year.

IFRS profit after tax

On a **Reported basis**, profit for the year attributable to equity holders was £243m (2016: £259m). As a result of the merger we have incurred deal related costs of £37m and integration and merger related restructuring costs of £47m, mainly in relation to staff costs, consultancy fees and onerous lease provisions. Amortisation of intangibles and customer assets was £77m. In addition an intangible asset impairment charge of £40m has been recognised relating to the Lloyds Banking Group customer relationship.

Capital management

On a **Pro forma basis** capital management items generated a gain of £2m (2016: loss of £2m) consisting of fair value gains on investment securities of £30m (2016: £22m) largely offset by coupons paid on perpetual capital securities of £27m (2016: £26m) and net interest expense of £1m (2016: income £2m).

Profitability	**2017 £m**	2016 £m
Fee based revenue	**1,912**	1,920
Adjusted operating expenses	**(1,278)**	(1,231)
Adjusted operating profit	**634**	689
Capital management	**2**	(2)
Share of associates' profit before tax	**41**	35
Adjusted profit before tax (Pro forma basis)	**677**	722
Remove Aberdeen pre-merger	**(185)**	(336)
Adjusted profit before tax (Reported basis)	**492**	386
Adjusting items	**(151)**	(53)
Share of associates' tax expense	**(29)**	(11)
Profit attributable to non-controlling interests (preference shares and perpetual notes)	**(8)**	–
Total tax expense	**(61)**	(63)
Profit for the year attributable to equity holders of Standard Life Aberdeen plc	**243**	259

Merger integration update

When we announced the merger we originally targeted annual cost savings of approximately £200m and expected that these synergies would result in integration costs of approximately £320m in aggregate. The integration is progressing well and we have now increased this target to at least £250m of annual cost savings. The estimated integration costs have increased to around £370m in order to achieve these higher synergies.

As at 31 December 2017, actions have been taken to deliver £73m of annualised cost savings, which will begin to take effect in 2018.

Delivering long-term investment performance

Investment performance (Pro forma basis) % of AUM ahead of benchmark	**1 year**	**3 years**	**5 years**
Growth	65	59	54
Mature	77	72	81
Total	**70**	**63**	**64**

Investment performance over three years was mixed with 63% of total assets under management ahead of benchmark. Within this, 59% of growth channel assets were ahead of benchmark. Positive performance was broad based across most asset classes with solid results from our fixed income franchise and continued recovery in absolute return strategies. Relative performance within our key equity strategies was mixed over the year. Shorter-term performance over one year stands at 70% and longer-term performance over five years stands at 64% of assets ahead of benchmark respectively. The growth channel results stand at 65% and 54% over one and five years respectively. The performance results of our investment capabilities and their underlying investment processes are actively monitored and independently evaluated by our Investment Governance and Oversight team, with the insights then used to drive enhancements across our investment processes.

Stewardship and Environmental Social and Governance (ESG) integration across all asset classes

Both Aberdeen Asset Management and Standard Life Investments were committed to the belief that the assessment of material ESG factors adds value to investment performance, through both risk mitigation and opportunity identification. Now, as a combined business, we believe this is an area in which we can be an industry leader and, over the coming year, we will seek to build on our capabilities and our engagement with clients and wider stakeholders. While approaches differ by asset class, a review of the material ESG considerations impacting every investment decision is a fundamental element of all our investment processes. In addition to the integration of material factors, we also offer clients bespoke ESG and screened solutions to meet their investment needs. As an illustration of our integrated approach, in our direct real estate portfolio we achieved 21 'Green Star' ranked funds in the GRESB Real Estate Assessment, the global sustainability benchmark for real estate. Our overall performance in the assessment placed us in the top 20% of our peers.

Our equity impact offering

In October we launched our Global Equity Impact Fund which uses the 17 UN Sustainable Development Goals as a framework to invest in companies which have a positive impact on the environment and society, while generating strong financial returns. Each company included in the portfolio must intentionally direct resources towards addressing the challenges identified in the Goals. Our managers analyse the ways in which deployed resources contribute to company growth and the measurable outcomes achieved for those most affected by the problem. Stock selection involves in-depth analysis, robust peer review and active engagement. Our sponsorship of Good Money Week provided a platform for raising awareness of our new offering and our broader stewardship capabilities, together with engaging with stakeholders on these issues.

Delivering growth in Pensions and Savings

We have established a market-leading position through a long-term commitment to support the needs of our customers. Our ambition is to be customers' first choice for their life savings.

Standard Life is a leading provider of long-term savings and investment propositions in the UK and Europe.

On 23 February 2018, we announced the proposed transaction with Phoenix which is expected to complete in H2 2018, subject to shareholder, regulatory and other necessary approvals.

Under the proposed transaction we are selling our capital heavy insurance business. Importantly, we will have retained our valuable and fast growing UK retail platforms and financial advice businesses, as well as maintaining Standard Life's very important financial adviser relationships.

In the UK we offer products and services through two broad growth channels:

- **Retail:** pensions and savings where the relationship is either directly with the customer, or with their financial adviser
- **Workplace:** pensions, savings and flexible benefits to employees through their employers

We also own businesses that specialise in financial advice and risk and compliance services.

Europe consists of our domestic and international bond businesses in Ireland as well as our business in Germany.

Our valuable mature book includes UK mature Retail, which includes older fee based business that was predominantly written before demutualisation and spread/risk products, such as annuities and protection, which provide a sustained contribution to our profit.

Standard Life Pensions and Savings is an important source of assets for Aberdeen Standard Investments and has distributed 84% of total MyFolio AUM. Aberdeen Standard Investments currently manage 71% of our Workplace AUA and 17% of our Wrap assets.

In order to deliver for our customers, our 2017 priorities focused on the following four strategic initiatives:

Integrate Elevate

Our platform strategy is key to our success with advisers and the Elevate platform has been a valuable addition to our proposition. As a generalist market offering, Elevate complements our existing Wrap platform which is focused on the wealth management market. Since the acquisition of Elevate in October 2016 its AUA has grown by 16% from £11.1bn to £12.9bn. Together our platforms have combined AUA of £54.0bn, an increase of 22% (2016: £44.2bn).

Build our advice capability

Recent regulatory changes including pension freedoms mean that customers increasingly need information, advice and guidance. In response to this, we continue to grow our 1825 financial advice business which offers a full financial planning and tax advice service. 1825 aims to offer an engaging and high quality experience, focused on our clients' goals as they plan for their futures. We have completed the acquisition of four quality adviser firms to date, bringing total assets under advice in 1825 to £3.6bn, and continue to increase our national footprint having recently announced two further acquisitions.

Prepare for Brexit

When the UK leaves the EU, we aim to provide continuity of service for our existing 600,000 European customers. Our Brexit programme is complex and we are preparing for all potential scenarios. Standard Life has a strong track record of successfully adapting to changing markets and regulation and significant progress has been made so far. Our current plan is to use our subsidiary company in Dublin as a base from which to serve our existing European customers and to write new business in Ireland and Germany.

Upgrade our infrastructure

Upgrading our infrastructure is a key enabler to offer a world-class service to our customers and provide our colleagues with the best tools to do their jobs. This IT transformation will enable greater agility to meet changing customer demands and also allow for a more customer-orientated digital experience.

Adjusted profit before tax KPI

£381m
(2016: £362m)

Assets under administration KPI

£188.1bn
(2016: £171.6bn)

IFRS profit after tax

£270m
(2016: £130m)

UK cost/income ratio KPI

65%
(2016: 62%)

Net flows KPI

£4.0bn inflows
(2016: £1.5bn inflows)

Assets and flows

	Gross inflows		Net flows		AUA[1]	
	2017 £bn	2016 £bn	**2017 £bn**	2016 £bn	**2017 £bn**	2016 £bn
UK Retail[2]	**12.9**	8.1	**6.4**	3.7	**75.7**	62.9
UK Workplace	**4.2**	4.1	**1.4**	1.7	**40.2**	37.4
Europe growth fee[2]	**1.3**	1.3	**0.3**	0.5	**12.0**	10.8
Total growth channels	**18.4**	13.5	**8.1**	5.9	**127.9**	111.1
UK mature Retail[3]	**0.6**	0.6	**(3.3)**	(3.4)	**35.2**	34.9
Spread/risk	**0.2**	0.2	**(0.9)**	(0.9)	**15.1**	16.1
Europe mature fee	**0.7**	0.7	**0.1**	(0.1)	**9.9**	9.5
Total mature books	**1.5**	1.5	**(4.1)**	(4.4)	**60.2**	60.5
Total Standard Life Pensions and Savings	**19.9**	15.0	**4.0**	1.5	**188.1**	171.6

1 2016 AUA has been restated to exclude Assets not generating revenue from products of £9.9bn (£8.9bn in the UK, £1.0bn in Europe).

2 Platform AUA of £54.0bn (Wrap, Elevate and Fundzone) comprises of £51.2bn (2016: £41.7bn) reported within UK Retail and £2.8bn (2016: £2.5bn) relating to Wrap International Bond reported within Europe growth fee.

3 UK mature Retail AUA now includes Conventional with profits (2017: £0.5bn, 2016: £0.6bn).

Growth channels

UK Retail

UK Retail AUA increased by 20% to £75.7bn (2016: £62.9bn) reflecting record net inflows, which increased by 73% to £6.4bn (2016: £3.7bn), and positive market movements.

Gross inflows increased by 59% to £12.9bn (2016: £8.1bn) driven by strong demand for our Wrap and Elevate platforms. This included the benefit from growth in the pension market, boosted by individuals looking to take advantage of high defined benefit transfer values by moving to products providing the flexibility offered by drawdown and pensions freedoms. Total assets in our drawdown propositions increased by 21% to £19.8bn (2016: £16.4bn) reflecting both net inflows and positive market movements.

Retail gross outflows increased to £6.5bn (2016: £4.4bn). This is expected as the size of our proposition grows and customers make use of the drawdown functionality. However, gross outflows remain broadly stable as a percentage of opening AUA (2017: 10%, 2016: 10%).

UK Workplace

UK Workplace AUA increased by 7% to £40.2bn (2016: £37.4bn), with net inflows of £1.4bn (2016: £1.7bn). Net inflows, although positive, were lower than 2016 due to higher redemptions of £2.8bn (2016: £2.4bn). Gross inflows have increased to £4.2bn (2016: £4.1bn). As a result of auto enrolment, regular premiums have increased by 5% to £3.2bn. They provide a steady long-term source of income and account for 76% of total Workplace inflows.

Our Workplace business continues to be a source of growth for our Retail channels. In 2017, £2.2bn of Workplace AUA transferred to Retail in respect of customers leaving their company pension schemes.

Europe growth fee

Europe growth AUA of £12.0bn is up 11% (2016: £10.8bn) benefiting from foreign exchange, market movements, and net inflows of £0.3bn.

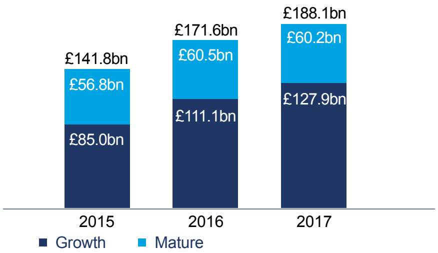
Mature books

UK mature Retail AUA increased 1% to £35.2bn (2016: £34.9bn), benefiting from positive market movements. Net outflows decreased to £3.3bn (2016: £3.4bn). Net outflows included £0.4bn of transfers to our Active Money Personal Pension product (within UK Retail).

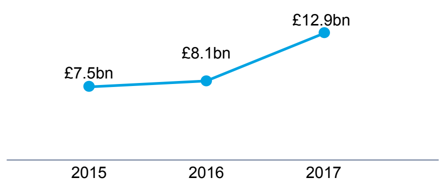
Spread/risk AUA decreased by 6% to £15.1bn (2016: £16.1bn). Net outflows from scheduled annuity payments were £0.9bn (2016: £0.9bn).

Europe mature fee AUA increased by 4% to £9.9bn (2016: £9.5bn). Europe mature fee is our German with profits book which was closed to new business in April 2015 but continues to receive regular premiums.

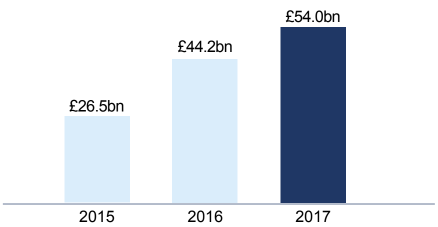
Pensions and Savings AUA
£188.1bn



UK Retail gross inflows
£12.9bn



Platform AUA (Wrap, Elevate and Fundzone)
£54.0bn



Profitability	UK		Europe		Standard Life Pensions and Savings	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Fee based revenue	**757**	664	**207**	197	**964**	861
Spread/risk margin	**159**	119	**6**	15	**165**	134
Adjusted operating income	**916**	783	**213**	212	**1,129**	995
Adjusted operating expenses	**(599)**	(487)	**(170)**	(168)	**(769)**	(655)
Adjusted operating profit	**317**	296	**43**	44	**360**	340
Capital management	**22**	23	**(1)**	(1)	**21**	22
Adjusted profit before tax	**339**	319	**42**	43	**381**	362
Adjusting items	**(82)**	(213)	**2**	6	**(80)**	(207)
Total tax expense	**(66)**	(13)	**35**	(12)	**(31)**	(25)
IFRS profit after tax	**191**	93	**79**	37	**270**	130

Revenue

Fee based revenue

UK fee based revenue increased by £93m to £757m. Fee based revenue benefited from higher asset levels due to strong net inflows within our growth channels together with positive market movements.

We remain focused on growing and diversifying our sources of revenue. In 2017, the acquisition of Elevate and the growth of 1825 have contributed £43m to the increase in fee based revenue.

The average fee revenue yield reduced to 53bps (2016: 58bps) reflecting the impact of changes to business mix, including the growing proportion of newer style propositions, and the fact that some elements of revenue do not rise in line with market-related AUA growth.

UK fee based revenue	Fee based revenue		Fee revenue yield	
	2017 £m	2016 £m	**2017 bps**	2016 bps
Workplace	**194**	185	**50**	54
Retail	**303**	228	**44**	48
UK growth channels	**497**	413	**46**	50
UK mature books	**260**	251	**75**	77
Total UK fee based revenue	**757**	664	**53**	58

Spread/risk margin

UK spread/risk margin increased by £40m to £159m. Operating assumption and actuarial reserving changes provided a benefit of £79m (2016: £38m), primarily relating to mortality assumption changes. The asset and liability management benefit in 2017 is £23m (2016: £25m) and the 2017 result also benefits from favourable mortality experience, including a £7m reserve release in respect of overseas annuitants. The 2016 result benefited from an £18m payment from our main with profits fund relating to changes to the Scheme of Demutualisation in response to the transition to Solvency II.

Costs

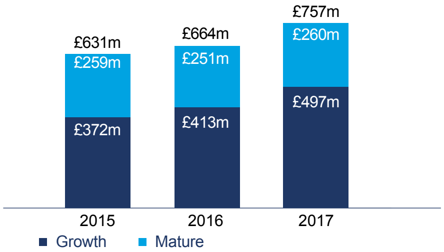
Adjusted operating expenses

UK adjusted operating expenses increased by £112m to £599m. The acquisition of Elevate in October 2016 and the growth of 1825 increased adjusted operating expenses by £42m. 2017 also includes a £31m impairment of intangible assets, which arose due to the discontinuation of part of our IT transformation project, and a £16m cost of specific remediatons. Investment expenses payable to Aberdeen Standard Investments of £96m increased by £9m, in line with higher AUA.

The UK cost/income ratio rose to 65% (2016: 62%). Excluding Elevate and 1825 the cost/income ratio rose to 62% (2016: 60%) reflecting the intangibles impairment and customer remediation.

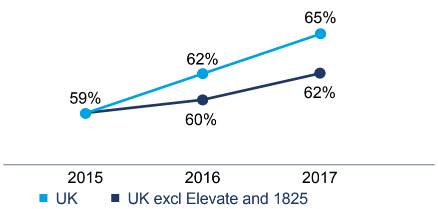
UK fee based revenue

£757m



UK cost/income ratio

65%



Profit

Adjusted profit before tax

Standard Life Pensions and Savings adjusted profit before tax increased by £19m to £381m (2016: £362m) driven by the UK result.

UK

UK adjusted profit before tax increased by £20m to £339m (2016: £319m). Strong fee based revenue growth and an increase in the spread/risk margin were offset by higher adjusted operating expenses associated with the growth of 1825 and acquisition of Elevate and the intangible asset impairment.

Europe

Europe adjusted profit before tax reduced by £1m to £42m (2016: £43m). The spread/risk result decreased by £9m, impacted by movements in mortality experience and refinements to our reserving methodology. Operating assumption and actuarial reserving changes provided a benefit of £12m (2016: £4m). The 2016 result also included the benefit of a £4m payment from our main with profits fund relating to changes to the Scheme of Demutualisation in response to the transition to Solvency II.

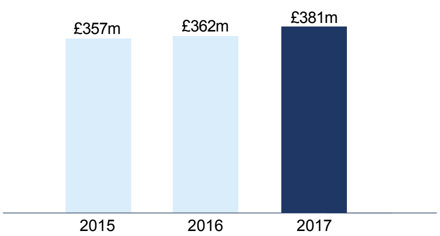
Total IFRS profit

Standard Life Pensions and Savings total IFRS profit increased by £140m to £270m (2016: £130m) mainly due to a lower loss from adjusting items of £80m (2016: £207m). Adjusting items in 2017 mainly relates to an increase in the provision for historic annuity sales practices of £100m (2016: £175m), following further analysis work and an update to assumptions based on sample testing following the receipt of the FCA redress calculator in early 2018. Restructuring and corporate transaction expenses of £38m (2016: £38m) included £24m of costs relating to the integration of Elevate, and other expenses were £9m (2016: £7m). These items were partially offset by favourable short-term fluctuations in investment return and economic assumption changes of £67m (2016: £13m).

The increased tax expense of £31m (2016: £25m) reflects higher profitability partly offset by a deferred tax credit due to revalued tax assets relating to the German business. The revalued tax assets reflect an updated transfer pricing approach based on the changed economics of that business and the expected impact of Brexit restructuring.

Pensions and Savings adjusted profit before tax

£381m



Supporting saving

Over the last decade the pensions landscape has fundamentally changed, from the introduction of auto enrolment to pension freedoms. These changes moved risk and responsibility to employees and employers – increasing flexibility but also complexity. With our knowledge, guidance, products and services, we want to help give people confidence in navigating through their financial decisions and support them in saving for their future.

Five years of auto enrolment

During 2017 we celebrated an important milestone in our journey – five years of auto enrolment. Of the nine million UK employees now auto-enrolled in a pension, one in eight are saving with us. Auto enrolment requires employers to automatically set up pensions for their employees with an option to opt out, rather than in – helping to encourage people into a saving habit.

Enhancing investment solutions

To help improve potential outcomes for over a million of our customers we made changes to one of the funds used in our 'lifestyling' investment solution. Phased switching or lifestyling, often the default investment option for pensions, was designed to help maintain the level of annuity that people can buy by gradually investing their funds in assets that change in line with annuity rates as they approach retirement. However the new pension freedoms rules mean fewer people are buying annuities and instead are remaining invested after retirement or taking lump sums, so annuity targeted lifestyling is not always the best option. These changes are all customer-driven and address the increasing choices people now have.

Vulnerable Customers Policy

We recognise that some of our customers will be facing challenges or difficulties in their lives. To ensure we identify and provide the right support and guidance to them, we've put in place our Vulnerable Customers Policy. The policy focuses on areas such as the design and promotion of our products and propositions, communications and interactions with our customers, and the training and development of our people who engage with our customers to ensure we are always focusing on our customers' best interests.

KickStart money

Research by the Money Advice Service and the UK Financial Capability Strategy shows that a significant proportion of the UK population have never received financial education and lack the skills and knowledge to effectively manage their money. To help increase the financial capability of a generation, we have joined with a number of other savings and investment firms to back an initiative called KickStart Money. This collaborative project aims to deliver financial education to over 18,000 primary school children across the UK, building a case for the impact you can have through early interventions and helping to create a national savings culture.

Standard Life Foundation

The Standard Life Foundation is a registered charity that operates separately from Standard Life Aberdeen plc. It is funded by a donation of assets remaining from Standard Life Group's demutualisation in 2006. Its activities focus on supporting independent research to help strengthen financial wellbeing and resilience in the UK.

Well positioned for growth

Through a combination of associate and joint venture life businesses we have an extensive reach in two of the fastest growing savings markets – India and China.

Our India and China life business consists of our life associate in India, HDFC Life; our life joint venture in China, Heng An Standard Life; and our wholly owned business in Hong Kong. The results of our Indian asset management associate business, HDFC Asset Management Company, are included in the Aberdeen Standard Investments section of this Strategic report.

Our operations in India and China continue to strengthen and are well positioned for future growth in the region.

Recognising the value of our life associate in India

HDFC Life is currently one of India's leading life insurance companies with an 18.4% market share in the private sector for the nine month period to December 2017. It provides innovative insurance and savings solutions to over 50 million lives insured from individual and group customers.

In November 2017, HDFC Life listed on the National Stock Exchange of India and the Bombay Stock Exchange through an initial public offering (IPO). As part of the IPO, we sold 5.4% of shares in HDFC Life for net proceeds of £359m. We continue to maintain a significant shareholding of 29.3% in HDFC Life. The aim of listing HDFC Life has been a long standing strategic objective providing improved visibility of the value of our shareholding and allowing the business to move to the next stage of its development.

India remains of strategic importance to Standard Life Aberdeen. It is currently one of the fastest growing economies in the world, with the IMF expecting GDP to grow at 7.4% in 2018 and 7.8% in 2019. We continue to be encouraged by the future outlook for the life insurance market in India. Demographic factors such as a growing middle class, young insurable population and increasing awareness of the need for protection and retirement planning are anticipated to support the growth of the life insurance and pensions industry in India.

Positioned for future growth in China and Hong Kong

Heng An Standard Life, continues to build a sustainable and profitable business by offering a range of insurance and savings products to a growing customer base in mainland China. Both profitability and sales are well ahead of 2016.

The Chinese insurance market has grown in recent years to become the second largest in the world and we believe that the prospects for future growth remain very positive, driven by an expanding middle class and wealthy population who are living longer. Heng An Standard Life (HASL), through its extensive sales network and product range, is well positioned to meet this need. It also continues to investigate opportunities to increase its presence in the growing pensions market and has now submitted an application to the China Insurance Regulatory Commission for a new pension insurance company licence.

In March 2017, we announced the proposed sale of Standard Life (Asia) Limited, our wholly owned Hong Kong insurance business to HASL, our 50% owned Chinese joint venture, subject to regulatory and other approvals being obtained in Mainland China and Hong Kong. We expect the process to complete in 2018. The proposed transaction supports our goal to pursue a wider China and Hong Kong strategy leveraging the position we have built through Standard Life (Asia) and our interest in HASL. The strengths of both businesses are complementary, with the proposed transaction enhancing HASL's current skills and services while improving the distribution model and range of products of Standard Life (Asia). Upon the completion of the transaction, Standard Life (Asia) would become a wholly owned subsidiary of HASL.

Adjusted profit before tax

KPI

£59m
(2016: £36m)

Assets under administration

KPI

£4.8bn
(2016: £4.6bn)

Net flows

KPI

£525m inflows
(2016: £408m inflows)

IFRS profit after tax

£315m
(2016: £31m)

Assets and flows

Total AUA increased by 4% to £4.8bn reflecting net inflows and favourable market movements. In HDFC Life AUA increased to £3.5bn (2016: £3.4bn). A strong increase in HDFC Life's AUA was partly offset by the reduction in our shareholding following the IPO in November 2017. The drop in shareholding reduced our share of HDFC Life's closing AUA by £0.6bn.

AUA in Heng An Standard Life remained stable at £0.6bn (2016: £0.6bn) and Hong Kong increased to £0.7bn (2016: £0.6bn).

Net inflows continued to increase in our associate and joint venture businesses to £511m in 2017 (2016: £362m). Net inflows in HDFC Life increased to £421m (2016: £295m) and net inflows in Heng An Standard Life increased to £90m compared to net inflows of £67m in the prior year.

In Hong Kong, net inflows decreased to £14m (2016: £46m) as a result of lower premium income from regular premium business and higher redemptions.

Revenue

HDFC Life continues to leverage technology and a balanced product mix delivering a strong 19% growth in premium income year-on-year. With a continued focus on protection business and a diversified distribution network, new business market share was 18.4% of the private market and cross-selling formed 7% of the individual new business policies sold for the nine month period to December 2017.

Heng An Standard Life's individual new business sales have increased by 34% compared to 2016.

In Hong Kong fee based revenue decreased by £5m due to lower regular premium business which we stopped selling in 2015. This reduction is expected, as regular premium business generates most of its revenue during the first two years from policy issue date.

Costs

In Hong Kong, we continue to manage costs whilst investing in new propositions as the business prepares for the completion of the transaction with HASL.

Profit

Adjusted profit before tax increased to £59m driven by an increase in adjusted profit from HDFC Life to £48m (2016: £34m) and an increase in Heng An Standard Life to £10m (2016: £7m). The results benefited from continued growth in premium income and favourable exchange rate movements.

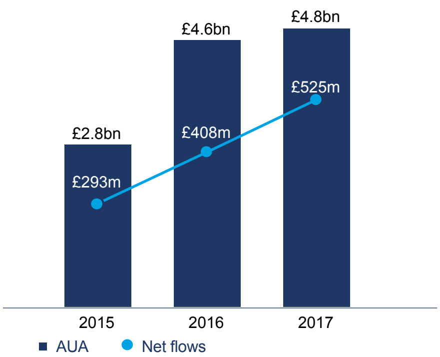
Adjusted profit before tax in Hong Kong is £1m (2016: loss of £5m).

IFRS profit after tax increased to £315m (2016: £31m) mainly due to gains in adjusting items of £268m (2016: loss of £3m). Adjusting items in 2017 include the £302m gain on disposal of shares in HDFC Life in November 2017 through the IPO and the £24m impairment loss recognised in H1 2017 relating to the proposed sale of our wholly owned Hong Kong insurance company to HASL.

Profitability	**2017 £m**	2016 £m
Hong Kong fee based revenue	**12**	17
Hong Kong adjusted operating expenses	**(11)**	(22)
Adjusted operating profit before tax	**1**	(5)
Share of associates' and joint ventures' profit before tax	**58**	41
Adjusted profit before tax	**59**	36
Share of associates' and joint ventures' tax expense	**(12)**	(2)
Total adjusting items	**268**	(3)
Total tax expense	**–**	–
IFRS profit after tax	**315**	31

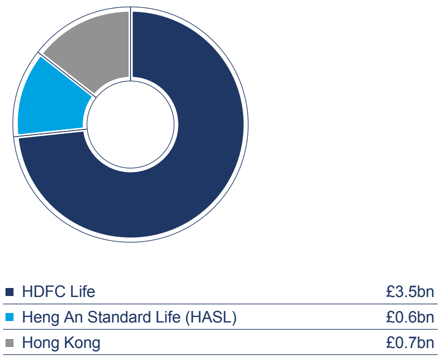
Note: Results are presented on the basis of Standard Life Aberdeen ownership percentages during 2016 and 2017 and do not include the 38.2% share in HDFC Asset Management which is included in the results for Aberdeen Standard Investments. HDFC Life ownership was c26% until the end of April 2016, c35% from May 2016 to October 2017 and then 29.3% thereafter. Heng An Standard Life ownership is 50% and Hong Kong is 100%.

AUA and net flows



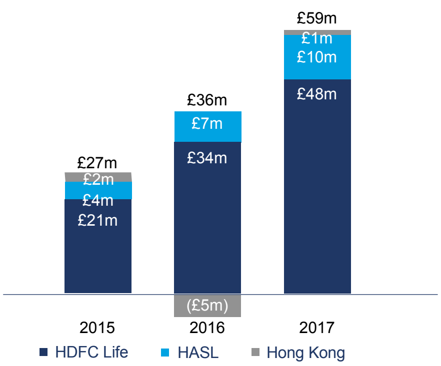
AUA split by business

£4.8bn



Adjusted profit before tax

£59m



Strong risk management will enable delivery of our strategy and allow us to manage business headwinds

The merger and the announcement of the proposed sale of our capital heavy insurance business presents a unique opportunity to enhance our overall risk framework. This is essential in an environment which continues to be uncertain and challenging.

Our approach to risk management

The merger and proposed sale of our capital heavy insurance business has accelerated our transition to becoming a world-class investment company. Effective risk management is an essential part of delivering this strategy.

Our approach to effective risk management is predicated on strong risk awareness and risk accountability across all lines of defence in our business. We believe this approach will deliver long-term value for our clients, customers and shareholders, and protect their interests.

We aim to ensure that:

- Well informed risk-reward decisions are taken in pursuit of our business plan objectives
- Our fiduciary responsibilities are prioritised
- Capital is delivered to areas where the most value can be created from the risks taken

The evolution of our business provides an opportunity to enhance our risk management approach, ensuring that the business continues to raise standards in risk management as we build a world-class investment company.

Our risk framework operates through a well-embedded risk culture, effective risk control processes, robust risk governance, sound financial management and active monitoring of risks. The pace of change in the business and risk environment, and the threats and opportunities arising from it, mean we regularly review and adapt our methods to ensure we are well placed to anticipate future areas of risk and prepare appropriately.

As a result of the increased asset management focus of our business, the Internal Capital Adequacy Assessment Process (ICAAP) now plays a larger part in our risk management processes for the Group.

Business and risk environment

The merger has resulted in a material change to the risk profile of the Group. Once completed the proposed sale of our capital heavy insurance business will simplify our risk profile but in the short term it creates additional challenges. Whilst the most significant risks affecting the Group are currently largely unchanged, there are heightened exposures to a number of key risks, particularly those arising from internally driven change and the proposed sale.

Given the increased asset management focus of the Group, delivering consistently strong investment performance will be fundamental to our success. Failure to deliver this may cause clients and customers of affected funds to reduce or withdraw their investments. While markets have performed well, they remain vulnerable to sharp reversals. Increasing geopolitical concerns, particularly across emerging markets, an important location for the Group, may lead to further market uncertainty. We continue to have robust investment practices in place so we are prepared for whatever market conditions we face.

Integration of our asset management business presents its own unique challenges. The strength of Standard Life Aberdeen is built on our people; therefore, the continued success of the Group will be dependent on successful cultural integration and retention of key talent. Organisational changes to support the delivery of planned synergies are taking place and we are ensuring that clear and consistent information is provided to our people to remove any uncertainty.

The scale of the integration programme, and the required resource and management focus, presents distraction risks that have the potential to impact on business as usual activities, strategic priorities and delivery of planned integration synergies. We have undertaken careful resource planning, with business leaders and risk committees providing oversight. In the short term our transaction with Phoenix will add to these pressures.

The regulatory agenda continues to evolve with increasing focus from UK and EU regulators on value for money and competition. The FCA Asset Management Market Study and Investment Platforms Market Study have potential to impact core growth areas for the Group. We are directly engaged with our regulators to make sure that our knowledge and experience are considered in the decisions taken.

Our industry is experiencing an increase in the volume and complexity of regulatory driven change. Also, keeping pace with the increasingly varying demands from clients and customers requires design and delivery of a growing programme of change. Our business is experiencing some challenges over delivery of aspects of our change portfolio and we are addressing these as a matter of urgency.

Our ambition is to be an industry leader in conduct governance and delivery of fair client and customer outcomes. This will be achieved through a strong conduct risk culture. In 2017, management and the Board worked with an external party to benchmark our conduct risk management framework. We are working on the actions identified to help us meet our conduct ambition. We have continued to address the outcomes of the FCA thematic review of annuity sales and the past business review will be fully operational during 2018.

Due to our increased profile and global footprint, the possibility that we fall victim to cyber-attacks has increased. However, we maintain heightened vigilance and continue to enhance our cyber defence capabilities.

The departure of the UK from the EU in 2019 will have major implications for our business. Whilst negotiations between the UK and EU are progressing, the final outcome is still unclear. Drawing on our larger EU-27 footprint post-merger, we are better placed to address some of the challenges faced by our asset management business. Contingency plans will ensure consistent and continuous service to our EU-27 clients and customers, and we have a strong track record of successfully responding to changing circumstances.

Our principal risks and uncertainties

The specific risks we face as a business are driven by what we choose to do and how we do it, as well as the wider environment in which we operate. We group these risks into six categories: Strategic, Operational, Conduct, Regulatory and legal, Financial market and Demographic experience.

From these categories we identify our principal risks. These are not an exhaustive list of all the risks Standard Life Aberdeen faces, but rather those we currently believe have the greatest potential to affect our business model, future performance, solvency or liquidity. The principal risks give consideration to those previously identified by Standard Life Group and Aberdeen Asset Management PLC and were subject to robust assessment by the Board.

As our strategic development continues and we respond to changes in the external environment, it is to be expected that both the risks themselves and their relative importance may change.

Risk governance

Enterprise risk management framework

Standard Life Aberdeen's enterprise risk management (ERM) framework enables a risk based approach to managing our business. It integrates concepts of strategic planning, operational management and internal control, and incorporates the following framework elements:

- **Risk culture:** The way we think and act as individuals and as a business. It encompasses our attitudes, capabilities and behaviours towards risk. Our culture drives how we identify, understand, openly discuss and act on current and future risks.
- **Risk control process:** The practices by which we manage financial and non-financial risks within Standard Life Aberdeen. They are used to identify, assess, control and monitor risk.
- **Strategic risk management:** This forms an integral part of the strategic planning process and is directly linked to our corporate objectives. It supports the development of long-term value by ensuring well informed risk-reward decisions are taken in pursuit of our business plan, and that capital is distributed to the areas where most value can be created from the risks taken.
- **Risk and capital models:** The models that we use to measure our risk exposures and capital position and the work that we do to test and understand the sensitivity of these positions
- **Emerging risks:** The aim of emerging risk management is to identify risks before they materialise to help us anticipate future threats. This gives us time to engage with the risk, understand it and respond accordingly. Our screening process looks across broad sources of risk, including geopolitical, technological, environmental and societal, and informs stress testing and capital adequacy requirements across Standard Life Aberdeen.

Internal risk and capital assessment process

Our ERM framework is underpinned by our internal risk and capital assessment processes. As required under Solvency II, the Group and its European Insurance entities carry out Own Risk and Solvency Assessment (ORSA) processes. As mandated under the Capital Requirements Directives, ICAAP processes are also conducted and these now play a larger part in the Group post-merger.

The ORSA and ICAAP processes inform and develop:

- Our understanding of the current and potential risks to the business over product lifecycles. This includes both financial and non-financial risks and their potential to affect both long and short-term value.
- Our appetite to accept these risks and how we manage them
- Our internal assessment of current solvency and capital requirements with respect to the risks
- A forward-looking assessment of the risk and solvency needs of Standard Life Aberdeen over a multi-year time horizon in light of business plans, considering a range of stress scenarios

Our internal risk and capital assessment process plays a key role in supporting decision making and strategy development at our boards and risk committees.

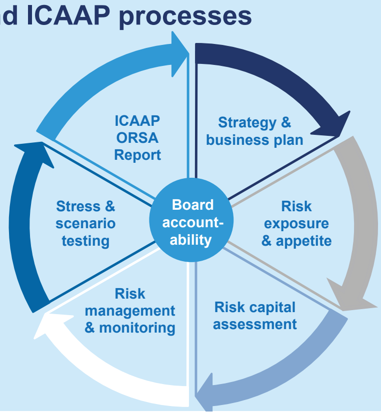
Three lines of defence

We operate a 'three lines of defence' model of risk management, with clearly defined roles and responsibilities for individuals and committees:

- **First line:** Day-to-day risk management, including identification and mitigation of risks and maintaining appropriate controls, is delegated from the Board to the Co-Chief Executives and, through a system of delegated authorities and limits, to business managers
- **Second line:** Risk oversight is provided by the Chief Risk Officer and supported by the specialist Risk and Compliance function across Standard Life Aberdeen, as well as through established risk committees such as the Enterprise Risk Management Committee (ERMC) and with reporting to the Risk and Capital Committee (RCC). The majority of members of the ERMC are senior first line representatives. Independent oversight is provided by non-executive Directors on the RCC.
- **Third line:** Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by our internal audit function. This is independent from all other operational functions. It operates subject to supervision and challenge by the Audit Committee.

Strategic delivery embedded in risk framework

ORSA and ICAAP processes



Strategic risk

Our definition and appetite

We define strategic risk as any risk which threatens the achievement of our strategy through poor strategic decision making, implementation or response to changing circumstances. We recognise that core strategic activity brings with it exposure to strategic risk. However, we seek to proactively manage and control these exposures.

The risks to our business and how they have evolved in 2017 | Our approach in managing these risks | Link to strategy

Investment Performance

Our strategy relies on generating sustainable long-term value for our clients and customers. This is underpinned by strong long-term investment performance through active management.

The investment management industry is very competitive. The increased size of our asset management business means that any sustained period of actual or perceived underperformance may have an adverse impact on our ability to grow assets under management and administration, retain existing assets, and could increase the level of outflows across our business.

Merger integration poses an additional risk to performance in the short term as teams are reconfigured and systems integrated. We believe these enhancements to our operating model will help deliver long-term performance outcomes for our clients and customers.

Whilst investment performance delivered by our asset management business was mixed in 2017, our continued focus on enhancing our processes aims to stabilise investment performance over 2018.

- Our investment philosophy is driven by rigorous, robust and well-tested investment processes and approaches
- Our Investment Management Committee provides strong leadership and direction, combined with strong governance and oversight of investment processes
- We regularly engage with our clients and customers on service and performance
- We review our internal processes and investment decisions in light of results on an ongoing basis
- Our Investment Risk review and challenge is carried out independently of our fund managers

Developing strong relationships with customers and clients

Broadening and deepening our investment capability

Growing and diversifying our revenue and profit

Strategic Transition and Delivery

The integration of our asset management businesses and proposed sale of our capital heavy insurance business are accelerating delivery of our strategic vision to create a world-class investment company.

There is a risk that we fail to deliver long-term value for shareholders because we are unable to successfully deliver through the significant complexities introduced by merger integration.

Our strategic transition is underpinned by our ability to meet market expectations of a successful merger, swift cultural integration of the investment business, and achieving the cost benefits committed to without encountering material dis-synergies. There is a risk that delivery of merger integration distracts us from business as usual activities, such as successfully delivering our business plan and delivering fair outcomes for our clients and customers.

- Our Board and executive committee have responsibility for our corporate strategy and execution of a single strategic plan
- Our Chief Strategy Officer has responsibility to support further development of our strategy
- Inorganic growth opportunities are assessed for alignment with strategic priorities
- We have a track-record in running corporate change programmes that are well-governed where there is active engagement and oversight from second and third lines of defence

Impacts all areas of strategy

Distribution and Client Management

There are elevated client retention risks for Aberdeen Standard Investments immediately post-merger. Merger-related uncertainty may continue for longer than expected and could impact on net flows, profits and client retention.

We provide fund management for many clients where the funds or client contracts permit investors to withdraw a proportion or all of their investment with no, or short periods of, notice. Material withdrawals by large clients can have adverse effects on profits of the Group, although the magnitude of any impact would be dependent on the margins associated with the funds withdrawn.

The changing profile and requirements of clients, coupled with uncertainties generated by the merger, is a trend which may continue to have a significant impact on our business.

In the short term the proposed sale of our capital heavy insurance business may impact on customer flows as the implications of the proposed sale are assessed by our distribution partners.

- We have a global network of offices with business development and product specialist teams focused on local client relationships, sales and capabilities
- Across the Group, there are a range of committees responsible for protecting client and customer interests covering a range of issues including Conduct, Conflicts and Pricing
- There are first line processes for ensuring that client marketing materials are consistent with products and capabilities. These are overseen by second line assurance activity.
- We are investing in digital technology to enhance our overall service proposition and deepen our client and customer relationships
- We will communicate clearly to our distribution partners the benefits of our reshaped firm and our strategic partnership with Phoenix

Developing strong relationships with customers and clients

Building an efficient and effective business

Growing and diversifying our revenue and profit

Trends

Increase

Decrease

Stable

Link to strategic priorities

Developing strong relationships with customers and clients

Broadening and deepening our investment capability

Building an efficient and effective business

Growing and diversifying our revenue and profit

Attracting, retaining and developing talented people

Strategic risk continued

The risks to our business and how they have evolved in 2017 | Our approach in managing these risks | Link to strategy

Client and Customer Preferences and Demand

Continuing client and customer demand for our propositions is fundamental to achieving the flows and margins anticipated in our business plan. We are therefore exposed to the risk that our propositions fail to meet the needs and expectations of clients and customers.

Growth in passively-run index trackers continues to gain pace, which has the potential to impact on our asset management business; however, our proposition offering continues to grow, with developments on existing and new propositions being informed by client demand.

The evolving preferences and demands of clients and customers for a varied proposition offering and high-quality level of service will continue to have a significant impact on our business.

- The development of our new and existing propositions start from the customer or client need
- We regularly seek customer feedback on our performance and use focus groups to help with proposition development
- We invest in initiatives to build trust and long-term relationships with customers
- The Aberdeen Standard Investment Solutions team works with all investment divisions and distribution to provide bespoke client solutions and strategic research, enabling us to meet the growing demand for outcome driven propositions

Developing strong relationships with customers and clients

Broadening and deepening our investment capability

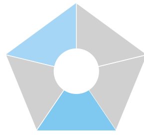
Political Change

Political change has the potential to impact the business through the introduction of new laws or regulations, or indirectly by altering client and customer sentiment. Decisions taken by the UK and Scottish governments, along with those in other locations where we operate, can significantly alter circumstances and change the way we do business.

Our business has increasingly large numbers of subsidiaries around the world which expose us to a wider range of geopolitical risks. Geopolitical unrest can also adversely affect global markets which can directly impact on our ability to grow assets under management and administration.

The ongoing negotiations surrounding the UK's exit from the EU have yet to provide clarity on what the outcome will be for the UK or Europe. These unavoidable uncertainties and our potential failure to adequately prepare for Brexit could have significant customer, reputational and capital impacts.

- While Standard Life Aberdeen is strictly apolitical, we engage with government ministers, politicians and officials on a regular basis to represent the interests of our stakeholders. We also work closely with our trade organisations and contribute to formal consultations on policy issues.
- Political risks are considered under our stress and scenario testing programme (which includes both quantitative and reverse stress testing) and emerging risk process
- Detailed contingency planning is in place to manage the consequences of Brexit



Building an efficient and effective business

Attracting, retaining and developing talented people

Operational risk

Our definition and appetite

We define operational risk as the risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, or from external events. We accept a degree of exposure to operational risk where exposures arise as a result of core strategic activity; however, we have no appetite for systemic operational risk and large operational losses. The Group will seek to manage existing operational risk exposures and proactively control new exposures, making resource available where required.

Talent Management

The strength of our business is built on our people. It is essential that we continue to attract and retain a diverse workforce with the skills and experience that we need to deliver our business plans.

The continued success of the Group will be dependent on successful cultural integration of our asset management business and retention of key talent. We are exposed to the risk that the proposed sale of our capital heavy insurance business and merger integration activity will result in unplanned departures of key individuals and an inability to replace them with individuals who possess the right skills and experience.

Uncertainty around the UK's exit from the EU and higher income tax rates for Scottish rate taxpayers compared to the rest of the UK may impact our ability to attract and retain staff.

The trend reflects the increasing risk of disengagement of employees and loss of key talent while organisational structure changes progress.

- We regularly benchmark our terms and conditions against the market
- We maintain succession plans for key individuals which are regularly reviewed
- We continue to work towards meeting the commitments made under the Women in Finance Charter
- Our new global internal idea-sharing platform, Ignite, engages our people and gives them the chance to innovate and offer solutions to some of the opportunities and challenges we face
- We operate a global model thereby reducing the reliance on single pools of talent and individuals
- We utilise employee networks to support development and social mobility for minority groups

Broadening and deepening our investment capability

Attracting, retaining and developing talented people

Operational risk continued

The risks to our business and how they have evolved in 2017 | Our approach in managing these risks | Link to strategy

Change Management

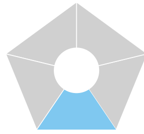
Our strategy and business plan is dependent on delivery of a large, complex, and growing change portfolio. We face a significant challenge to deliver this against a backdrop of increasing regulatory change, competing demands for resource, and demand to support strategic initiatives underpinning our growth plan.

We are exposed to the risk that change takes longer or costs more than expected or that the change does not meet its intended objective. These risks are amplified by the complexity of solutions required for some key projects and by the resources and attention demanded by the merger integration.

Delivery of aspects of our change portfolio has proved to be particularly challenging, notably delivery of key IT change projects, and these issues are being addressed as a matter of urgency.

We are experiencing an increased level of activity arising from regulatory changes. Our expectation is that high volumes of regulatory change are set to continue.

- Change management forms part of our operational risk management framework, under which change is managed, reported and implemented
- Project and change management governance processes are well embedded in our business
- In recent years, our business has built up significant experience of successfully responding to change, whilst continuing to develop market-leading propositions for customers



Building an efficient and effective business

IT Failure and Security, including cyber risk

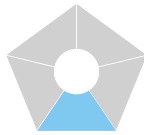
From an internal perspective, our business relies on a wide range of IT systems and requires greater use of online functionality to meet customer preferences, improve efficiency and manage costs. This exposes us to the risk of failure of key systems, and cyber-attacks.

There is also a risk that the technical capability of our IT systems may not scale with business demand nor keep pace with requirements, resulting in degraded systems performance, or inability to serve client and customer demands.

Externally, 2017 saw a number of industries and countries falling victim to cyber ransomware attacks. Over time the increased size, brand familiarity and global presence of the Group means we may become a more high profile target for cyber-attacks, increasing the risks associated with data security and data management. Additionally, we are exposed to collateral cyber risk in relation to our partners falling victim to cyber-attacks.

For a period after the proposed sale of our capital heavy insurance business, Phoenix will be an outsource service provider for certain IT services.

- We continue to invest in modernising our IT infrastructure via internal change programmes
- We work with specialist external cyber risk experts to identify new risks and develop our response to them
- IT failure, security and cyber risk are considered under our stress and scenario testing programme and emerging risk process
- We maintain appropriate business continuity and contingency plans which have been independently certified to International Standard ISO22301. These are regularly reviewed and tested.
- We will establish detailed and specific oversight processes in relation to Phoenix's provision of IT services



Building an efficient and effective business

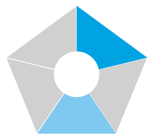
Oversight of Third Parties

We use a number of outsourcing partners to operate and deliver core systems, capabilities and processes. There are a number of significant relationships which include Citigroup and BNP Paribas for our asset management business and FNZ's role in the delivery of platform functionality for our Pensions and Savings business. For a period after the proposed sale of our capital heavy insurance business, Phoenix will be a key outsource service provider for certain IT services.

The failure of a material outsourcing provider could lead to significant costs and disruption to our operations, clients and customers until we recover the situation or put alternative solutions in place.

As the volume of outsourcing and exposure to outsourcing partners increases, so too does our exposure to the risk culture, framework and risk performance of these businesses.

- Our outsourcing and third party management policies set out the service standards to which we hold our outsource providers
- We maintain strong relationships with external providers to ensure that the risks arising are well understood
- Outsourcing risks are considered under our stress and scenario testing programme
- We continue to refine our approach to oversight of third parties as their changing business models affect the risk profile of the Group



Developing strong relationships with customers and clients

Building an efficient and effective business

Operational risk continued

The risks to our business and how they have evolved in 2017	Our approach in managing these risks	Link to strategy

Process Execution Failure

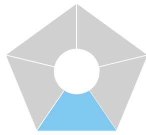
Failure or poor execution of significant operational processes in accordance with their design may result in unfair customer outcomes, operational losses, reputational damage, the potential for remedial costs or a requirement to hold increased capital.

We recognise that process execution failure is a significant risk for our asset management business, particularly in relation to trade execution, collateral management and client money processes.

Due to the long-term nature of our Pensions and Savings business we are not only at risk of new process execution failures but also those related to historic activities.

Our robust risk control processes ensure the effective management of this risk and we view the trend as stable.

- We have a fully embedded three lines of defence risk management model where there is an emphasis on first line risk accountability
- Self-assessment of the design and performance of controls by managers on a quarterly basis helps strengthen accountability in the first line
- Our Operational Risk team provides effective oversight and challenge of the management of process controls
- Client and investment mandate restrictions are automated as much as possible to reduce areas where judgement or manual intervention is required
- Investment in our system capabilities and business processes helps mitigate the risk



Building an efficient and effective business

Conduct risk

Our definition and appetite

We define conduct risk as the risk that through our behaviours, strategies, decisions and actions the business delivers unfair outcomes to our customers/clients and/or poor market conduct. We have no appetite for unfair customer outcomes or poor market conduct, whether through deliberate or negligent actions. Where unfair outcomes arise, the Group will put it right in a fair and prompt manner.

Client and Customer Outcomes

We are exposed to the risk of delivering unfair client and customer outcomes as a result of our business not acting in their best interests. This can also lead to significant reputational damage and material financial losses for our business.

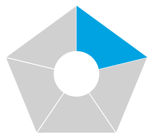
Fair customer outcomes remained the subject of close regulatory scrutiny in 2017. We support the regulatory agenda to drive better customer outcomes. Our ambition to be an industry leader in conduct governance and delivery of fair customer outcomes will be tested by the constantly changing expectations of customers and by the expectations of regulators and third parties.

As we progress through the merger integration process, proposed sale of our capital heavy insurance business and transition to a world-class investment company we must ensure that we support the integrity of financial markets and effectively manage any conflicts of interest across different parts of our business to support fair outcomes for customers.

As outlined on page 52, over 2018 we will continue to address the outcomes of the FCA thematic review of annuity sales. Our next step is to engage with our customers to obtain all relevant information to aid the review of in-scope non-advised annuity sales, in order to deliver timely and fair outcomes for our customers. Determination of this provision is a critical accounting estimate. Further details on this judgement are discussed in the Audit Committee report and in Note 38 of the Group financial statements section in the Annual report and accounts 2017.

Striving to achieve higher standards in delivering fair customer outcomes could expose the Group to the risk that achieving them will take longer than planned, leading to our assessment that this risk is increasing.

- Our Standard Life Aberdeen Code of Conduct sets out the standards required of colleagues and mandatory training embeds this across the business
- Our Conduct Risk Policy helps to ensure that the standards and outcomes we set are implemented consistently across the business
- The Board annually reviews the Risk Appetite Framework which sets out our key controls and mitigants for Conduct Risk
- Strong oversight and challenge is provided by our Conduct and Compliance team and Conduct Risk governance committees
- Conduct Risk management information will continue to be embedded in the business and is subject to continuous improvement to enhance underlying metrics and benchmarks
- We maintain a strong and open relationship with the FCA and other regulators
- Ensuring fair treatment of our clients and customers is continually reinforced through the culture of Standard Life Aberdeen



Developing strong relationships with customers and clients

Regulatory and legal risk

Our definition and appetite

We define regulatory and legal risk as the risk arising from violation, or non-conformance with laws, rules, regulations, prescribed practices or ethical standards which may in turn expose the Group to fines, payments of damages, the voiding of contracts and damaged reputation. We have no appetite for wilful breaches or violations of regulatory and legal requirements or prescribed practices. However, we do accept that minor infringements or breaches of compliance may happen from time to time. These will be remedied as soon as practicable, ensuring that customers' best interests are put first.

The risks to our business and how they have evolved in 2017 | Our approach in managing these risks | Link to strategy

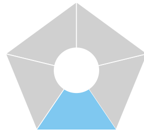
Regulatory and Legal

The industry in which we operate is highly regulated and our large global footprint exposes us to an increasing number of regulatory regimes.

New or changing regulations can create opportunities for our business. However, the congested regulatory horizon has the potential to impact core growth areas for the Group, including asset management and platforms. The busy and demanding regulatory horizon can also distract the business from delivering initiatives to support growth. This can increase compliance costs, impact profitability and demand for our propositions.

The increasing trend reflects the potential for the evolving regulatory agenda to significantly impact key growth areas of the business.

- Ongoing regulatory compliance is governed via our Standard Life Aberdeen Policy Framework
- We operate a programme of ongoing monitoring to provide assurance of regulatory compliance
- We maintain strong and open relationships with our regulators and engage early with areas of potential regulatory change
- Regulatory changes are considered under our stress and scenario testing programme and emerging risk process



Building an efficient and effective business

Financial market risk

Our definition and appetite

We define financial market risk as the risk of adverse financial market movements resulting in a financial loss. We have appetite for market risk exposures where exposures arise as a consequence of core strategic activity. We have limited appetite for significant losses arising from counterparty failures, but have an appetite for credit risk to the extent that acceptance of this risk optimises our risk adjusted return. We will maintain sufficient balance sheet capital and liquidity to be able to meet our liabilities when due, under both normal and stressed conditions.

Market Risk

Our business may be materially adversely affected by volatility in global markets. We are exposed to market risk from the direct investment of shareholder assets, indirectly from funds managed by our asset management business and with profits funds in our Pensions and Savings business, and as a result of fluctuations in fees that we earn.

The merger and proposed sale continue our significant shift towards a fee based model. This results in heightened exposure to the performance of financial markets which can impact on asset values as well as investor sentiment.

One characterisation of the market environment is that while markets have performed well, there are concerns about rising market complacency, leaving markets vulnerable to sharp reversals.

Future adverse market movements may arise from the outcome of negotiations for the UK leaving the EU; the continuing low yield, low interest rate environment; and increasing geopolitical concerns.

The stable trend reflects the current resilience of markets and our robust capital and solvency position to manage any market volatility.

- We set limits for market risk exposures where this is appropriate
- We use our stress and scenario testing programme to understand our sensitivities to markets and identify mitigating actions
- We are strongly capitalised and able to withstand increased capital costs due to Brexit and the merger
- Hedging is used to manage market risks faced by policyholders in our with profits funds where appropriate

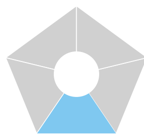
Growing and diversifying our revenue and profit

Liquidity Risk

The risk that we face is that there is insufficient liquidity available to meet our liabilities as they fall due. Costs associated with the integration of our asset management business and Brexit may depress the availability of liquid resources for the Group in the short term.

Our forward-looking projections, including the expected cost synergies from merger and sale activity, indicate that we expect to manage liquidity risk on an ongoing basis.

- The proposed sale of our capital heavy insurance business will strengthen our liquidity resources
- Significant one-off receipts from a sub-debt issue and HDFC Life IPO proceeds in 2017 strengthened resources in the short term
- We are strongly capitalised and able to withstand increased capital costs due to the merger and Brexit
- We perform regular monitoring of liquidity projections and management actions exist which could be taken in adverse scenarios
- Our stress and scenario testing programme provides forward-looking insight and ensures proactive management of liquidity risks



Building an efficient and effective business

Financial market risk continued

The risks to our business and how they have evolved in 2017 | Our approach in managing these risks | Link to strategy

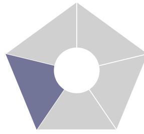
Counterparty Failure

The Group has substantial exposures to a number of counterparties and is exposed to the risk that counterparties we hold money, bonds or commercial real estate loans with fail, which could cause immediate financial loss or a reduction in future profits.

Exposure to counterparties predominantly originates in our Pensions and Savings business. The merger creates no material change in this risk, and hence this risk has reduced in relative size. The proposed sale of our capital heavy insurance business will significantly reduce this risk to the Group.

We have effective processes in place to manage counterparty risk.

- Our credit risk management policy sets out the standards that must be complied with
- Limits for individual counterparties are overseen by our Group Credit Risk Committee
- Where appropriate, counterparty exposures are collateralised and internal credit assessments used
- Reverse stress testing is used to understand the risk associated with counterparty exposures
- Exposures are proactively monitored with mitigation action taken where necessary



Growing and diversifying our revenue and profit

Demographic experience risk

Our definition and appetite

We define demographic experience risk as the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from that expected. We have limited appetite to fail to meet business plan targets due to increased outflows, reduced margin or new business, expenses exceeding planned spend or revenue falling below that necessary to cover actual expenses. We have an appetite for longevity, mortality and morbidity risks since we expect acceptance of these risks to be value additive.

Longevity Risk

There is a risk that our annuity customers live longer than we expect. The large back-book of annuities in our Pensions and Savings business means we still have a material exposure to longevity risk.

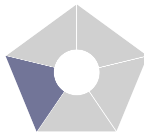
In 2017, our annuity sales continued to fall due to the impact of Pension Freedoms and our decision in November 2016 to restrict annuity sales to existing customers only.

Our longevity risk continues to decrease over time as our existing annuity book steadily runs off and we continue to experience a weakening of historic trends for the rate of improvement in average UK life expectancy. The proposed sale of our capital heavy insurance business will remove this source of longevity risk.

We are also exposed to longevity risk from our legacy defined benefit pension arrangements. This risk will decrease over time because these arrangements are closed to new membership and, with the exception of a small plan in Ireland, no longer allow further build-up of defined benefit pension entitlement by existing members.

Determination of longevity assumptions is a critical accounting estimate. Further details on this judgement are discussed in the Audit Committee report and in Notes 31 and 35 of the Group financial statements section in the Annual report and accounts 2017.

- We set thresholds, based on Solvency II Risk Capital for Pensions and Savings, for longevity risk exposure
- We have a robust governance process for setting our longevity assumptions using the latest data sources
- We have a reinsurance arrangement with Canada Life which transfers a material part of our longevity exposure. We monitor opportunities to implement further transactions to reduce our exposure
- We consider longevity scenarios under our stress and scenario testing programme



Growing and diversifying our revenue and profit

A responsible approach

We must ensure the practices we expect of the companies we invest in are reflected in our own business too. It is not only the right thing to do, it adds value for shareholders, clients and customers, employees and wider stakeholders.

Sustainability at Board level

Updates on internal and external environmental, social and governance issues and our performance on non-financial measures are provided regularly at Board meetings.

Code of conduct

We recently updated our global code of conduct which details the standards of behaviour we expect across the Company. All of our employees are required to read, agree and adhere to the principles of the code which focuses on doing the right thing and putting our customers and clients at the heart of our business.

Modern slavery statement

As a global investment company, we want to do all we can to help tackle human trafficking, forced labour, bonded labour and child slavery. We focus on our operations, supply chain and investment processes. We have published our first statement as a newly merged business, reinforcing our commitment to this important issue.

Human rights policy

During 2017 we developed a policy which sets out our approach to identifying and upholding the human rights of our employees, customers and clients and the communities we operate in, as well as people impacted by our suppliers, partners and the companies we invest in. As an investor, we consider factors including human rights when evaluating companies. We assess the management of human rights impacts and engage when appropriate to highlight issues and promote good practice.

Bribery and corruption

We have a zero tolerance approach to financial crime, bribery and corruption. We have policies in place to help ensure that we only receive or pay money to or from clients, third parties, partners and suppliers that we've identified as suitable to do business with. We run mandatory annual training for our employees which requires passing a test that confirms their understanding of both our policies and the part our people play. We also maintain a register for any gifts and entertainment provided or received. We have processes for reporting and reviewing breaches of our policies. In 2017 we had no breaches.

Managing our environmental impact

Our greatest environmental impact is through the investments we hold. You can read more about our approach to integrating environmental considerations on our website.

Our operational environmental impact is mostly comprised of the energy we use in our buildings and air travel. To reduce our impact in these areas we track our consumption, pursue ongoing improvements in building management, and encourage our people to reconsider the need for air travel by offering technology solutions.

We engage our people to reduce their environmental impact both at work and at home using initiatives such as a global network of champions, recycling challenges, and newsletters and blogs. We supported employees to make positive changes in their own lives through information sessions on electric vehicles and home energy.

The impact of climate change has continued to be the subject of much interest over 2017. It is an investment risk we must consider across all asset classes so have been actively supporting efforts to promote more transparency on the climate risks that companies may be facing and how they are tackling them. We have publicly declared our support for the G20's Task Force on Climate-related Financial Disclosures (TCFD). We believe its recommendations will contribute to improving the quality and usefulness of climate change disclosures. As an investor, a systematic assessment by companies of the impact of climate change on their business model will help us to determine the nature, scale and management of this factor. For our own operations, we will follow the recommendations to demonstrate to markets why climate change analysis is relevant and how it informs our approach to strategy, governance and risk management.

We are also supporting the new Transitional Pathway Initiative, an online data analysis tool which enables investors to assess how effectively companies are addressing climate related risks, and we are a founding signatory of Climate Action 100+.

You can read more on these topics and also find our Corporate sustainability and stewardship report 2017 on our website **www.standardlifeaberdeen.com/annualreport**

Greenhouse gas emissions

		2017 (Location-based)	2016 (Location-based)	**2017 (Market-based)**[3]
Greenhouse gas emissions (tonnes CO_2e)	Scope 1	**3,518**	2,880	**3,518**
	Scope 2	**14,717**	14,687	**8,694**
	Scope 3	**17,543**	17,743	**17,117**
	Total	**35,778**[1]	35,310[2]	**29,329**
Tonnes CO_2e/FTE ratio		**2.89**	3.26	**2.37**
Real estate investment assets owned by SLA plc subsidiaries – Greenhouse gas emissions (tonnes CO_2e)[4]	Scope 1	**1,796**	2,150	**1,796**
	Scope 2	**6,315**	9,479	**3,421**
	Scope 3	**5,406**	6,777	**3,794**
	Total	**13,517**	18,406	**9,011**
Tonnes CO_2e/m^2 (net lettable area) ratio		**14.3**	18.8	**9.5**

1 Data prepared in accordance with our reporting methodology and the KPI is within KPMG's limited assurance scope. Both KPMG's limited assurance report and our reporting methodology can be found at **www.standardlifeaberdeen.com/annualreport**

2 Data presented for 2016 represents the combined CO_2e emissions previously published for Standard Life Group and Aberdeen Asset Management. The 2016 reporting methodologies differ from our 2017 methodology. Details of the prior year methodologies can be found in respective 2016 Annual Reports.

3 Emissions have been calculated using renewable energy contracts, residual mix emissions factors for European sites, and grid mix emissions factors for all other sites.

4 Those owned by Standard Life Assurance Limited. Scope details can be found in our reporting methodology which is available on our website.

Note: The total 2017 location-based carbon footprint is 49,295 tonnes CO_2e.

Basis of preparation

Overview

Our Strategic report for the year to 31 December 2017 has been prepared in accordance with the Companies Act 2006 and the Disclosure and Transparency Rules (DTR) issued by the FCA. Under section 414 of the Companies Act 2006, DTR 4.1.8 and DTR 4.1.9, the Group is required to provide a fair, balanced and understandable review of the business and a description of the principal risks and uncertainties facing the Group. Principal risks and uncertainties are detailed in the Risk management section of this Strategic report and Note 39 in the Group financial statements section in the Annual report and accounts (ARA) 2017. To provide clear and helpful information, we have also considered the voluntary best practice principles of the Guidance on the Strategic report issued by the Financial Reporting Council in 2014. We have also considered the European Securities and Markets Authority (ESMA) guidelines on alternative performance measures issued in October 2015.

The Group's International Financial Reporting Standards (IFRS) consolidated financial statements have been prepared in accordance with IFRS, as endorsed by the European Union (EU). However, our Board believes that alternative performance measures (APMs), which have been used in the Strategic report, are also useful for both management and investors.

All APMs should be read together with the Group's IFRS consolidated income statement, IFRS consolidated statement of financial position and IFRS consolidated statement of cash flows, which are presented in the Group financial statements section in the ARA 2017.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in this Strategic report. This includes details on our liquidity and capital management and our viability statement in the Chief Financial Officer's overview section and our principal risks in the Risk management section. In addition, the Group financial statements section in the ARA 2017 includes notes on the Group's subordinated liabilities (Note 34), management of its risks including market, credit and liquidity risk (Note 39), its contingent liabilities and commitments (Notes 43 and 44), and its capital structure and position (Note 47).

The Group continues to meet Group and individual entity capital requirements and day-to-day liquidity needs. The Company has a revolving credit facility of £400 million as part of our contingency funding plans and this is due to mature in 2022. The Group has considerable financial resources together with a diversified business model, with a spread of business and geographical reach. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries and having assessed the principal risks, the Directors are satisfied that the Group has and will maintain sufficient resources to enable it to continue operating for at least 12 months from the date of approval of the financial statements and therefore considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. In addition, the Directors have assessed the Group's viability over a period of three years.

IFRS reporting

The financial results are prepared on an IFRS basis. All EU-listed companies are required to prepare consolidated financial statements using IFRS issued by the International Accounting Standards Board (IASB) as endorsed by the EU. The IFRS financial results in the Strategic report and in the Group financial statements have been prepared on the basis of the IFRS accounting policies as disclosed in the Group financial statements section in the ARA 2017.

Adjusted profit

The 2017 reconciliation of consolidated adjusted profit to IFRS profit for the year, presented on page 149 in the ARA 2017, presents profit before tax expense attributable to equity holders amended for adjusting items. Further details on the calculation of adjusted profit is presented in the Supplementary information section in the ARA 2017. Adjusted profit reporting provides further analysis of the results reported under IFRS and the Directors believe helps to give shareholders a fuller understanding of the performance of the business by identifying and analysing adjusting items.

Forward-looking statements

This document may contain certain 'forward-looking statements' with respect to the Company's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. For example, statements containing words such as 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'pursues', 'seeks', 'targets' and 'anticipates', and words of similar meaning, may be forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they are based on information available at the time they are made, including current expectations and assumptions, and relate to future events and circumstances which may be or are beyond the Company's control, including among other things: UK domestic and global political, economic and business conditions (such as the UK's exit from the EU); market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the impact of inflation and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the impact of competition; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; default by counterparties; information technology or data security breaches; natural or man-made catastrophic events; the failure to attract or retain necessary key personnel; the policies and actions of regulatory authorities; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which the Company and its affiliates operate as well as other factors described in the Risk management section of this Strategic report. These may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, the Company's actual future financial condition, performance and results may differ materially from the plans, goals, strategy and expectations set forth in the forward-looking statements. Persons receiving this document should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make. Past performance is not an indicator of future results and the results of the Company in this document may not be indicative of, and are not an estimate, forecast or projection of the Company's future results.

The Strategic report has been approved by the Board and signed on its behalf by

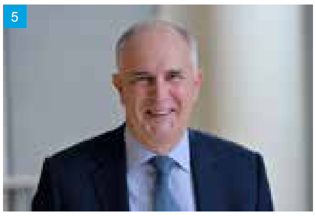
Kenneth A Gilmour
Company Secretary,

Standard Life Aberdeen plc (SC286832)

23 February 2018

Board of Directors

Our business is managed by our Board of Directors. Biographical details (and shareholdings) of the Directors as at 23 February 2018 are listed below.



A Audit committee
I Investment performance committee
NG Nomination and governance committee
R Remuneration committee
RC Risk and capital committee
Chair

1 Sir Gerry Grimstone Chairman NG

Sir Gerry was appointed Chairman in May 2007, having been Deputy Chairman since March 2006. He is also deputy chairman and senior independent director of Barclays PLC, an independent non-executive board member of Deloitte North West Europe and the lead non-executive at the Ministry of Defence. Previously, he held senior positions within the Department of Health and Social Security and HM Treasury until 1986. He then spent 13 years with Schroders in London, Hong Kong and New York, and was vice chairman of Schroders' worldwide investment banking activities from 1998 to 1999. He is British, aged 68 and holds 206,626 shares.

2 Simon Troughton Deputy Chairman NG

Simon was appointed Deputy Chairman on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since July 2009 and chairman since July 2016. Simon is also chairman of Redburn (Europe) Limited. Previously, he was a partner at Cazenove and Company Limited before moving to Fauchier Partners in 2003 where he became chief operating officer. He is British, aged 64 and holds 52,990 shares.

3 Martin Gilbert Co-Chief Executive

Martin was appointed Director and Co-Chief Executive on 14 August 2017. He is co-founder (and former chief executive) of Aberdeen Asset Management PLC and has been a director since 1983. He is deputy chairman of Sky plc, a non-executive director of Glencore plc, chairman of the Prudential Regulation Authority's Practitioner Panel and a board member of the Institute of International Finance, as well as a member of the International Advisory Panel of the Monetary Authority of Singapore and the International Advisory Board of British American Business. He is British, aged 62 and holds 139,185 shares.

4 Keith Skeoch Co-Chief Executive

Keith was appointed Co-Chief Executive on 14 August 2017. He was formerly Chief Executive of Standard Life plc, having been a Director since 2006 and Chief Executive of Standard Life Investments since 2004. He joined Standard Life Investments Limited in 1999 as Chief Investment Officer after nearly 20 years' investment experience at James Capel & Company Limited in a number of roles, including chief economist and managing director international equities. He is also a non-executive director of the Financial Reporting Council and a member of the Asset Management Taskforce led by HM Treasury. He is British, aged 61 and holds 2,347,507 shares.

5 Bill Rattray Chief Financial Officer

Bill was appointed Director and Chief Financial Officer on 14 August 2017, having been finance director of Aberdeen Asset Management PLC from January 1991. He is also a non-executive director of Curtis Banks Group Plc. Prior to joining the Aberdeen Group, Bill trained as a chartered accountant with Ernst & Whinney, qualifying in 1982. He is British, aged 59 and holds 1,743,549 shares.

6 Rod Paris Chief Investment Officer

Appointed Director on 14 August 2017, Rod joined Standard Life Investments in 2002 as Head of Global Fixed Income and was appointed as Head of Investments in 2007 and latterly as Chief Investment Officer in 2013. Previously, he was a managing director at Merrill Lynch Investment Managers, and before that a director at Mercury Asset Management which he joined in 1984. He is British, aged 58 and holds 602,303 shares.

7 Kevin Parry OBE Senior Independent Director I NG R

Appointed Director in October 2014, Kevin is the Company's Senior Independent Director. He is also chairman of Intermediate Capital Group plc and non-executive director of Daily Mail and General Trust plc and Nationwide Building Society. Kevin was previously with Schroders plc, firstly as a non-executive director between 2002 and 2008 and, latterly, as CFO between 2009 and 2013. Prior to this, Kevin served as CEO of Management Consulting Group between 2000 and 2008. He was awarded an OBE for charitable services in the New Year's Honours List. He is British, aged 56 and holds 60,754 shares.

8 Julie Chakraverty Non-executive Director A NG RC

Julie was appointed Director on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since May 2011 and senior independent director since October 2016. Julie is also a director of Rungway Limited. Previously, she served on the boards of MS Amlin plc, Spirit Pubs and Paternoster Insurance, and as a board member of UBS Investment Bank where she held a number of global leadership positions. She is British, aged 46 and holds 2,302 shares.

9 John Devine Non-executive Director A R RC

Appointed Director in July 2016, John is also a non-executive director of Credit Suisse International, Credit Suisse Securities (Europe) Limited, Citco Custody Limited and Citco Custody (UK) Limited. From 2008-2010, John was chief operating officer of Threadneedle Asset Management Limited. Prior to joining Threadneedle, John held a number of senior positions at Merrill Lynch in London and New York. He is British, aged 59 and holds 1,321 shares.

10 Gerhard Fusenig Non-executive Director I R RC

Gerhard was appointed Director on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since April 2016. Gerhard is also director of Credit Suisse Insurance Linked Strategies Limited. Over the last 25 years he has held a number of senior management roles in asset management at Credit Suisse Group AG and UBS AG. He is German and Swiss, aged 54 and holds 26,495 shares.

11 Melanie Gee Non-executive Director A I NG RC

Appointed Director in November 2015, Melanie is also a senior adviser at Lazard and Co. Limited, having been a managing director between 2008 and 2012. Previously, she held various roles with UBS, and was appointed a managing director in 1999. Melanie was a non-executive director of The Weir Group PLC between 2011 and 2017 and the Drax Group plc between 2013 and 2016. She is also a non-executive director of Ridgeway Partners Holdings Limited. She is British, aged 56 and holds 20,000 shares.

12 Richard Mully Non-executive Director I NG R

Richard was appointed Director on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since April 2012. Richard is also deputy chairman of alstria office REIT-AG, senior independent director of St Modwen Properties PLC, a non-executive director of Great Portland Estates plc and senior adviser to TPG Real Estate (Europe). Previously, Richard spent much of his career in financial services as an investment banker and was the co-founder and managing partner of Grove International Partners LLP. He is British, aged 56 and holds 52,990 shares.

13 Lynne Peacock Non-executive Director NG

Appointed Director in April 2012, Lynne is also Chairman of Standard Life Assurance Limited. She is senior independent director of Nationwide Building Society and a non-executive director of Serco Group plc. She joined National Australia Bank Limited in 2003 and, from 2004 to 2011, she was chief executive officer, UK (Clydesdale Bank plc and Yorkshire Bank). Prior to that, Lynne was with Woolwich plc from 1983 to 2003, finishing her career there as chief executive officer. She is British, aged 64 and holds 12,554 shares.

14 Martin Pike Non-executive Director A RC

Martin was appointed Director in September 2013. He is also a non-executive director of esure Group plc and Faraday Underwriting Limited and a non-executive advisor to Travers Smith LLP. He joined R Watson & Sons in 1983, and progressed his career with the firm to partner level. His senior roles included head of european insurance and financial services practice, Watson Wyatt from 2006 to 2009, vice-president and global practice director, insurance and financial services, Watson Wyatt during 2009 and, latterly, managing director, risk consulting & software, EMEA, Towers Watson from 2010 to 2013. He is British, aged 56 and holds 32,727 shares.

15 Jutta af Rosenborg Non-executive Director A R

Jutta was appointed Director on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since January 2013. She is also chairman of Det Danske Klasselotteri A/S and a non-executive director of JPMorgan European Investment Trust plc, NKT A/S and Nilfisk Holding A/S. Previously, she was the executive vice president, CFO of ALK-Abelló A/S. She is Danish and aged 59. Nil shareholding.

16 Akira Suzuki Non-executive Director

Akira was appointed Director on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since August 2013 through their business and capital alliance with Mitsubishi UFJ Trust and Banking Corporation. Akira has undertaken a wide variety of roles, primarily in asset management, in Mitsubishi UFJ Trust and Banking Corporation and is currently a managing executive officer. He is Japanese and aged 58. Nil shareholding.

Remuneration

Richard Mully
Chairman, Remuneration Committee

Dear Shareholder

2017 Events

On behalf of the Board I am pleased to present the Remuneration Committee's report on Directors' remuneration for the year ended 31 December 2017.

This is my first report as Chairman of the Remuneration Committee for Standard Life Aberdeen plc, having previously served as Chairman of the Remuneration Committee for Aberdeen Asset Management PLC and taken on the role for Standard Life Aberdeen plc in August 2017 following the merger. I would like to thank Melanie Gee, who served as the previous Committee Chairman for Standard Life plc, the Board and my fellow Committee members for their continued support.

Standard Life plc amended its Directors' Remuneration Policy on 19 June 2017 at the General Meeting for the period from completion of the merger to 31 December 2017 on the underlying principle that minimal changes would be made to the policy as we were already part way through a performance year. Due to the different remuneration structures in place at Standard Life Group and Aberdeen some changes were made to the transitional policy to accommodate the existing remuneration arrangements of the Aberdeen executive directors, who were joining the Standard Life Aberdeen plc Board, and the remuneration structure for the Chief Investment Officer who joined the Board on the effective date of the merger. Given the transformation of the Company, as a result of the merger, during the period from August 2017 the Committee has undertaken a holistic review of our approach to executive remuneration to align this to our strategy and business plan. This has also included careful consideration of the complex regulatory, political and social landscape for executive remuneration, which we continue to follow closely. The outcome is the new Remuneration Policy which I now present for your approval.

A key principle underlying our remuneration approach is that reward should be aligned to performance outcomes of the Company and the shareholder experience. In this year of change, the Company has delivered total shareholder return of 23.7% in 2017 and a total 2017 dividend of 21.30p per share which is a 7.5% year-on-year increase from the total 2016 dividend. More details on Group performance are set out in the Strategic report.

Board changes

This year has also seen a number of changes to our executive leadership in light of the merger, with the appointment of the Co-Chief Executive Officers (Co-CEOs) Keith Skeoch and Martin Gilbert, Chief Financial Officer (CFO) Bill Rattray and Chief Investment Officer (CIO) Rod Paris to the Board. The following executive Directors stepped down from the Board during 2017: Barry O'Dwyer (CEO, Pension and Savings), Luke Savage (CFO), Colin Clark (Global Client Director), and Paul Matthews (UK and Europe Chief Executive Officer). Our performance, along with the principles of our remuneration policy, have shaped the remuneration decisions that we have made during 2017 both in relation to the current and former executive Directors. The remuneration arrangements for the executive Directors who stepped down from the Board are detailed on pages 126 to 127 of the Annual report and accounts 2017.

Our strategy and remuneration policy

Our approach to executive remuneration going forward

In considering the approach to remuneration for executive Directors going forward, the Committee considered the following principal factors:

- Alignment to our business model
- Alignment with the strategy of the Group
- Consideration of the industry within which the Group operates
- Harmonisation of approach across the leadership team

The corporate aim and rationale behind the merger was to create a world-class investment company. With the merger of the two companies, as set out elsewhere in the Annual report and accounts 2017 in more detail, this journey has been significantly accelerated.

In this context we reviewed our remuneration arrangements to ensure that we have a remuneration structure which both incentivises our leadership team to deliver our strategy and is appropriate in the context of the business model going forward.

In developing our new policy, we considered the policies of Aberdeen and Standard Life Group and adopted elements of these policies where these were well aligned to the strategic direction of the merged Company and introduced new elements where these would strengthen the link between reward and the delivery of our strategy. Given the Group's business model going forward, the Committee also took into consideration the structure of remuneration within global asset management peers, whilst being cognisant of the approach to remuneration at FTSE listed peers of a similar size.

The objective for our proposed remuneration structure is to reward focus on sustainable value creation over the long term for our clients and shareholders through a simple and transparent design.

To deliver our strategy, a priority was ensuring the right Board composition. To support this priority a key driver of our design has been the harmonisation of the pay structure and maximum opportunity for the Co-CEOs to incentivise the delivery of the challenging integration plan and delivery of the strategic and financial objectives for the merger.

In light of these considerations, the Committee have designed a new remuneration structure that is based around:

- A simplified annual package for executive Directors comprised of fixed pay and benefits (aligned to the wider workforce) plus a single variable pay award, of which 75% is deferred in shares with no release of value to participants until year 5. Our aim is to improve transparency between performance and reward outcomes for our executive Directors and our shareholders over the long term.
- Both backward and forward looking performance measures to ensure that reward is linked to the delivery of sustainable long-term value for shareholders, through (i) a scorecard for the initial determination of awards which measures performance over a backward looking period of one to three years; and (ii) the introduction of forward looking three-year underpin performance conditions for all deferred awards.
- Maintaining focus on long-term sustained levels of performance through a variable pay award that is subject to an appropriate balance of performance metrics that will, over the course of the policy term, cover a six-year period. As it would not be appropriate to consider the performance of the businesses prior to the merger, trailing performance measures will be introduced over the next three years.
- Alignment with shareholders through a shareholding requirement that is at the top end of the market (500% of salary for the Co-CEOs and 300% of salary for other executive Directors) and which must be maintained for 12 months post departure from the Company.

The resulting package has significantly increased both (i) the focus on long-term performance and (ii) the time horizons of the delivery of remuneration from the previous remuneration structure for both our Co-CEOs. This has been achieved with a package that delivers a lower package at target and maximum levels for both Co-CEOs. The proposed package for our executive Directors is detailed in the table below.

Individual	Maximum package - proposed	Maximum package - previous
Martin Gilbert	Reduced to £4,320k (Salary - £600k; pension - 20%; variable pay award -600%)	£5,764k (Fixed pay - £524k; variable pay award - 1,000%)
Keith Skeoch	Reduced to £4,320k (Salary - £600k; pension - 20%; variable pay award - 600%)	£4,900k (Salary £700k; pension - 25%; incentives - 575%)
Rod Paris	Reduced to £3,240k (Salary - £450k; pension - 20%; variable pay award - 600%)	£4,005k (Salary - £450k; pension- 25% incentives -765%)
Bill Rattray	Set at £2,115k to reflect increased scale of role (Salary - £450k; pension - 20%; variable pay award - 350%)	£1,541k (Fixed pay - £367k; pension 20%; variable pay award - 300%)

These changes align our remuneration structures more closely with the market for the asset management industry and consider the FTSE and MSCI reclassification of Standard Life Aberdeen in the asset management subsector following the merger.

Further details on how the remuneration structure is directly aligned to the Group's strategic priorities, as well as our culture and values, and how the structure will be implemented in 2018 are set out in the 'Appoach to remuneration going forward' section on page 98 of the Annual report and accounts 2017.

Alignment of remuneration across our workforce

The Committee views alignment of our approach to determination of pay for executive Directors with wider Company policy on remuneration as critical to the successful delivery of strategy and development of future talent. A core principle of the reward structure for employees around the Group is to ensure success is shared appropriately and there is a fair approach to the determination of remuneration outcomes. As part of this the aggregate variable pay pool in any year is typically expected to be no higher than 25% of adjusted profit before variable pay and this will include the variable pay of executive Directors and all employees.

Shareholder engagement

Since completion of the merger the Committee have consulted extensively with our largest shareholders (representing c.40% of our shareholder base) and with the Investment Association, Institutional Shareholder Services and Glass Lewist. The Committee found the discussions helpful and constructive and the feedback we received shaped our final proposals.

Shareholders consulted with were generally supportive of the proposed approach going forward, and in particular:

- Our approach to simplification and improved transparency
- The increased focus on long-term performance measures and targets through introduction of backward and forward looking performance measures extending the time period that performance is measured from the previous policies for both CEOs
- The increased alignment to shareholders through the five-year time horizon for all deferred awards alongside high shareholding requirements

In light of shareholder feedback, the Committee extended the proportion of deferred awards subject to the underpin performance conditions to 100% of the award for the duration of this policy (the original proposal was for the underpin performance conditions to apply to 50% of the deferred award), in recognition of the fact that the Company is undergoing a period of extensive change and both the strategy and the proposed approach for alignment of executive Director remuneration are new to our shareholders.

The level of remuneration for executives remains under intense scrutiny from shareholders and their representatives, the government and the general public. As a result, with the introduction of the new remuneration structure and alignment of the remuneration for our Co-CEOs, we have reduced the maximum opportunity for both of the Co-CEOs and reduced the fixed pay level for Keith Skeoch as detailed above. The maximum opportunity has also been reduced for the CIO. The package for the CFO has been adjusted to reflect the increase in the scale and complexity of the role compared to his role as CFO for Aberdeen. Furthermore, as a Committee, we understand that critical to any discussion on the levels of executive remuneration is an understanding of our scorecard measures and the process for target setting to ensure this delivers the right alignment between performance and reward. The proposed scorecard for awards (set out on page 100 of the Annual report and accounts 2017) reflects the feedback that we received from our shareholders on the scorecard measures.

In addition, in response to shareholder feedback the Committee has taken the decision to disclose the targets that will be used to determine the annual variable pay award, where not considered commercially sensitive, for the 2018 performance year on a prospective basis. Where for reasons of commercial sensitivity the actual target is not disclosed an explanation of the process for target setting has been provided. The disclosures are provided in the 'Approach to remuneration going forward' section on page 102 of the Annual report and accounts 2017.

I would like to thank our shareholders and the Investment Association, Institutional Shareholder Services and Glass Lewis, for their time and constructive feedback.

In-flight performance targets

As a result of the scale of the merger the Committee has carefully considered the impact of this on the performance targets for existing incentive plans. In line with the principle set out in the Circular to the merger that there should be minimal changes for 2017, no changes are proposed to the performance targets for incentive plans in place in Standard Life Group and Aberdeen prior to the merger based on performance to the end of December 2017. Details on the out-turns for these plans are provided below.

The Committee has determined, however, that it is appropriate to restate the financial performance targets for the 2016 and 2017 Standard Life Executive Long-Term Incentive Plan (Executive LTIP) and Standard Life Investments Long-Term Incentive Plans (Standard Life Investments LTIP) to account for the changes in the structure of the Group. This is because it is no longer possible to consider the performance metrics of Standard Life Group separately from Standard Life Aberdeen beyond the end of 2017. Vesting for these awards is based in part on performance during 2018 for the 2016 award, and 2018 and 2019 for the 2017 award.

The Executive LTIP and Standard Life Investments LTIP are based on three-year cumulative performance targets. Given the timing of the merger, no changes have been made to the proportion of the targets relating to 2017 performance. Adjustments have, however, been made to the proportion of the targets relating to the 2018 and 2019 performance years to reflect the enlarged Company.

The underlying principle used in setting the revised targets is that they should be no more and no less difficult to achieve than the original targets.

Details of the restated 2016 and 2017 Executive LTIP and Standard Life Investments LTIP targets can be found on pages 122 to 125 of the Annual report and accounts 2017.

We have also updated the profit related measures for the 2018 grants under the Executive LTIP and Standard Life Investments LTIP to align with the financial measures to be used for the new remuneration plan for executive Directors and the updated core Key Performance Indicators (KPIs) for the Company.

Business context and remuneration outcomes for 2017

In accordance with the Directors' Remuneration Policy adopted at the 2017 general meeting, variable pay for Keith Skeoch and Rod Paris is based on performance measures and objectives consistent with the Standard Life Group and Standard Life Investments measures that were set at the start of the 2017 performance year and assessed against the results of these businesses for this period.

Variable pay for Martin Gilbert and Bill Rattray from the date of the merger to the end of this performance year is based on performance measures and objectives consistent with Aberdeen measures that applied up to the merger and assessed against Aberdeen results for the period from 14 August 2017 to 31 December 2017.

In reaching its decisions in terms of the annual bonus scorecard and 2017 LTIP vesting levels for Keith Skeoch and Rod Paris and the variable pay awards for Martin Gilbert and Bill Rattray, the Committee considered a range of factors in order to ensure that the awards are fair and appropriately reflect overall performance. As well as considering the achievement against the targets, the Committee reviewed the individual components which contributed to the delivery of the financial performance. Looking externally, the Committee also considered the alignment of its decisions on remuneration with the interests of shareholders. In particular, the Committee have sought to ensure that there are no unintended consequences of the merger on 2017 performance outcomes.

As detailed in the Annual report and accounts 2017 as a result of the announcement on 15 February 2018 that Lloyds Banking Group and Scottish Widows are seeking to terminate arrangements for the assets we manage we have recognised an impairment charge of £40m relating to this intangible asset in our 2017 results. The impact of this will be reviewed during 2018 and any implications in respect of executive Director remuneration will be considered as part of the 2018 year end decision making in relation to remuneration as the impact together with mitigating actions becomes clearer.

In addition, as a result of the announcement on 23 February 2018 regarding the sale of the Group's capital heavy insurance business, during 2018 the Committee will review the impact of this on remuneration measures and targets set for the 2018 and in-flight incentive arrangements and consult with shareholders as appropriate.

Keith Skeoch and Rod Paris

Having considered the financial performance, the non-financial performance in 2017 and performance against personal objectives, the Committee approved a bonus award of 143% of salary for Keith Skeoch and 310% of salary for Rod Paris (which is the sum of his bonus awards under the Standard Life Group and Standard Life Investments bonus arrangements based on his salary pro-rated for the period in the year for which he was a Director). The Committee also approved the vesting level of the 2015 Executive LTIP as 70% of maximum and awards granted under the 2015 Standard Life Investments LTIP will vest at 42.3% of maximum. Keith Skeoch and Rod Paris will also be granted a final award under the Executive LTIP in 2018 in relation to performance in 2017. The award levels will be 400% of their respective salaries as at 31 December 2017.

Martin Gilbert and Bill Rattray

Having considered financial and non-financial performance in the period from the merger to 31 December 2017 and personal performance against objectives, the Committee approved a bonus award of 569% of salary for Martin Gilbert and 168% of salary for Bill Rattray (based on salary pro-rated for the period in the year for which they were a Director).

In order to maximise transparency, we have also included a section in the annual remuneration report on page 134 of the Annual report and accounts 2017 disclosing the variable pay outcome for the period 1 October 2016 to the date of the merger. These awards were determined by the remuneration committee of Aberdeen Asset Management PLC.

Further details regarding the implementation of our policy in 2018 are provided in the 'Approach to remuneration going forward' section of the Annual report and accounts 2017 on page 103.

I hope that you find this report a clear account of how the Committee has developed our policy proposals for 2018 and implemented the policy during 2017 and are able to support the decisions we have taken. I would again like to thank our shareholders for their time and sharing their views during our meetings. I welcome any comments from shareholders and will be available to answer any questions at the AGM.

How will the policy be implemented in 2018?

How will the policy be implemented in 2018?

Element	Implementation in 2018
Base salary	With effect from 1 January 2018 base salaries are as follows: • Co-Chief Executive Officers (Co-CEOs): £600,000 (Keith Skeoch £600,000 (reduced from £700,000), Martin Gilbert (£600,000 increased from £522,000)) • Chief Investment Officer (CIO): £450,000 • Chief Financial Officer (CFO): £450,000 (increased from £365,000)
Benefits and pension	• Benefits to be provided in line with benefit policy • The pension allowance for each of the executive Directors has been set at 20% of salary (reducing from 25% of salary for Keith Skeoch and the CIO)
Executive Incentive Plan	• The maximum opportunities under the EIP in respect of 2018 have been set as follows: – (Co-CEOs): 600% of salary – CIO: 600% of salary – CFO: 350% of salary • Subject to performance, 75% of awards will be delivered in the form of deferred shares subject to underpin performance conditions measured over a three-year period. The remainder of the award (25%) will be delivered in the form of cash. • For grants made in 2018 at least 80% of the performance metrics will be based on financial performance • The performance conditions used to determine awards and subsequent performance conditions to be applied to the deferred awards are set out above in the section 'How will performance be measured ' on pages 100 to 103 of the Annual report and accounts 2017
Share ownership	Executive Directors are required to build up substantial interests in the Group as follows: • (Co-CEOs): 500% of salary • CIO: 300% of salary • CFO: 300% of salary • Shares up to the value of the share ownership guidelines must be held for 12 months following departure from the Group

Performance and remuneration for 2017 at a glance

Key performance measures

The tables below illustrate outcomes against key performance measures relevant to 2017 remuneration for Co-CEOs Keith Skeoch and Martin Gilbert. The annual bonus outcome for 2017 for Keith Skeoch is driven by assessment of performance against a scorecard, which includes financial and non-financial measures and personal performance. Keith also participates in the Standard Life Group long-term incentive plans, details of which are provided below. The variable pay outcome for Martin Gilbert for the period 14 August 2017 to 31 December 2017, which determines his full incentive opportunity, was based on achievement against a mixture of long-term and annual financial metrics, non-financial metrics and personal performance.

Keith Skeoch

Annual bonus performance measures	2017
Financial	4.25/5
Non Financial	
– Strategic/delivery/process	5/5
– Customer and external leadership	4.5/5
– People	4.75/5
Weighted combined scorecard outcome	4.4/5
Personal performance	4/5

Martin Gilbert

Variable pay performance measures	2017
Financial	42.1%/80%
Non-financial strategic	6.75%/10%
Personal performance	8%/10%

The 2015 Executive LTIP targets measure Group performance over a three-year period against a range of financial measures. The Standard Life Investments 2015 LTIP target measures Standard Life Investments' consolidated cumulative three-year third party earnings before interest, tax, depreciation and amortisation (EBITDA) performance.

Keith Skeoch

Executive LTIP 2015 performance measure	Threshold	Actual performance	Weighted vesting level[1]
Cumulative Group operating profit before tax	£1,670m	£2,122m	70%
Cumulative Group net flows	£16.6bn	(£8.4bn)	0%
Final vesting			70%
Standard Life Investments LTIP 2015 performance measure			
Consolidated cumulative three-year third party EBITDA	60% of target	93.84% of target	42.3%

Executive LTIP 2015 weighted 70% cumulative Group operating profit before tax, and 30% cumulative Group net flows.

Following completion of the merger the Group have changed the calculation of adjusted profit before tax (named operating profit before tax when the target for the 2015 award was set). This is explained further on page 176 of the Annual report and accounts 2017. The actual operating profit before tax for the purpose of the 2015 Executive LTIP has been calculated based on the calculation methodology when the target was set and also excludes the merger. Operating profit/adjusted profit is not defined under IFRS and is therefore deemed an alternative performance measure.

Single total figure of remuneration – executive Directors (audited)

The following table sets out the single total figure of remuneration for each of the executive Directors who served as a Director at any time during the financial year ending 31 December 2017. Where a Director has been appointed or stepped down during the year shown the remuneration included in the table is that paid or reportable for the period for which they were an executive Director.

Executive Directors		Basic salary for year £000s	Taxable benefits in year £000s[1]	Annual bonus earned for year £000s	Long-term incentives with performance period ending during the year £000s[2,3]	Other payments £000s[4]	Pension allowance paid in year £000s	Total remuneration for the year £000s
Keith Skeoch	**2017**	**700**	**–**	**1,001**	**1,151**	**1**	**175**	**3,028**
	2016	700	–	988	926	–	175	2,789
Martin Gilbert[5]	**2017**	**199**	**1**	**1,117**	**–**	**–**	**–**	**1,317**
	2016	–	–	–	–	–	–	–
Rod Paris[5]	**2017**	**170**	**–**	**535**	**83**	**–**	**43**	**831**
	2016	–	–	–	–	–	–	–
Bill Rattray[5]	**2017**	**139**	**1**	**231**	**–**	**–**	**25**	**396**
	2016	–	–	–	–	–	–	–
Colin Clark[6]	**2017**	**372**	**–**	**558**	**517**	**–**	**93**	**1,540**
	2016	600	–	843	396	–	150	1,989
Paul Matthews[6]	**2017**	**105**	**2**	**123**	**229**	**–**	**26**	**485**
	2016	630	14	747	90	–	158	1,639
Barry O'Dwyer[6]	**2017**	**238**	**6**	**295**	**41**	**–**	**59**	**639**
	2016	–	–	–	–	–	–	–
Luke Savage[6]	**2017**	**381**	**10**	**459**	**468**	**–**	**95**	**1,413**
	2016	612	16	729	245	–	153	1,755

1 This includes the taxable value of all benefits paid in respect of the year ended 31 December 2017. This includes car allowances of £9,827 for Luke Savage, £2,303 for Paul Matthews and £6,260 for Barry O'Dwyer. Also included for Keith Skeoch, Rod Paris, Colin Clark, Paul Matthews and Barry O'Dwyer is private health cover at a cost to the Group of £422 per annum per employee and medical insurance for Martin Gilbert and Bill Rattray at a cost of £2,000 per annum.

2 The values reported for 2017 are the market values of the Executive LTIP awards and the Standard Life Investments LTIP awards granted in 2015 that will vest based on the three-year performance measurement period ending on 31 December 2017. As the share price at the date of vesting is not known at the date of publication of this report the number of Standard Life Aberdeen plc shares that will vest (including additional Standard Life Aberdeen plc shares received in respect of accrued dividends from grant through to 31 December 2017) has been multiplied by the average share price over the quarter ending 31 December 2017 (426.70 pence).

3 The values reported for 2016 have been restated to reflect the value of the shares vesting in respect of the three-year performance measurement period ending on 31 December 2016. Where the awards vested in 2017 the price has been restated using the share price on the vesting date. For the Executive LTIP awards which do not vest until 2019 the restatement is based on share price on the first trading day following the third anniversary of grant.

4 Keith Skeoch, Martin Gilbert, Rod Paris, Barry O' Dwyer and Luke Savage participate in the Standard Life Sharesave Plan. Keith Skeoch, Rod Paris, Paul Matthews, and Luke Savage participate in the Standard Life (Employee) Share Plan – the maximum annual award of matching shares in 2017 was £600.

5 Martin Gilbert, Rod Paris and Bill Rattray were appointed to the Board on 14 August 2017. The annual bonus reported is in respect of the period 14 August 2017 to 31 December 2017. The LTIP reported for Rod Paris represents the value of the proportion of the award which relates to the period 14 August 2017 to 31 December 2017.

6 Paul Matthews stepped down from the Board with effect from 1 March 2017 and Colin Clark stepped down from the Board with effect from 14 August 2017. Barry O'Dwyer was appointed to the Board from 1 March 2017 and stepped down with effect from 14 August 2017. Luke Savage stepped down from the Board with effect from 14 August 2017. The figures reported for their LTIP awards in both 2016 and 2017 represent the value of the proportion of the award which relates to the period of time in the performance period for which they were executive Directors.

Annual remuneration report – what we did in 2017 for non-executive Directors

Single total figure of remuneration – non-executive Directors (audited)

The following table sets out the single total figure of remuneration for each of the non-executive Directors who served as a Director at any time during the financial year ending 31 December 2017. Non-executive Directors do not participate in bonus or long-term incentive plans and do not receive pension funding.

Non-executive Directors		Fees for year ended 31 December £000s	Taxable benefits in year ended 31 December £000s[1]	Total remuneration for year ended 31 December £000s
Sir Gerry Grimstone	**2017**	**380**	**15**	**395**
	2016	380	17	397
Simon Troughton[2]	**2017**	**77**	**–**	**77**
	2016	–	–	–
Julie Chakraverty[2]	**2017**	**40**	**–**	**40**
	2016	–	–	–
John Devine	**2017**	**92**	**4**	**96**
	2016	41	–	41
Gerhard Fusenig[2]	**2017**	**36**	**–**	**36**
	2016	–	–	–
Melanie Gee	**2017**	**104**	**4**	**108**
	2016	93	4	97
Richard Mully[2]	**2017**	**43**	**–**	**43**
	2016	–	–	–
Kevin Parry	**2017**	**118**	**7**	**125**
	2016	116	7	123
Lynne Peacock	**2017**	**153**	**3**	**156**
	2016	143	5	148
Martin Pike	**2017**	**107**	**4**	**111**
	2016	104	6	110
Jutta af Rosenborg[2]	**2017**	**36**	**–**	**36**
	2016	–	–	–
Akira Suzuki[2,3]	**2017**	**–**	**–**	**–**
	2016	–	–	–
Pierre Danon[4]	**2017**	**64**	**7**	**71**
	2016	78	36	114
Noel Harwerth[4]	**2017**	**46**	**–**	**46**
	2016	73	5	78

1 Sir Gerry Grimstone received an allowance of £15,000 towards his business related accommodation costs in Edinburgh in addition to his Chairman's fees. Other amounts reported relate to expenses such as travel and accommodation expenditure incurred on Group business. While these payments are the reimbursement of expenses and not benefits, they are included as being a payment which is subject to tax.

2 Appointed to the Board with effect from 14 August 2017.

3 No fee is paid to non-executive directors who represent a shareholder. Akira Suzuki, a managing executive officer of Mitsubishi UFJ Trust and Banking (MUTB), did not receive a fee as a non-executive director of Aberdeen, and as MUTB has continued to hold shares in the combined Group post the merger, this position has been maintained.

4 Stepped down from the Board with effect from 14 August 2017.

Consolidated financial information

Consolidated income statement

For the year ended 31 December 2017

	2017 £m	2016 £m
Revenue		
Investment return	**12,774**	15,376
Fee income	**1,686**	1,186
Insurance and participating investment contract premium income	**2,143**	2,092
Profit on disposal of interests in associates	**319**	–
Other income	**58**	75
Total revenue	**16,980**	18,729
Expenses		
Insurance and participating investment contract claims and change in liabilities	**3,628**	7,126
Change in non-participating investment contract liabilities	**8,963**	8,768
Administrative expenses		
Restructuring and corporate transaction expenses	**176**	62
Other administrative expenses	**1,982**	1,494
Total administrative expenses	**2,158**	1,556
Provision for annuity sales practices	**100**	175
Change in liability for third party interest in consolidated funds	**1,124**	296
Finance costs	**88**	82
Total expenses	**16,061**	18,003
Share of profit from associates and joint ventures	**45**	63
Profit before tax	**964**	789
Tax expense attributable to policyholders' returns	**166**	302
Profit before tax expense attributable to equity holders	**798**	487
Total tax expense	**232**	370
Less: Tax expense attributable to policyholders' returns	**(166)**	(302)
Tax expense attributable to equity holders	**66**	68
Profit for the year	**732**	419
Attributable to:		
Equity holders of Standard Life Aberdeen plc	**699**	368
Non-controlling interests		
Ordinary shares	**25**	51
Preference shares and perpetual notes	**8**	–
	732	419
Earnings per share		
Basic (pence per share)	**29.8**	18.7
Diluted (pence per share)	**29.6**	18.6

Reconciliation of consolidated adjusted profit before tax to IFRS profit for the year

For the year ended 31 December 2017

	2017 £m	2016 restated[1] £m
Adjusted profit/(loss) before tax		
Aberdeen Standard Investments[2]	**492**	386
Pensions and Savings	**381**	362
India and China life	**59**	36
Other	**(78)**	(66)
Adjusted profit before tax	**854**	718
Adjusted for the following items		
Short-term fluctuations in investment return and economic assumption changes	**67**	13
Restructuring and corporate transaction expenses	**(173)**	(67)
Amortisation and impairment of intangible assets acquired in business combinations	**(138)**	(38)
Provision for annuity sales practices	**(100)**	(175)
Coupons payable on perpetual notes classified as equity[3]	**10**	–
Profit on disposal of interests in associates	**319**	–
Other[4]	**(25)**	(2)
Total adjusting items	**(40)**	(269)
Share of associates' and joint ventures' tax expense	**(41)**	(13)
Profit attributable to non-controlling interests – ordinary shares	**25**	51
Profit before tax expense attributable to equity holders[5]	**798**	487
Tax (expense)/credit attributable to		
Adjusted profit	**(108)**	(126)
Adjusting items	**42**	58
Total tax expense attributable to equity holders	**(66)**	(68)
Profit for the year	**732**	419

1 Following completion of the merger the Group has changed the calculation of adjusted profit (previously named operating profit). Short term fluctuations in investment return and economic assumption changes will now only be adjusted for insurance entities. Previously these adjustments also applied to non-insurance entities. This has resulted in an £8m reduction to the adjusted profit of the Other segment, a £3m increase to the Aberdeen Standard Investments segment and a corresponding £5m adjustment to short-term fluctuations in investment return and economic assumption changes within adjusting items, for the year ended 31 December 2016.

2 Following the merger with Aberdeen, Standard Life Investments and Aberdeen Asset Management combined under the Aberdeen Standard Investments brand. The combined business is managed and reported as one operating segment.

3 On 18 December 2017, perpetual capital notes issued by Aberdeen Asset Management PLC were reclassified as a subordinated liability. On merger these were classified as an equity instrument.

4 Other adjusting items for the year ended 31 December 2017 includes £24m (2016: £nil) in relation to the impairment of a disposal group classified as held for sale.

5 Profit before tax expense attributable to equity holders consists of profit before tax of £964m (2016: £789m) less tax expense attributable to policyholders' returns of £166m (2016: £302m).

Consolidated statement of financial position

As at 31 December 2017

	2017 £m	2016 £m
Assets		
Intangible assets	**4,514**	572
Deferred acquisition costs	**612**	651
Investments in associates and joint ventures accounted for using the equity method[1]	**503**	572
Investment property	**9,749**	9,929
Property, plant and equipment	**146**	89
Pension and other post-retirement benefit assets	**1,099**	1,093
Deferred tax assets	**65**	42
Reinsurance assets	**4,811**	5,386
Loans	**91**	295
Derivative financial assets	**3,053**	3,534
Equity securities and interests in pooled investment funds[1]	**99,020**	90,683
Debt securities	**61,565**	67,933
Receivables and other financial assets	**1,242**	1,255
Current tax recoverable	**192**	166
Other assets	**185**	94
Assets held for sale	**1,038**	263
Cash and cash equivalents	**10,226**	7,938
Total assets	**198,111**	190,495
Equity		
Share capital	**364**	242
Shares held by trusts	**(61)**	(2)
Share premium reserve	**639**	634
Retained earnings	**3,162**	2,855
Other reserves	**4,500**	618
Equity attributable to equity holders of Standard Life Aberdeen plc	**8,604**	4,347
Non-controlling interests		
Ordinary shares	**289**	297
Preference shares	**99**	–
Total equity	**8,992**	4,644
Liabilities		
Non-participating insurance contract liabilities	**22,740**	23,422
Non-participating investment contract liabilities	**105,769**	102,063
Participating contract liabilities	**30,647**	31,273
Deposits received from reinsurers	**4,633**	5,093
Third party interest in consolidated funds	**16,457**	16,835
Subordinated liabilities	**2,253**	1,319
Pension and other post-retirement benefit provisions	**78**	55
Deferred income	**157**	198
Deferred tax liabilities	**367**	259
Current tax liabilities	**166**	113
Derivative financial liabilities	**813**	965
Other financial liabilities	**3,896**	3,916
Provisions	**316**	227
Other liabilities	**121**	113
Liabilities of operations held for sale	**706**	–
Total liabilities	**189,119**	185,851
Total equity and liabilities	**198,111**	190,495

1 Presentation changed and 2016 comparative restated.

Approved by the Board and signed on its behalf by the following Directors:

Sir Gerry Grimstone
Chairman
23 February 2018

Bill Rattray
Chief Financial Officer
23 February 2018

Glossary

This is a summarised version of the Glossary. For our full list of terms please refer to the Glossary in our Annual report and accounts 2017.

Aberdeen Asset Management or Aberdeen

Aberdeen Asset Management PLC, or Aberdeen Asset Management PLC and its subsidiaries.

Adjusted operating expenses

Adjusted operating expenses is a component of adjusted profit and relates to the day-to-day expenses of managing our business.

Adjusted operating income

Adjusted operating income is a component of adjusted profit and consists of fee based revenue and spread/risk margin.

Adjusted profit

Adjusted profit before tax (previously named operating profit before tax) is the Group's key alternative performance measure. Adjusted profit excludes impacts arising from short-term fluctuations in investment return and economic assumption changes in the Group's wholly owned insurance entities. It is calculated based on expected returns on investments backing equity holder funds, with consistent allowance for the corresponding expected movements in equity holder liabilities. Impacts arising from the difference between the expected return and actual return on investments, and the corresponding impact on equity holder liabilities except where they are directly related to a significant management action, are excluded from adjusted profit and are presented within profit before tax. The impact of certain changes in economic assumptions is also excluded from adjusted profit and is presented within profit before tax.

Adjusted profit also excludes the impact of the following items:

- Restructuring costs and corporate transaction expenses. Restructuring includes the impact of major regulatory change.
- Impairment and amortisation of intangible assets acquired in business combinations
- Profit or loss arising on the disposal of a subsidiary, joint venture or associate
- Fair value movements in contingent consideration
- Items which are one-off and, due to their size or nature, are not indicative of the long-term operating performance of the Group

Coupons payable on perpetual notes classified as non-controlling interests are included in adjusted profit before tax. For IFRS purposes, these are recognised directly in equity. This gives rise to an adjusting item relating to 'coupons payable on perpetual notes classified as equity'. Dividends payable on preference shares classified as non-controlling interests are excluded from adjusted profit in line with the treatment of ordinary dividends.

Assets under management and administration (AUMA)

AUMA is a measure of the total assets we manage or administer on behalf of our clients and customers. It includes Aberdeen Standard Investments assets under management (AUM) and Standard Life Pensions and Savings assets under administration (AUA), as well as AUM and AUA from our associate and joint venture businesses in India and China based on our ownership percentages.

AUM is a measure of the total assets that Aberdeen Standard Investments manages on behalf of individual customers and institutional clients. AUM also includes captive assets managed on behalf of Standard Life Aberdeen Group including assets managed for corporate purposes. These corporate assets are eliminated from Group AUMA.

AUA is a measure of the total assets we administer for customers through products such as pensions, platforms and ISAs, as well as assets backing our Spread/risk products such as annuities. Certain items previously included in AUA for Standard Life plc are now no longer included. These items are other corporate assets and assets which do not generate revenue from products. Comparatives have been restated.

Board

The Board of Directors of the Company.

Capital surplus

This is a regulatory measure of our financial strength and is measured on a Solvency II basis.

Chief Operating Decision Maker

The executive committee.

Company

Standard Life Aberdeen plc. Prior to the merger Standard Life plc.

Cost/income ratio

This is an efficiency measure that is calculated as adjusted operating expenses divided by adjusted operating income, and includes the share of associates' and joint ventures' profit before tax.

Director

A Director of the Company.

Earnings per share (EPS)

EPS is a commonly used financial metric which can be used to measure the profitability and strength of a company over time. EPS is calculated by dividing profit by the number of ordinary shares. Basic EPS uses the weighted average number of ordinary shares outstanding during the year. Diluted EPS adjusts the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, such as share options awarded to employees.

Elevate

Elevate adviser platform acquired through the purchase of the entire share capital of AXA Portfolio Services Limited, subsequently renamed Elevate Portfolio Services Limited.

Executive committee

Responsible for the day-to-day running of the business and comprises: Co-Chief Executives, Chief Financial Officer, Chief Investment Officer, Chief People Officer, Chief Executive – Pensions and Savings, Joint Head of Integration and Chief Operations Officer and Joint Head of Integration.

Global absolute return strategies (GARS)

A discretionary multi-asset fund provided under several regulated pooled and segregated structures globally by Aberdeen Standard Investments. The investment objective is to target a level of return over a rolling three-year period equivalent to cash plus 5% a year (gross of fees), and to do so with as little risk as possible.

Group, Standard Life Aberdeen Group or Standard Life Aberdeen

Relates to the Company and its subsidiaries following the completion of the merger of Standard Life plc and Aberdeen Asset Management PLC on 14 August 2017.

Growth channels

We aim to drive the increase in our assets, revenue and profit via our growth channels. This comprises Aberdeen Standard Investments (excluding mature business), UK Workplace and Retail, Europe (excluding Germany with profits), Hong Kong and Standard Life Wealth.

Ignis

Ignis Asset Management Limited and its subsidiaries.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards are accounting standards issued by the International Accounting Standards Board (IASB). The Group's consolidated financial statements are prepared in accordance with IFRS as endorsed by the EU.

Investment performance

Investment performance has been aggregated using a money weighted average of our assets under management which are outperforming their respective benchmarks on a gross of fees basis. Benchmarks differ by fund and are defined in each fund's Investment Management Agreement (for example, the benchmark for our GARS unit trust fund is six-month GBP LIBOR). For total AUM, the investment performance calculation covers 83% of Aberdeen Standard Investments AUM, with certain assets excluded such as our share of AUM from HDFC AMC where we do not directly manage the assets, non-discretionary portfolios or funds where no suitable benchmark is available.

Investor view

The investor view of Solvency II adjusts the regulatory position for the impact from unrecognised capital and with profit funds/defined benefit pension plans.

Key performance indicators (KPI)

A measure by reference to which the development, performance or position of the business can be measured effectively.

Liability aware

Liability aware is a framework for proactively managing the various liability risks and requirements that are faced by defined benefit pension plans and insurance companies.

Mature book/business

For Aberdeen Standard Investments, mature books represent the management of assets on behalf of strategic partner life businesses including Standard Life Group and a number of third party strategic partners such as Lloyds Banking Group and Phoenix. For Standard Life Pensions and Savings, mature books include UK mature Retail, UK and Europe spread/risk based business and the with profits business in Germany which closed to new business in April 2015.

Net flows

Net flows represent gross inflows less gross outflows or redemptions. Gross inflows are new funds from clients and customers. Gross outflows or redemptions is the money withdrawn by clients or customers during the period, including annuity payments.

Own funds

Under Solvency II, the capital resources available to meet solvency capital requirements are called own funds.

Platform

An investment platform (e.g. Wrap or Elevate) which is essentially a trading platform enabling investment funds, pensions, direct equity holdings and some life assurance contracts to be held in the same administrative account rather than as separate holdings.

Pro forma basis

The merger of Standard Life plc and Aberdeen completed on 14 August 2017, with the merger accounted for as an acquisition of Aberdeen by Standard Life plc on that date. Results on a pro forma basis are prepared as if Standard Life plc and Aberdeen had always been merged and are included on this basis to assist in explaining trends in financial performance by showing a full 12 months performance for the combined Group for both the current year and prior year. This is applicable to the results of the Group and Aberdeen Standard Investments.

Reported basis

The merger of Standard Life plc and Aberdeen completed on 14 August 2017, with the merger accounted for as an acquisition of Aberdeen by Standard Life plc on that date. The financial statements have been prepared on this basis, with Aberdeen results included only from the date of merger onwards. This is being referred to as the Reported basis. A reconciliation between profitability on a Pro forma basis and the Reported results is included on page 282 in the Annual report and accounts 2017.

Scheme of Demutualisation or the Scheme

The scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000, under which substantially all of the long-term business of SLAC was transferred to Standard Life Assurance Limited on 10 July 2006.

SIPP

A self invested personal pension which provides the policyholder with greater choice and flexibility as to the range of investments made, how those investments are managed, the administration of those assets and how retirement benefits are taken.

Solvency II

Solvency II is an EU-wide initiative that brings consistency to how EU insurers manage capital and risk. Solvency II was implemented on 1 January 2016.

Solvency capital requirement (SCR)

Under Solvency II, insurers are required to identify their key risks – for example that equity markets fall – and hold sufficient capital to withstand adverse outcomes from those risks. This amount of capital is referred to as the Solvency capital requirement or SCR.

Solvency cover

Solvency II Own funds divided by the Solvency capital requirement.

Standard Life

The brand name for our Pensions and Savings business, operating in the UK and Europe.

Standard Life Group

Prior to demutualisation on 10 July 2006, SLAC and its subsidiaries and, from demutualisation on 10 July 2006 to 13 August 2017, Standard Life plc and its subsidiaries.

Strategic partner life business

A measure of the assets that Aberdeen Standard Investments manages on behalf of Standard Life Aberdeen Group companies and under other long-term life book partnership agreements with third party companies such as Phoenix Group.

UK Retail

This relates to business where we have a relationship with the customer either directly or through an independent financial adviser. We analyse this type of business into growth and mature categories. Retail growth includes the products, platforms, investment solutions and services of our UK Retail business that we continue to market actively to our customers. Retail mature includes business that was predominantly written before demutualisation.

UK Workplace

UK Workplace pensions, savings and benefits to UK employers and employees. These are sold through corporate benefit consultants, independent financial advisers, or directly to employers.

Underpin

In relation to remuneration, refers to a further performance condition that is required to be met in addition to the performance targets when determining the vesting of an award.

Shareholder information

Registered office
Standard Life House
30 Lothian Road
Edinburgh
EH1 2DH
Scotland

Company registration number: SC286832

Phone: 0800 634 7474* or 0131 225 2552*

For shareholder services call:
0345 113 0045*

*Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

Secretary
Kenneth A Gilmour

Registrar
Link Market Services Limited (Link)

Auditors
KPMG LLP

Solicitors
Slaughter and May

Brokers
JP Morgan Cazenove
Goldman Sachs

Shareholder services
We offer a wide range of shareholder services. For more information, please:

- Contact our registrar, Link, who manage this service for us. Their details can be found on the inside back cover.
- Visit our share portal at **www.standardlifeaberdeenshares.com**

Sign up for Ecommunications
Signing up means:

- You'll receive an email when documents like the Annual report and accounts, Half year results and AGM guide are available on our website
- Voting instructions for the Annual General Meeting will be sent to you electronically

Set up a share portal account
Having a share portal account means you can:

- Manage your account at a time that suits you
- Download your documents when you need them

To find out how to sign up, visit **www.standardlifeaberdeenshares.com**

Preventing unsolicited mail
By law, the Company has to make certain details from its share register publicly available. Because of this, it is possible that some registered shareholders could receive unsolicited mail or phone calls. You could also be targeted by fraudulent 'investment specialists'. Remember, if it sounds too good to be true, it probably is.

You can find more information about share scams at the Financial Conduct Authority website **www.fca.org.uk/consumers/scams**

If you are a certificated shareholder, your name and address may appear on a public register. Using a nominee company to hold your shares can help protect your privacy. You can transfer your shares into the Company-sponsored nominee – the Standard Life Aberdeen Share Account – by contacting Link, or you could get in touch with your broker to find out about their nominee services.

If you want to limit the amount of unsolicited mail you receive generally, please visit **www.mpsonline.org.uk**

Financial calendar

2018

Full year results 2017	23 February
Ex-dividend date for 2017 final dividend	19 April
Record date for 2017 final dividend	20 April
Last date for DRIP elections for 2017 final dividend	09 May
Dividend payment date for 2017 final dividend	30 May
Half year results 2018	07 August
Ex-dividend date for 2018 interim dividend	16 August
Record date for 2018 interim dividend	17 August
Last date for DRIP elections for 2018 interim dividend	05 September
Dividend payment date for 2018 interim dividend	25 September

Analysis of registered shareholdings at 31 December 2017

Range of shares	Number of holders	% of total holders	Number of shares	% of total shares
1-1,000	62,796	61.11	26,483,000	0.89
1,001-5,000	34,613	33.68	70,528,561	2.37
5,001-10,000	2,980	2.90	19,993,611	0.67
10,001-100,000	1,738	1.69	42,330,605	1.42
#100,001+	636	0.62	2,819,601,100	94.65
Total	**102,763**	**100**	**2,978,936,877**	**100**

These figures include the Company-sponsored nominee – the Standard Life Aberdeen Share Account – which had 1,039,617 participants holding 736,555,571 shares.

Contact us

Got a shareholder question? Contact our shareholder services team.

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* Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

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Designed by **Black Sun Plc** and produced by **Standard Life Aberdeen plc**

Please remember that the value of shares can go down as well as up and you may not get back the full amount invested or any income from it. All figures and share price information have been calculated as at 31 December 2017 (unless otherwise indicated). This document has been published by Standard Life Aberdeen plc for information only. It is based on our understanding as at February 2018 and does not provide financial or legal advice.

Standard Life Aberdeen plc is registered in Scotland (SC286832) at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.

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