Keeping investment straightforward.

Aberdeen Asset Management PLC

Annual Report and Accounts 2013

Aberdeen

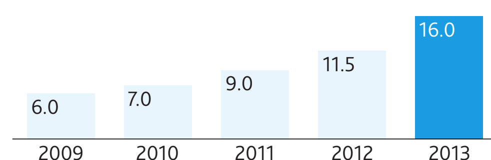
Simply asset management.

Aberdeen
Simply asset management.

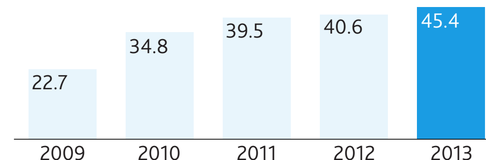
Highlights

2013 has been another year of profitable growth, notwithstanding volatility in markets.

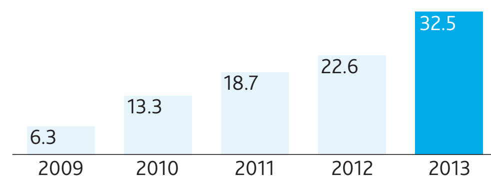
Dividend per share 16.0p



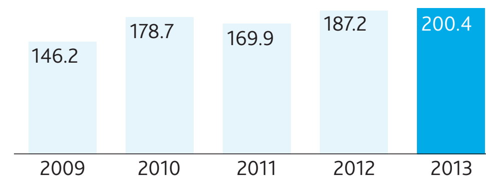
Operating margin 45.4%



Underlying diluted EPS[1] 32.5p



Assets under management £200.4 billion



Net revenue

£1,078.5m +24%

2012: £869.2m

Statutory pre-tax profit

£390.3m +45%

2012: £269.7m

Underlying pre-tax profit[1]

£482.7m +39%

2012: £347.8m

Dividend per share

16.0p +39%

2012: 11.5p

[1] Underlying figures are stated before amortisation of intangibles and acquisition costs

Our focus, your advantage

Who we are

Aberdeen Asset Management is a global asset management group investing across the main investment strategies of equities, fixed income and property, complemented by our solutions business, which provides multi asset and fund of alternatives services. We are present in 26 countries with some 33 offices and 2,200 staff.

What we do

Our business is the active management of financial assets for third parties. We deliver that expertise in the form of segregated and pooled products. Key clients include leading national and corporate pension funds, central banks and other investment institutions.

We have a broad shareholder base and are free from the ownership ties of a larger parent company structure.

Our culture

We believe in locating our investment and client service teams in or near the markets in which we invest or where our clients are based. The Group has grown rapidly in the last 30 years and values a flat management structure and being an open, diverse and accessible employer.

To our clients, we believe that we are transparent and approachable and we aim to deliver the highest standards of client service.

We champion local decision making, close-knit teams and interdependence among our offices worldwide.

Our responsibilities

Our primary focus is on serving our customers well and, by doing so, we will also deliver good returns to our shareholders.

We do our utmost to provide the best possible working conditions for our employees, to protect the environment and to manage our business in a fair and ethical manner.

Our corporate responsibility website may be found at **aberdeen-asset.com/csr**.

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Annual report online

This report is available in digital format. Please visit the investor relations section of our website:
aberdeen-asset.com/investorrelations

Chairman's statement

Roger Cornick
Chairman

Our investment approach has delivered another period of profitable growth, as anticipated in our half-year statement. This is despite periods of volatility and weak market sentiment during the second half of the year, which saw a broad sell-off across global markets, with some emerging economies being particularly hard hit.

Against this background, I am pleased to be able to report that, for the financial year to 30 September 2013, net revenue grew by 24%; underlying profit before taxation increased by 39%; and underlying diluted earnings per share improved by 44% compared to the previous year.

We completed two small infill acquisitions, for which we paid cash consideration; notwithstanding, we have added further strength to our balance sheet and cash positions.

All of this has enabled the Group to consolidate its position as a constituent of the FTSE 100 index, which we entered for the first time in 2012, with the market capitalisation having grown to £4.5 billion by the current year end, and to increase the ordinary dividend paid to our shareholders: we propose a total dividend for the year of 16.0p per share, a 39% increase on 2012.

Financial highlights

Net revenue for the year of £1,078.5 million was 24% higher than in 2012, with healthy growth in recurring management fees supplemented by increased performance fee income. Some 95% of net revenue was earned from recurring fees, and the blended average management fee rate increased to 50.0 basis points (2012: 45.1 basis points).

Operating costs increased by 14%, with some further targeted headcount additions in business development and risk teams and increased spend on marketing and name awareness; a key element of this was the launch in May of our brand refresh programme, which has generated encouragingly positive feedback.

During the period under review, Aberdeen was fined £7.2 million by the Financial Conduct Authority (FCA) for unintended past breaches of the UK's client assets regulations. We discovered the breach and reported it to the regulator and no client lost money as a result of the breaches. An amount equivalent to the £7.2 million fine was deducted from the annual bonus pool before the bonus allocation process was initiated.

Underlying operating profit, which is stated before amortisation of intangible assets and one-off acquisition costs related to the two deals, increased by 39% to £489.2 million (2012: £352.7 million) and the operating margin improved further to 45.4% (2012: 40.6%). After deduction of acquisition costs and amortisation, statutory profit before tax increased by 45% to £390.3 million.

We have added further strength to the balance sheet, with a year-end net cash position of £426.6 million (2012: £266.4 million). This has been achieved mainly from strong operating cash flow, aided by the conversion to equity, early in the financial year, of the remaining convertible bonds. We refinanced our perpetual capital securities, with the existing $400 million 7.9% perpetual capital securities being repaid in May from the proceeds of a $500 million issue of 7.0% perpetual cumulative capital notes. The new securities form part of the Group's regulatory capital.

Dividend per share

16.0p +39%

2012: 11.5p

By serving our customers well, we firmly believe that we will also deliver healthy returns for our shareholders in the coming year.

Dividend

The Board is recommending a final dividend of 10.0p per share, making a total payment for the year of 16.0p per share, an increase of 39% on the total payment for 2012. As previously stated, the Board is committed to a progressive dividend policy.

Investment

The last year has been a challenging but productive period for the Group's investment divisions. The Group's equity process has served our clients well over the long term, but we recognise that there will be periods when portfolios underperform. It is at these times that we emphasise to our teams the importance of adhering to their long-term convictions.

Our fixed income business has strengthened its approach to macro and credit research, implementing best practice across our teams in the UK, US, Asia Pacific and Brazil. The progress made over the past 12 months means that we are better placed to address the needs of investors in the coming years. Many of our fixed income strategies have outperformed over the past year which has fed into the longer-term numbers.

The Group has reorganised its solutions capability. This includes the transfer of the property multi manager team into this asset class and forming a new investment function to encompass the provision of market research, portfolio construction and risk management.

The changes that we have made to our direct property investment process and fund ranges in recent years are starting to bear fruit and have been well received by our clients and by investment consultants.

New business

Despite the economic headwinds that Aberdeen and the wider market have experienced, the Group has continued to generate healthy new business wins. The momentum of flows has been biased towards higher margin pooled funds which are now 49% of total AuM and have been sourced principally from our core equity product offerings. However, a growing proportion of flows have come into other asset classes and products such as emerging market debt, high yield bonds and property. We would expect this trend to continue as investors focus on yield and tailored solutions.

Highlights

	2013	2012
Net revenue	**£1,078.5m**	£869.2m
Pre-tax profit		
Before acquisition costs and amortisation of intangibles	**£482.7m**	£347.8m
After acquisition costs and amortisation of intangibles	**£390.3m**	£269.7m
Diluted earnings per share		
Before acquisition costs and amortisation of intangibles	**32.5p**	22.6p
After acquisition costs and amortisation of intangibles	**26.2p**	17.6p
Total dividend per share	**16.0p**	11.5p
Gross new business	**£43.9bn**	£36.0bn
Net new business	**(£2.5bn)**	£0.0bn
Assets under management at the year end	**£200.4bn**	£187.2bn

Gross new business of £43.9 billion was added during the year, sourced from investors in EMEA ex. UK (40%), the Americas (23%), the UK (19%), and Asia Pacific (18%). Full year net outflows were £2.5 billion.

Notwithstanding the weaker sentiment experienced in emerging markets to which, as a large investor in the region, Aberdeen was not immune, our global emerging market (GEM) equity offering saw healthy net inflows for the year of £1.7 billion. We believe that the measures we have taken to manage capacity within our GEM product remain appropriate as we continue to see healthy interest for this asset class over the medium term. Appetite for Asian and global equities has also remained strong with investor demand expanding to other regional capabilities such as Japanese equities.

Our fixed income and money market asset class, despite an overall outflow for the year of £5.4 billion, has continued to show healthy signs of improvement both in terms of new business and performance. Higher margin strategies, such as emerging market debt and high yield, saw healthy net inflows during the year.

Within solutions, our multi asset and fund of private equity products experienced net inflows. We also saw the launch of a European Secondaries Property Fund of Funds. In contrast, our long-only and fund of hedge funds strategies experienced net outflows and contributed to net outflows of £2.7 billion for this asset class.

Despite the controlled wind down of legacy German open end property funds, we have continued to see investor interest in our property capability reflected in a number of mandate wins – some not yet funded - during the year. Shortly after the financial year end we were awarded a €470 million Danish property mandate. Aberdeen is the fourth largest European property manager, according to Property Funds Research.

Distribution

Our main focus remains on markets with the largest asset pools, particularly the Americas and Europe including the UK. In addition to the brand refresh, we supported our distribution efforts with our first global advertising campaign.

We have strengthened our distribution team by adding business development staff in the US, Germany and Switzerland. In November, we opened an office in Madrid, enhancing our ability to service clients in a country where we have been active for over ten years.

To support our priority of promoting our wider capabilities and products, we undertook two infill acquisitions, Artio Global Investors and a controlling stake in Aberdeen SVG. These acquisitions, which have been fully integrated into the wider Group, have, respectively, added high quality teams and established capabilities to our US and global fixed income strategies and funds of private equity businesses. They complement our organic efforts to broaden and strengthen our distribution channels and product mix.

We believe that these capabilities – along with emerging market debt, European equities and property – are areas where we have a sustainable and competitive advantage and are scalable over the longer term.

The Board

I would like to take the opportunity to thank my colleagues on the Board who have, once again, made invaluable contributions to its effective operation during the year under review. We continue to refresh and strengthen membership of the Board and, in addition to the changes announced in my half year statement, I am very happy to welcome to the Board Akira Suzuki who was proposed by Mitsubishi UFJ Trust and Banking Corporation to replace Kenichi Miyanaga. I would like to record special thanks to Mr Miyanaga, who resigned just before the year end, for the considerable contribution he has made over the three years that he served on the Board.

I would also like to welcome our new colleagues from both Aberdeen SVG and Artio, who joined us in May 2013.

We hold firmly to the view that our continuing ability to deliver healthy returns to shareholders will be achieved by all aspects of the Group’s operations providing the highest level of service to our customers and, on behalf of the Board, I thank all of our staff for their continued dedication and hard work, without which this would not be possible.

On a more sombre note, it is with considerable sadness that we record the passing of four long-standing Aberdeen colleagues – Andrew McMenigall, Magne Øksdal, Toby Wallace and Barry Walters. They will be sadly missed and our thoughts remain with their families and friends.

Outlook

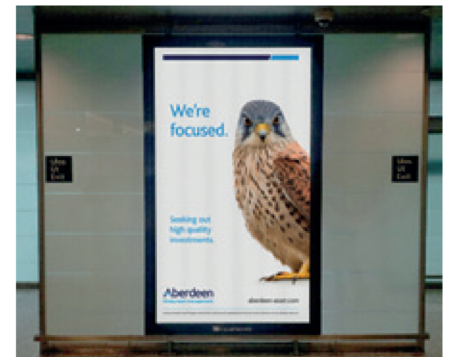
While we believe that markets and investor sentiment may remain volatile for the foreseeable future, we have entered a new financial year in a strong financial position and remain well placed to continue the Group’s profitable growth. Our priorities have not changed: we will continue to apply our focused, long-term investment process and seek further diversification of our assets under management and revenue streams. In this context, we look forward to realising the considerable potential of the strategic relationship with Lloyds Banking Group, which we announced on 18 November.

R C Cornick
Chairman

Our new brand

Aberdeen has come a long way in the past 30 years. Today we are a FTSE 100 company with offices in 26 countries across Europe, Asia Pacific and the Americas. Aberdeen is global. Our brand – how we look, what we say, what we value – needs to reflect this.

- First ever global brand advertising campaign for Aberdeen.
- One brand vision, distinctive cultural differentiation, pan-asset class view.
- Reached global audience of 7.5 million.
- Strong brand recall – improving awareness of Aberdeen name.
- Recognition of Aberdeen as a global leader and 'plain speaking'.
- Nominated for awards in the UK, Singapore and US.



Our new strapline, 'Simply asset management.', aims to state what we do and what we stand for.

Where we operate

We have the scale to provide global coverage of financial markets, yet we are flexible enough to focus on each and every portfolio decision.

We have teams of skilled investment professionals across a range of investment strategies including equities, fixed income, property and solutions to serve our institutional and retail clients.

Europe, Middle East and Africa

The UK accounts for 30% of our clients by AuM, some £59 billion. Our headquarters are in Aberdeen, where we locate many Group functions. Our largest office is in London and it is the investment centre for GEM (ex. Asia), UK and European equities, fixed income and fund of alternatives teams. Edinburgh is the investment centre for our global equities team and the multi asset team.

We have a significant presence across Continental Europe with 14 regional offices in 13 countries. Europe, excluding the UK, accounts for 27% of Group AuM. Luxembourg is the domicile for the Aberdeen Global fund range which has AuM of £31.2 billion. We opened our first Spanish office in Madrid, which builds on Aberdeen's work over the last decade marketing our investment capabilities in Spain.

The Middle East and Africa are important sources of institutional funds and we have a strong client base which we service from London. Around 7% of our AuM is managed for institutional and sovereign wealth entities in those regions.

Asia Pacific

Singapore is the Asian headquarters of the Group and is home to most of our Asia fund managers covering the main asset classes as well as substantial marketing, client servicing and administrative functions.

Other full service offices are in Bangkok, Hong Kong, Kuala Lumpur, Sydney and Tokyo. Our Taipei and Kaohsiung sales offices service the retail market in Taiwan.

Clients in Asia account for around 13% of our AuM and our investments in Asian equities, fixed income and property are core competencies for the Group.

Americas

Philadelphia is our hub for North America and includes fixed income, US equities and property teams. Our New York office is growing, helped by the acquisition of Artio. This grows our US fixed income business and brings enhanced distribution and client penetration in the US market.

We manage 23% of our AuM on behalf of clients throughout the Americas and have developed a strong platform on which to service institutional and wholesale channels.

The Toronto office services our burgeoning Canadian client base, while São Paulo is a research office for our emerging market equity and debt teams. Our Americas team also cover Latin American clients investing in our Luxembourg fund range.

Global brand recognition

Our brand campaign has been recognised globally with awards for success in the UK ("Highly Commended", Corporate Engagement Awards and Digital Impact Awards 2013), Europe (Funds Europe magazine, "Marketing Campaign of the Year" 2013) and the US (MFEA Star Awards 2013), as well as advertising awards in Singapore and Taiwan.

UK and European Offices
Aberdeen (Head office), Edinburgh, Jersey, London, Amsterdam, Brussels, Budapest, Copenhagen, Frankfurt, Geneva, Helsinki, Luxembourg, Madrid, Milan, Oslo, Paris, Stockholm and Zürich

Europe, Middle East and Africa

Net revenue

£590.3m

2012: £489.6m

Asia Pacific

Net revenue

£392.8m

2012: £316.5m

Offices
Bangkok, Hong Kong, Kaohsiung, Kuala Lumpur, Melbourne, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo

Americas

Net revenue

£95.4m

2012: £63.1m

Offices
New York, Philadelphia, São Paulo and Toronto

Strategic report

Our strategic priorities have not changed and we will continue to apply our focused, long-term investment process and aim to achieve further diversification of our AuM and revenue streams.

We focus our distribution efforts on markets with the largest asset pools, particularly the US and Europe.

By servicing our clients well, we believe we will deliver value for our shareholders in the future.

45.4%

Operating margin has increased from 40.6% to 45.4%, reflecting strong revenue growth coupled with continuing cost discipline.

Strategic report

Overview of strategic report

Aberdeen aims to build on its position as a highly regarded global asset management group founded on providing the highest levels of investment performance and client service.

High quality teams are at the heart of our investment process and operations.

Our aims

We aim to optimise long-term returns for our shareholders through:

1. Maintaining a complete focus on providing the highest levels of investment performance and client service.
2. Recruiting, developing and retaining talent and being well resourced at all staffing levels, with robust succession plans in place.
3. Seeking cost effective growth – either organically or through selective acquisitions – and an optimal organisation structure for maximum efficiency.
4. Maintaining a strong balance sheet through consistent cash generation and paying an increasing rate of dividend.

Strategic highlights

Title	Comment	Page no
Growth	There have continued to be strong flows into GEM and Asia Pacific equities products. We slowed down the flows into GEM equities through an upfront charge and a capacity management programme. This will reduce the rate of growth, but it is important to maintain the integrity of the investment process. Beyond our core equities products, we have a number of other capabilities with strong track records that we believe meet client demand. Our distribution focus is now on supporting these capabilities in the largest asset pools, particularly the US and Europe.	Pages 25 and 31
Emerging markets outlook	Emerging markets suffered from fears of a Chinese slow down and then speculation that the US Federal Reserve would begin unwinding its Quantitative Easing programme. Notwithstanding macro concerns, we believe that investors will refocus on corporate fundamentals, which remain attractive in the long run.	Pages 24 and 31
Artio and SVG acquisitions	We completed the acquisition of Artio and took a 50.1% stake in Aberdeen SVG. These are infill acquisitions that strengthen our offerings in global high yield and fund of private equity funds.	Pages 32 and 34
Capital	Our regulatory capital position continues to strengthen and we now have significant capital without reliance on the FCA consolidation waiver. The increased total dividend payout of 16.0p (+39%) demonstrates our commitment to returning cash to shareholders.	Pages 40 and 41

Overview of strategic report

Section	Content	Summary
Business model	This shows what we do and how we operate.	Diversified product range, geographic reach and client base.
Strategy	This shows the progress against our four aims on the left and our outlook in these areas.	We aim to grow our business beyond our largest equities products. We are supporting growth plans through strategic acquisitions and our brand refresh.
Market review	Background on key trends in the industry, with an explanation of how they have impacted our progress and the effect that we anticipate they will have in the future.	Markets influenced by uncertainty over Quantitative Easing. There are significant regulatory changes in the next two years.
KPIs	We look at our performance against the key indicators that we measure over time.	KPIs show consistent improvement in performance over the last five years.
Business review	A more detailed review of the last year for each of our asset classes and regions.	Our equities business remains strong and we also made good progress in a broad range of key capabilities and markets.
Financial review	A summary of financial performance, looking at the income statement, balance sheet, cash flow and regulatory capital.	Very strong financial performance, improving fee and operating margins leading to a stronger balance sheet.
Risk management	A summary of the principal risks that we face, as well as an overview of the Group's risk management framework.	The risk profile is similar to last year, but we highlight greater equities concentration and the importance of conduct risk.

Our key measurements of success

AuM (September 2013)
£200.4bn

Operating margin
45.4%

Net revenue
£1,078.5m

Underlying profit before tax
£482.7m

Read more on our KPIs on pages 28 and 29.

Summary

This section of the strategic report from pages 14 to 47 brings together an overview of our business model and strategy, as well as more information on our people and investment process. We look at how we performed in the year in the context of markets and the progress in the business and the Group's financial position.

These pages illustrate our strong performance in recent years. Our strategic priorities have not changed and we will continue to apply our focused, long-term investment process and aim to achieve further diversification of our AuM and revenue streams.

M J Gilbert
Chief Executive

W J Rattray
Finance Director

Strategic report

Business model

Our focus is the active management of our clients' portfolios, with 95% of our net revenue coming from recurring management fees.

A diversified product range, geographic reach and client base, along with our scale and focused approach, enables us to provide effective asset management and superior client service.

1. How our business generates value

The basis for our business is our capabilities, our international reach, our clients and our people.

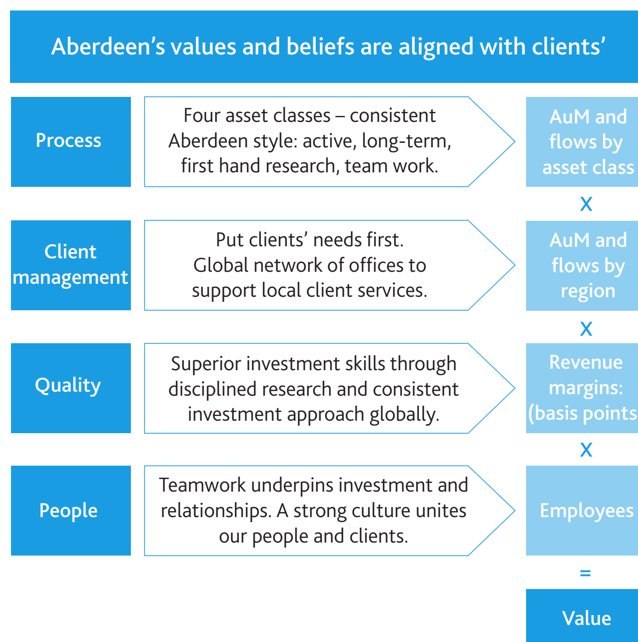
We aim to grow our business by growing the money managed for existing clients and winning new clients. We do this by explaining our investment process and our track record for managing money.

New business grows our AuM. There will be a natural turnover of money managed and we expect a level of outflows from existing clients. However, we aim to retain as much AuM as possible with a long-term focus on investment management and ensuring that the client teams meet our clients' needs. AuM may also increase and decrease due to market movements.

We charge fees based on the levels of AuM – these are based on the percentage of the money managed and are expressed as basis points (bps). Fee levels depend on the capability, amount of money managed and the channel. This product mix has an impact on the levels of revenue growth.

All of the above is founded on our high quality teams.

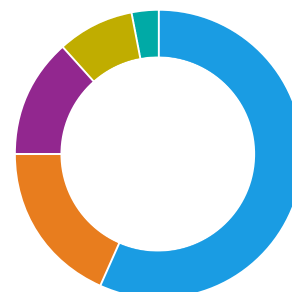
When revenues grow, our cash flows grow. We use cash generated to ensure that we have a strong capital base. Thereafter, we look to increase shareholder value through strategic acquisitions and dividends and other returns to shareholders.



2. What we do

We seek consistent long-term investment performance across all investment strategies. We aim to develop each of the investment areas, ensuring that each desk has a disciplined investment process, centred on team based decision making and original research.

AuM by class:	£bn
Equities	113.8
Fixed income	36.8
Solutions	28.8
Property	15.0
Money market	6.0

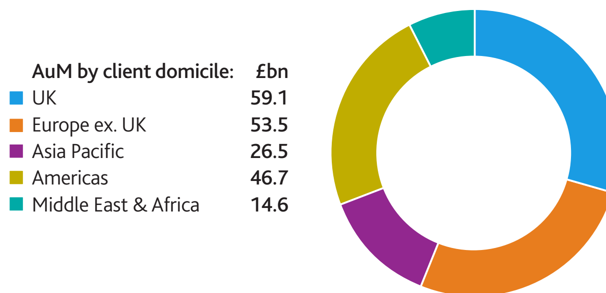


Read more on our investment process on pages 20 and 21.

3. Where we are

Our global network of 33 offices in 26 countries supports a uniformly high standard of local client service.

Where possible our client relationship teams are located close to their markets. We will continue to expand and deepen our distribution footprint to enhance client service and create new business opportunities.



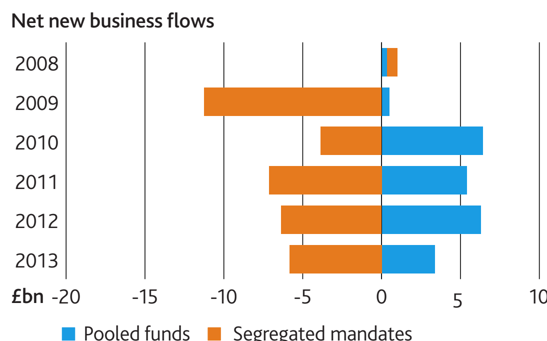
Read more on our regional presence on pages 10 and 11.

4. Who our customers are

We have a diverse client base - both by channel and nature of client. Our institutional clients include pension funds, corporates, sovereign wealth funds, government agencies and insurance companies. We typically sell to retail clients through intermediaries, also known as distributors or third party advisors, such as private banks, financial advisors, wealth managers and platforms. We also call this the wholesale channel.

We sell products in pooled funds and segregated mandates. Over recent years, we have seen strong growth in our wholesale channel where flows are into pooled products. Going forward, we expect more balanced flows into segregated mandates and pooled funds.

Ensuring that we are looking after our clients' best interests is at the core of developing our strategy.

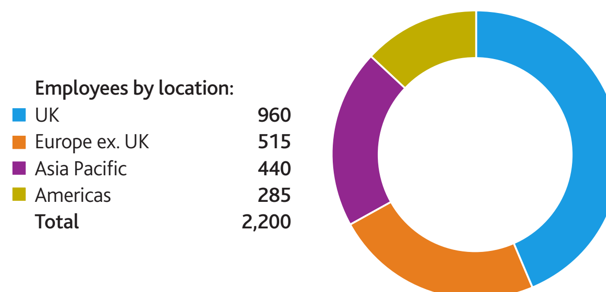


Read more on the progress of our regional distribution teams on pages 35 to 37.

5. Who we are

Aberdeen employs 2,200 people. We are committed to recruiting and retaining talented and motivated individuals who put clients at the heart of our business.

Underpinning our global network of employees is a team structure; this applies to all business lines, not just our investment desks. A flat management structure facilitates information flow and keeps the business streamlined. We recruit new joiners to fit the Aberdeen culture, as well as running an established graduate scheme that fosters loyalty and low staff turnover rates.



Read more on our people on page 22.

Strategy

Strategic priorities	2013 progress
Focus on providing the highest levels of investment performance and client service **Investment:** • Maintain and further develop our four established investment asset classes. • Deliver consistent long-term performance across these competencies. **Distribution and client relationship:** • Provide the highest levels of client service and client management.	• Our long-term performance track record in equities remains strong. Where we have had shorter-term underperformance due to the macro environment, we have explained this clearly to our clients. • Further action taken to moderate the rate of inflows to GEM funds and to ensure that the quality of the portfolio is not compromised. • Fixed income investment process refined to ensure consistency with equities; macro and credit research strengthened. • We have had strong client retention through a period of turbulence for emerging markets. • Client relationship management team enhanced in all regions to augment local client service levels.
Recruit, develop and retain talent • Team based approach. • Well resourced at all levels. • Robust succession plans in place.	• Stable leadership and fund management teams. • Recruited 43 graduates across the three regions. Our strategy is to build from the bottom up and we believe that this fosters loyalty in future generations of leadership. • We have added to business development teams to broaden access to distribution channels, especially in the US and Europe, and have recruited to address regulatory changes in the next few years. • We continued to enhance risk and compliance teams, ready for the further regulatory changes in the next few years.
Seek cost effective growth and efficient organisational structure • Expand and deepen distribution footprint. • We focus on distribution capabilities where our strengths match market demand. • Further develop our capabilities where we have a competitive advantage. • Selective acquisitions at appropriate times in the business cycle. • Develop and maintain a comprehensive global operating model to support all services and locations.	• Brand refresh and marketing campaign continued to increase awareness of Aberdeen in key European, Asian, US and UK cities. • Significant focus on the US – stronger sales team across US distribution channels. • Artio acquisition also strengthens our US presence across key distribution channels, as well as fixed income capability. • Reached major milestone in implementation of new global platform to support direct property and property multi manager.
Maintain strong balance sheet through consistent cash generation • Maintain a progressive dividend policy.	• Sufficient regulatory capital without reliance on waiver. • Refinanced perpetuals, replacing 7.9% $400 million instrument with 7.0% $500 million instrument. Qualifies as regulatory capital. • £82.7 million convertible debt fully converted to ordinary shares.

KPIs	Future targets	Risks
• AuM has grown to £200.4 billion. • Equities account for £113.8 billion (57% of Group AuM). • Net inflows for EMD of £1 billion.	• We continue to believe that our 'fundamental' approach is well suited to offering long-term performance in current markets. • We expect that the macro environment will continue to be challenging – but we remain confident in the longer-term prospects of the companies and assets that we invest in. • Strengthened product suite in fixed income and property, as well as changes to structure of the solutions team, means that we are well positioned to win new business.	• Investment reputation and client retention could be damaged by significant changes in investment personnel. • Investment mandate breach. • Loss of clients due to poor management of relationships. • Misleading on suitability or misrepresentation of products to clients.
• Our headcount grew from around 1,900 to 2,200 (of which around 75 related to the acquisitions).	• Strengthened senior management development programme to build leadership team for the future. • Continue to improve training and development for senior managers as we strengthen leadership our team for the future.	• Loss of key staff.
• Revenues increased by 24% to £1,078.5 million; costs increased by 14% to £589.3 million. • Operating margin increased from 40.6% to 45.4%. • Net outflows of £2.5 billion, but product mix means that we added £47 million to annualised revenue.	• We aim to develop and grow offerings outside the three core equities products (Asia, GEM and Global). • New Madrid office opened in November 2013. • Continue to focus distribution effort on largest asset pools, particularly in the US and Europe.	• Aberdeen's capabilities are not suitable for market conditions. • Products that fail to meet clients' needs. • Failure of external service providers or Aberdeen systems.
• 108% of operating profits converted into core operating cash flows. • Year-end net cash of £426.6 million (2012: £266.4 million). • Dividend per share increased by 39% to 16.0p.	• We believe that increased balance sheet strength will support the progressive dividend policy. • We aim to have an appropriate buffer above regulatory capital to manage through periods of volatility.	• Major legal or regulatory event leads to material fine or compensation payment. • Group financial position weakened through failure to manage liquidity, credit or foreign currency risks.

Summary of KPIs on pages 28 and 29.

More information on outlook by asset class and region is provided on pages 31 to 37.

More information on risks on pages 42 to 45.

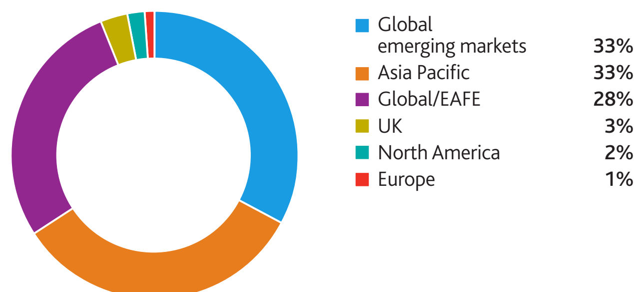
Our investment process

Our clients access our investment expertise within three main asset classes: equities, fixed income and property, as well as a range of tailored solutions.

Equities

Aberdeen's advantage lies in the consistency of our approach, irrespective of market conditions. We see equity risk in terms of investing in a poor quality company, or overpaying for a good one. Clients understand our process and portfolios because they are transparent.

AuM breakdown



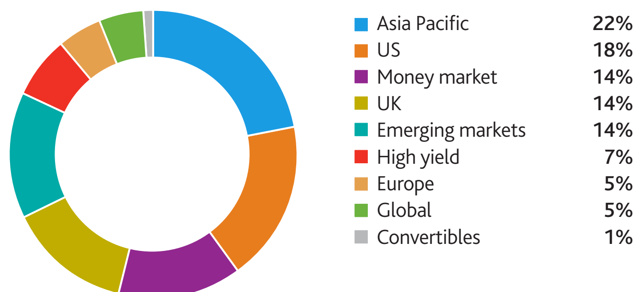
As at 30 September 2013 | Total **£113.8bn**

Source: Aberdeen Asset Management PLC

Fixed income

Performance in fixed income is as much about avoiding losers as picking winners. After doing research, if we do not understand an investment, we do not buy it. We invest in countries and companies that give us attractive returns relative to the possibility of loss.

AuM breakdown



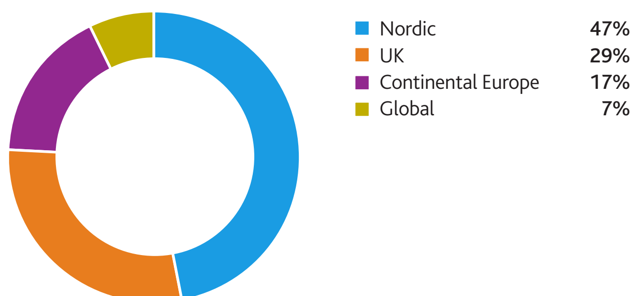
As at 30 September 2013 | Total **£42.8bn**

Source: Aberdeen Asset Management PLC

Property

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

AuM breakdown



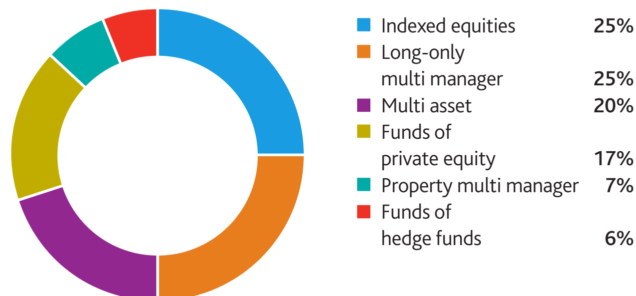
As at 30 September 2013 | Total **£15.0bn**

Source: Aberdeen Asset Management PLC

Solutions

Solutions exists to help our clients find the right path to navigate an uncertain and complex financial environment. We have the resources to research and assess new and alternative sources of returns and to find ways to allocate portfolio risk more efficiently. We blend in-house capabilities, including our specialist teams, and third party managers.

AuM breakdown



As at 30 September 2013 | Total **£28.8bn**

Source: Aberdeen Asset Management PLC

Our investment approach

	Equities	Fixed Income	Property	Solutions
Style	Active management. Bottom-up stock picking.	Active management, multiple sources of value with diversified risk.	Active management across sectors and geographies.	Active management of direct investment and third party manager funds.
Presence	Local presence in all main global markets.	Local presence in all main time zones/markets.	Local presence in all key international markets.	Operating from the Group's global investment hubs in the UK, US and Singapore.
Process	Bottom-up evaluation of business model and management quality.	First hand research, combined with clear and disciplined approach to risk and value.	Advanced top-down research guiding local structured opportunity spotting.	Blend the Group's capabilities in customised portfolios.
Focus	Long-term focus. Low transaction costs.	Fundamental analysis is key to delivering long-term value.	Superior risk-adjusted returns, focus on quality and not general market exposure.	Transparent delivery to client-specific investment objectives.
Structure	Team approach with disciplined screening. Allows cross coverage of portfolios and increases objectivity.	Teams in three regions deliver local insight – give global teams access to best investment ideas.	Local investment teams working to shared risk parameters.	Team approach between local professionals sharing global view.

Active management

We are predominantly an active manager that aims to generate strong performance by using primary research and a comprehensive and robust investment screening process to uncover quality long-term investments.

Conventional thinking suggests that investing passively is inherently less risky than active management. But this is only true when risk is measured as deviation from the benchmark. This constrains the opportunity set of investments to the index members, in the weights that constitute the index itself.

At Aberdeen, we would argue that the debate is not about active versus passive, but about what good active management looks like: good active management being an approach that is agnostic to benchmarks. Deviating from the benchmark is the only way that one can outperform it.

Our golden rules of investing:

- Understand limitations.
- Appreciate what is predictable and, more importantly, what is not.
- Research our investments thoroughly.
- Benchmark agnostic/maintain focus on a relatively small number of companies.
- Invest for the long term, accepting that periods of poor short-term performance may arise.
- Stick to established processes.

Our people

We are committed to recruiting and retaining talented and motivated individuals who put clients at the heart of our business.

Recruitment and selection

Recruitment, development and retention of talent is key to our ability to perform well for our customers and, as a consequence, our shareholders.

Our strategy is to recruit, wherever possible, at graduate level, placing an emphasis on succession planning and developing our future leaders. We also encourage moves within the business, preferring to use our existing talent pool to fill available posts.

We continue to grow our apprenticeship, intern and graduate programmes. We believe that this approach creates loyalty in the organisation. Our graduate rotation scheme aims to equip recruits with a broad based knowledge of both Aberdeen and the asset management industry as a whole, before they choose a permanent position.

This year we hired 109 interns, 43 graduates, 3 apprentices and 6 individuals on the Investment 2020 scheme. We have recruited 179 graduates globally from 1994 to 2013.

Competitive compensation

Rewarding employees for their contribution is key to recruiting and retaining a talented workforce. More information on how we set compensation packages is given in the remuneration report starting on page 64.

Learning, development and talent management

We continue to improve our training and development for senior managers with the goal of building a pool of individuals ready to move into key leadership roles. We aim to provide bespoke development plans.

We fully support performance management and continuous development. Our annual appraisal process for all employees is at the core of our development process, providing an opportunity to discuss performance, set objectives and identify areas for future development.

Professional training is necessary for certain individuals to ensure that they are proficient in the skills required for their jobs. Those wishing to pursue a career in fund management are required to complete relevant examinations. There are opportunities for others to complete relevant industry qualifications.

Succession

Succession plans are in place for all roles across the Group from the Board, the Group management board (GMB) to regional, country and desk heads. Plans are formally reviewed and updated regularly. The Board has taken advice from an external consultant to review our succession plans to help us to challenge and improve the process.

Equality and diversity

As a global organisation with customers spanning a multitude of countries, cultures and professions, we view diversity as a valuable business asset. We strive to be an employer of choice in all of the countries in which we operate and to provide an environment in which everyone is treated equally.

Details of the Group's equal opportunities policy are available on our website and this policy is supplemented by specific policies that reflect local employment legislation and expectations.

We are committed to creating an inclusive environment in which all employees have the opportunity to develop.

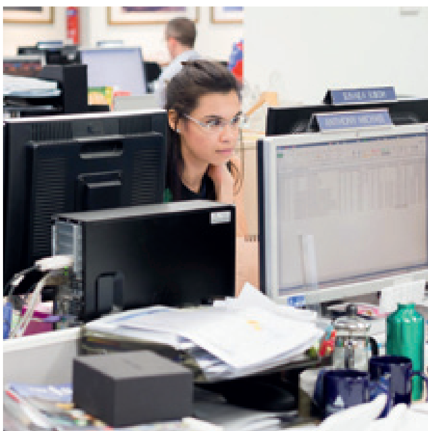
We have a prominent voice supporting female representation in boardrooms and support gender equality. We support Backroom to Boardroom; this is a forum in which women with boardroom experience can offer the benefit of that experience to women who may achieve these positions in the future.

This year, we became a signatory to the UN Global Compact. Our operations and policies support and reflect the ten Global Compact principles and we uphold the Universal Declaration of Human Rights in all our operations. In countries where an employee delegate or works council is not present, employees are encouraged to share their opinions with line managers or human resources representatives.

85%

We undertook our first employee engagement survey. This year, over 85% of our staff in EMEA participated and we are now rolling it out across the rest of the Group.

The results were positive and we are working on action plans for the year ahead to address where improvement is required.



Breakdown of staff by gender:

Total workforce	2,200
Male 53%	Female 47%
Senior managers	
Male 75%	Female 25%
Group management board	
Male 85%	Female 15%
Board of Directors	
Male 71%	Female 29%

Market review

To borrow from British sports punditry, it has been a funny old year. Financial markets have broadly continued to rise: the S&P 500, the benchmark US equity index, has now doubled since the financial crisis of 2008-2009. Yet markets remain sensitive to the influence of political, as much as economic decisions, and volatility has persisted. The right asset allocation has been crucial to returns.

In January 2013, as 12 months earlier, the US economy seemed on the point of sustained recovery. Instead, high unemployment has persisted amid the fiscal debt stand-off in Congress. While the subject of the US reining in its asset purchase programme has received widespread coverage, no changes have been made so far. It is interesting to highlight the divergence between the US and the Eurozone; the US economy is improving yet the Federal Reserve keeps expanding its balance sheet while the Eurozone's growth remains sluggish and the European Central Bank is shrinking its balance sheet. Meanwhile, a slower Chinese economy has reduced demand for commodities globally.

As expected, the 'great rotation' from bonds to equities has become one from developing to developed market equities. US, European and Japanese equities – where action to reflate the economy has followed years of drift – have performed best in 2013.

However, this storyline is less clear-cut than it may seem. While corporate cash flow, underpinned by cost cutting, has supported US dividends, new investment has been hesitant. The European picture is also complex: multinationals have prospered thanks to their non-European exposure and Eurozone economic activity stopped deteriorating over the third quarter of 2013. Emerging markets have been impacted by uncertainty over the Federal Reserve 'tapering' of Quantitative Easing (QE).

Product diversification

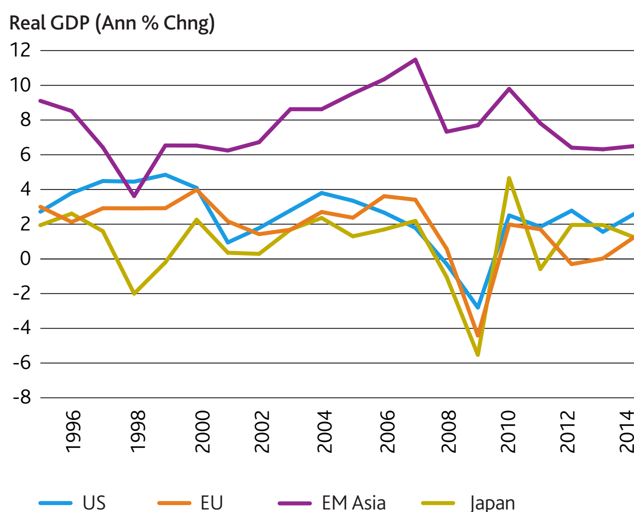
Confronted with uncertainty over where to invest, institutional investors are tiring of the old 'equities or bonds?' choices. They are looking toward multi asset products that variously use alternatives (including private equity, infrastructure, commodities and property, as well as hedge funds) to generate returns.

This trend is not new, but it has accelerated. This is, in part, due to a search for uncorrelated assets and behind this is often a focus on defined outcomes (such as inflation-plus returns) rather than performance. Risk management is also a top priority.

Retail investor needs are similarly changing. Traditional bond products have failed to offer sufficiently attractive yields in a zero-rate investment environment. The search for something better has shifted quickly from a focus on debt products (US mortgage, Global high yield and emerging markets being favourites) to more diverse approaches using equities, convertibles and alternatives.

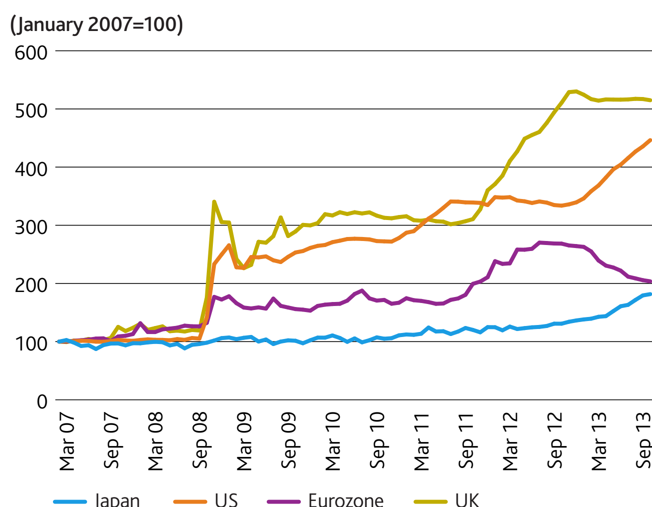
Investors of all types want lower costs and more transparency. This has created a growth market for passive funds, especially exchange-traded funds (ETFs), which are traded on exchanges like shares. An explosion in strategy types has enabled investors to benchmark a much higher proportion of their portfolios inexpensively and be more selective about where they seek alpha (i.e. performance ahead of benchmarks).

Economic backdrop remains challenging



Source: IMF estimates, IMF, October 2013

Expansion of major central bank balance sheets



Source: Goldman Sachs Global ECS Research, Bank of Japan, September 2013

Falling demand, more concentrated distribution

There are structural changes in demand; the 'baby-boomer' generation is retiring and is looking to convert savings to income. Their children, with 30 or 40 years of working life ahead of them who can afford to take the long-term view, do not warm to investing. Meanwhile, penetration rates in high growth areas of the world, such as Asia, have not taken off as demographics and rising wealth might have implied.

These developments have left financial intermediaries almost everywhere, be they US 'wire houses', financial advisors in the UK, European bancassurers or private banks in Singapore, jostling for space. The bigger, often global, ones are consolidating their power and seeking a larger cut of fees for access to their distribution platforms.

On the investment side, the asset managers that have the brand, advertising and distribution muscle, plus the depth of expertise to come up with products that investors want, are cornering fund flows. By implication, there is an over-supply of funds that are not gathering assets. Even if these funds outperform, they may not be paying their way.

This trend of concentration has left large numbers of both intermediaries and fund managers struggling. Some private banks have merged their wealth management and investment operations in response.

How we are responding

The challenge amid these upheavals is strategic as well as financial.

Aberdeen's first priority has been to manage our core franchise in emerging markets. In early March we put a hard close to new investors on emerging market equity funds because of capacity constraints (via a 2% front end charge for the benefit of existing investors). As anticipated there was an initial sell-off in the funds but this has moderated. The front end charge was also introduced as emerging markets, in general, fell on concerns over the US Federal Reserve ending QE.

We have been able to contain excessive outflows, which reflects our institutional buyer base. Unlike retail investors, professionals have now started to put money back to work. In the medium to long term, this is an opportunity to continue to grow margins with higher margin business replacing lower fees in the back book. Long-term results are still exceptional and there has been no fundamental change either to team or style.

Emerging market debt is a younger asset class than equities – and one where opportunities exist across hard and local currency sovereign issues and in corporate dollar-denominated debt. We see institutional investors keen to build long-term positions. Retail investors, on the other hand, remain guided by income returns and are more sensitive to swings in currency.

Read more about our equities asset class on page 31.

Develop or acquire

Our stance on product development is to develop capabilities in new areas of investment that appear to have a permanent demand, whether by developing that capability in-house or acquiring it from outside. We see this as a necessary response to product trends and essential to our longer-term business health.

In fixed income, we have changed emphasis to more internationally diversified portfolios, for example using GDP rather than market cap weighted benchmark indices. We are marketing sovereign and high yield capabilities that are more global in scope than their investment grade developed market forerunners. Nonetheless, we have not abandoned specialist products where there is demand. These include our suite of high yield products, strengthened by the arrival of the Artio team.

Above all, we have moved towards a common fixed income investment process, one which is consistent and replicable. It is crucial for the consultant-led institutional market that we are consistent across local and global strategies.

We are convinced that fixed income does not have to be complicated and to that end we have evolved a process that is the same for macro analysis as it is for credit; that is, fundamental in terms of the questions we ask – are we being paid for what we own? – yet sensitive to relative value opportunities and bound by clear price targets and risk oversight.

Our solutions business has undergone a similar overhaul. We have recently consolidated our various capabilities, from private equity to long only fund of funds, in a functional structure under a centralised investment office. This should bring more consistency and rigour to our portfolio construction process, and allow us to offer our various multi asset and alternative products more effectively.

At the same time it is crucial that our distribution efforts are aligned to our investment capabilities. We have made the promotion of fixed income and alternative products a priority for marketing and client prospecting. It has been encouraging to see new mandate wins in areas like property fund of funds, US high yield and emerging market corporate debt.

We expect to accelerate the launch of new products through next year, to prune non-performing ones (or merge into new strategies) and to take advantage of our geographical reach.

The test will be to build performance, take market share from competitors, be opportunistic when they may be capacity constrained and to develop scale. It is a truism that small funds tend to struggle because bigger investors want to have the comfort of investing in a larger fund. We are prepared to seed funds in order to kick start asset gathering.

See update of fixed income and solutions products on pages 32 and 34.

Team-led, active approach

We have a team based approach across all investment desks. The days of the lone individual with the alchemic touch (if that person ever existed in the industry) are probably past. Stars create dependency which is dangerous when performance dips or in the event of departure. Our emphasis on process as a bedrock for institutional asset gathering has been learned over 15 years; it is the way to achieve consistency and reduce volatility in fund flows.

Active management is core to our investment style. As we have identified, ETFs have made considerable inroads in the industry, to the point that commentators are starting to question whether active management is worth it. The argument is that too few active managers outperform, they are hard to identify, so 'betting' on active management means paying excess fees for value-destroying performance.

We disagree. If anything we feel that ETFs may perversely do us a favour: first because their buying clusters around certain stocks, based on market capitalisation or other formulations, creating inefficiency; second, because too few active managers are genuinely 'active', in the sense that they invest in shares outside of the benchmark. Recent academic study supports our insight that active share likely increases the chance of outperformance – provided one has high conviction and takes a long-term view.

In the current market environment that may sound like wishful thinking. Some clients will not put up with underperformance for long because of pressure to meet targets; and they may see better opportunities elsewhere. Nonetheless, we remain confident that the majority of our clients believe in our investment approach.

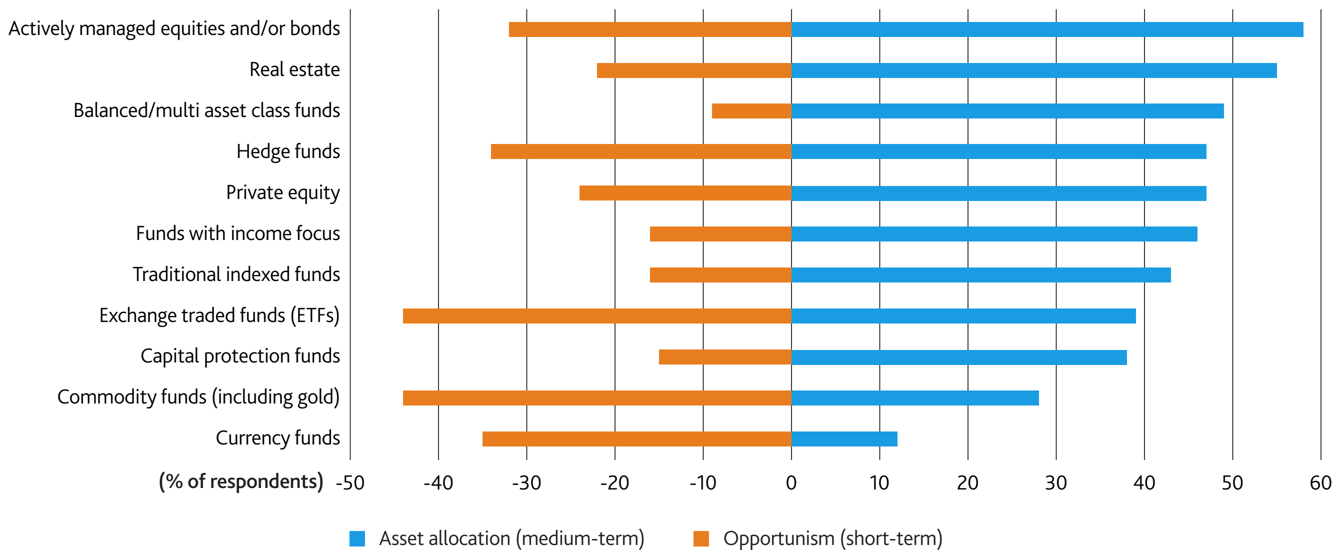
Background on our investment process and team based approach are on pages 20 and 26.

Regulatory peak

Much of the legislation that was promised in the wake of the financial crisis is only now coming into effect for asset managers. It is motivated in different ways by a drive for transparency. The corollary is more reporting to both regulators and clients.

Rules that govern our stability as a firm, focusing on capital strength and risk management are one thrust. These included the new CRD IV (Capital Requirements Directive), which we discuss on page 41. Another focuses on consumers. Nearly every jurisdiction in which we operate has recently tightened rules on what can be sold and to whom.

Asset classes and products most likely to be chosen by retail investors



Source: Principal Global Investors/CREATE-Research Survey 2013

The UK ban on commission payments to intermediaries will probably be copied elsewhere. While this is not an immediate problem for us (as manufacturers) there are broader implications over who compensates the advisor which are already affecting product design and revenue splits.

In Europe, the Alternative Investment Fund Manager Directive (AIFMD) creates additional requirements to strengthen investor protection through standards, operations, governance and compliance for our investment trust, property and alternatives products.

Other rules spring from wider financial market crackdowns. These include anti-money laundering, terrorism finance prevention, and client data and privacy laws. The new US FATCA agreement forces global firms to be responsible for identifying and reporting US citizens who buy their funds to the US Internal Revenue Service. No previous 'know your client' legislation has made fund managers an agency for cross-border tax returns.

Aberdeen's risk management framework is discussed on page 42.

The future's amber

So far we have been on the right side of industry developments. Although we are invested heavily in traditional asset classes, we are developing capabilities in new areas like alternatives and we are adding scale.

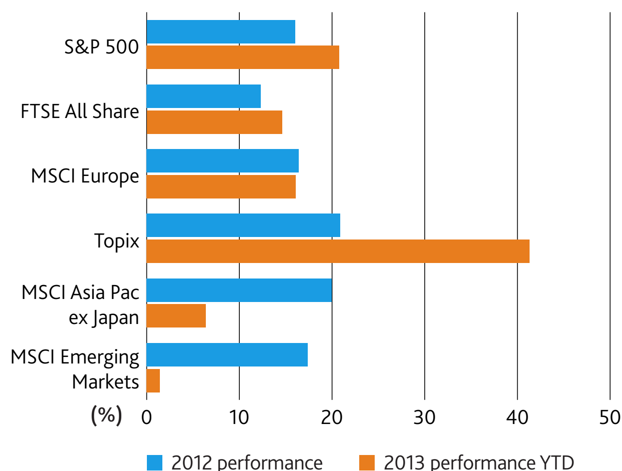
Our concern with markets is how QE has distorted price signals globally. Any hint of tapering, which would rest on a 'normalisation' of recovery, is received negatively. It would seem that QE has been good for asset prices but not for the economy at large. The longer the situation continues the more the risk grows of a repeat of the policy mistakes of the last cycle – and the steeper the potential falls.

At present it is very difficult to know what is priced into assets. Conventional valuation yardsticks are unhelpful when the cost of money is close to zero. We would note that the rise in the US market price/earnings ratios has come from multiples expansion, not earnings growth.

After two or more years of out-performance, developing equity markets are more expensive than developed ones. Similar discrepancies exist within property and fixed income. One of the challenges we face is how to exploit relative valuation opportunities when markets do not reflect fundamentals.

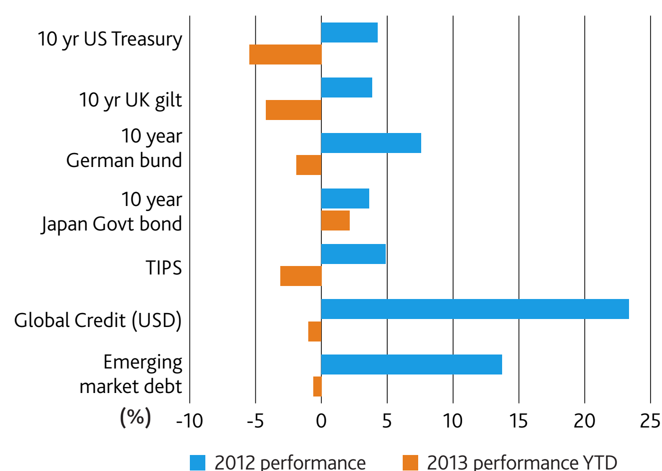
Market Returns
(local currency, total return)

Equities



Source: Thomson Reuters Datastream, 1 October 2013

Fixed Income



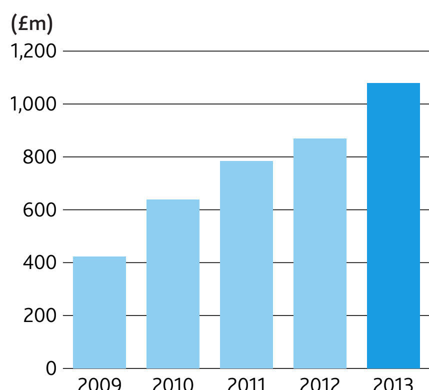
Source: Thomson Reuters Datastream, 1 October 2013

Key performance indicators

KPIs are discussed on the basis of presentation of financial results adopted for management purposes which we define as the underlying results.

KPI	Rationale	Comment

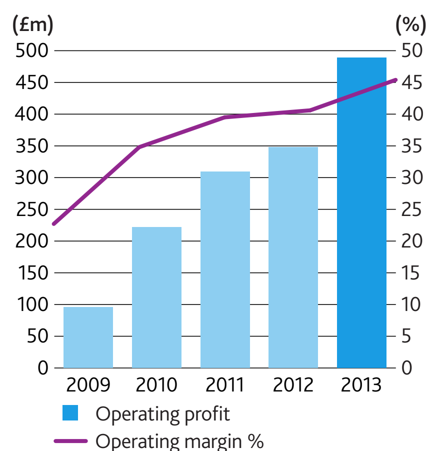
Net revenue



- Shows the growth of the business through an increasing asset base and/or product margins.

- Net revenue increased by 24% from £869.2 million in 2012 to £1,078.5 million.
- Net management fees increased from £813.5 million to £1,014.1 million (+25%).
- Performance fees increased from £47.5 million to £50.8 million, yet remain at only 5% of net revenue.

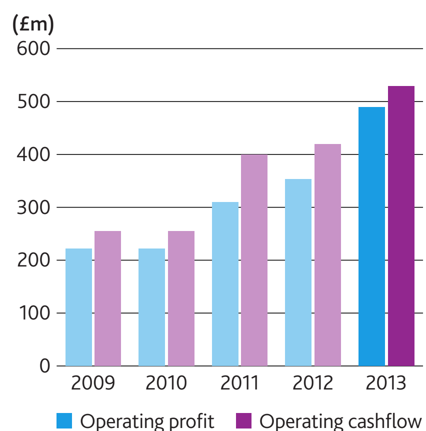
Operating profit and operating margin



- Key profitability metric as we expect revenues to grow by more than costs through effective cost management.
- Operating margin is underlying operating profit as a percentage of net revenue.

- Operating margin increased to 45.4% in 2013 from 40.6%.
- Margin increased through good revenue growth, coupled with continued cost discipline.

Operating cash flow and operating profit



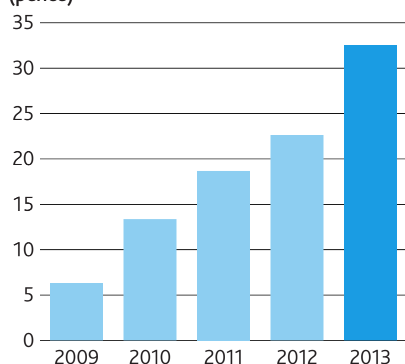
- Conversion of profits to cash to allow for operational growth, as well as strengthening the balance sheet and capital position.

- Core operating cash flows were £529.1 million (2012: £419.8 million).
- Cash conversion of 108% (2012: 119%).
- Cash is used to strengthen the balance sheet, pay an increased dividend to ordinary shareholders and purchase shares to neutralise potential EPS dilution from deferred share awards.

On page 38 of the financial review, we discuss the distinction between underlying results and IFRS results.

KPI	Rationale	Comment

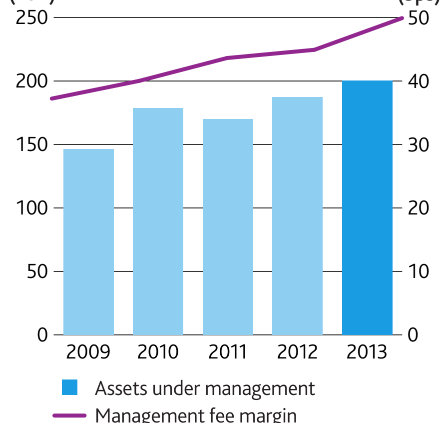
Underlying diluted EPS



- Includes all components of the Group's performance, based on profitability and capital structure.
- Investors typically value the Group's shares as a multiple of underlying EPS.

- Underlying diluted EPS increased by 44% to 32.5p (2012: 22.6p).

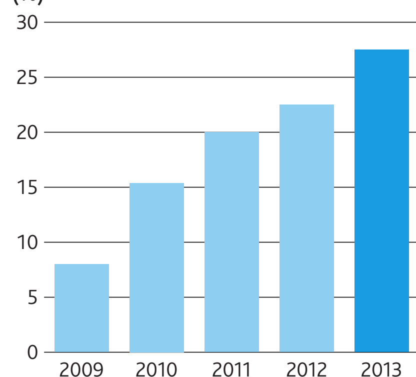
Assets under management and average management fee margin



- AuM forms the basis on which recurring management fee revenue is generated.
- Changes in AuM reflect both net new business flows and market performance.

- AuM grew by 7% from £187.2 billion at September 2012 to £200.4 billion at September 2013.
- There were £6.5 billion of net flows into equities. This was offset by net losses of £9.0 billion from fixed income, solutions, money market and property.
- £11.0 billion added through Artio and SVG.
- Average fee margins increased from 45.1bps in 2012 to 50.0bps in 2013, reflecting product mix.

Post tax return on capital employed (ROCE)



- Shows how much Aberdeen has grown from the back value of its asset base, including the impact of acquisitions.
- Calculated as profit after tax (after acquisition costs, but before amortisation of intangibles) divided by average net assets.

- Growing rate of profitability has been used to strengthen returns to shareholders.
- The full year dividend per share is 16.0p, up from 11.5p the previous year.

Business review

2013 has been another successful year for Aberdeen. We have delivered on our objectives and this is reflected in our KPIs. Strong growth in revenues and operating profits was driven by good flows into our higher margin products.

Overview

The Group recorded net revenues of £1,078.5 million (+24%) and underlying operating profit before tax of £489.2 million (+39%). Underlying profit before tax increased to £482.7 million (+39%) and statutory profit before tax was £390.3 million (+45%).

Operating profit margin was 45.4% (2012: 40.6%). Average management fee margins continue to increase – the average for the year is 50.0bps (2012: 45.1bps).

Our balance sheet and cash position are significantly stronger and we were able to eliminate our reliance on the regulatory capital waiver. Closing net cash is £426.6 million (2012: £266.4 million).

We completed two infill acquisitions: Artio, which has added £5.9 billion of fixed income and £0.8 billion of global equities AuM, and Aberdeen SVG, which brought £4.3 billion in funds of private equity.

We continue to focus our distribution effort on markets with the largest asset pools, particularly the US and Europe. The brand refresh, which we implemented in May, has been well received and we believe this to be an important component in our effort to broaden our distribution in these markets.

AuM

Closing AuM is £200.4 billion, 7% higher than September 2012. Average AuM for 2013 was £202.8 billion, compared with £180.2 billion for 2012 (+13%).

£4.7 billion of AuM growth is from markets, foreign exchange movements and performance. Market conditions were strong for much of the year – but from May onwards, macro issues resulted in stiff headwinds for emerging markets.

Gross new business inflows for the period were £43.9 billion (2012: £36.0 billion). Outflows were £46.4 billion (2012: £36.0 billion), resulting in negative net flows of £2.5 billion (2012: neutral net flows).

Notwithstanding net outflows, the quality of net new business flows is the key driver of the growth in revenues and profits. Again, the strong flows to higher margin products have been key to our strong financial performance and growth in operating margin.

We had for some time been seeking to moderate the rate of inflows to our GEM funds so that the quality of the product is not compromised. We implemented an initial charge, for the benefit of existing investors, on any new investment into our UK and Luxembourg funds.

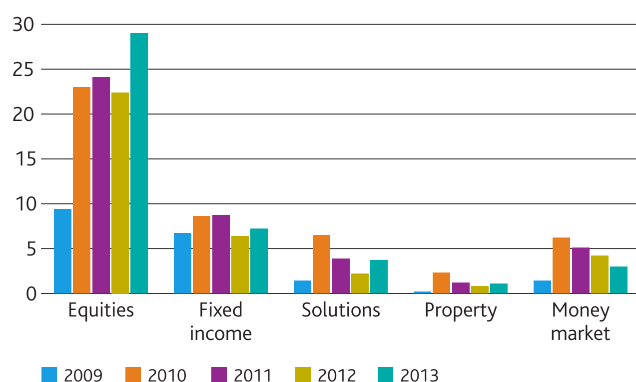
In the period since implementation we have seen a moderate level of net outflows, but the early signs are that it will have the desired effect of reducing inflows to more sustainable levels.

At the end of September 2013, we managed £113.8 billion in equities funds. This is 57% of our total AuM. Beyond equities, we have a number of other capabilities where we have a strong track record and good performance. The Artio and Aberdeen SVG deals strengthened our product range. We continue to support these other products, which include European equities, regional emerging market equities, EMD, Asian fixed income, property multi manager and multi asset.

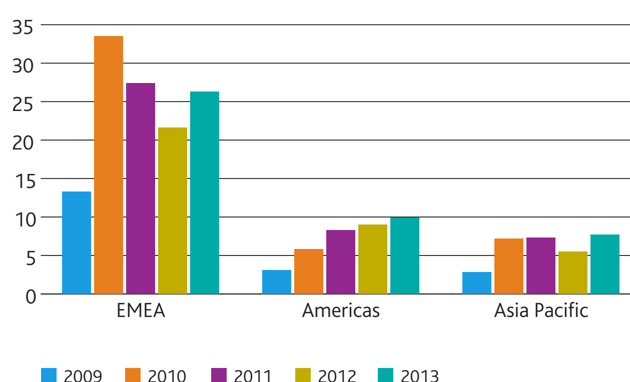
The property multi manager team have joined the solutions desk to bring all fund of funds structures together to offer full solutions products to clients.

The investment team review section explains some of the steps that we have taken in the year to market our products.

Gross inflows by asset class, £bn



Gross inflows by region, £bn



Investment team review

Equities

AuM

	Equities £bn
AuM at 30 September 2012	100.7
Gross inflows	29.0
Gross outflows	22.5
Net flows	**6.5**
Market and exchange movements	5.8
Artio acquisition	0.8
AuM at 30 September 2013	**113.8**

Key events

- A common theme across the desks was the impact that the macro factors have had on markets and the knock on effect on performance. This has been most acutely felt in emerging markets.
- Emerging equities markets peaked in March 2013, but speculation that the US Federal Reserve would begin unwinding its Quantitative Easing (QE) programme put pressure on currencies and stock markets.
- While markets rebounded with the Federal Reserve deferring tapering, the economic consequences are still being felt.
- Meanwhile, European markets have been stronger over the past year helped by support from the European Central Bank.
- As we would expect in such conditions, these macro concerns have had a negative impact on short-term performance.

Asian equities

- There have been very strong net inflows of £5.9 billion for the year. We have seen continued appetite for our broader Asia Pacific including Japan funds, as well as for funds investing in single countries, such as China (£1.3 billion of net flows) and Japan (£0.9 billion of net flows).
- Longer-term performance is good and has helped to drive the flow of funds.

Global Emerging Market (GEM) equities

- Inflows for the first 6 months were at higher rates than the team felt that they could comfortably continue to invest. This had been a concern for some time.
- We have applied an upfront fee to moderate the flows, reflecting the importance of maintaining the quality of the portfolios.
- With the turn in sentiment towards emerging markets, we have seen net outflows in the period since June.
- However, the rate has moderated. Since August we have successfully recycled a large portion of outflows among our existing client base.
- This has also allowed us to showcase our other capabilities, such as frontier markets, Latin American and emerging market infrastructure equities.
- In general, the assets managed by the GEM team have been 'sticky' despite macro uncertainty. This reflects the confidence of investors in our investment process and the longer-term outlook.

Global equities

- New business flows into global equities were broadly neutral during the fiscal year with AuM for the team reaching record levels due to market movements.
- Performance lagged behind comparative benchmarks for 1 and 3 years as macro issues have had a pronounced negative effect on our stock driven investment process.
- Our position of being underweight to the US market and subsequently overweight to emerging markets and other regions has negatively affected relative performance.

Other regions

- Our funds benefited from stronger European market conditions, but perhaps not as much as others which enjoy such conditions.
- Our investee companies tend to be strong and well managed, operating sustainable cash generating business models and possessing sensible balance sheets. Their improved profitability is brought about by continued efforts to keep costs under control and enhance operating procedures more than by dependency on increased customer demand.

Outlook

- Next year could be another tough year in the face of slower economic growth and further Federal Reserve inspired capital outflows. Yet, valuations are attractive and the current difficulties should encourage emerging market countries and corporates to press on with reform.
- Whilst the upfront fee for certain GEM funds has reduced flows in the short term, we are confident that this will support the GEM team in the longer term and will allow future growth, but at a more moderate rate than in recent years.
- Away from emerging markets, international investors are cautiously beginning to increase their allocations to Europe. Our longer-term performance is very respectable and we have been rewarded with some modest wins and some early indications of interest. We expect these traits to pick up in the next financial year.
- Most importantly, we remain confident in the longer-term prospects for our companies. We believe that investors will refocus on corporate fundamentals rather than the current wall of money being created from central banks' printing presses.

Fixed income and money market

AuM

	Fixed income £bn	Money market £bn	Total fixed income £bn
AuM at 30 September 2012	36.3	7.9	44.2
Gross inflows	7.1	3.7	10.8
Gross outflows	10.7	5.5	16.2
Net flows	**(3.6)**	**(1.8)**	**(5.4)**
Market and exchange movements	(1.8)	(0.1)	(1.9)
Artio acquisition	5.9	-	5.9
AuM at 30 September 2013	**36.8**	**6.0**	**42.8**

Key events

- Our fixed income team has taken significant strides in 2013 in building a common investing culture that is better aligned to our equities business.
- Our investment process for both macro and credit can now be defined as consisting of three simple parts: research, relative value and risk oversight. To that end, we have devoted significant resources to strengthening our macro and credit research, implementing best practice across the investing teams in the UK, US and Asia Pacific and building a common risk framework.
- Over the course of the year, we saw net outflows of £5.4 billion (2012: £6.8 billion).
- Outflows were most prominent in our pan-European (£2.6 billion), money market (£1.8 billion), Australian (£0.8 billion), and global macro (£0.5 billion) strategies. Pan-European and global macro outflows have, to a large extent, been caused by historic underperformance. As a result of team restructurings announced last year, performance has improved. We believe that the majority of our money market and Australian outflows are not performance-related, but reflect asset allocation decisions of clients.
- However, we are also encouraged by areas of growth and we see EMD and, increasingly, our high yield suite of strategies (global, European and US) as drivers of future growth. In the last 12 months, EMD generated net inflows of around £1 billion, followed by high yield inflows of around £0.2 billion. It is encouraging that all three high yield strategies have contributed to these inflows.
- The team has been strengthened by the successful integration of the two Artio teams (total return bond and global high yield). AuM retention has been ahead of expectations.

Outlook

- Despite the rise in volatility in many fixed income markets this summer, performance across the majority of our key strategies has remained stable or has improved. We are confident that this will continue next year.
- We expect to see strong performance and growth from our EMD and high yield suite of products. We believe that the steps taken to improve the process will strengthen the global macro and global credit desks.

Property

AuM

	Direct property £bn
AuM at 30 September 2012	16.7
Gross inflows	1.1
Gross outflows	2.0
Net flows	**(0.9)**
Market and exchange movements	(0.8)
Acquisitions	-
AuM at 30 September 2013	**15.0**

Key events

- Property markets have been characterised by a focus on income, rather than still elusive capital growth, and risk aversion by most investors. This search for yield has supported an appetite for property.
- There is more interest in customised solutions and segregated mandates than pooled vehicles.
- A 'flight to quality' has focused international capital flows on the largest financial centres.
- We are seeing these trends in our pipeline of new business. By way of example, in recent months we have seen strong demand from UK segregated clients for UK domestic investment through a number of segregated mandates. We have seen similar trends in Nordic and Continental Europe.
- In aggregate, we have added over £1 billion of committed funds.
- It can take time for these commitments to fund but this will strengthen the quality of revenues in future years.
- We have completed a comprehensive revision of our product range over recent years.
- Following consultation with investors, terms for the €500m European Balanced Property Fund have been updated and the fund re-launched for international capital raising, supported by a strong performance track record. We believe that this fund is well placed in the market in terms of its governance and risk profile, as well as pricing. There is an encouraging level of interest from international investors in this fund.
- We are building our residential fund offering with new funds in Germany and Sweden and will look to extend to other countries. We have over £200 million of commitments.
- The progressive wind-up of legacy German open-ended property funds are proceeding on schedule, for completion in 2015. These have led to the net outflows for the asset class in the period. Notwithstanding, it is pleasing that we have managed to replace business lost from these funds with new mandates and funds, mitigating the financial impact of the loss of this business.

Outlook

- We believe that European property markets are picking up in northern and western Europe. The US has been ahead of Europe in the recovery phase. Asia remains more volatile.
- Demand for the asset class appears to be increasing as it is seen as a source of income. The types of products are changing and Aberdeen is well positioned to win new business, being able to offer bespoke solutions with our extensive knowledge across key markets and a stronger product range going forward.

Solutions

AuM

	Solutions £bn
AuM at 30 September 2012	25.6
Gross inflows	3.0
Gross outflows	5.7
Net flows	**(2.7)**
Market and exchange movements	1.6
Aberdeen SVG acquisition	4.3
AuM at 30 September 2013	**28.8**

Key events

- We have seen outflows from this area of our business in recent years – some £2.7 billion exited, leaving total AuM of £28.8 billion.
- Our team has evolved through the combination of different products that have come into the Group through a variety of acquisitions. Most of the losses in recent years have stemmed from money being withdrawn in the aftermath of some of these acquisitions.
- Recognising this, we have reorganised the team around key areas that can be used across the entire solutions portfolio. These areas are supported by the 'Investment Office', which will work with portfolio management, providing input to decision making for investment strategy and portfolio construction across all solutions portfolios.
- Our review of product capabilities by market has shown that we need to be more targeted in areas in the solutions suite which meet current client needs and concentrate on promoting these products.
- The fund of hedge funds performance has remained strong during the year. Unfortunately, investor sentiment and some strategic changes at our largest investors have resulted in continuing net outflows in the year. We have rationalised and streamlined our offerings and distribution efforts and we are starting to see most of the future interest outside of the UK.
- Following on from the successful launch of the Diversified Growth Fund in the UK last year, we have launched a similar fund in the Australian market, also aimed at pension schemes. The AuM of the UK fund has grown to £100 million and is performing well enough to warrant broader coverage by the investment consultant community. We have launched a similar fund in the US and are encouraged by early interest.
- The Aberdeen SVG teams manage over £5 billion and this deal strengthens our fund of private equity offering by providing SVG's long-term track record and sufficient scale to attract interest across Aberdeen's distribution network.
- The property multi manager team, which now joins our solutions asset class, has established a new European fund of funds investing in attractively-priced units in third party products available on the secondary market. They have taken on some international advisory mandates, reflecting a trend towards customised solutions for individual investors in this segment. The European Secondaries Fund of Funds launched with an initial €151 million (£126 million) to be invested.

Outlook

- There is a strong and growing demand for a range of multi asset and alternative solutions to meet a wide variety of client needs. Meanwhile, many clients are also looking for a more outcome-oriented approach from their investment managers.
- We also expect that pan-alternative offerings, utilising the best available managers across a range of alternative strategies, will become a larger part of our overall solutions asset class.
- Following the revisions in the division structure, solutions is well placed in a market with strong and growing demand for a range of alternative products from a wide variety of clients.

Regional review

Regional growth strategies

- We recognise the importance of performing detailed analysis across geographies, channels, asset classes and products to identify growth opportunities where Aberdeen can capture a disproportionate share, and invest appropriately behind them.
- We have identified and prioritised a number of capabilities to be actively promoted in our various geographies.
- This is supported by better and more efficient coordination between marketing, product development, client management and business development to optimise our client servicing and sales efforts.
- The various marketing campaigns we have done on prioritised products and following the brand refresh have been well received by the market.

Americas

	Americas £bn
AuM at 30 September 2012	32.4
Gross inflows	9.9
Gross outflows	6.2
Net flows	**3.7**
Market and exchange movements	3.9
Artio acquisition	6.7
AuM at 30 September 2013	**46.7**

Net flows

Key events

- There has been a step change in distribution activities in our wealth management channel which has benefitted from investment in recent years. Our team across 9 regional centres focuses on the major wirehouse distribution platforms, regional distributors and registered investment advisors.
- The Artio transaction added two large highly rated funds (around £3 billion combined; Morningstar 4 star rated). The fixed income asset class had been relatively poorly represented in our US mutual fund range to date.
- The US mutual fund range is now £14 billion (2012: £8 billion).
- Our brand refresh came at an opportune time for the US business, delivering high profile awareness at a time when we were highlighting the benefits of the Artio integration and taking our wider product set to the market.
- Canada continues to move from strength to strength and AuM from Canadian clients is now £2.4 billion.
- Latin America is one of the fastest-growing and most profitable regions in the global asset management industry. We service not only Brazil, where we have an office in São Paolo, but also other South American markets.
- We are the largest fund provider to the Chilean, and second largest to the Colombian and Peruvian pension fund markets.

Outlook

- We believe that we are well placed for future growth given our stronger distribution network and enhanced relationships.
- With good wins in EMD towards the end of the year, we believe that we can be more successful with this product as we seek to continue to expand our capabilities.
- We are also looking forward to entering the Brazilian fund market with an initially modest product range in 2014, building on our established investment management presence, and the fact that we are one of the bigger investment players in the country on the back of our global emerging market equities business.
- Brazil is by far the largest Latin American market – half of all assets are currently invested in simple money market and fixed income funds.
- Our aim there is to build our presence and name awareness in anticipation of the point when the market starts to invest more internationally, as it inevitably will in time.

Europe, Middle East and Africa

	UK £bn	Europe ex. UK £bn	Middle East and Africa £bn	Total EMEA £bn
AuM at 30 September 2012	**54.7**	**62.2**	**15.0**	**131.9**
Gross inflows	8.4	17.4	0.5	26.3
Gross outflows	13.9	17.4	2.1	33.4
Net flows	**(5.5)**	**–**	**(1.6)**	**(7.1)**
Market and exchange movements	5.6	(8.7)	1.2	(1.9)
Acquisitions	4.3	–	–	4.3
AuM at 30 September 2013	**59.1**	**53.5**	**14.6**	**127.2**

Key events

- We have selectively added headcount across various business development teams in Europe. This strengthens local client coverage by locally based staff. For the foreseeable future we have optimal coverage of our Continental European and Nordic client base with 14 offices in 13 countries and a highly motivated staff.
- Our target markets in the region are UK retail and Germany.
- Our most successful products in the region were Asia Pacific equities and EMD.
- Despite strong gross sales, outflows reduced net sales to negative £7.1 billion. The closure of the GEM equity funds began to take effect in the final part of the year and we continued to experience some outflows from a small number of large multi manager and UK fixed income clients.
- As we anticipated, some of the fund platforms were not able to cope with the upfront charge on GEM.
- Over the last year we have launched various products to match client demand, such as World Government Bonds, Frontier Bonds, Brazil Equity, Brazil Bonds and a number of property products. Our offering has also expanded following the Artio acquisition (global high yield) and the Aberdeen SVG deal, with a fund of private equity product range.
- The Retail Distribution Review (RDR) is now implemented in the UK. Aberdeen has addressed this by launching rebate free share classes in our Luxembourg and UK fund ranges.
- To date, RDR has not had a meaningful impact on our revenues. While the true impact is yet to be felt, we believe that our existing revenues should be relatively resilient as they are in areas that we excel in (i.e. GEM and Asian equities).
- Our margins on future new business may decline in the UK retail space - and those areas of the continent which are going down a similar route such as the Netherlands and Switzerland - in part owing to RDR, although a change in product mix would be the main driver.

Outlook

- The brand refresh has proven successful and our efforts to broaden our brand recognition continue.
- Building on the success of our brand campaign across Europe, the Madrid office launch has spurred on a supporting campaign across Spain.
- We believe that we are well placed to build on our product range and the pipeline of new products is generating strong interest.

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We have 14 offices across 13 countries in Continental Europe and the Nordics to support our client base locally.

Asia Pacific

	Asia Pacific £bn
AuM at 30 September 2012	**22.9**
Gross inflows	7.7
Gross outflows	6.8
Net flows	**0.9**
Market and exchange movements	2.7
Acquisitions	–
AuM at 30 September 2013	**26.5**

Key events

- We have faced only modest redemptions because of the downturn in markets in Southeast Asia and India. The bulk of our business is institutional and long-term. Indeed, we won mandates from high profile Chinese, Japanese and Hong Kong clients for regional equity, China and global strategies.
- As for retail flows, our strategy has been to promote more non-Asian products in the region. That said, of the £0.9 billion net that we raised across markets, the majority went into regional and emerging market equities.
- Singapore attracted some core insurance funds as well as private bank money and Hong Kong's sales profile was similar. Thailand had some strong fund launches, helped by positive local market sentiment; while Taiwan, a high turnover market, saw early sales in high yield bonds reverse as markets sold off on the tapering scare.
- In Malaysia we launched two Sharia-compliant funds, a low-key retail initiative in a market where previously we have only sold to institutions (and our main constraint is global capacity).
- We have continued to add resources around the region to support demand, with 200 staff in Singapore and 440 altogether. We restructured our Asian credit team and have combined our fixed income and equity dealing. We have hopes for our Asian fixed income team which has avoided the worst of recent currency turmoil.

Outlook

- Sentiment toward the region remains changeable. Valuations today are not especially cheap (for any asset class) and some economies have tripped up on reforms and run into deficits. But we are far from pessimistic: Asian economies are better managed and the influence of pragmatic central banks is greater than before.

Financial review

Income statement

	2013	2012	Change
Net revenue	**£1,078.5m**	£869.2m	+24%
Underlying operating profit	**£489.2m**	£352.7m	+39%
Underlying profit before tax	**£482.7m**	£347.8m	+39%
Statutory profit before tax	**£390.3m**	£269.7m	+45%
Post-tax return on average capital employed	**27.5%**	22.5%	

Underlying diluted EPS	**32.5p**	22.6p	+44%
Statutory diluted EPS	**26.2p**	17.6p	+49%
Dividend per share	**16.0p**	11.5p	+39%

Balance sheet and cash flow

Core operating cash flow	**£529.1m**	£419.8m	+26%
Net cash at year end	**£426.6m**	£266.4m	+60%

The Board considers that the Group's results are most meaningfully considered on a basis which excludes the effects of exceptional acquisition costs and amortisation of intangible assets; this shows the recurring revenues and costs which drive the Group's cash flow. We refer to this as the underlying results and the Group income statement on page 91 has been presented in a manner which enables this distinction. The Board's monitoring of the Group's performance and its key performance indicators, as set out on pages 28 and 29, is founded on the underlying results. As in previous years, this financial review focuses on the underlying figures.

The Group income statement discloses gross revenue, less commissions payable to arrive at net revenue. Commissions are paid to intermediaries such as banks, platforms and advisors who distribute our products. Management reviews financial information net of such commissions as it gives a fairer basis on which to compare revenues, regardless of the channel through which products are sold.

Operating margin is calculated as operating profit (before acquisition costs and amortisation of intangibles) as a percentage of net revenue. We calculate post tax return on average capital employed by dividing profit after tax (post acquisition costs, pre amortisation of intangibles) by the average of opening and closing net assets.

Results

Net revenue for the year increased by 24% to £1,078.5 million, while operating expenses grew by 14% to £589.3 million. After net finance costs and other losses on investments of £6.5 million, underlying profit before tax of £482.7 million is 39% higher than in 2012. With strong cash flow generation, we have strengthened the balance sheet and closing net cash is £426.6 million, 60% higher than last year.

The Artio and Aberdeen SVG deals completed at the end of May and added £17.5 million to revenues and £12.7 million to operating expenses for the final four months of the year.

Net revenue

	2013 £m	2012 £m
Management fees	**1,014.1**	813.5
Performance fees	**50.8**	47.5
Transaction fees	**13.6**	8.2
	1,078.5	869.2

The major element of growth in net revenue was from recurring management fees which, at 95% of net revenues (2012: 94%), continue to provide a high quality base on which to build.

Performance fees grew by £3.3 million to £50.8 million. However, they still account for only around 5% of total net revenues.

Revenue margins

Revenue margins have benefitted from growth in AuM of equities, our highest margin asset class, as well as net flows in emerging market debt (EMD), a high margin fixed income product.

The average management fee margin for the year was 50.0bps (2012: 45.1bps), as summarised in the following table:

	2013 bps	2012 bps
Equities	**64.6**	62.6
Fixed income	**29.2**	24.9
Money market	**10.7**	11.1
Solutions	**21.9**	18.0
Property	**54.8**	54.5
Average	**50.0**	45.1

We show money market separately from fixed income as flows can be highly sensitive to investor risk appetite and movements can distort the margins earned on the wider fixed income assets.

Performance fee income added a further 2.5bps (2012: 2.6bps), and property transaction fees (earned on acquisitions and disposals of properties within portfolios) added 0.7bps (2012: 0.5bps) so that the overall revenue margin for the year increased to 53.2bps (2012: 48.2bps).

Operating expenses

	2013 £m	2012 £m
Staff costs	**358.1**	301.5
Non staff costs	**231.2**	215.0
	589.3	516.5

Operating expenses have grown by £72.8 million (14.1%). Staff costs increased by 18.8%, with non-staff costs growing by 7.5%.

The compensation ratio, being total staff costs divided by net revenue, of 33.2% (2012: 34.7%) remains competitive within our peer group.

We made a conscious decision to increase spend on marketing, where we continue to build awareness of our brand across our global markets, and added to our distribution team, where we have recruited product specialists and expanded our wholesale team in key markets. This is important to ensure that we are able to continue revenue growth across our range of capabilities.

Third party administration costs cover the outsourcing of back office and certain middle office functions. The change in AuM mix, favouring pooled funds, has helped reduce these costs as a percentage of revenue.

Non staff expenses include £7.2 million for the settlement of the regulatory fine referred to elsewhere in this annual report.

Acquisition costs

The acquisition costs of £19.2 million arose on the Artio and SVG deals.

£10.8 million of the total cost for the Artio deal relates to redundancy and other severance costs and the balance relates largely to advisor fees and lease termination costs. £2.5 million of the £2.9 million SVG cost related to exiting the lease at their former premises.

The integration of both businesses is now complete.

Net finance costs

The main elements of net finance costs are interest paid on debt issued by the Group and on bank borrowings drawn from time to time, less interest earned on cash balances. Net finance costs have decreased from £5.1 million in 2012 to £3.5 million this year, reflecting the build-up of cash balances.

There was a one off cost of £5.1 million, arising on the exercise of our right to force conversion of the convertible bonds.

Tax

The effective tax rate on the Group's underlying profit, defined as the tax charge divided by the underlying profit before taxation, was 16.4% for 2013 (2012: 18.0%).

The Group's overall tax rate is a blend of the rates which apply in each of the jurisdictions in which we operate, and reflects the fact that a large element of the Group's profit is earned in Asia, principally Singapore, where we have a large and long-established presence and where local tax rates are generally lower than in western countries. The effective tax rate has also benefited from a further reduction in the UK corporation tax rate, to 23.5% for the year under review (2012: 25.0%).

UK tax payable on the Group's underlying profit for the year is £37.9 million (2012: £24.4 million), together with overseas taxes of £39.2 million (2012: £30.0 million). These taxes are paid in instalments, some of which have been paid during the current year with the balance falling due during the coming year. Refinement of tax provisions made in previous years has resulted in a net tax credit of £2.2 million in the 2013 charge, which has reduced the effective rate by 0.5%.

Our policy is to ensure that profits are earned in the countries in which economic activities are undertaken and that those profits are properly subject to tax in accordance with the tax legislation which applies in each jurisdiction. We aim to comply fully with the requirements and expectations of each of the relevant tax authorities and to ensure that we deal with these authorities in an open and transparent manner.

Earnings per share

As discussed above, the Board believes that the most appropriate measure of the Group's profitability is the underlying diluted EPS number, which excludes from its calculation the amortisation charges on intangible assets as well as acquisition costs. Underlying diluted EPS has increased by 44% to 32.5p per share.

Dividends

The Group has used the cash generated from operations to pay a progressive dividend.

An interim dividend of 6.0p per share was paid to ordinary shareholders in June 2013 and the Board is recommending payment of a final dividend of 10.0p per share, resulting in a total payment for 2013 of 16.0p, a 39% increase on 2012. This dividend is covered approximately 2 times by diluted underlying EPS and is covered 1.6 times by diluted EPS, reported on a statutory basis.

Cash flow

The year to 30 September 2013 has seen strong cash flow, with operating profit of £489.2 million converted into £529.1 million of core operating cash flow, a conversion rate of 108% (2012: 119%). This ratio will typically exceed 100% due to the non-cash charge in the income statement for the deferred share element of the annual bonuses.

The core operating cash flow excludes the effect of short-term timing differences on the settlement of open end fund transactions (which are generally settled within four working days) and £11.7 million of acquisition payments, for advisor fees and severance costs.

We spent £138.9 million buying shares in the market to satisfy outstanding deferred share awards.

The Board's strategy is to purchase existing shares to satisfy vesting of deferred share awards to avoid dilution from potential issuance.

The EBT now holds sufficient shares to satisfy the vesting of all outstanding awards. In the future, it will aim to purchase sufficient shares to cover the current period's awards.

The Group's cash flow performance over the last two years is set out in the following table.

Cash flow performance

	2013 £m	2012 £m
Core cash flow from operating activities	**529.1**	419.8
Short-term timing differences on open end fund settlements	**1.5**	(5.3)
Operating cash flow before interest and tax	**530.6**	414.5
Interest and tax paid	**(46.0)**	(45.7)
Cash flow from operating activities after interest and tax	**484.6**	368.8
Ongoing capital expenditure	**(7.0)**	(7.6)
Dividends and coupons paid	**(177.3)**	(126.0)
Recurring free cash flow	**300.3**	235.2
Acquisitions and disposals	**(92.1)**	(13.4)
Acquisition related costs	**(11.7)**	–
Net purchase of investments	**(31.0)**	(1.4)
Refinancing of perpetual capital notes	**57.7**	–
Issue of ordinary shares	**0.5**	–
Purchase of own shares (EBT)	**(138.9)**	(83.1)
Exchange fluctuations	**(6.1)**	1.1
Movement in cash and cash equivalents	**78.7**	138.4

Financial position

Total equity increased by £203.5 million to £1,504.0 million in the year to 30 September 2013. The main components of this increase were as follows:

Changes in equity

	£m
Profit for the year	328.8
Net expense recognised directly in other comprehensive income	(10.5)
Conversion of convertible bonds	87.0
Issue of equity	0.4
Movement in non-controlling interest	4.3
Release from reserves to match charge for share-based payments in income statement	46.2
Purchase of own shares by EBT	(138.9)
Net issuance of perpetual capital notes	57.5
Coupon paid on perpetual capital securities	(20.5)
Ordinary dividends paid	(150.8)
Increase in total equity	**203.5**

Perpetual capital securities

We took the opportunity to refinance the capital securities, which form an element of our equity, completing a $500 million issue of 7.0% perpetual cumulative capital notes on 1 March 2013. We applied $400 million of the proceeds to repay our existing 7.9% perpetual capital securities at the end of May 2013. The new securities form part of the Group's regulatory capital.

The coupon payable on these equity securities is fully deductible for UK tax purposes, so that the post-tax cost is approximately 5.4% pa.. This is considerably less than the cost of ordinary share capital, currently estimated at around 10% pa..

Balance sheet

	Sep 2013 £m	Sep 2012 £m
Net cash	**426.6**	266.4
Other net tangible assets	**91.2**	75.4
Intangible assets (net of deferred tax)	**986.2**	958.7
Total net assets	**1,504.0**	1,300.5
Shareholders' funds	**1,135.1**	1,088.4
Minority interests	**47.3**	14.0
Perpetual capital securities	**321.6**	198.1
Total equity	**1,504.0**	1,300.5

Capital and liquidity

The Group aims to have a strong balance sheet. Net cash has increased from £266.4 million to £426.6 million.

The Group currently operates under a waiver from the consolidated supervision rules of the Capital Requirements Directive (CRD IV). The waiver was granted by the FSA (now FCA) with effect from January 2007 and continues until August 2014. However, we have during 2013 built sufficient balance sheet strength to eliminate reliance on the waiver.

The capital position was strengthened during the year due to:

- enhanced profitability;
- conversion of the convertible bonds into ordinary shares; and
- refinancing of the capital securities.

CRD IV will apply to the Group from 1 January 2014. This introduces new ratios for core tier 1, tier 1 and total capital, as well as making certain other changes to the calculation of requirements.

We expect to be in compliance with these new rules and to maintain an appropriate buffer over the regulatory requirements.

Pension deficit

The net deficit on the Group's legacy defined benefit pension schemes has decreased to £4.4 million at 30 September 2013, compared to a net deficit of £15.4 million at the previous year end. Assets held by the schemes have increased by £25.9 million from a combination of improvements in markets and increased employer contributions. Included within the total contribution of £22.4 million is a one-off special contribution of £15.0 million to accelerate the deficit reduction in one of the schemes.

In estimating the liabilities, we are required by IAS 19 to use a discount rate calculated by reference to the yield on high quality corporate bonds. The discount rate used this year is 4.5% compared to 4.6% in 2012.

While the lower discount rate led to an increase in the schemes' liabilities, the increase in the schemes' assets, from investment performance and the Group's ongoing contributions, has enabled a reduction in the net deficit.

Risk management

Risk management is fundamental to our core objective of delivering sustainable and long-term value to our shareholders.

The Board believes that it is of vital importance that there is a Group-wide focus on risk management. A robust framework ensures that this happens.

Risk management framework

The Group maintains a comprehensive risk management framework and has clearly defined procedures for identifying and escalating risk concerns throughout the organisation. These processes help us to safeguard client assets, protect the interests of all stakeholders and meet our responsibilities as a UK listed company and parent of a number of regulated entities.

The risk management framework is an iterative process and enhancements are continuously made.

Role of the Board

The Board are responsible for setting the Group's tolerance to risk. They agree the Group's risk appetite – this expresses the size and types of risks that the Group is prepared to accept, in line with its strategy and to deliver its objectives. This gives a framework for management to set the scope of activities and the extent of controls to meet the Board's expectations.

Risk register

The risk register describes key risks and their owners along with causes and effects of each risk. It documents which boards and committees oversee these risks.

Aberdeen undertakes a risk and control self-assessment process through which risk owners across the firm describe the risks that they are responsible for, the impact that these have on the business and the likelihood of these risks crystallising.

This process is run across the departments throughout the Group. In quantifying the impact, the risk owners consider recent loss events for certain types of operational risks (including severe, but plausible events). The risk owners also consider the controls that are in place and other mitigating factors that they plan to use to manage the risks along with any remedial action that could be taken. The business risk team monitors this process and the results to ensure consistency and completeness.

Key risk indicators

The Board regularly reviews a number of key risk indicators which are monitored against the risk appetite by the risk committee.

Events database

We have a system to capture day-to-day operational, legal and regulatory risks for each department. All 'events', including losses and 'near misses', are recorded.

The current system has been in operation for three years and has grown into a comprehensive database underpinning the Group's risk management framework. It allows for linkage between risks, controls, events and issues. This helps gaps or potential deficiencies to be clearly highlighted.

Lines of defence

The risk framework incorporates three lines of defence:

1. Business lines are responsible for the identification and mitigation of risks and the implementation of an adequate control environment.
2. The control oversight functions – compliance, legal, business risk and market risk teams – oversee compliance with regulatory and legal requirements, as well as monitoring operational, investment and counterparty risk.
3. Independent assurance is provided by Internal Audit.

This model is supplemented by a range of risk related committees at divisional and operational business levels. The Board, executive committees and senior management have overarching responsibility to ensure, through corporate governance, the effective and strategic stewardship and risk management of the firm.

ICAAP

The ICAAP (Internal Capital Adequacy Assessment Process) is a UK regulatory requirement under which we identify and quantify the Group's risks and the levels of regulatory capital required to cover those risks. The steps above feed in to this assessment.

It is an on-going process which requires formal annual sign off by the Board. It is also reviewed for major business decisions, such as acquisitions.

Regulatory fine

The FCA fined Aberdeen £7.2 million in relation to unintended past breaches of the UK's client money regulations during the period from 2008 to 2011. The mistake was identified by Aberdeen and reported to the FCA. No clients lost any money as a result of the breaches. Aberdeen took remedial action promptly and controls and procedures in this area have been further enhanced.

The Board were disappointed to discover the error. They have overseen the improvement of controls and the strengthening of compliance, as well as resolution with the regulator.

The table below summarises the main risks that the Group faces. Over the last year, the main changes to the risk profile were:

- Increased proportion of AuM from equities. This is principally because of the success of our core equities products, especially GEM, Global and Asian equities. This increases concentration risk and dependence on key people in those teams.
- Continued growth of GEM portfolios. We have put controls in place to manage capacity in GEM equities. We believe that this relieves risk on the investment process in the longer term.
- Impact of strategy to grow the business beyond these equities products. This may require distribution teams to sell different capabilities into new markets. We have strengthened distribution teams through the use of product specialists.
- Linked with the above, increased regulatory focus on conduct risk: making sure that the right products are sold to the right clients. This has already been embedded into our product development process.

Risks	Mitigating factors
Investment process	
Movements in AuM due to markets and investment decisions. The majority of the Group's revenue is earned from management fees which are calculated on the basis of the value of AuM. The value of AuM will be affected by general market movements, as well as investor appetite and actual investment performance achieved by the fund managers. The growth in revenues has been focused on core equities products in recent years. Future revenues may be sensitive to stock market fluctuations and changes in investor risk appetite to equities.	We make investment decisions based on the long-term, which may occasionally lead to periods of underperformance. We mitigate this by ensuring clients and investment consultants fully understand our investment philosophy and by openly discussing performance drivers, supported by relevant analysis of the performance components. We believe that our conservative style has helped to attract assets through a period of ongoing economic uncertainty. Our equities business has grown significantly in recent years. We continue to work on moderating inflows to some of these products to avoid any risk of dilution in the quality of the portfolios. There is a market risk team, independent of the fund managers, which monitors the investment profile across all asset classes. We also forecast financial results using different scenarios to stress test the impact of major market falls on our capital base.
Investment mandate	
Risk of breach of an investment mandate terms leading to action for compensation. This could arise from mis-management of an investment mandate.	We have robust controls throughout the client lifecycle to mitigate breaches and monitor client and fund limits on our systems. There are also over overarching controls in various committees, as well as an independent review of portfolio data by the market risk team.

Risks	Mitigating factors
Loss of key investment personnel	
Our reputation and client retention could be damaged through significant changes in investment personnel.	We have a team based approach, which seeks to avoid reliance upon any one individual. There is a strong development programme for fund managers and we seek to encourage performance and loyalty through appropriate remuneration and our extensive benefits package, which includes a significant deferred element. AuM for GEM, Asia Pacific and Global equities was £107.2 billion at year end, 53% of the Group total. Recognising the importance of a small number of teams to the Group's future performance, we aim to mitigate this risk both through the team approach, remuneration and development programmes – as well as actions to grow the business outside of these core equities products.
Distribution	
Client relationships are fundamental to our business and retention of AuM. We source business through two channels of distribution: directly from institutions, or through investment intermediaries. This incorporates the risk that we mislead or misrepresent products to clients – this could create regulatory censure as well as loss of clients.	We manage the risk of client retention by ensuring that our client relations teams keep in regular contact with clients to ensure that we address their changing needs. The Board views meeting customers' needs and expectations as integral to the corporate culture. Aberdeen has a global network of offices that allows us to service local clients and the leading private banks and wealth managers. During the year, our distribution teams have worked closely with our clients to ensure that they understand things like the impact of the up-front charge on GEM and the impact of macro concerns on equities valuations and our performance. We have also brought in product specialists into distribution for key capabilities, such as property, money market and solutions. The new UK regulator, the FCA, has identified conduct risk as a top priority. This is about ensuring that the right products are sold to the right clients.
Product	
Risk of poor product design or that delivery of the final product was not what was intended. It can arise from creating new products, or risk that existing products no longer meet investor requirements.	We have a centralised product development team which oversees the assessment and launch of all new products across the Group. There is a Group-wide approach covering all asset classes as well as product and competitor reviews.
Client service and administration	
Business continuity We have an obligation to ensure that the business can operate at all times.	There is offsite back up for our systems in place to cover each of the Group's principal operating sites. We regularly test our back up plans and the tests also cover potential availability of key staff.
External service providers The Group relies on a number of third party relationships and services to carry out business functions. The risk arises from the inability to effectively carry out robust evaluations of third parties prior to Aberdeen engaging in dealings.	We use a small number of strategic suppliers. This ensures a degree of competition, whilst ensuring that we have significant influence and leverage. However, it also exposes us to concentration risk and dependence on strategic providers. Our operations team oversees these third party administrators. We have contingency plans reviewed by the Board on how we would best manage a withdrawal or failure of a strategic supplier. We regularly review the business recovery infrastructure and strategy of these suppliers. This includes visits by our senior executives to strategic suppliers during the year.

Risks	Mitigating factors
Brand	
Our reputation could be damaged if our brand or marketing activities are inconsistent with our culture or operations.	During the year we performed a review of our brand to ensure that it is aligned to our culture. The compliance team works closely with the business to check that our marketing materials are consistent with our products and capabilities.
Legal and regulatory	
Aberdeen operates in a complex and dynamic regulatory environment. Risks arise from legal and regulatory obligations and the failure to correctly interpret law or changes in the law which may materially and adversely impact the Group. We may also be subject to regulatory sanctions or loss of reputation from failure to comply with regulations.	The Group has a new lead regulator in the UK and there is a clear pattern of increasing value of fines for regulatory breaches in some jurisdictions. Over the next two years, we anticipate a peak of new regulation in Europe. The management of legal and regulatory risk is the responsibility of the senior management of all functions, supported by the in-house legal and compliance teams. The legal and compliance teams are responsible for tracking legal and regulatory developments to ensure that the Group is well prepared for changes. As well as developing policies, delivering training and performing monitoring checks, they also provide advice to other divisions to enable compliance with legal and regulatory requirements. They are located at key locations across all three regions and help to monitor that global and local requirements are followed.
Liquidity risk	
The Group aims to have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.	The Group's cash position, available facilities and forecast cash flows are monitored by the Group's treasury function. We prepare long-term forecasts and use stress tests to assess the Group's future liquidity, as well as capital structure and compliance with regulatory capital. The cash and funding position of each subsidiary is monitored and each entity has access to appropriate liquidity.
Credit risk	
We face credit risk as a result of counterparty exposure. The principal risks are in respect of deposits placed with banks.	We monitor the value of deposits with our counterparties against limits in our treasury policy. We monitor our exposure to banks continuously and, as our cash balances have grown, have increased the number of counterparties where we deposit our cash. The Group's treasury function is supported by the front office credit team, as well as the market risk function who also perform internal credit reviews. Where appropriate, we extend our assessment of counterparty risk to include major suppliers.
Foreign currency risk	
The Group's results are reported in sterling. Due to the geographically diverse locations in which Aberdeen operates, business is conducted in a number of currencies. These include the US dollar, Singapore dollar and Euro.	The Board reviews the currency profile of the Group, including cash flows and balance sheet. Variations in the sterling value of operating costs and interest costs will, to an extent, offset any similar impact of fluctuating exchange rates on revenues. The treasury function prepares a sensitivity analysis of the effect of changes in rates. Further details on sensitivity to changes in currencies are set out in note 30 of the financial statements.

Corporate responsibility

This year, we have succeeded in embedding corporate responsibility (CR) further into our business culture by:

- incorporating into the Group's global strategy communication to all employees;
- engaging more with our investments and our stakeholders on environmental, social and corporate governance issues;
- becoming a signatory of the UN Global Compact;
- growing the scope of the Aberdeen Charitable Foundation;
- widening the coverage of our environmental management system; and
- introducing training on CR issues for new directors.

Corporate responsibility is managed for the Group by the CR Steering Committee which is chaired by the Deputy Chief Executive, Andrew Laing, who in turn has responsibility for reporting to the Board on developments, risks and opportunities in this area. Our key risks continue to be those of our people, our stakeholders and our investments.

The Board and its committees have continued to oversee the management of these risks. Director induction training has been expanded to include ESG (environmental, social and governance) issues. Further details of the material CR issues faced by the Group and the steps taken to manage them are contained in the annual CR report which is available on the Group website.

Investing responsibly

We continue to integrate ESG factors into the investment process for each of our asset classes.

While ESG has its own unique benefits and issues, depending on the asset class to which it is applied, overall, it is an invaluable factor when examining an investment as a whole. ESG has quickly gained ground with investors as an investment approach or overlay which helps to identify longer term risks within a portfolio. We know that clients value communication on this issue and we are committed to engaging both our investments and our stakeholders on responsible investing issues.

Corporate governance

For our equities, corporate debt and multi manager products, corporate governance is a key consideration when assessing an investment. We believe that effective and transparent corporate governance leads to companies being more successful in their core activities allowing for enhanced returns to shareholders. Aberdeen's corporate governance principles for investment provide a globally applied framework for investment analysis, shareholder engagement and proxy voting. Our annual equity engagement report sets out some of the topics that we have engaged with companies on over the past year and how this has affected investment decisions.

Our equity engagement report and additional information on our stewardship responsibilities can be found at **aberdeen-asset.co.uk/aam.nsf/AboutUs/governancestewardship**

Environmental and social factors

In our equities business, the environmental and social aspects of companies are examined by our in-house team who raise potential risks and issues with the regional equity teams. This year, the ESG team spoke with over 150 companies about our challenges from an ESG perspective. For example, we engaged with a European pharmaceutical group over labour-related lawsuits and improper promotion of medical products. We also queried a UK banking group over fines from fraud, money laundering, corruption and tax. By pushing companies to integrate ESG risks at the Board level we hope to promote financial longevity through prudent and considerate management practices.

Screened funds 2013 [1]

£17.7bn

2012: £17.6bn

SRI specific funds 2013 [2]

£1.1bn

2012: £1.1bn

[1] Our screened funds refer to those that have restrictions not classed as SRI or ESG, such as country restrictions or Sharia compliant funds.

[2] SRI specific funds have certain traditional SRI and ESG restrictions and so prohibit investment in companies that generate revenues through non-compliant activities.

Our property teams have also been working with investors, property agents and tenants to understand and reduce the environmental impact of the buildings that we manage. We are committed to developing our capabilities in this area and are undertaking a full review of our property operations, with the intention to embed a global framework across each of our core functions - investment, asset management, property development and property management.

Our environmental impact

We have assessed that our biggest environmental risk is the carbon which we emit from the use of energy in our buildings and from business travel. This year, we averaged 1.73 tonnes of CO_2 per full time employee for our Scope 1 (direct) and Scope 2 (indirect) global emissions (please see table below). As this is the first year we have quantified our global emissions, we are unable to compare this with previous years. However, on a like-for-like basis, we have reduced our carbon emissions by 10%, compared to 2012, in our six largest offices, which represent over 75% of our operations by headcount.

The Group operates an Environmental Management System (EMS), which covers our processes to measure and monitors our environmental impact and compliance with legal obligations, as well as communications to employees. Through our EMS, we have undertaken a range of initiatives to reduce our negative environmental impacts. Examples include the introduction of software to ensure that all computers are switched off overnight; conducting a review of our waste disposal practices to identify areas for improvement and incorporating a wide range of energy saving measures across existing and new offices. New initiatives this year include the installation of low emission LED lights, which will save £15,000 per year in the UK alone; increased purchase of renewable energy and the installation of smart meters which improve our ability to monitor energy usage.

This is the fifth year that we have been scored by the Carbon Disclosure Project (CDP) - a not-for-profit organisation working to drive sustainable business practices. As a direct result of our focus to improve our environmental standards, our score in CDP's annual survey has improved from 46 in 2009 to 91 in 2013. Our high score this year meant that we were included in the CDP FTSE 350 Climate Disclosure Leadership Index .

Aberdeen Charitable Foundation

This year, in the Aberdeen Charitable Foundation's first full year since launch, we made donations to more than 100 charities in 22 of the countries in which we are located. The Foundation's focus is on giving back to those areas which are a key strategic focus of the business and to the local communities in which Aberdeen employees live and work.

In emerging markets, we built on our relationship with Action for Brazil's Children Trust and entered into our second long-term partnership with SeeBeyondBorders, a small but dynamic charity which operates in Cambodia and provides access to better education for children and training and mentoring programmes for teachers.

At a local level, the committees in our global offices supported a wide range of charities, all of which were selected for the positive impact they have on the areas where our employees live and work. In addition to providing monetary support, colleagues used their time and expertise to volunteer with our charity partners and this year more than 15% volunteered.

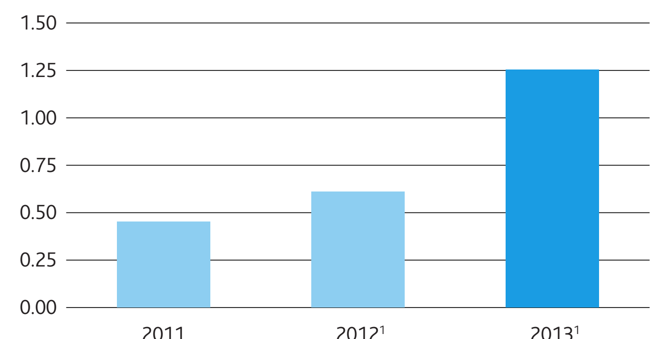
In Philadelphia, Aberdeen volunteers helped to plant organic garden beds at Drexel University's Dornsife Centre, which will provide food to those in need in the community.

Total global emissions for carbon reporting

Scope	Emissions source	CO_2 emissions (tonnes)
1	Natural gas	448.0
	Company owned vehicles	91.0
	Diesel	4.0
	Refrigerant gas loss	28.0
		571.0
2	Electricity	3463.0
Total		**4034.0**
Intensity ratio: Emissions per full time employee for Scope 1 and Scope 2		**1.73**

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) for our methodology and gathered data from invoices on energy consumption, register of refrigerants and service logs of owned vehicles. We have used emissions factors from the UK Government conversion factors for Company Reporting.

Charitable contributions, £m



[1] Note: This includes donations made by the Foundation, Aberdeen PLC and GAYE employer contributions, but excludes unspent contributions made by the PLC to the Foundation.

Corporate governance

Corporate governance is important to Aberdeen. It is one of the qualities that we look for in the companies in which we invest – and we are committed to effective and transparent corporate governance in running our own business.

We aim to be transparent in all our activities and reports and follow best practice in day to day operations.

The Board is accountable to shareholders for the Group's activities and is responsible for the effectiveness of corporate governance. The responsibilities of the Board include setting the Group's strategic aims, providing the leadership to put them into effect, supervising management of the business and reporting to shareholders.

Board of directors

Roger Cornick [2]

Chairman

Background and experience

Before coming to Aberdeen, Roger was with Perpetual PLC for over 20 years where, latterly, he served as deputy chairman. Roger has over 30 years' experience of marketing and distribution in financial services and is currently a trustee of the River and Rowing Museum.

Date of appointment

Roger was appointed to the Board as an independent non-executive director on 23 January 2004 and was appointed Chairman on 22 January 2009. Roger is also chairman of the nominations committee.

Other appointments

- The River and Rowing Museum (trustee)

Martin Gilbert

Chief Executive

Background and experience

Martin trained as a chartered accountant prior to moving into investment management with an Aberdeen firm of solicitors. He is a founding director and shareholder of the Company. Martin is a director of a number of Aberdeen managed investment trusts and funds' boards. Martin is also a member of the Financial Services Trade and Investment Board, the PRA Practitioner Panel and is a member of the Monetary Authority of Singapore's International Advisory Panel.

Date of appointment

Martin was appointed to the Board on 1 July 1983.

Other appointments

- FirstGroup PLC (chairman)
- British Sky Broadcasting Group PLC (non-executive director)

Anita Frew [1, 2, 3, 4]

Senior Independent Non-Executive Director

Background and experience

Anita has been a plc director for sixteen years and a plural non-executive director of industrial and financial companies for thirteen years. Anita is currently chairman of the responsible business committee of Lloyds Banking Group and a member of its audit and risk committees. Prior to this, she was a non-executive director of Northumbrian Water, executive director at Abbott Mead Vickers PLC, director of corporate development at WPP Group plc, and held various investment and marketing roles at Scottish Provident and Royal Bank of Scotland in her early career.

Date of appointment

Anita was appointed to the Board on 1 October 2004.

Other appointments

- Victrex PLC (chairman)
- IMI plc (senior non-executive director)
- Lloyds Banking Group plc (non-executive director)

Julie Chakraverty [1, 4]

Independent Non-Executive Director

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

Date of appointment
Julie was appointed to the Board on 4 May 2011.

Other appointments
- Spirit Pub Company PLC (non-executive director)
- Amlin plc (non-executive director)

Rod MacRae

Group Head of Risk

Background and experience
Rod is responsible for UK and global risk including regulatory compliance, legal services, business and market risk. Rod joined Aberdeen in 2003, following the acquisition of Edinburgh Fund Managers.

He graduated with an MA in Economics from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland. Rod is a director of a number of Group subsidiary companies.

Date of appointment
Rod was appointed to the Board on 1 October 2012.

Andrew Laing

Deputy Chief Executive

Background and experience
Andrew joined the Group in 1986 with responsibility for private equity investment. Andrew was subsequently appointed Chief Operating Officer. Prior to joining Aberdeen, Andrew practiced commercial law and was a private equity fund manager in Edinburgh.

He graduated from the University of Aberdeen with an MA in Politics and International Relations, and an LLB. Andrew serves on the board of the Investment Management Association and is also a director of a number of Group subsidiary companies.

Date of appointment
Andrew was originally appointed to the Board in 1987 and then again on 23 January 2004 and was appointed Deputy Chief Executive in 2008.

Richard Mully [3, 4]

Independent Non-Executive Director

Background and experience
Richard was formerly the co-founder and managing partner of Grove International Partners LLP, a major real estate private equity firm. He spent much of his 30 year career in financial services as an investment banker. Richard graduated with first class honours in Economics from University College London and also holds an MBA in Finance.

Date of appointment
Richard was appointed to the Board on 23 April 2012 and is chairman of the risk committee.

Other appointments
- Hansteen Holdings PLC (senior non-executive director)
- ISG PLC (non-executive director)
- Alstria Office REIT-AG (supervisory board member)
- St. Modwen Properties PLC (non-executive director)

Jim Pettigrew [1, 4]

Independent Non-Executive Director

Background and experience
Jim was formerly chief executive of CMC Markets Plc. Prior to joining CMC, he was chief operating officer and finance director at Ashmore Group plc, chief financial officer of ICAP Plc from 1999-2006 and group treasurer at Sedgwick Group plc. Jim is vice president of the Council of the Institute of Chartered Accountants of Scotland and is an LLB.

Date of appointment
Jim was appointed to the Board on 23 April 2010 and is chairman of the audit committee.

Other appointments
- The Edinburgh Investment Trust Public Limited Company (chairman)
- Crest Nicholson Holdings plc (senior non-executive director and chairman of remuneration committee)
- RBC Europe Limited (deputy chairman)
- AON UK Limited (non-executive director)
- Hermes Fund Managers Limited (chairman of risk committee and non-executive director)
- Clydesdale Bank plc (chairman of audit committee and non-executive director)

Anne Richards

Chief Investment Officer

Background and experience
In addition to her role as Chief Investment Officer, Anne is Head of Aberdeen Solutions, and the EMEA region. Prior to Aberdeen, she worked for Merrill Lynch and Edinburgh Fund Managers, where she was chief investment officer and joint managing director. Anne graduated with first class honours in Electronics and Electrical Engineering from the University of Edinburgh, and has an MBA from Insead. Anne is also a director of a number of funds of hedge funds and funds of private equity funds managed by the Aberdeen Group. Anne is a member of the FCA Practitioner Panel.

Date of appointment
Anne was appointed to the Board on 22 March 2011.

Other appointments
- The Council of the Duchy of Lancaster (trustee)
- The Scottish Chamber Orchestra (trustee)
- The Court of the University of Edinburgh (lay member)
- esure Group plc (non-executive director)

Bill Rattray

Finance Director

Background and experience
Bill joined the Group in 1985 as Company Secretary and subsequently became Group Financial Controller. Prior to joining the Group, Bill trained as a chartered accountant with Ernst & Whinney in Aberdeen, qualifying in 1982. Bill is a director of a number of Group subsidiary companies.

Date of appointment
Bill was appointed to the Board on 31 January 1991.

Jutta af Rosenborg [1]

Independent Non-Executive Director

Background and experience
Jutta was formerly Chief Financial Officer for ALK-Abelloó A/S, a global pharmaceutical company, headquartered in Denmark. Jutta has spent most of her career in finance, having originally qualified as a chartered accountant with Deloitte before establishing her own auditing and consulting business. Jutta has a master's degree in business economics and auditing from the Copenhagen Business School.

Date of appointment
Jutta was appointed to the Board on 18 January 2013.

Other appointments
- Auriga Industries A/S (non-executive director and chairman of the audit committee)
- Zealand Pharma A/S (non-executive director and chairman of the audit committee)
- Det Danske Klasselotteri A/S (non-executive director)

Akira Suzuki

Non-Executive Director

Background and experience

Akira joined Aberdeen through the business and capital alliance with Mitsubishi UFJ Trust and Banking Corporation. Akira has a Bachelor of Law degree from Keio University. Following graduation Akira joined The Mitsubishi Trust and Banking Corporation and has undertaken a wide variety of roles, primarily in asset management. Akira is currently Executive Officer and General Manager in the Fund Research and Development Division and is based in Tokyo.

Date of appointment

Akira was appointed to the Board on 29 August 2013.

Other appointments

- AMP Capital Holdings Limited

Hugh Young

Global Head of Equities

Background and experience

Hugh is Global Head of Equities and Managing Director of Aberdeen Asset Management Asia Limited. He founded Singapore based Aberdeen Asia in 1992 and has been managing the Group's Asian equities since 1985. Hugh graduated with a BA in Politics from Exeter University. Hugh is a director of a number of Group subsidiary companies and Aberdeen-managed investment trusts and funds' boards.

Date of appointment

Hugh was appointed to the Board on 22 March 2011.

Simon Troughton [2, 3, 4]

Independent Non-Executive Director

Background and experience

Simon was a partner at Cazenove and Company Limited before moving to Fauchier Partners in 2003 where he became chief operating officer. He qualified as a chartered surveyor having read Land Economy at Cambridge University.

Date of appointment

Simon was appointed to the Board on 29 July 2009 and is chairman of the remuneration committee.

Other appointments

- Redburn Partners Holding Company Limited (non-executive director)

[1] Member of the audit committee.
[2] Member of the nominations committee.
[3] Member of the remuneration committee.
[4] Member of the risk committee.

Group management board

The Group management board (GMB) comprises the six executive directors, plus the following members of senior management:

John Brett

Global Head of Distribution

John joined Aberdeen on 1 November 2011 as Global Head of Distribution. He joined from Scottish Widows Investment Partnership where latterly he was head of distribution. John was previously with Aberdeen until 2003 as Head of Legal. John is a qualified lawyer, having graduated LLB from the University of Aberdeen.

Gordon Brough

General Counsel & Deputy Group Head of Risk

Gordon joined Aberdeen in February 2009 to head up the Group's legal function having previously been the partner responsible for the Group's affairs at Maclay Murray & Spens LLP. Prior to its merger with Maclays, Gordon had helped found specialist law firm, The City Law Partnership. He was appointed General Counsel and Deputy Group Head of Risk in 2012. Gordon is qualified as a lawyer in both Scots and English law.

Kerry Christie

Global Head of Human Resources

Kerry is Global Head of Human Resources and was appointed to the GMB in 2010. She joined Aberdeen in March 2000 and was appointed Head of Human Resources in October 2003. Kerry graduated from Robert Gordon University with a BA in Public Administration and a postgraduate diploma in Personnel Management and is a chartered member of CIPD.

Brad Crombie

Global Head of Fixed Income

Brad re-joined Aberdeen in 2012 after starting in the Group's graduate trainee programme twelve years ago. In the interim, he worked at Bank of America Merrill Lynch as a managing director, running the bank's non-financial corporate and high yield credit research team for the EMEA region. In addition to his fixed income leadership role, Brad is also the Global Head of High Yield. He graduated from McGill University with BA and MA degrees and read history at the University of Cambridge.

Ken Fry

Chief Operating Officer

Ken graduated from the University of Essex with a BA in Computer Science and joined Aberdeen with the acquisition of Frederick's Place Holdings in 1989 as Group IT Manager. He was appointed to the GMB in 2006 as Chief Technology Officer and to his current role in 2008.

Gary Marshall

Head of Americas

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

Pertti Vanhanen

Group Head of Property

Pertti joined the Group in 2002 following Aberdeen's expansion into Finland. Prior to joining Aberdeen, Pertti had acted as managing director for property asset management subsidiaries for both Pension Ilmarinen and Pension Varma in Finland. During his years with Aberdeen, Pertti has headed the Nordic and European direct property business and recently acted as the Head of Fund management – Property division. Pertti holds an MBA and is a Fellow of the Royal Institution of Chartered Surveyors (FRICS).

Governance overview

Board governance structure

The Board has set up four committees, which are populated by non-executive directors. The responsibilities of the committees continue to grow in scope and complexity in response to increasing regulatory requirements. Only the members of each committee are entitled to attend its meetings but others, such as senior management and external advisors, may be invited to attend as appropriate. A full description of their responsibilities and terms of reference are provided on the Group's website at **aberdeen-asset.com/aam.nsf/InvestorRelations/termsofreference.**

Group management board (GMB)

The operational management of the Group is delegated by the Board to the GMB which comprises the executive directors and other heads of department. The GMB meets three times each month, has specific terms of reference which have been approved by the Board, and has responsibility for implementing the Board's strategy.

Corporate governance framework and responsibilities

Board of directors

- Set the Group's strategy, goals and objectives.
- Set, with advice from the risk committee, the Group's risk appetite, ensuring consistency with the Group's strategy.
- Approve budgets and business plan.

See biographies on pages 50 to 53.

Group management board

- Review Group and divisional strategy plans and budgets.
- Review and consider risks within the Group.
- Take decisions on the day to day management of the Group except where matters are reserved for decision by the Board.

See biographies on page 54.

Committees

Audit committee

- Monitor the integrity of annual, interim and preliminary financial statements of the Group.
- Review and assess the annual internal audit plan and internal audit function, and monitor management's responsiveness to the findings and recommendations of the internal auditor.
- Assess annually the independence and objectivity of the external auditor and oversee quality of audit work.

See pages 59 to 61 for the audit committee report.

Nominations committee

- Regularly review the structure, size and composition required of the Board compared to its current position and in line with governance requirements.
- Consider appropriate succession planning for directors and other senior executives.
- Keep under review the executive and non-executive leadership needs of the organisation.

See page 62 for the nominations committee report.

Risk committee

- Support the Board in its consideration of the business activities that expose the business to current and future material risks.
- Advise the Board on setting risk appetite.
- Ensure that senior management has in place procedures and mechanisms to identify and control all fundamental operational, financial, reputational, and regulatory risks.
- Oversee the compliance function.

See page 63 for the risk committee report.

Remuneration committee

- Determine the remuneration strategy for the Group to ensure staff retention and incentivisation, to meet with current best practice and to align the interests of all stakeholders, in particular shareholders and employees.
- Determine the remuneration packages for the Chairman, all executive directors and the senior employees.
- Review any performance-related pay schemes and all share incentive plans for approval by the Board and shareholders.

See pages 64 for the remuneration committee report.

Corporate governance report

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UK Corporate Governance Code

The FRC published a new edition of the UK Corporate Governance Code in September 2012 that applies to reporting periods beginning on or after 1 October 2012 ("the New Code"). The Group chose to adopt the new provisions for the year under review. At the time of writing this annual report, the Listing Rules of the London Stock Exchange had not been updated to recognise the issuance of the New Code and, therefore, we remain obliged to report on our compliance with the previous version of the UK Corporate Governance Code which was issued in May 2011 ("the Code").

The Group has complied throughout the year with both the Code and the New Code except where noted in the report below. This report describes Aberdeen's corporate governance arrangements, explaining how the Group has applied the principles of the Code.

Board composition

The Board currently comprises the Chairman, seven non-executive directors and six executive directors. The roles of the Chairman and Chief Executive are separate, clearly defined and have been approved by the Board. The Chairman, Roger Cornick, is responsible for the leadership of the Board and for ensuring its effectiveness in all aspects of its role. The Chief Executive, Martin Gilbert, is responsible for the day to day management of the Group. Anita Frew continues as the Senior Independent Director, providing a sounding board for the Chairman and serving as an intermediary for the other directors, where necessary. Further information regarding the experience of the Board is given in their biographies on pages 50 to 53.

All directors are subject to annual election by shareholders.

Independence

In considering director independence, the Board has taken into consideration the guidance provided by the Code. Of the non-executive directors, Akira Suzuki, and before him Kenichi Miyanaga, has been appointed by a significant shareholder, Mitsubishi UFJ Trust and Banking Corporation, and he is therefore not considered to be independent. The Board, having given thorough consideration to the matter, considers the other six non-executive directors to be independent.

Anita Frew joined the Board in 2004 and will have served for 9 years by the date of the AGM. The Board intends to appoint a further independent non-executive director in 2014 and, to enable a smooth transition and transfer of knowledge, Anita has been asked to continue as a director until 30 September 2014. Taking into consideration Anita's independence of character and judgement, her asset management knowledge and significant major PLC board experience, the Board is of the opinion that Anita remains an independent non-executive director.

Board changes

The Board has given careful consideration to its structure and its balance and is continuing to refresh Board and committee membership in an orderly manner. Rod MacRae was appointed as an executive director on 1 October 2012. Jutta af Rosenborg joined the Board as an independent non-executive director on 18 January 2013. Akira Suzuki was appointed to the Board on 29 August 2013, through the business and capital alliance with Mitsubishi UFJ Trust and Banking Corporation. Akira replaced Kenichi Miyanaga who resigned from the Board on 29 August 2013. Giles Weaver retired from the Board on 17 January 2013.

A consequence of this series of changes is that we do not comply with the Code requirements on the number of independent directors. The Board remains of the opinion that its size and composition should reflect the needs of the business and seeks to achieve this in compliance with the Code. As mentioned, a further appointment of an independent non-executive director will be made in 2014.

Board effectiveness

Summary of Board meetings

The Board met eight times during the year to review financial performance and strategy and to follow a formal schedule of matters reserved for its decision, which includes the setting of Group goals, objectives, budgets and other plans. Comprehensive board papers, comprising an agenda and formal reports and briefing papers, are sent to directors in advance of each meeting.

Directors are continually updated with written and oral reports, from senior executives and external advisors. Topics include the Group's business and the competitive and regulatory environments in which it operates, as well as on legal, environmental, social, governance and other relevant matters.

In addition, the Board regularly receives briefings and presentations from senior executives, local management and external advisors covering a wide range of topics relevant to the Group's business. Recent examples include updates on the Retail Distribution Review regulation and the Group's methodology to running and overseeing projects.

The Board visits the key overseas offices to meet local management and clients and to obtain an understanding of the local business environment. The Board visited the Singapore, Philadelphia, New York and Oslo offices during the year and directors also visited other overseas offices on an individual basis to meet with local management and staff.

On each of these overseas visits, the Board has received presentations from local management on local and regional business conditions and 'at desk' presentations from the local business teams. Whilst in Singapore, several members of the Board took advantage of the location to visit either the Bangkok, Tokyo or Sydney offices in order to meet with local staff and clients.

Details of the individual directors' attendance at Board meetings are shown in the table below:

	Maximum possible attendance	Meetings attended
Roger Cornick	8	8
Martin Gilbert	8	8
Anita Frew	8	7
Julie Chakraverty	8	8
Andrew Laing	8	8
Rod MacRae	8	8
Richard Mully	8	8
Jim Pettigrew	8	8
Bill Rattray	8	8
Anne Richards	8	8
Jutta af Rosenborg	5	5
Akira Suzuki	1	1
Simon Troughton	8	8
Hugh Young	8	8
Kenichi Miyanaga	7	7
Giles Weaver	3	3

Relationships with shareholders

The Group communicates regularly with institutional shareholders, analysts and the financial press throughout the year. Annual and interim reports and interim management statements are widely distributed to other parties who may have an interest in the Group's performance and these documents, together with copies of investor presentations, are also made available on the website. The Chief Executive and Finance Director report at each Board meeting on investor relations and on specific discussions with major shareholders and the Board receives copies of all research published on the Group. Investors are encouraged to attend the Annual General Meeting at which they have an opportunity to ask questions.

The Annual General Meeting is normally attended by all directors and the chairmen of each of the Board committees are available to answer questions.

The Group continues to offer major shareholders the opportunity to meet any or all of the Chairman, the Senior Independent Director, the chairman of the remuneration committee and any new directors.

The Group will continue its policy of announcing the number of proxy votes cast on resolutions at the Annual General Meeting and any other general meetings. The Senior Independent Director is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

Conflicts of interest

The Board confirms that it has considered and authorised any conflicts or potential conflicts of interest in accordance with the Group's existing procedures and has also implemented specific guidelines to address any potential conflicts that may arise in the future. The Board has specifically considered the other appointments held by directors, details of which are contained in their biographies on pages 50 to 53, and has confirmed that it believes that each is able to devote sufficient time to fulfil the duties required of them under the terms of their contracts or letters of appointment.

Board evaluation

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

This year's evaluation has again been undertaken internally with the Chairman carrying out interviews with each member of the Board. This was subsequently followed up with discussions of the results at subsequent Board and committee meetings.

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

Training and induction

New directors appointed to the Board receive a formal and tailored induction, which includes meetings with relevant members of the existing senior management to help them gain a detailed understanding of the Group and its activities. The two new non-executive directors undertook induction training, which provided them with a wide range of input, including copies of past meeting papers, the current strategy and details of the Group's processes and procedures.

The Board, its committees and each director has access to independent professional advice, if required, at the Company's expense, as well as to the advice and services of the Company Secretary.

The Company Secretary, under the direction of the Chairman, is responsible for facilitating this induction programme, ensuring good information flow between the Board, its committees and management, and assisting with directors' continuing professional development needs. Directors are also advised, at the time of their appointment, of the legal and other duties and obligations arising from the role of a director of a listed company and are reminded of these duties and obligations on a regular basis. All directors are obliged to undertake a minimum of 35 hours of continuing professional development annually, of which at least 21 hours must comprise structured learning.

The Group maintains appropriate insurance cover in respect of legal action against its directors.

Risk management

Risk management is implemented from the top down, starting at Board and GMB level, through to the individual operational departments. The audit and risk committees support the Board in discharging its oversight duties with regard to internal control, risk management and capital adequacy. These committees also have responsibility for ensuring that the Group strategy is appropriate and aligned with the Board's risk appetite, as set out in a formal Board statement.

The attitudes to risk agreed at Board and committee discussions are fed through to the planning processes for the individual business units. The Board is also responsible for the Internal Capital Adequacy Assessment Process (ICAAP), a process required by the UK regulator, which summarises the risk management framework and regulatory capital requirements of the Group. This is closely linked to the Group's strategic planning and capital management exercises.

Internal control

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

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

The risk management committee oversees the system of controls within the day-to-day operations of the Group and monitors the Group's culture, and clarity of responsibility of roles over risk areas. The committee reports on and monitors critical risks, issues and high priority projects. It serves to reconcile the key risks and issues identified by the business with those raised by the Group's monitoring functions. This provides assurance to the Board that risks and issues are adequately escalated and managed.

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

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

The heads of business risk and market risk each report directly to the Group Head of Risk while the heads of legal and compliance report to the General Counsel. The General Counsel also reports to the Group Head of Risk who, while also a director of the Group, reports to the Chief Executive and also attends and reports at meetings of the risk and the audit committees.

The Head of Internal Audit reports to the Chief Executive as well as having unrestricted access to the chairman of the audit committee.

More information on the risk management framework and specific risks facing the Group can be found on pages 42 to 45.

Audit committee

Composition

The audit committee is chaired by Jim Pettigrew. He is supported by three independent non-executive directors, Julie Chakraverty, Anita Frew and Jutta af Rosenborg.

Jutta af Rosenborg joined the committee in January 2013 and Giles Weaver stepped down at the same time. Apart from these changes all other members served throughout the year.

The Board is satisfied that all of the committee's members have recent and relevant commercial and financial knowledge and experience to satisfy the provisions of the Code, by virtue of their holding or having held various executive and non-executive roles in other financial and asset management institutions. Additionally, Jim Pettigrew and Jutta af Rosenborg are chartered accountants.

Responsibilities

The committee's role is to assist the Board in discharging its duties and responsibilities for financial reporting, internal control and the appointment and remuneration of an independent external auditor. The committee is responsible for reviewing the scope and results of audit work and its cost effectiveness, and the independence and objectivity of the auditor.

The committee is also responsible for reviewing the Group's arrangements on whistle blowing, ensuring that appropriate arrangements are in place for employees to be able to raise, in confidence, matters of possible impropriety, with suitable subsequent follow-up action.

Report on the committee's activities during the year

The committee has a schedule of events which, updated regularly, details the issues to be discussed at each of the meetings of the committee in the year. The schedule also allows for new items to be included into the agenda of any of the meetings.

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

a) reviewing the Group's draft 2012 financial statements and 2013 interim results statement prior to discussion and approval by the Board, and reviewing the external auditor's reports thereon;

b) reviewing the continuing appropriateness of the Group's accounting policies;

c) reviewing the external auditor's plan for the audit of the Group's 2013 financial statements, receiving and reviewing confirmations of auditor independence and approving the terms of engagement and proposed fees for the 2013 audit;

d) reviewing the reports of the internal audit division and agreeing action plans, audit schedules and areas for future reviewing, and reviewing the effectiveness of the internal audit division;

e) recommending the re-appointment of the auditor for 2014 and considering future audit tender requirements;

f) reviewing management's annual report on the Group's system of internal control and its effectiveness, reporting to the Board on the results of this review and receiving regular updates on key risks and controls;

g) receiving reports from the Group Head of Risk and the risk committee on relevant matters that also impact internal controls and financial reporting; and

h) carrying out an annual performance evaluation exercise and noting the satisfactory operation of the committee.

The audit committee has reviewed the contents of this year's annual report and accounts and advised the Board that, in its view, the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The committee received a number of regular reports at each of its meetings during the year, including these from internal audit, finance and risk. The Group's external auditor also provided regular reports, both written and oral, to each of the meetings. The committee continues to look to ensure that issues and matters presented to them are resolved in a timely manner.

Other topics discussed included treasury, covering the Group's cash profile and the management of foreign exchange and counterparty risk. The committee received a paper on the Group's tax policies. This enabled the committee to satisfy itself as to the policies being followed by the Group.

In discharging its duties to review the effectiveness of the control environment, the committee also approved the 2012/13 Control Assurance Report produced by PWC. This report is available to clients and consultants. The report describes the key roles in relation to Aberdeen's investment management services for equity, fixed income, multi asset portfolios, and some parts of the property portfolio. Again, the committee were pleased to note an unqualified opinion, but asked for follow up on areas which they believe can be enhanced.

Significant accounting matters

During the year, the audit committee considered key accounting matters and judgements in respect of the financial statements relating to:

Goodwill and other intangibles impairment tests

The Group has goodwill of £690.2 million and intangibles assets of £338.9 million. The vast majority of this has arisen from acquisitions. £40.2 million was added to goodwill from the Artio and SVG deals and £65.7 million added to other intangibles.

As we explain in our accounting policy, goodwill and intangible assets with indefinite lives (£79.3 million) are tested for impairment annually and other intangible assets are tested for impairment whenever there are indicators that value has reduced.

Clearly, there is a level of judgement in assessing future cash flows and selecting appropriate comparators to assess market values. The audit committee examined the assumptions used. The committee, with management's help, also monitors any areas of the business added through acquisition that may be performing behind expectations to consider the impact on impairment testing.

The work on impairment is summarised in note 12.

Acquisition accounting for Artio and SVG acquisitions

In May, Aberdeen acquired the entire share capital of Artio for £109.8 million and a 50.1% stake in SVG (subsequently renamed Aberdeen SVG) for £17.5 million plus the contribution of the Group's existing fund of private equity business. There is a put and call option on the remaining 49.9% of Aberdeen SVG and we have recognised an additional liability of £27.5 million as consideration for the minority interest. Aberdeen SVG is treated as a subsidiary. The accounting for both deals is discussed in note 13.

The key accounting issue for the Artio deal was treatment of severance costs. We recognised £10.8 million of severance costs in the acquisition costs line, following the guidance of IFRS3, *Business Combinations*, on how to assess which costs are for the benefit of the vendor (and reflected in net assets at completion) and which are for the benefit of Aberdeen (and recognised in Aberdeen's income statement). £5.3 million of the severance costs were recognised in closing net assets. The committee reviewed and challenged the basis of the split to ensure that it is in line with the accounting standard.

Assumptions in bonus accruals

The bonus charge is a mixture of cash payments and awards in Aberdeen shares and Aberdeen funds. The awards in shares and funds are deferred and vest of periods between 1 and 4 years from the date of award. Further background is given in the remuneration report, starting on page 64. Therefore, the bonus charge is a combination of awards from the current year pool and an element deferred from previous year bonus pools. The audit committee examined the basis of the charge to ensure that they understood the impact of the 2013 pool on the current year charge.

The bonus pool is approved by the remuneration committee. The audit committee receives updates from the chairman of the remuneration committee on the status of awards to ensure that the accounting is in line with the remuneration strategy.

Material debt and equity transactions

The outstanding convertible debt (£81.5 million) was fully converted to ordinary shares, we issued $500 million 7.0% perpetual capital securities and repaid $400 million 7.9% perpetual capital securities. These transactions strengthened the Group's balance sheet – as well as regulatory capital.

The new $500 million perpetual capital securities meet the definition of equity, similar to the old instrument. On repayment of the old instrument, a charge of £66.0 million was recognised in equity, being the difference between exchange rates on inception and at repayment.

The announcement that we would exercise our right to force conversion of the convertible bonds triggered an interest charge of £5.1 million in the P&L in respect of unwinding the outstanding discount and unamortised interest costs. This is the reason why the Group has a net interest charge, even though net cash balances have grown and there has been no debt for much of the year.

The committee examined the accounting to ensure that the presentation in the financial statements is clear and understandable and consistent with accounting rules.

Oversight of external auditors

The committee carried out a review of the effectiveness of the external audit process and considered the re-appointment of KPMG Audit Plc. The review covered all aspects of the global audit service including, amongst other factors, the quality of the staff, the expertise, the resources, and the independence of KPMG Audit Plc. The committee reviews the audit plan for the year carefully and subsequently considers how the auditor performed to the plan. They consider the quality of written and oral presentations and the strength and depth of the lead partners at key locations. The committee discussed with the engagement team the key findings of the review by the Audit Quality Review team of KPMG.

The committee took into consideration the levels of fees paid for the global services provided by the auditor. The committee refreshed its policy on the use of KPMG for non-audit services to ensure complete clarity on the detail of services permitted and not permitted and those which might require the explicit prior approval of the committee.

The external auditor will only be appointed to a non-audit engagement when they are best suited to perform the work and there is no threat of a conflict of interest. Permitted non-audit services include the provision of tax compliance services and acting as reporting accountant in appropriate circumstances, provided there is no element of valuation work involved. The provision of tax advisory services, due diligence /transaction services and litigation services may be permitted with the committee's prior approval. The provision of internal audit services, valuation work and any other activity that may give rise to any possibility of self-review are not permitted under any circumstance. The auditor cannot act in a capacity as management or design a system or process that it subsequently is required to test.

Finally, consideration was also given to the likelihood of a withdrawal of the auditor from the market and, it was noted that there were no contractual obligations which would restrict the choice of an alternative auditor.

The committee agreed that it was appropriate to recommend to the Board that KPMG Audit Plc be reappointed as auditor for a further year and, accordingly a resolution will be put to shareholders at the 2014 Annual General Meeting recommending their reappointment.

Audit tender

The UK Corporate Governance Code has introduced new recommendations that audits should be put out for tender every 10 years.

KPMG have been auditors of Aberdeen for the last 30 years. As discussed above, the Audit Committee has continuously reviewed the performance of the external auditors and has been satisfied on both the independence of KPMG and the rigour of their audit.

We intend to run a tender process in 2015. This is in line with the transitional changes in the UK Competition Committee's proposals in their report on the audit market. These proposals require companies that last put the audit out to tender before 2005 to tender within two years of the end of the current lead partner rotation period. The current lead KPMG partner rotates after this year-end.

Oversight of internal audit

Reports from the internal audit division are received prior to each meeting and the Head of Internal Audit attended and presented at each meeting during the year. The Committee also approved the internal audit staffing and audit plans for the year.

The Head of Internal Audit was requested to provide more detail on the results of certain audit projects, together with feedback from the management team responsible for the area subject to audit.

Periodically, the functional head of an area reviewed by the internal audit attends the committee to discuss the findings of the work. This allows the committee to gain an understanding of the impact that the audit and the subsequent report had on the operations of the division.

As part of the discussions of the operation of the internal audit function, the committee actively engages in selecting areas to be audited. One such example was the request by the committee for an independent review of the remediation of the breaches which led to the regulatory fine. The committee also instructed internal audit to conduct an audit of the Group's strategy and culture and to embed such considerations in its ongoing audit work.

Meetings and attendance

The committee operates under formal terms of reference which are reviewed annually and held five meetings during the year, with representatives of KPMG Audit Plc in attendance at each meeting. Other regular attendees at the meetings of the committee included the Chairman of the Board, the Chief Executive, the Finance Director and the other members of the Board, the Head of Risk, the Head of Internal Audit, the Compliance Officer, the General Counsel and the Deputy Finance Director.

There is close liaison between the audit and risk committees and this facilitates an integrated approach to risk assurance. The risk committee is scheduled to hold no less than four meetings per annum, each of which is to be held on the same days as the meetings of the audit committee, in order to facilitate appropriate interaction between the two committees. To assist in this interaction, there is a standing agenda item for the meetings of the audit committee to receive an oral report from the chairman of the risk committee, providing an update on matters relevant to the audit committee of those issues considered by the risk committee.

There was full attendance at all meetings by members, as shown in the table below:

	Maximum possible attendance	Meetings attended
Jim Pettigrew	5	5
Julie Chakraverty	5	5
Anita Frew	5	5
Jutta af Rosenborg	2	2
Giles Weaver	3	3

The members of the committee also met, individually, with the executive throughout the year, and this provided a forum for discussion outwith the formality of the five meetings held during the year. The chairman reports back on these meetings to the committee where appropriate.

Nominations committee

Composition

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

Responsibilities

The committee is responsible for reviewing the structure, size and composition of the Board and for recommending new directors for appointment to the Board. The committee carries out an annual review of the membership of each of the Board's committees and makes recommendations to the Board.

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

Report on the committee's activities during the year

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

a) reviewing the proposals for rotation and re-election of directors at the Annual General Meeting;

b) considering and making recommendations to the Board for the appointment of two new directors and for changes to the membership of the committees;

c) reviewing the succession plans for the executive directors and the other members of the GMB;

d) reviewing senior management training and development;

e) reviewing the external appointments and time commitments of the directors;

f) discussing the results of the annual performance evaluation exercise; and

g) examining the operations of the committee and reviewing its terms of reference.

In respect of the appointment of Jutta af Rosenborg, the committee appointed an external search consultant, Odgers Berndtson, which has no other connection with the Group, and provided a full specification of the skill set required from a new appointee. In addition, Jutta was interviewed by the members of the committee and other members of the Board and was thereafter approved by the FCA prior to being appointed.

Mitsubishi UFJ Trust and Banking Corporation (MUTB) advised Aberdeen that Kenichi Miyanaga would be stepping down from the Board and proposed that he be replaced by Akira Suzuki. Akira was interviewed by the committee and members of the Board. Thereafter he was approved by the FCA prior to appointment. Akira was previously known to the business having had close contact with Aberdeen as a consequence of his role in the Fund Research and Development Division within MUTB.

The committee again reviewed the Group's succession plans for senior executives to ensure that they remain appropriate and fit for purpose. As part of this review the committee employed the services of an external consultant, Ffion Hague, to engage with the business in order to provide an external opinion on the extent and suitability of the plans in place. The report provided by Mrs Hague was presented to and discussed by the committee. Whilst the report provided the committee with an appropriate level of assurance on the suitability of the plans, it also provided additional thinking on the extent of the business covered by the plans and has therefore enabled the business to develop the succession plans more widely throughout the Group. Mrs Hague also provided assistance in respect of the induction of new Board members.

The committee also received and commented on the senior management development programme and they provided comments to the Human Relations division, under the supervision of Kerry Christie, our Group Head of HR. The committee received presentations on the framework which has been established to identify all high potential employees and to provide them with bespoke development programmes in order to allow them to develop and take on senior roles within the Group. The committee satisfied itself that the programme was appropriate and would assist in developing a Company-wide talent pool of individuals who, given the necessary assistance and training, would be able to move into senior management positions within certain timeframes.

Board diversity

We are long-standing supporters of diversity in the boardroom and we are supportive of the Financial Reporting Council's aims to encourage diversity in the boardroom and, more generally, throughout the Group. Our current Board is made up of fourteen directors of whom four (29%) are women. We remain of the opinion that appointments to the Board should be made relative to a number of different criteria, including diversity of gender, background and personal attributes, alongside the appropriate skill set, experience and expertise. We will continue to insist that long lists and short lists of possible appointments to the Board reflect that position.

Meetings and attendance

The committee operates under formal terms of reference which are reviewed annually and held six meetings during the year. The Chief Executive was also a regular attendee at the meetings of the committee. The attendance at meetings by the members is as shown in the table below:

	Maximum possible attendance	Meetings attended
Roger Cornick	6	6
Anita Frew	6	5
Simon Troughton	6	6

Risk committee

Composition

The risk committee is chaired by Richard Mully, who is supported by four independent non-executive directors, Anita Frew, Julie Chakraverty, Jim Pettigrew and Simon Troughton. Julie Chakraverty joined the committee in October 2012 and Giles Weaver stepped down from the committee in January 2013. Apart from these changes, all other members served throughout the year.

Responsibilities

The committee has oversight of the risk management framework and, more specifically, the effectiveness of risk management and compliance activity within the Group. The committee advises the Board on considerations and processes relevant to setting the risk appetite and related tolerances. The decision was taken jointly by both the audit and risk committees that oversight of compliance would be better supported if this became one of the key functions of the risk committee rather than the audit committee. Matters of a compliance nature that are relevant to the audit committee remit continue to be reported under the business of the audit committee as well as the risk committee. In addition, the committee has a responsibility to review the implementation of appropriate procedures to identify and control all fundamental operational, financial, reputational and regulatory risks within the Group.

Report on the committee's activities during the year

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

a) reviewing the effectiveness of risk management, governance and compliance activity within the Group;

b) advising the Board on considerations and processes for setting the Group's risk appetite and related tolerances;

c) seeking to ensure that senior management has in place procedures and mechanisms to identify and control all fundamental operational, financial, reputational, and regulatory risks;

d) reviewing and recommended the approval of the Internal Capital Adequacy Assessment Process (ICAAP) to the Board;

e) seeking to ensure that all risks were being addressed by management in line with the Group's risk appetite;

f) reviewing the committee's terms of reference, carrying out an annual performance evaluation exercise and noting the satisfactory operation of the committee; and

g) reviewing the compliance department's terms of reference, their work programmes and received regular reports on their work during the year.

The committee received a number of regular reports at each of its four meetings during the year. The Group Head of Risk provided updates to the committee on each area of the risk division's functions, including business, investment and market risk, as well as reporting on legal and compliance issues.

Members of the committee have continued to meet independently with the executive and staff from different divisions throughout the year. The Heads of Market Risk, Business Risk, Compliance and the Deputy Head of Risk also attended to present on their own specific areas of responsibility.

The committee had a number of specific areas of focus in the year, including equity concentration risk where presentations were received from the Head of Equities and the Head of Global Equities in order to gain a fuller understanding how the 'buy list' is applied in the global equities investment progress.

Following discussions at Board level, the committee focused attention on the property business, reviewing the management, operations and integration of the business across all areas of its operations. The business operates primarily from a number of our European offices and the committee was able to gain significant assurance over the consistency of the investment process and operations for the asset class. The committee has requested a number of updates on how outsourced business processes are overseen.

The committee also received a detailed presentation on the issue of controls in respect of the management and oversight of client assets. The risk committee received regular updates on the progress of the FCA fine of £7.2 million in respect of breaches of the client assets rules. The fine is included in operating expenses for the year.

As in prior years, the committee has undertaken 'blue sky' risk assessment exercises with the item being discussed as part of the agenda at one of the committee meetings in the year. Issues identified, including succession planning, derivative management, product management and reputational issues were subsequently taken forward for discussion either under this or one of the other committee's matters for discussion during the year.

Meetings and attendance

The committee operates under formal terms of reference which are reviewed annually and held four formal meetings during the year, all of which were held on the same day as the meetings of the audit committee, in order to facilitate appropriate interaction between the two committees.

In addition to the members of the committee, other regular attendees at the meetings included, the Chief Executive, the Finance Director, the Group Head of Risk, the Head of Internal Audit and the General Counsel. Other members of the Board and representatives of KPMG Audit plc were specifically invited to certain meetings of the committee, dependent on the matters being discussed. There was full attendance at all meetings by members, as shown in the table:

	Maximum possible attendance	Meetings attended
Richard Mully	4	4
Anita Frew	4	4
Jim Pettigrew	4	4
Simon Troughton	4	4
Julie Chakraverty	3	3
Giles Weaver	2	2

Remuneration report

Remuneration Committee Chairman's summary statement

We have presented the remuneration report for the year to 30 September 2013 in accordance with the new regulations governing the disclosure and approval of directors' remuneration. This remuneration report has been divided into two parts:

- policy on directors' remuneration, which will be subject to a binding shareholder resolution at the forthcoming AGM and every three years thereafter; and
- annual report on remuneration, which provides information on how the policy has been applied during the year and which will be subject to an advisory resolution at the forthcoming AGM.

The principles of our remuneration policy remain unchanged from previous years and are set out in the first section of the report. They include:

- simple and clear executive pay;
- linked to the delivery of superior financial results for our shareholders;
- subject to a total variable remuneration cap;
- paid mainly in deferred company shares with clawback provisions, so that executives retain a substantial personal stake in the on-going success of the Group.

While the binding vote on remuneration policy only applies to remuneration awarded to directors, we continue to apply the same principles to the remuneration of all employees.

Our remuneration philosophy is focused on pay for performance, tempered by an emphasis on ensuring that performance is not achieved by taking risks which fall outwith the Board's risk appetite. The remuneration committee works closely with the risk committee to ensure that remuneration decisions take into account the need to manage risk exposure. An example of this in the current year is that the potential bonus pool was reduced to reflect the costs of the regulatory settlement referred to elsewhere in this annual report.

Throughout the year, I have engaged widely with shareholders and representative groups. The committee has also taken account of written guidelines from shareholder groups, and the guidance on directors' remuneration reporting from the GC100 and Investors Group.

The committee has responded to the desire from shareholders for longer deferral of equity bonuses and for larger executive shareholdings. Annual bonus deferral was extended last year from three to four years and executive shareholding requirements have this year been increased to three times base salary.

The committee has monitored the debate in the financial services sector over the capping of variable compensation, and is aware of the desire of some investors to set a maximum on the variable pay that any individual can earn. The committee's continuing policy is to set a maximum level of bonus pool for any year, rather than set a limit on individual awards. We believe that this policy ensures that Aberdeen is not placed at a market disadvantage when competing for talent, when the majority of our competitors do not have such a cap. The committee is also conscious that capping individual awards could place some upward pressure on fixed remuneration, which it does not believe would be in the best interests of shareholders.

The committee believes that its policy of long-term deferral of 75% of annual bonus into Aberdeen shares ensures that individual rewards are aligned with longer-term sustained performance expressed through Aberdeen's share price and dividends.

This is a significantly higher percentage than our peer group, and above the percentage that regulators have applied in some other parts of the financial services sector. This year's remuneration report provides additional information about the key performance indicators and targets used for determining bonus awards.

The Group's financial achievements are the result of strong operational disciplines and profit performance is a significant factor in setting the appropriate level of bonus pool each year. We are also conscious that the primary imperative is to look after our clients and to provide superior investment performance. The committee believes that the aggregate bonus pool in any year should normally be no higher than 25% of pre-bonus operating profit. Aggregate bonus awards for 2013 were approximately 21% of pre bonus operating profit. As a consequence, we have been able to maintain the overall staff cost, both fixed and variable, at around 35% of the Group's revenue over a number of years. The actual ratio for 2013 is 33.2% (2012: 34.7%).

As described in more detail in other sections of the annual report, Aberdeen has continued to perform well in the 2013 financial year. We have grown our underlying pre-tax profit by 39% and continued our progressive dividend policy – this year paying a full year dividend of 16.0p, a 39% increase on the previous year. Combined with the strong share price appreciation, notwithstanding the volatility from emerging market exposure, we believe that our Total Shareholder Return has been excellent. This performance is reflected in the remuneration received by the executive directors for the year under review.

Annual bonus awards for executive directors have been determined by the committee based on a rounded assessment of Group and personal performance. A range of key indicators have been considered including: investment performance delivered for clients; client retention; growth in underlying earnings per share; operating margin; cash conversion; ROCE; corporate governance and risk management. The committee considers what has been achieved for each indicator, relative to both the annual business plan and the longer-term strategy.

Levels of bonus award therefore reflect actual performance relative to both annual and longer-term expectations. The financial results achieved in any one year are a reflection of the delivery of our long-term strategy. This year's remuneration report provides additional information about the key performance indicators and performance assessment used for determining bonus awards.

Following two consecutive years in which there have been no increases in base salary for executive directors, the committee has decided to award an increase of approximately 1% with effect from 1 January 2014, which is below the average increase awarded to other colleagues.

I do hope that you will feel able to support the remuneration resolutions submitted for approval at the annual general meeting.

Simon Troughton

Simon Troughton
Chairman of the remuneration committee

Directors' remuneration policy

This part of the Directors' remuneration report sets out the remuneration policy for directors of the company. It has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The policy has been developed taking into account the principles of the UK Corporate Governance Code 2012 and the views of our major shareholders. The policy will be put to a binding shareholder vote at the January 2014 AGM, and, if approved, will take formal effect from the date of the AGM.

Policy Overview

The remuneration committee determines, on behalf of the Board, the Group's policy on the remuneration of the Chairman, executive directors and other senior executives. The committee's terms of reference are available on the Group's website.

In setting the remuneration policy for the executive directors, the committee takes into account the following:

- the need to attract, retain and motivate talented executive directors and senior management;
- internal pay and benefits practice and employment conditions both within the Group as a whole and within the particular geographic regions in which the Group operates;
- external comparisons to examine current market trends and practices and equivalent roles in similar companies taking into account their size, business complexity, international scope and relative performance; and
- alignment of remuneration policy with the interests of shareholders.

How the views of shareholders are taken into account

The remuneration committee chairman engages pro-actively and regularly with major shareholders and shareholder representatives. The committee considers shareholder feedback received as part of its annual review of remuneration policy.

If any material changes to the remuneration policy are contemplated, the remuneration committee chairman consults with major shareholders about these in advance.

Details of votes cast for and against the resolution to approve last year's remuneration report are provided in the annual report on remuneration section of this report.

Considerations elsewhere in the Group

The Group applies a consistent remuneration philosophy for colleagues at all levels. Base salaries are targeted around the median of the relevant markets in which the Group competes for talent. All colleagues are eligible for performance-related annual bonus, and the principle of bonus deferral applies to all annual bonuses above a minimum threshold. Rates of pension contribution and fringe benefit provisions are consistent between executives and other employees within each country where the Group operates. The committee considers the base salary percentage increases for the Group's broader UK and international employee populations when determining any increases for the executive directors.

The committee has not conducted a specific employee consultation exercise on the directors' remuneration policy. However, the Group consults with its employees on general employment policies in a range of ways, including formal consultation forums in some countries where it operates. Colleagues are encouraged to provide feedback directly to their line managers or to the Human Resources team. The remuneration committee monitors the effectiveness of the Group's remuneration policy in recruiting, retaining, engaging and motivating colleagues, and receives regular feedback from the Group Head of Human Resources on how the Group's remuneration policies are perceived by colleagues and whether they continue to meet business needs.

The committee does not seek to apply fixed ratios between pay levels of different roles in the Group, as this would restrict flexibility in aligning reward and achievement, and potentially create barriers to recruiting and retaining the necessary talent in a highly competitive employment market.

Future policy table

The following table summarises the key elements of the Group's remuneration policy for executive directors.

Element, purpose and link to strategy	Operation, performance measures, deferral and clawback
Base salary **(Fixed pay)** To pay a fair salary, commensurate with the individual's role, responsibilities and experience, and having regard to the market rates for similar roles in the asset management sector and other comparable companies.	Reviewed annually, taking account of market salary levels, Group performance, individual performance, changes in responsibility and levels of increase for the broader employee population. Reference is made to mid-market levels within relevant FTSE and industry comparators. The committee considers the impact of any base salary increase on the total remuneration package.
Benefits **(Fixed pay)** To provide cost-effective fringe benefits and to support the wellbeing of employees.	The Group currently provides a range of fringe benefits such as: medical insurance; disability insurance; life insurance; paid holiday; and international benefits assistance where appropriate. Specific benefits provision may be subject to minor change from time to time, within this policy.
Pension **(Fixed pay)** To provide market competitive defined contribution pension arrangements, to assist with recruitment and retention.	Employer contributions are made to appropriate defined contribution pension arrangements or equivalent cash allowances are paid, subject to normal practice in the relevant country. Legacy defined benefit plans from corporate acquisitions, are closed to all future accrual at the earliest reasonable opportunity.
Annual bonus **(Variable pay)** To reward performance and align executives' interests to those of shareholders'.	Bonus awards to executive directors are made from the Group's aggregate bonus pool in which all staff participate and which is approved by the remuneration committee each year. The aggregate pool is normally capped at no more than 25% of pre-bonus operating profit, unless exceptional circumstances justify a higher cap. Executive bonus awards, paid from this pool, take account of the Group's key financial performance indicators for the relevant financial year such as underlying profit before tax, underlying earnings per share, operating margin, cash conversion, ROCE, corporate governance and risk management. Details of the performance indicators for the most recent financial year and performance against them are provided in the annual report on remuneration. Similar indicators have been applied for the forthcoming year and we will report on the outcomes against these measures in the 2014 report. 75% of any bonus earned is paid in Company shares which are released to executive directors in equal tranches over not less than four years. An amount equivalent to the dividends due on the shares is paid to participants only after the earliest vesting date has passed.
Clawback To ensure that bonus awards do not encourage excessive risk.	A clawback principle applies to the bonus plan. This enables the committee to seek to recoup annual bonus in the exceptional event of: misstatement or misleading representation of performance; a significant failure of risk management and control; or serious misconduct of an individual.
Share ownership	Executive directors are required to build up a substantial interest in company shares. The current requirements are set out in the annual report on remuneration.
Employment contracts, and loss of office To facilitate recruitment and retention, and support pay for performance, by providing fair but not excessive contract features.	Notice periods from the company are normally limited to 12 months, unless there are exceptional reasons for a longer period of notice during a temporary transition period. Deferred bonus awards normally lapse on cessation of employment unless 'good leaver' status applies under the relevant plan rules.
New executive director appointments To facilitate recruitment of necessary talent.	Remuneration for new appointments will be set in accordance with the policy detailed in this table. Where necessary, the committee may offer additional remuneration, such as shares or cash-based awards, to replace remuneration the individual has foregone in order to be able to join the company.

Maximum opportunity

There is no prescribed maximum salary or maximum rate of increase. The committee is guided by the general increase for the broader employee population but on occasions may need to recognise, for example, development in role, change in responsibility, specific retention issues, market practice or changes in regulatory requirements.

Details of the outcome of the most recent salary review are provided in the annual report on remuneration.

Fringe benefits are not subject to a specific cap, but represent only a small element of total remuneration. The costs associated with benefits provision are closely monitored and controlled.

Company contribution of up to 20% of base salary, or equivalent cash allowance in lieu.

The aggregate bonus pool for all employees including executives is capped. The policy is not to cap individual bonus awards (other than indirectly through the impact of the aggregate pool cap) as this is not market practice for most of the Group's peers and would risk placing the Group at a competitive disadvantage.

The high proportion of bonus deferral (75%) vesting over 4 years, clawback arrangements, and risk controls incorporated in the Group's team-based investment process, ensure that the uncapped individual incentive opportunity encourages both excellent performance and prudent management of risk.

The committee will consider, where appropriate, the use of tax-approved share plans, to be applied to all employees on similar terms, where these are consistent with the Group's overall remuneration policy.

The committee has the discretion to determine the amount of any award which it seeks to clawback.

Any severance payment in lieu of notice is capped at an amount equivalent to the remuneration the executive director would otherwise have been eligible to receive had they been permitted to work the notice period.

Choice of performance measures and how performance expectations are set

The annual bonus is based on a range of key performance indicators (KPIs) linked to the Group's strategy, which provides a rounded assessment of the Group's performance. The remuneration committee reviews the KPIs each year, to ensure that they continue to reflect the priorities of the business.

The main emphasis is on financial metrics such as underlying profit before tax, underlying earnings per share, operating margin, cash conversion and ROCE. These KPIs are used because: they support value creation for shareholders; are a good indication of the strong operational disciplines in place; and, most importantly, reflect the Group's primary imperative to look after our clients.

The committee considers what has been achieved for each KPI, relative to both the annual business plan and the longer-term strategy. Levels of bonus award therefore reflect actual performance relative to both annual and longer-term expectations. The progress on financial results achieved in any one year are a reflection of the delivery of our long-term strategy.

Differences in remuneration policy for executive directors compared to other employees

The remuneration approach for the executive directors is broadly consistent with that for employees across the Group as a whole. However, there are some differences which the committee believes are necessary to reflect the different responsibilities of employees across the Group:

- Below executive director level, whilst the same 75% bonus deferral policy applies, individuals are permitted to elect to receive up to half of the deferred amount in the form of investment in funds managed by Aberdeen; the balance of the deferred amount is delivered in Aberdeen shares.
- For executive directors and the other members of the Group management board the 75% deferred portion of annual bonus vests over not less than four years in equal tranches on the 1st, 2nd, 3rd and 4th anniversaries of the award. For employees below this level, the 75% deferred portion currently vests in equal tranches over three years on the 1st, 2nd, and 3rd anniversaries of the award.

External non-executive director positions

Executive directors are permitted to accept a limited number of directorships outside the Group, recognising that this can assist in their personal development. All such appointments are subject to approval in advance by the Board. Where the appointment is accepted in furtherance of the Group's business, any fees received are remitted to the Group. If the appointment is not connected to the Group's business, the director is permitted to retain any fees received. Details of outside directorships held by the executive directors and any fees that they received are provided in the annual report on remuneration.

Approach to remuneration for new executive director appointments

The remuneration package for a newly appointed executive director is set in accordance with the terms of the Group's approved remuneration policy in force at the time of appointment. The variable remuneration for a new executive director is determined in the same way as for existing executive directors, and is subject to the maximum limit on aggregate variable pay referred to in the policy table above.

The committee may also offer additional cash and/or share-based elements when it considers these to be in the best interests of the Group and shareholders, to replace variable remuneration awards or arrangements that an individual has foregone in order to join the Group. Any such payments would take account of the details of the remuneration foregone, including the nature, vesting dates and any performance requirements attached to that remuneration.

For external and internal appointments, the Group may meet certain relocation expenses as appropriate.

Service contracts and loss of office payment policy

The remuneration committee periodically reviews the contractual terms for new executive directors to ensure that these reflect best practice.

Service contracts normally continue until the director's agreed retirement date or such other date as the parties agree. The service contracts contain a provision for early termination. Notice periods are limited to 12 months.

If the employing company terminates the employment of an executive director without giving the period of notice required under the contract, then the executive director is entitled to receive up to one year's remuneration in recompense. This compensation is limited to: base salary due for any unexpired notice period; any amount assessed by the committee as representing the value of other contractual benefits, and pension, which would have been received during the period; and any annual bonus to which the director might otherwise have been eligible to receive had they been permitted to serve their notice, subject to the committee's assessment of Group and personal performance.

The directors' contracts also provide for termination on three months' notice if, in the opinion of the Board and having given the director adequate opportunity to improve, the director has failed to perform at a satisfactory standard. In such a case, the directors' contracts do not provide for any liquidated damages to be paid.

In summary, the contractual provisions are as follows:

Provision	Detailed terms
Notice period	12 months
Termination payment in the event of termination by the Company without due notice	Base salary plus value of benefits (including pension). Eligible for annual bonus (subject to Group and personal performance) to which the director might otherwise have been eligible to receive had they been permitted to serve their notice.

Any share-based entitlements granted to an executive director under the Group's share plans will be determined based on the relevant plan rules. The default treatment is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, disability, redundancy, retirement or other circumstances at the discretion of the committee (taking into account the individual's performance and the reasons for their departure) 'good leaver' status can be applied.

A director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct.

Legacy arrangements

For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to honour any commitments entered into with current or former directors (such as the payment of a pension or the unwind of legacy share schemes) that have been disclosed to shareholders in previous remuneration reports. Details of any such payments will be set out in the annual report on remuneration as they arise.

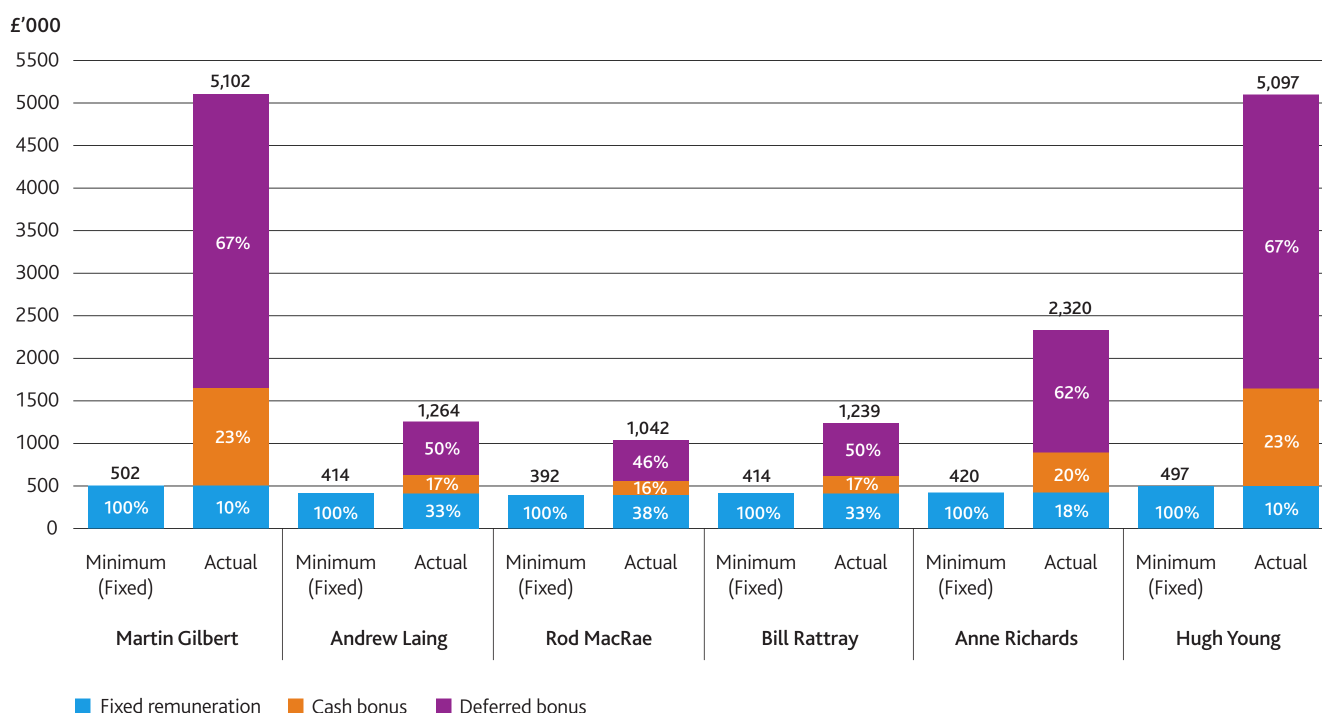
Reward scenarios

The Group's policy results in the majority of the remuneration received by executive directors being dependent on Group performance.

The table below illustrates the minimum (fixed) remuneration, and provides an indication of the total remuneration for a year of good performance using the annual bonus figures for the year ending 30 September 2013 and the base salaries effective 1 January 2014. As the Group's policy is not to cap individual variable pay, a maximum total remuneration figure is not shown in the chart.

It also shows the weighting of the main remuneration components for executive directors. As the chart indicates, performance-related remuneration represents between 62% and 90% of the total, and three-quarters of the performance-related remuneration is delivered in Aberdeen shares.

Relative sizes of remuneration components



Fees policy for the Board Chairman and other non-executive directors

Element	Purpose and link to strategy	Operation	Maximum
Board Chairman fee	To attract and retain a high-calibre Board Chairman by offering a market competitive fee level.	The Board Chairman is paid a single fee for all his responsibilities. The level of the fee is reviewed, periodically by the remuneration committee, with reference to market levels in comparably sized FTSE companies, and a recommendation is then made to the Board (without the Chairman being present).	The current fee for the Chairman is £300,000, but is subject to change periodically by the committee under this policy. There is no maximum fee level.
Non-executive director fees	To attract and retain high-calibre non-executive directors by offering a market competitive fee level.	The non-executives are paid a basic fee. The committee chairmen and other members of the Board committees (audit, remuneration, risk, and nominations) and the Senior Independent Director are paid supplements to reflect the additional responsibilities. The fee levels are reviewed periodically by the Chairman and executive directors, with reference to market levels in comparably sized FTSE companies and a recommendation is then made to the Board.	The current basic fee is £60,000 with a supplement of £30,000 for each of the chairmen of the audit, remuneration and risk committees and a supplement of £20,000 for the Senior Independent Director. There is also currently a supplement of £12,000 for other members of the audit, remuneration and risk committees, and £5,000 for members of the nominations committee. These fee levels are subject to change periodically under this policy. There is no maximum fee level.

Non-executive directors are engaged under letters of appointment and they do not have contracts of service. The appointment will normally terminate on:

i) a director choosing to resign voluntarily; or

ii) a director being prohibited from serving by law, bankruptcy or illness; or

iii) annually, if the nominations committee does not approve the extension of the appointment; or

iv) a director being found guilty of misconduct; or

v) a director not being re-elected by the shareholders following retirement by rotation at an Annual General Meeting.

No fee is paid to non-executive directors appointed to represent a major shareholder.

Compliance with the FCA Remuneration Code

The committee regularly reviews its remuneration policies to ensure compliance with the principles of the Remuneration Code of the UK financial services regulator, as applicable to Aberdeen. The remuneration policy is designed to be consistent with the prudent management of risk, and the sustained, long-term performance of the Group. The Group Head of Risk is involved in reviewing the remuneration policy and practice to ensure that it is aligned with sound risk management, and keeps the Committee informed of Aberdeen's risk profile so that this can be taken into account in remuneration decisions.

Annual report on remuneration

This part of the report has been prepared in accordance with Part 3 of Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and relevant sections of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2014 AGM. The information on pages 71 to 78 has been audited where required under the regulations and indicated as audited information where applicable.

Directors' remuneration as a single figure (audited information)

The remuneration of the directors for 2012 and 2013 was as follows:

Year to 30 September 2013	Salary & fees £'000	Taxable benefit £'000	Annual bonus £'000	Pension £'000	Total £'000
Martin Gilbert	500	2	4,600	–	5,102
Andrew Laing	350	2	850	62	1,264
Rod MacRae	325	2	650	65	1,042
Bill Rattray	350	2	825	62	1,239
Anne Richards	350	2	1,900	68	2,320
Hugh Young	352	145	4,600	–	5,097
	2,227	155	13,425	257	16,064
Roger Cornick	285	–	–	–	285
Julie Chakraverty	81	–	–	–	81
Anita Frew	115	–	–	–	115
Richard Mully	96	–	–	–	96
Jim Pettigrew	97	–	–	–	97
Jutta af Rosenborg	51	–	–	–	51
Simon Troughton	101	–	–	–	101
Giles Weaver	28	–	–	–	28
	854	–	–	–	854
	3,081	155	13,425	257	16,918

Year to 30 September 2012	Salary & fees £'000	Taxable benefit £'000	Annual bonus £'000	Pension £'000	Total £'000
Martin Gilbert	500	1	4,000	–	4,501
Andrew Laing	350	2	775	62	1,189
Bill Rattray	350	1	750	62	1,163
Anne Richards	350	1	1,700	66	2,117
Hugh Young	347	131	4,000	–	4,478
	1,897	136	11,225	190	13,448
Roger Cornick	230	–	–	–	230
Julie Chakraverty	61	–	–	–	61
Anita Frew	93	–	–	–	93
Richard Mully	28	–	–	–	28
Jim Pettigrew	80	–	–	–	80
Malcolm Rifkind	19	–	–	–	19
Simon Troughton	81	–	–	–	81
Giles Weaver	89	–	–	–	89
	681	–	–	–	681
	2,578	136	11,225	190	14,129

Annual bonus for the year to 30 September 2013

Annual bonus awards for the year under review were based on performance against a range of objectives. The relevant performance indicators and the committee's assessment of performance are shown in the table:

Key	
Above target	✓✓✓
Around target	✓✓
Between threshold and target	✓
Below threshold	↓

	Growth in underlying diluted EPS	Operating margin	ROCE	Cash conversion	Overall assessment
Results	43.6%	45.4%	27.5%	108%	
Remuneration Committee's assessment	✓✓✓	✓✓✓	✓✓✓	✓✓	✓✓✓

Excellent financial results were achieved across the key metrics. This continues a sustained period of strong performance shown in the table below.

For additional information, the history of performance outcomes against financial metrics for the last five years is as follows:

KPI	**2013**	2012	2011	2010	2009
Change in underlying PBT	**+38.8%**	+15.2%	+43.8%	+146.8%	-10.5%
Change in underlying EPS (diluted)	**+43.6%**	+20.9%	+40.6%	+111.1%	-30.0%
Operating margin	**45.4%**	40.6%	39.5%	34.8%	22.7%
Conversion of operating profit to cash flow	**108%**	119%	129%	115%	83%
Net new business	**-£2.5bn**	£0.0bn	-£1.7bn	+£2.6bn	-£10.7bn

The resulting bonuses for year ending 30 September 2013 were as follows:

Individual	Cash £'000	Deferred £'000	Total £'000
Martin Gilbert	1,150	3,450	4,600
Hugh Young	1,150	3,450	4,600
Anne Richards	475	1,425	1,900
Andrew Laing	213	637	850
Bill Rattray	206	619	825
Rod MacRae	163	487	650

The bonus is paid 25% in cash and 75% in shares. The shares vest to executives over four years in equal instalments, subject to continued employment with the Company. Both the cash and share element of the bonus is subject to clawback.

Outstanding share awards

The table below sets out details of executive directors' outstanding share awards (which will vest in future years subject to continued service).

Outstanding Share Awards

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

	Interest at 1 October 2012	Awarded during year	Exercised in year	Issue price	Interest at 30 September 2013	Earliest vesting dates[1]
Martin Gilbert	799,331	–	–	164.2p	**799,331**	Vested
	1,207,444	–	–	84.2p	**1,207,444**	Vested
	817,668	–	–	139.9p	**817,668**	Vested
	921,788	–	–	179.0p	**921,788**	Vested
	460,894	–	–	179.0p	**460,894**	Dec 2013
	502,261	–	–	199.1p	**502,261**	Vested
	1,004,522	–	–	199.1p	**1,004,522**	Dec 2013 & 2014
	–	899,824	–	333.4p	**899,824**	Dec 2013, 2014, 2015 & 2016
Andrew Laing	83,740	–	–	164.2p	**83,740**	Vested
	158,354	–	–	84.2p	**158,354**	Vested
	114,384	–	–	139.9p	**114,384**	Vested
	188,548	–	–	179.0p	**188,548**	Vested
	94,274	–	–	179.0p	**94,274**	Dec 2013
	97,313	–	–	199.1p	**97,313**	Vested
	194,626	–	–	199.1p	**194,626**	Dec 2013 & 2014
	–	174,344	–	333.4p	**174,344**	Dec 2013, 2014, 2015 & 2016
Bill Rattray	83,740	–	–	164.2p	**83,740**	Vested
	158,354	–	–	84.2p	**158,354**	Vested
	107,235	–	–	139.9p	**107,235**	Vested
	181,564	–	–	179.0p	**181,564**	Vested
	90,782	–	–	179.0p	**90,782**	Dec 2013
	94,174	–	–	199.1p	**94,174**	Vested
	188,348	–	–	199.1p	**188,348**	Dec 2013 & 2014
	–	168,720	–	333.4p	**168,720**	Dec 2013, 2014, 2015 & 2016
Anne Richards	253,366	–	(253,366)	84.2p	**–**	–
	305,026	–	(305,026)	139.9p	**–**	–
	335,196	–	(335,196)	179.0p	**–**	–
	167,598	–	–	179.0p	**167,598**	Dec 2013
	213,461	–	(213,461)	199.1p	**–**	–
	426,922	–	–	199.1p	**426,922**	Dec 2013 & 2014
	–	382,424	–	333.4p	**382,424**	Dec 2013, 2014, 2015 & 2016

Corporate governance

	Interest at 1 October 2012	Awarded during year	Exercised in year	Issue price	Interest at 30 September 2013	Earliest vesting dates[1]
Hugh Young	393,249	–	(393,249)	139.9p	–	–
	421,457	–	(421,457)	179.0p	–	–
	421,457	–	–	179.0p	**421,457**	Dec 2013
	502,261	–	(502,261)	199.1p	–	–
	1,004,522	–	–	199.1p	**1,004,522**	Dec 2013 & 2014
	–	899,824	–	333.4p	**899,824**	Dec 2013, 2014, 2015 & 2016
Rod MacRae	50,235	–	(50,235)	139.9p	–	–
	69,833	–	(69,833)	179.0p	–	–
	69,833	–	–	179.0p	**69,833**	Dec 2013
	56,923	–	(56,923)	199.1p	–	–
	113,846	–	–	199.1p	**113,846**	Dec 2013 & 2014
	–	134,976	–	333.4p	**134,976**	Dec 2013, 2014, 2015 & 2016

[1] Awards stated as having vested have reached the earliest vesting dates set at the date of award; as such, the participant can exercise his or her right to require formal vesting at any time without restriction.

Directors' interests in share options (audited information)

	Date of grant	2012	Exercised in year	Market price on exercise	2013	Exercise price	Earliest exercise	Latest exercise	Status of performance
Martin Gilbert	23.01.84	413,000	–	–	**413,000**	59p	Jan 2007	Jan 2014	Achieved
Andrew Laing	11.06.03	89,000	(89,000)	338.0p	–	42p	Jun 2006	Jun 2013	Achieved
	23.01.04	89,000	(89,000)	338.0p	–	59p	Jan 2007	Jan 2014	Achieved
Bill Rattray	23.01.04	144,000	(144,000)	338.0p	–	59p	Jan 2007	Jan 2014	Achieved
Hugh Young	17.06.08	150,000	(150,000)	338.0p	–	130.25p	Jun 2012	Jun 2018	Achieved
	17.06.08	150,000	(150,000)	338.0p	–	130.25p	Jun 2013	Jun 2018	Achieved
Anne Richards	17.06.08	150,000	(150,000)	338.0p	–	130.25p	Jun 2011	Jun 2018	Achieved
	17.06.08	150,000	(150,000)	338.0p	–	130.25p	Jun 2012	Jun 2018	Achieved
	17.06.08	150,000	(150,000)	407.6p	–	130.25p	Jun 2013	Jun 2018	Achieved
Rod MacRae	17.06.08	116,666	–	–	**116,666**	130.25p	Jun 2013	Jun 2018	Achieved

Directors' share interests (audited information)

Details of the directors' interests in shares are shown in the table below. As set out in the policy report, the executive directors are required to build up a shareholding equivalent to at least 300% of salary, including vested deferred bonus shares. The Board Chairman and non-executive directors are encouraged to hold shares in the Company but are not subject to a formal shareholding guideline.

2013	Held on main register	Deferred awards - vested	Total unrestricted	Deferred awards – unvested	Share options	Total	Unrestricted as percentage of base salary
Martin Gilbert	122,233	4,248,492	4,370,725	2,365,240	413,000	7,148,965	3,310%
Andrew Laing	612,430	642,339	1,254,769	463,244	–	1,718,013	1,357%
Rod MacRae	32,028	–	32,028	318,655	116,666	467,349	37%
Bill Rattray	2,298,792	625,067	2,923,859	447,850	–	3,371,709	3,163%
Anne Richards	554,095	–	554,095	976,944	–	1,531,039	599%
Hugh Young	450,000	–	450,000	2,325,803	–	2,775,803	484%
Roger Cornick	111,000	–	–	–	–	–	–
Simon Troughton	40,000	–	–	–	–	–	–
Anita Frew	37,500	–	–	–	–	–	–
Jim Pettigrew	25,000	–	–	–	–	–	–
Julie Chakraverty	–	–	–	–	–	–	–
Richard Mully	–	–	–	–	–	–	–
Jutta af Rosenborg	–	–	–	–	–	–	–
Akira Suzuki	–	–	–	–	–	–	–
2012							
Martin Gilbert	2,267,508	3,012,781	5,280,289	2,701,137	413,000	8,394,426	3285%
Andrew Laing	669,622	412,624	1,082,246	518,615	–	1,600,861	962%
Bill Rattray	2,208,409	404,367	2,612,776	499,831	–	3,112,607	2322%
Anne Richards	890,639	573,477	1,464,116	1,128,092	–	2,592,208	1301%
Hugh Young	150,000	–	150,000	2,742,946	–	2,892,946	134%
Giles Weaver	112,173	–	–	–	–	–	–
Roger Cornick	111,000	–	–	–	–	–	–
Simon Troughton	40,000	–	–	–	–	–	–
Anita Frew	37,500	–	–	–	–	–	–
Jim Pettigrew	25,000	–	–	–	–	–	–
Sir Malcolm Rifkind	17,500	–	–	–	–	–	–
Julie Chakraverty	–	–	–	–	–	–	–
Richard Mully	–	–	–	–	–	–	–
Kenichi Miyanaga	–	–	–	–	–	–	–

The directors are not permitted to hold their shares in hedging arrangements or as collateral for loans without the express permission of the Board. No director has entered into any such arrangements.

There have been no other changes to the directors' holdings between 30 September 2013 and 22 November 2013.

Percentage change in the remuneration of the Chief Executive

The following table shows the percentage change in the base salary, benefits and annual bonus of the Chief Executive between the current and previous financial year compared to the average for all employees of the Group.

% change in:	Chief Executive	Average for all employees
Base salary	No change	+4%
Benefits	No change	No change
Total annual bonus	+15%	+11%

Review of basic salaries

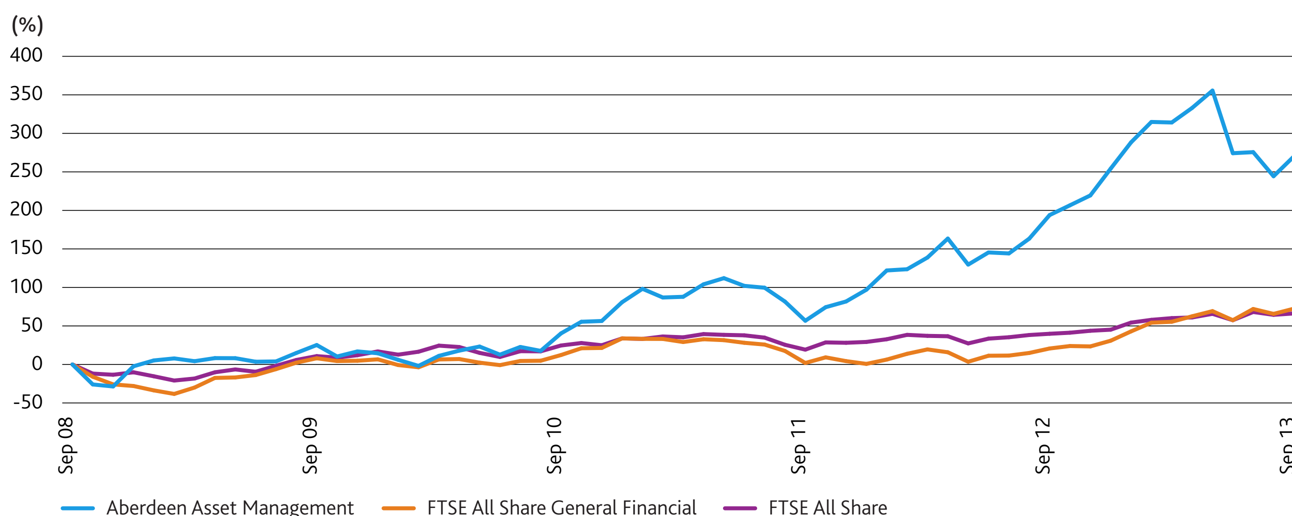
The executive directors' salaries have been reviewed by the committee, and, following two successive years without change, a salary increase of 1% will take effect from 1 January 2014. The average rate of salary increase awarded to all staff, other than directors, is 4%.

Base salary changes for the executive directors

	Current salary £'000	Salary from January 2014 £'000	Increase
Martin Gilbert	500	506	+1.2%
Andrew Laing	350	355	+1.4%
Rod MacRae	350	355	+1.4%
Bill Rattray	350	355	+1.4%
Anne Richards	350	355	+1.4%
Hugh Young	350	355	+1.4%

Total shareholder return

The graph below shows the Company's TSR performance (with dividends re-invested) against the performance of the FTSE All Share and the FTSE All Share Financial Services indices for the last 5 years. As the chart indicates, Aberdeen's TSR of 270% for the five year period was substantially above the two comparator indices.



Source: Thomson Reuters

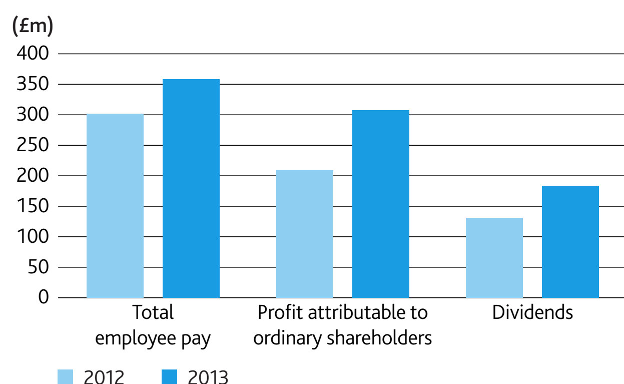
Total remuneration of Chief Executive

The total remuneration of the Chief Executive for each of the financial years shown in the TSR graph is shown in the following table. The total remuneration figure includes the annual bonus and LTIP awards which vested based on performance in each year. The LTIP vesting figures show the payout for each year as a percentage of the maximum. As there is no cap on the maximum individual bonus award, a percentage of maximum annual bonus is not shown.

	Year ending 30 September				
	2009	2010	2011	2012	**2013**
Total remuneration (£'000)	1,925	3,751	4,501	4,728	**5,102**
LTIP vesting (%)	0%	85%	100%	100%	**N/A**

Relative importance of the spend on pay

The following table shows the year–on-year movement in total remuneration of all employees, compared to the increase in dividends paid and declared on ordinary shares.



Implementation of remuneration policy in the year commencing 1 October 2013

The committee intends to continue to apply broadly the same key performance metrics as in the previous year and to assess performance taking account of strategic and annual expectations for the company.

Meetings and attendance

The remuneration committee is chaired by Simon Troughton, and he is supported by the two independent non-executive directors, Anita Frew and Richard Mully. Richard Mully joined the committee on 11 October 2012 and Giles Weaver served on the committee until his retirement in January 2013. All other members served on the committee throughout the year.

The committee operates under formal terms of reference which are reviewed annually and held six meetings during the year. There was full attendance at all meetings by members, as shown in the table:

	Maximum possible attendance	Meetings attended
Simon Troughton	6	6
Anita Frew	6	6
Richard Mully	5	5
Giles Weaver	3	3

The Chief Executive attends the meeting by invitation and assists the committee in its deliberations, except when his personal remuneration is discussed. No directors are involved in deciding their own remuneration. The committee also received advice from the Group Head of HR. The Company Secretary acts as Secretary to the committee.

External advisors

The remuneration committee receives independent advice from New Bridge Street (NBS) consultants. NBS abides by the Remuneration Consultants' Code of Conduct, which requires it to provide objective and impartial advice. NBS has appointed by the committed and does not provide other services to the Group. Total fees charged by NBS for the year were £65,000.

External directorships

The table below sets out details of the external directorships held by the executive directors and any fees that they received in respect of their services during the year.

The Group earned fees of £23,000 for Martin Gilbert's services as a non-executive director of one Aberdeen-managed company and £62,000 for Hugh Young's services as a non-executive director of three Aberdeen-managed companies. Martin Gilbert earned and retained fees as non-executive chairman of FirstGroup plc and as a non-executive director of British Sky Broadcasting plc. Anne Richards earned and retained fees for being a non-executive director of esure Group plc and for being a member of the Council of the Duchy of Lancaster. Hugh Young earned and retained fees for being a member of the Singapore Exchange Disciplinary and Appeals panels.

	Position	2013	2012
Martin Gilbert	Non-executive chairman, FirstGroup plc	**£191,000**	£191,000
	Non-executive director, British Sky Broadcasting plc	**£93,000**	£55,000
Anne Richards	Non-executive director, esure Group plc	**£49,000**	–
	Member of the Council of the Duchy of Lancaster	**£17,000**	£17,000
Hugh Young	Member of the Singapore Exchange panels	**£15,000**	£15,000

Statement of shareholder voting

At the 2013 AGM, shareholder voting on the remuneration report was as follows:

	No of shares	% of votes cast
Votes cast in favour	769.6m	88.6%
Votes cast against	99.1m	11.4%
Total votes cast	868.7m	100.0%
Abstentions	5.3m	–

Approval

This Directors' remuneration report, including both the Directors' Remuneration Policy and the Annual Report on Remuneration has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

Simon Troughton
Chairman of the Remuneration Committee

22 November 2013

Directors' report

The directors have pleasure in submitting their annual report and financial statements for the year to 30 September 2013.

Principal activity and business review

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

- Chairman's statement on pages 6 to 8
- Strategic report on pages 16 to 47

Financial

The results for the year are shown in the Group income statement on page 91.

An interim ordinary dividend of 6.0p per share was paid on 13 June 2013. The directors recommend a final ordinary dividend of 10.0p per share, making a total of 16.0p per share for the year to 30 September 2013.

The proposed final dividend, if approved, will be paid on 24 January 2014 to shareholders on the register at the close of business on 6 December 2013. Coupon payments of £20.5 million in total have been paid on the 7.9% perpetual capital securities before their redemption in May 2013, and on the 7.0% perpetual cumulative capital notes since their issue in March 2013.

Directors

The names and biographical details of the present directors of the Company are given on pages 50 to 53. Rod MacRae was appointed on 1 October 2012, Jutta af Rosenborg was appointed on 18 January 2013 and Akira Suzuki was appointed on 29 August 2013. All will stand for election at the 2014 Annual General Meeting. Giles Weaver retired as a director on 17 January 2013 and Kenichi Miyanaga stepped down from the Board on 29 August 2013. All other directors, who served throughout the year, will retire and, being eligible, offer themselves for re-election. Directors' interests in the share capital and equity of the Company at the year end are contained in the remuneration report on page 75.

Substantial interests

At 22 November 2013, the Company has been notified of the following interests, other than the directors', of 3% or more in the ordinary shares:

	Number	% of class
Mitsubishi UFJ Trust & Banking Corporation	226,032,919	18.8%
Appleby Trust Jersey Limited	53,894,669	4.5%

Share capital

Details of changes in share capital are set out in note 21 of the financial statements. The authority for the Company to purchase, in the market, up to 118,614,792 of its ordinary shares, representing approximately 10% of its issued ordinary share capital, expires at the forthcoming Annual General Meeting. This authority was not required during the year; however, at the forthcoming Annual General Meeting, shareholders will be asked to renew such authority for a further year.

Corporate governance

A report on corporate governance and compliance with the provisions of the UK Corporate Governance Code, which forms part of this Directors' report, is set out on pages 56 to 58.

Report on Greenhouse gas emissions

Details of the Group's emissions are contained in the corporate responsibility report contained on pages 46 to 47.

Going concern

The strategic review discusses the Group's business activities, together with the factors likely to affect its future development, performance and position and sets out the financial position of the Group, its cash flows and liquidity. Note 30 of the financial statements sets out the Group's objectives, policies and processes for managing capital and its financial risk management objectives, together with details of financial instruments and exposure to credit risk and liquidity risk.

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

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

Acquisition of shares by the employee benefit trust

During the year, the Employee Benefit Trust, funded by the Company, purchased 36,610,766 ordinary shares in the Company, which have an aggregate nominal value of 10p each, for a consideration of £138.9 million. The shares were purchased in order to hedge the Group's future commitment in relation to the vesting of awards under the Group's deferred share award scheme.

Directors' indemnities

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

Audit information

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

Political donations

It is the Group's policy not to make donations for political purposes.

2014 Annual General Meeting

A separate document, the Notice of Annual General Meeting 2014, covering the Annual General Meeting of the Company to be held on 16 January 2014 at noon, will be sent or made available to all shareholders and will contain an explanation of the business before that meeting.

Electronic proxy voting

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

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

Copies of the 2013 annual report and financial statements, the notice of Annual General Meeting, other corporate publications, press releases and announcements are available on the Group's website at aberdeen-asset.com. Shareholders are encouraged to take advantage of the provisions allowing the Group to deliver notices of meetings and associated documentation electronically by email, or via the Group's investor relations webpages at **aberdeen-asset.com/investorrelations**.

Company Information

The Company is registered in Scotland (No. 82015) and its Registered Office is located at 10 Queen's Terrace, Aberdeen, AB10 1YG.

By order of the Board

Scott E Massie
Secretary
10 Queen's Terrace
Aberdeen AB10 1YG

22 November 2013

Directors' responsibilities

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

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Company financial statements on the same basis.

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

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

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

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

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

R C Cornick
Chairman

22 November 2013

Financial statements

2013 is another year of profitable growth. Net revenue for the year of £1,078.5 million was 24.1% higher than in 2012.

Underlying profit after tax increased by 41.6% to £403.6 million and statutory profit after tax increased by 47.0% to £328.8 million.

Total equity at 30 September is £1,504.0 million (2012: £1,300.5 million) and closing net cash is £426.6 million (2012: £266.4 million).

43.8%

Underlying diluted EPS increased by 43.8% to 32.5p. We aim to grow our revenues while maintaining an efficient capital structure for the benefit of our shareholders.

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Accounting policies

Basis of preparation

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards endorsed by the EU.

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

In publishing these financial statements, the Company is taking advantage of the exemption provided by section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of the approved financial statements.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is included in the Directors' report on page 80.

Accounting estimates and judgements

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

a) Impairment testing of goodwill and intangible assets – note 12;

b) Business combinations – note 13;

c) Bonus and share-based payments – note 22; and

d) Provisions - note 27.

Standards not affecting the reported results nor the financial position

The following amended International Accounting Standard (IAS) has been adopted in the current year. Its adoption has not had any significant impact on amounts reported in these financial statements. The amendment requires grouping of items presented in other comprehensive income based on whether or not they will be reclassified to profit or loss in future.

		Effective date
Amendment to IAS 1	*Presentation of Items of Other Comprehensive Income*	1 July 2012

New standards and interpretations not applied

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

Endorsed by the EU and available for early adoption:

		Effective date (periods commencing on or after 1 January 2013)
IFRS 10 (May 2011)	*Consolidated financial statements*	1 January 2013
IFRS 11 (May 2011)	*Joint arrangements*	1 January 2013
IFRS 12 (May 2011)	*Disclosure of Interest in Other Entities*	1 January 2013
IFRS 13 (May 2011)	*Fair Value Measurement*	1 January 2013
IAS 19 (June 2011)	*Employee Benefits (amended)*	1 January 2013
Amendments to IFRS 10, 11 and 12 (December 2011)	*Transition guidance*	1 January 2013
Amendments to IFRS 7 (December 2011)	*Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to IAS 32 (December 2011)	*Offsetting financial assets and financial liabilities*	1 January 2014
Annual Improvements 2011 (May 2012)	*Improvements to IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34*	1 January 2013

Standards and interpretations not endorsed:

IFRS 9 (October 2010)	*Financial Instruments: Classification and Measurement*	1 January 2015

The adoption of the accounting standards endorsed but not yet applied are not expected to have a material impact on the Group's results but will result in additional disclosures.

IAS 19 Employee Benefits replaces interest costs and expected return on plan assets with a net interest cost calculated by applying a discount rate to the net defined benefit asset or liability. The adoption of this standard is not expected to have a material impact on the results of the Group.

IFRS 10 may require the consolidation of more funds which are managed by the Group. This will require the grossing up of the Group's assets and liabilities, however, it is not expected to impact operating profit or profit before tax and it will not impact net assets.

IFRS 12 is not expected to impact the Group results, but will require increased disclosure where the Group has an interest in the funds it manages.

Basis of consolidation

The consolidated financial information contained within these financial statements incorporates the results, cash flows and financial position of the Company and its subsidiaries for the period to 30 September 2013. Subsidiaries are entities controlled by the Company and are included from the date that control commences until the date that control ceases. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on a case by case basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a negative balance.

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

Business combinations

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

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

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

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

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

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

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

Revenue

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

Commissions and similar expenses payable to intermediaries are recognised when services are provided.

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

Finance revenue

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

Finance costs

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

Leases

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

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

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

Pension costs

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

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

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

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

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

Other employee benefits

Share-based payments

The Group grants equity-settled and cash-settled (for awards in Aberdeen funds) share-based awards to certain employees. The valuation approach, assumptions and schemes are disclosed in note 22.

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

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

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

Employee Benefits Trust

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

Taxation

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

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

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

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

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

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

Property, plant & equipment

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

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

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

- Heritable property: 50 years;
- Leasehold property: over the period of the lease;
- Property improvements: shorter of five years or the period of the lease;
- Computers, fixtures and fittings: three to ten years; and
- Motor vehicles: four years.

Depreciation is recognised as an expense in the income statement.

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

Intangible assets

Goodwill
Goodwill, representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised in the balance sheet. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses.

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

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

The useful lives of management contracts in respect of certain open end funds, which have no limit of time or termination provisions, are considered to be indefinite and are therefore not subject to amortisation. The indefinite nature of these contracts is re-assessed on an annual basis to ensure that the policy remains appropriate. The Group tests for impairment of these assets annually, or more frequently if there is an indication that the carrying amount may not be recoverable. The recoverable amount is the greater of fair value less costs to sell and value in use. Management contracts in respect of segregated mandates and certain open end funds are considered to have a finite life and are therefore amortised on a straight line basis over their estimated average contract term of between two and ten years, with amortisation charged to the income statement. The useful lives of distribution agreements are determined by the expiry date of the agreement.

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

Impairment

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

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

Impairment losses in respect of goodwill are not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial instruments

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

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

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

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

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

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

- **Non-current assets includes**
  - Other investments designated as available for sale
  - Other investments held at amortised cost

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

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

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

Derivative financial instruments

In limited circumstances, the Group uses derivative financial instruments to hedge its risk associated with foreign exchange movements. Fair value is determined by reference to market values for similar instruments. All changes in the fair value of derivative financial instruments are taken to profit or loss. It is not the Group's policy to trade in derivative instruments.

Cash and cash equivalents

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

Investment contracts

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

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

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

Investments in subsidiaries

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

Equity instruments

Perpetual subordinated capital securities

The 7.0% perpetual cumulative capital notes and the 7.9% perpetual subordinated capital securities are classified as an element of equity as the securities are irredeemable, except at the Company's option, and coupon payments are discretionary. Coupon payments, net of attributable tax, are recognised as distributions within equity.

Dividends

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

Provisions

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

Foreign currencies

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

Transactions in foreign currencies are translated to the functional currency at the exchange rate ruling at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date and any exchange differences arising are taken to the income statement. Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated to the functional currency using the exchange rate at the date of the transaction and so no exchange differences arise. Non-monetary assets and liabilities stated at fair value in a foreign currency are translated at the exchange rate ruling at the balance sheet date.

Where fair value movements in assets and liabilities are reflected in the income statement, the corresponding exchange movements are also recognised in the income statement. Where fair value movements in assets and liabilities are reflected directly in other comprehensive income, the corresponding exchange movements are also recognised directly in other comprehensive income.

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

Group income statement

For the year to 30 September 2013

	Notes	2013 Before amortisation and acquisition costs £m	2013 Amortisation and acquisition costs £m	2013 Total £m	2012 Before amortisation and acquisition costs £m	2012 Amortisation and acquisition costs £m	2012 Total £m
Gross revenue		1,314.8	–	1,314.8	1,048.8	–	1,048.8
Commissions payable		(236.3)	–	(236.3)	(179.6)	–	(179.6)
Net revenue	2	1,078.5	–	1,078.5	869.2	–	869.2
Operating costs		(589.3)	–	(589.3)	(516.5)	–	(516.5)
Amortisation of intangible assets	12	–	(73.2)	(73.2)	–	(78.1)	(78.1)
Acquisition costs	13	–	(19.2)	(19.2)	–	–	–
Operating expenses		(589.3)	(92.4)	(681.7)	(516.5)	(78.1)	(594.6)
Operating profit		489.2	(92.4)	396.8	352.7	(78.1)	274.6
Net finance costs	6	(3.5)	–	(3.5)	(5.1)	–	(5.1)
(Losses) gains on investments	7	(3.0)	–	(3.0)	0.2	–	0.2
Profit before taxation		482.7	(92.4)	390.3	347.8	(78.1)	269.7
Tax expense	8	(79.1)	17.6	(61.5)	(62.7)	16.6	(46.1)
Profit for the year		403.6	(74.8)	328.8	285.1	(61.5)	223.6
Attributable to:							
Equity shareholders of the Company				307.7			208.7
Other equity holders				20.5			14.9
Non-controlling interests				0.6			–
				328.8			223.6
Earnings per share							
Basic	11			27.16p			18.88p
Diluted	11			26.22p			17.55p

Financial statements

Statements of comprehensive income

For the year to 30 September 2013

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Profit for the year	**328.8**	223.6	**315.8**	213.4
Items that will not be reclassified subsequently to profit or loss				
Net actuarial (loss) gain on defined benefit pension schemes	**(9.6)**	0.6	**–**	(1.6)
Tax on net actuarial loss on defined benefit pension schemes	**2.1**	–	**–**	–
	(7.5)	0.6	**–**	(1.6)
Items that may be reclassified subsequently to profit or loss				
Translation of foreign currency net investments	**(11.3)**	(9.2)	**–**	–
Available for sale assets:				
– losses during the period	**–**	(0.7)	**–**	(1.4)
– losses recycled from equity to the income statement	**3.3**	4.6	**1.9**	0.4
Tax on items that may be recycled to profit or loss	**0.3**	(3.4)	**(0.4)**	0.2
	(7.7)	(8.7)	**1.5**	(0.8)
Other comprehensive (expense) income, net of tax	**(15.2)**	(8.1)	**1.5**	(2.4)
Total comprehensive income for the year	**313.6**	215.5	**317.3**	211.0
Attributable to:				
Equity shareholders of the Company	**291.6**	200.6	**296.8**	196.1
Other equity holders	**20.5**	14.9	**20.5**	14.9
Non-controlling interests	**1.5**	–	**–**	–

Balance sheets

30 September 2013

	Notes	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Assets					
Non-current assets					
Intangible assets	12	**1,029.1**	994.1	**59.7**	60.1
Property, plant & equipment	14	**19.7**	19.1	**10.4**	9.4
Other investments	15	**54.5**	53.1	**1,897.9**	1,712.9
Deferred tax assets	16	**23.4**	15.9	**3.7**	3.8
Pension surplus	32	**9.7**	12.9	**–**	–
Trade and other receivables	17	**2.8**	3.6	**37.5**	–
Total non-current assets		**1,139.2**	1,098.7	**2,009.2**	1,786.2
Current assets					
Assets backing investment contract liabilities	18	**2,516.6**	2,311.9	**–**	–
Trade and other receivables	17	**297.4**	254.4	**97.6**	152.3
Other investments	19	**107.8**	58.5	**75.5**	42.7
Cash and cash equivalents	20	**426.6**	347.9	**202.0**	180.5
Total current assets		**3,348.4**	2,972.7	**375.1**	375.5
Total assets		**4,487.6**	4,071.4	**2,384.3**	2,161.7
Equity					
Called up share capital	21	**119.9**	115.1	**119.9**	115.1
Share premium account	23	**898.5**	815.9	**898.5**	815.9
Other reserves	23	**165.8**	209.0	**208.6**	213.3
Retained (loss) profit	23	**(49.1)**	(51.6)	**173.4**	181.4
Total equity attributable to shareholders of the parent		**1,135.1**	1,088.4	**1,400.4**	1,325.7
Non-controlling interest		**47.3**	14.0	**–**	–
7.9% Perpetual capital securities	24	**–**	198.1	**–**	198.1
7.0% Perpetual cumulative capital notes	24	**321.6**	–	**321.6**	–
Total equity		**1,504.0**	1,300.5	**1,722.0**	1,523.8
Liabilities					
Non-current liabilities					
Pension deficit	32	**14.1**	28.3	**–**	–
Provisions	27	**5.4**	5.9	**0.4**	0.9
Deferred tax liabilities	16	**45.0**	36.4	**0.5**	1.0
Total non-current liabilities		**64.5**	70.6	**0.9**	1.9
Current liabilities					
Investment contract liabilities	18	**2,516.6**	2,311.9	**–**	–
Interest bearing loans and borrowings	25	**–**	81.5	**442.1**	451.9
Trade and other payables	26	**321.9**	269.4	**176.5**	174.0
Other liabilities	13	**27.5**	–	**27.5**	–
Current tax payable		**53.1**	37.5	**15.3**	10.1
Total current liabilities		**2,919.1**	2,700.3	**661.4**	636.0
Total liabilities		**2,983.6**	2,770.9	**662.3**	637.9
Total equity and liabilities		**4,487.6**	4,071.4	**2,384.3**	2,161.7

The financial statements were approved by the Board of Directors on 22 November 2013, and signed on its behalf by:

R C Cornick
Chairman

W J Rattray
Finance Director

Financial statements

Statements of changes in equity

For the year to 30 September 2013

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m
Group				
Balance at 30 September 2011	114.9	812.2	31.1	172.7
Profit for the period	–	–	–	–
Other comprehensive (expense) income	–	–	–	–
Total comprehensive (expense) income	–	–	–	–
Arising on the issue of shares	–	0.1	–	–
Conversion of convertible bonds	0.2	2.8	–	–
Conversion of preference shares	–	0.8	–	–
Share-based payments	–	–	–	–
Purchase of own shares	–	–	–	–
Dividends paid to shareholders	–	–	–	–
Non-controlling interest in consolidated funds	–	–	–	–
Balance at 30 September 2012	115.1	815.9	31.1	172.7
Profit for the period	–	–	–	–
Other comprehensive (expense) income	–	–	–	–
Total comprehensive (expense) income	–	–	–	–
Arising on the issue of shares	0.1	0.3	–	–
Conversion of convertible bonds	4.7	82.3	–	–
Net issuance of perpetual capital notes	–	–	–	–
Share-based payments	–	–	–	–
Purchase of own shares	–	–	–	–
Dividends paid to shareholders	–	–	–	–
Acquisition of non-controlling interest	–	–	–	–
Non-controlling interest in consolidated funds	–	–	–	–
Balance at 30 September 2013	**119.9**	**898.5**	**31.1**	**172.7**
Company				
Balance at 30 September 2011	114.9	812.2	31.1	172.7
Profit for the period	–	–	–	–
Other comprehensive expense	–	–	–	–
Total comprehensive (expense) income	–	–	–	–
Arising on the issue of shares	–	0.1	–	–
Conversion of convertible bonds	0.2	2.8	–	–
Conversion of preference shares	–	0.8	–	–
Share-based payments	–	–	–	–
Purchase of own shares	–	–	–	–
Dividends paid to shareholders	–	–	–	–
Balance at 30 September 2012	115.1	815.9	31.1	172.7
Profit for the period	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	–	–
Arising on the issue of shares	0.1	0.3	–	–
Conversion of convertible bonds	4.7	82.3	–	–
Net issuance of perpetual capital notes	–	–	–	–
Share-based payments	–	–	–	–
Purchase of own shares	–	–	–	–
Dividends paid to shareholders	–	–	–	–
Balance at 30 September 2013	**119.9**	**898.5**	**31.1**	**172.7**

Foreign currency translation reserve £m	Fair value £m	Warrant/ other reserve £m	Retained earnings £m	Non controlling interest £m	Perpetual capital securities £m	Total equity £m
10.7	(8.0)	10.3	(123.7)	16.2	198.1	1,234.5
–	–	–	208.7	–	14.9	223.6
(9.2)	2.5	–	(1.4)	–	–	(8.1)
(9.2)	2.5	–	207.3	–	14.9	215.5
–	–	–	–	–	–	0.1
–	–	(0.3)	0.3	–	–	3.0
–	–	(0.8)	–	–	–	–
–	–	–	53.8	–	–	53.8
–	–	–	(83.1)	–	–	(83.1)
–	–	–	(106.2)	–	(14.9)	(121.1)
–	–	–	–	(2.2)	–	(2.2)
1.5	(5.5)	9.2	(51.6)	14.0	198.1	1,300.5
–	–	–	307.7	0.6	20.5	328.8
(11.3)	1.8	–	(6.6)	0.9	–	(15.2)
(11.3)	1.8	–	301.1	1.5	20.5	313.6
–	–	–	–	–	–	0.4
–	–	(6.2)	6.2	–	–	87.0
–	–	–	(66.0)	–	123.5	57.5
–	–	–	50.9	–	–	50.9
–	–	–	(138.9)	–	–	(138.9)
–	–	–	(150.8)	–	(20.5)	(171.3)
–	–	(27.5)	–	27.5	–	–
–	–	–	–	4.3	–	4.3
(9.8)	**(3.7)**	**(24.5)**	**(49.1)**	**47.3**	**321.6**	**1,504.0**
1.0	0.1	10.3	119.4	–	198.1	1,459.8
–	–	–	198.5	–	14.9	213.4
–	(0.8)	–	(1.6)	–	–	(2.4)
–	(0.8)	–	196.9	–	14.9	211.0
–	–	–	–	–	–	0.1
–	–	(0.3)	0.3	–	–	3.0
–	–	(0.8)	–	–	–	–
–	–	–	54.1	–	–	54.1
–	–	–	(83.1)	–	–	(83.1)
–	–	–	(106.2)	–	(14.9)	(121.1)
1.0	(0.7)	9.2	181.4	–	198.1	1,523.8
–	–	–	295.3	–	20.5	315.8
–	1.5	–	–	–	–	1.5
–	1.5	–	295.3	–	20.5	317.3
–	–	–	–	–	–	0.4
–	–	(6.2)	6.2	–	–	87.0
–	–	–	(66.0)	–	123.5	57.5
–	–	–	46.2	–	–	46.2
–	–	–	(138.9)	–	–	(138.9)
–	–	–	(150.8)	–	(20.5)	(171.3)
1.0	**0.8**	**3.0**	**173.4**	**–**	**321.6**	**1,722.0**

Statements of cash flows

For the year to 30 September 2013

	Notes	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Core cash generated from operating activities		529.1	419.8	422.7	271.3
Short-term timing differences on open end fund settlements		1.5	(5.3)	–	–
Cash generated from operations		530.6	414.5	422.7	271.3
Net interest received (paid)		1.3	(2.1)	(0.9)	(3.2)
Tax (paid) recovered		(47.3)	(43.6)	(18.4)	1.5
Net cash generated from operations		484.6	368.8	403.4	269.6
Acquisition costs paid		(11.7)	–	–	–
Net cash generated from operating activities	4	472.9	368.8	403.4	269.6
Cash flows from investing activities					
Proceeds from sale of investments		37.6	52.4	18.3	28.4
Purchase of investments		(68.4)	(53.8)	(49.1)	(43.3)
Acquisition of businesses, net of cash acquired		(83.9)	–	(17.5)	–
Investment in existing subsidiary undertakings		–	–	(135.1)	0.1
Purchase of intangible assets		(8.2)	(13.4)	(8.2)	(6.4)
Sale of intangible assets		–	–	–	4.4
Purchase of property, plant & equipment		(7.0)	(7.6)	(3.8)	(3.3)
Net cash used in investing activities		(129.9)	(22.4)	(195.4)	(20.1)
Cash flows from financing activities					
Issue of ordinary shares		0.5	–	0.5	–
Purchase of own shares		(138.9)	(83.1)	(138.9)	(83.1)
Issue of 7.0% perpetual cumulative capital notes		321.6	–	321.6	–
Repayment of 7.9% perpetual capital securities		(264.1)	–	(264.1)	–
Dividends paid and coupon payments		(177.3)	(126.0)	(177.3)	(126.0)
Net cash used in financing activities		(258.2)	(209.1)	(258.2)	(209.1)
Net increase (decrease) in cash and cash equivalents		84.8	137.3	(50.2)	40.4
Cash and cash equivalents at 1 October		347.9	209.5	(189.9)	(229.9)
Exchange rate fluctuations on cash and cash equivalents		(6.1)	1.1	–	(0.4)
Cash and cash equivalents at 30 September		426.6	347.9	(240.1)	(189.9)

Notes to the financial statements

For the year to 30 September 2013

1 Segmental disclosures

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

IFRS 8 *Operating Segments* requires disclosures to reflect the information which the Group management board (GMB), being the body that is the Group's chief operating decision maker, uses for evaluating performance and the allocation of resources. The Group is managed as a single asset management business, with multiple investment strategies of equities, fixed income and property, complemented by a solutions business which provides multi asset and fund of alternatives services. These strategies are managed across a range of products, distribution channels and geographic regions. Reporting provided to the GMB is on an aggregated basis.

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

Year to 30 September 2013	UK £m	Europe £m	Singapore £m	Rest of Asia £m	US £m	Total £m
Net revenue	429.9	160.4	285.4	107.4	95.4	1,078.5
Non-current assets	747.2	58.5	7.3	152.4	86.2	1,051.6

Year to 30 September 2012	UK £m	Europe £m	Singapore £m	Rest of Asia £m	US £m	Total £m
Net revenue	351.8	137.8	214.3	102.2	63.1	869.2
Non-current assets	690.9	65.1	19.2	206.4	31.6	1,013.2

2 Revenue

	2013 £m	2012 £m
Revenue comprises:		
Gross management fees	1,250.4	993.1
Commissions payable to intermediaries	(236.3)	(179.6)
Net management fees	1,014.1	813.5
Performance fees	50.8	47.5
Transaction fees	13.6	8.2
Net revenue	1,078.5	869.2

3 Operating expenses

	2013 £m	2012 £m
Operating profit is stated after charging (crediting):		
Fees payable to the Company's auditor for the audit of the Company's accounts	0.2	0.2
Fees payable to the Company's auditor and its associates for other services		
– audit of the Company's subsidiaries pursuant to legislation	1.0	1.0
– audit-related assurance services	0.1	0.1
Total audit fees	1.3	1.3
– tax compliance services	0.3	0.2
– other non audit services	0.2	0.1
Total non audit fees	0.5	0.3
Operating lease payments	19.2	13.5
Depreciation	6.6	8.3
Amortisation of intangible assets	73.2	78.1
Directors' emoluments	13.4	11.9
Exchange (gain) loss	(2.0)	4.1

Details of directors' remuneration are given in the remuneration report on pages 64 to 78.

4 Analysis of cash flows

	Group		Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Reconciliation of profit after tax to operating cash flow				
Profit after tax	328.8	223.6	315.8	213.4
Depreciation	6.6	8.3	2.5	4.2
Amortisation of intangible assets	73.2	78.1	7.8	6.7
Unrealised foreign currency (gains) losses	–	(1.0)	–	0.5
Loss on disposal of property, plant & equipment	3.5	–	1.1	–
Losses (gains) on investments	3.0	(0.2)	1.0	(7.0)
Equity settled share-based element of remuneration	45.9	52.4	6.9	8.9
Net finance costs	3.5	5.1	5.0	6.2
Income tax expense	61.5	46.1	(0.5)	4.5
	526.0	412.4	339.6	237.4
(Increase) decrease in trade and other receivables	(37.1)	(1.2)	79.2	(24.2)
Decrease in open end fund receivables	12.5	69.7	–	–
Increase in trade and other payables	27.7	4.9	3.9	59.4
Decrease in open end fund payables	(11.0)	(75.0)	–	–
Increase (decrease) in provisions	0.8	3.7	–	(1.3)
Net cash inflow from operating activities	518.9	414.5	422.7	271.3
Net interest received (paid)	1.3	(2.1)	(0.9)	(3.2)
Income tax (paid) received	(47.3)	(43.6)	(18.4)	1.5
Net cash generated from operating activities	472.9	368.8	403.4	269.6

5 Employees

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Aggregate employee costs, including directors:				
Salaries and cash bonuses	**219.3**	184.8	**35.0**	31.4
Share-based element of remuneration (note 22)	**63.5**	61.9	**8.5**	9.8
Other benefits	**9.0**	6.3	**1.2**	0.6
Social security costs	**41.2**	26.9	**10.8**	5.3
Pension costs	**25.1**	21.6	**4.5**	4.0
	358.1	301.5	**60.0**	51.1
Severance costs on acquisitions (note 13)	**10.8**	–	**–**	–
	368.9	301.5	**60.0**	51.1

	2013 Number	2012 Number	**2013 Number**	2012 Number
Average number of employees during the year	**2,062**	1,947	**384**	351

6 Net finance costs

	2013 £m	2012 £m
Interest on 3.5% convertible bonds 2014	**(0.9)**	3.2
Interest on overdrafts, revolving credit facilities and other interest bearing accounts	**3.6**	1.7
	2.7	4.9
Release of discount on liability component of convertible bonds	**4.0**	2.0
Amortisation of issue costs on convertible bonds	**1.1**	0.5
Total finance costs	**7.8**	7.4
Finance revenue – interest income	**(4.3)**	(2.3)
Net finance costs	**3.5**	5.1

7 Gains and losses on investments

	2013 £m	2012 £m
Gains on held for trading investments	**3.2**	3.2
(Losses) gains on available for sale investments	**(2.9)**	1.6
Recycling of losses on available for sale assets to income statement	**(3.3)**	(4.6)
	(3.0)	0.2

8 Tax expense

	2013 £m	2012 £m
Current tax expense		
UK corporation tax on profit for the year	37.9	24.4
Adjustments in respect of prior periods	0.4	(2.6)
	38.3	21.8
Foreign tax on profit in the year	39.2	30.0
Adjustments in respect of prior periods	(2.6)	0.5
Total current tax	74.9	52.3
Deferred tax credit		
Origination and reversal of temporary differences	(13.4)	(6.8)
Adjustments in respect of prior periods	–	0.6
Total tax expense in income statement	61.5	46.1

The deferred tax credit is analysed in note 16.

	2013 £m	2012 £m
Reconciliation of effective tax rate		
Profit before tax	390.3	269.7
Income tax calculated at the UK corporation tax rate 23.5% (2012: 25%)	91.7	67.4
Effect of lower tax rates applicable in foreign jurisdictions	(31.9)	(25.5)
Effect of capital gains deductions and exempt capital losses	0.6	(0.4)
Movement in unrecognised deferred tax asset	4.8	8.2
Change in UK tax rates on deferred tax balances	(1.5)	1.9
Expenses not deductible / (Non-taxable income)	4.6	(4.9)
Other differences	(4.6)	0.9
Adjustments in respect of prior years	(2.2)	(1.5)
Total tax expense in income statement	61.5	46.1

Domestic tax rate

The UK tax rate for the year is 23.5% (2012: 25%).

A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 26 March 2012 and further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted, on 3 July 2012 and 17 July 2013 respectively.

The effective tax charge borne by the Company and its UK subsidiaries will reduce accordingly in future years.

All UK deferred tax assets and liabilities that will unwind in the future have been recognised at the rate of 21%. This is an average rate which has been calculated based on the future rate substantively enacted at the estimated timing of unwinding.

Factors affecting future tax charge

The Group's overseas profits are subject to overseas tax rates, some of which are lower than the standard rate of UK corporation tax.

All other deferred tax assets and liabilities at 30 September 2013 have also been calculated based on the rate which will be substantively enacted that is expected to apply when the asset is realised or the liability settled. Future changes in tax rates will also impact deferred tax assets and liabilities.

9 Profit for the financial year

The profit dealt with in the accounts of the Company was £315.8 million (2012: £213.4 million).

10 Dividends and coupons payable

	2013 £m	2012 £m
Dividend on convertible preference shares:		
Dividend paid	–	0.2
Coupon payments on perpetual capital securities		
7.9% Perpetual capital securities	**15.1**	19.8
7.0% Perpetual cumulative capital notes	**11.4**	–
	26.5	19.8
Dividends on ordinary shares		
Declared and paid during the year:		
Final dividend for 2012 – 7.1p (2011: 5.2p)	**82.2**	57.5
Interim dividend for 2013 – 6.0p (2012: 4.4p)	**68.6**	48.5
	150.8	106.0
Total dividends and coupon payments paid during the year	**177.3**	126.0
Proposed for approval at the Annual General Meeting (not recognised as a liability at 30 September)		
Dividends on ordinary shares:		
Final dividend for 2013 – 10.0p (2012: 7.1p)	**114.8**	81.2

The total ordinary dividend for the year is 16.0p per share including the proposed final dividend for 2013 of 10.0p per share.

The coupon payments on perpetual capital securities are tax deductible. The deduction for 2013 is £6.0 million (2012: £4.9 million), resulting in a net cost of £20.5 million (2012: £14.9 million).

11 Earnings per share

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

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

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

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

	IAS 33		Underlying	
	2013 £m	2012 £m	2013 £m	2012 £m
Basic earnings per share				
Profit attributable to shareholders	328.8	223.6	328.8	223.6
Dividend on convertible preference shares	–	(0.2)	–	(0.2)
Coupon payments in respect of perpetual capital securities (net of tax)	(18.8)	(14.9)	(18.8)	(14.9)
Profit for the financial year	310.0	208.5	310.0	208.5
Amortisation of intangible assets, net of attributable taxation			57.2	61.5
Acquisition costs, net of attributable taxation			17.6	–
Underlying profit for the financial year			384.8	270.0
Weighted average number of shares (millions)	1,141.5	1,104.2	1,141.5	1,104.2
Basic earnings per share	27.16p	18.88p	33.71p	24.45p
Diluted earnings per share				
Profit for calculation of basic earnings per share, as above	310.0	208.5	384.8	270.0
Add: interest on 2014 convertible bonds, net of attributable taxation	3.2	4.3	3.2	4.3
Add: dividend on convertible preference shares	–	0.2	–	0.2
Profit for calculation of diluted earnings per share	313.2	213.0	388.0	274.5
Weighted average number of shares (millions)				
For basic earnings per share	1,141.5	1,104.2	1,141.5	1,104.2
Dilutive effect of 2014 convertible bonds	6.2	48.6	6.2	48.6
Dilutive effect of convertible preference shares	–	3.1	–	3.1
Dilutive effect of LTIP awards	0.1	0.2	0.1	0.2
Dilutive effect of exercisable share options and deferred shares	46.7	57.5	46.7	57.5
	1,194.5	1,213.6	1,194.5	1,213.6
Diluted earnings per share	26.22p	17.55p	32.48p	22.62p

12 Intangible assets

Group	Goodwill £m	Management contracts £m	Distribution contracts £m	Software £m	Total £m
Cost					
At 1 October 2011	654.4	555.1	45.2	19.6	1,274.3
Additions	–	10.3	–	6.5	16.8
Disposals	–	–	–	(0.5)	(0.5)
Exchange movement	(1.5)	(3.1)	–	–	(4.6)
At 30 September 2012	652.9	562.3	45.2	25.6	1,286.0
Additions	0.8	–	–	8.3	9.1
Arising on acquisitions	40.2	64.0	–	1.7	105.9
Disposals	–	–	–	(6.0)	(6.0)
Exchange movement	(3.7)	(2.0)	–	–	(5.7)
At 30 September 2013	**690.2**	**624.3**	**45.2**	**29.6**	**1,389.3**
Amortisation and impairment					
At 1 October 2011	–	185.0	15.0	14.3	214.3
Amortisation for year	–	66.7	9.0	2.4	78.1
On disposals	–	–	–	(0.5)	(0.5)
At 30 September 2012	–	251.7	24.0	16.2	291.9
Amortisation for year	–	60.5	9.0	3.7	73.2
On disposals	–	–	–	(4.9)	(4.9)
At 30 September 2013	**–**	**312.2**	**33.0**	**15.0**	**360.2**
Net book value					
At 30 September 2013	**690.2**	**312.1**	**12.2**	**14.6**	**1,029.1**
At 30 September 2012	652.9	310.6	21.2	9.4	994.1

12 Intangible assets (continued)

Company	Goodwill £m	Management contracts £m	Software £m	Total £m
Cost				
At 1 October 2011	34.8	31.7	16.9	83.4
Additions	–	–	6.4	6.4
Disposals	–	–	(0.5)	(0.5)
Transfer to subsidiary undertakings	–	(6.0)	–	(6.0)
At 30 September 2012	34.8	25.7	22.8	83.3
Additions	–	–	8.2	8.2
Disposals	–	–	(5.8)	(5.8)
At 30 September 2013	**34.8**	**25.7**	**25.2**	**85.7**
Amortisation and impairment				
At 1 October 2011	3.7	2.8	12.1	18.6
Amortisation for year	–	4.4	2.3	6.7
On disposals	–	–	(0.5)	(0.5)
Transfer to subsidiary undertakings	–	(1.6)	–	(1.6)
At 30 September 2012	3.7	5.6	13.9	23.2
Amortisation for year	–	4.3	3.4	7.7
On disposals	–	–	(4.9)	(4.9)
At 30 September 2013	**3.7**	**9.9**	**12.4**	**26.0**
Net book value				
At 30 September 2013	**31.1**	**15.8**	**12.8**	**59.7**
At 30 September 2012	31.1	20.1	8.9	60.1

Impairment testing of goodwill and intangibles

Goodwill and intangibles
The Group has one cash generating unit (CGU) for the purpose of assessing the carrying value of goodwill and intangible assets reflecting the fact that the Group is managed as a single asset management business. The carrying value of goodwill and intangible assets are as follows:

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Investment management	**1,029.1**	994.1	**59.7**	60.1

The recoverable amount of the CGU is determined by value-in-use calculations which use five year cash flow projections based on the Group's approved budget for the year to 30 September 2014 and which take into account the market conditions prevailing at the time.

A long-term growth rate is used to extrapolate the cash flows within the value-in-use calculations after the initial five year projections. The long-term growth rate assumption of 2% is in line with the long-term nature of the Group's business and in line with the Board's view that the Group will operate as a going concern in the long term.

The principal assumptions are:

	2013 **%**	2012 %
Annual increase in assets under management	**6.0**	6.0
Annual increase in operating costs	**5.5**	5.5

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

The following discount rates have been used in the impairment analysis. They are based on the Group's weighted average cost of capital using a risk free interest rate, together with a beta for the sector and allied to an equity risk premium.

	2013 **Post tax** **discount rate** **%**	**2013** **Pre tax** **discount rate** **%**	2012 Post tax discount rate %	2012 Pre tax discount rate %
Investment management	**9.75**	**11.40**	9.50	11.20

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

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

	2013 **%**	2012 %
Discount rate – pre tax	**30.8**	27.6
Revenue growth rate	**(5.7)**	(4.2)
Operating cost growth rate	**28.0**	25.2

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

	2013 **£m**	2012 £m
Excess of recoverable amount over carrying value	**4,242.0**	3,163.0

12 Intangible assets (continued)

Management contracts and distribution agreements

The Group reviewed the management contracts and distribution agreements held at 30 September 2013 including contracts which are considered to have an indefinite life. Management contracts at 30 September 2013 include £79.3 million (2012: £79.3 million) of assets which are considered to have an indefinite life. These assets comprise contracts for the management of open end funds which have no limit of time or termination provisions. The Group also reviewed definite life assets for impairment indicators and performed impairment tests where required.

Impairment tests were performed using either value-in-use calculations (using methods and assumptions described above in relation to goodwill) or estimates of fair value less costs to sell, as considered appropriate, and the measures of value compared with the carrying value of the contracts.

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

	30 September 2013			30 September 2012		
	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)
Definite life – management contracts	232.9	1-7	2-10	231.4	1-7	2-10
Definite life – distribution contracts	12.1	1-3	5	21.1	2-3	5
Indefinite life – open end fund contracts	79.3	N/A	Indefinite	79.3	N/A	Indefinite
	324.3			331.8		

The main definite life management contracts held by the Group relate to contracts acquired from Credit Suisse in 2009 which have a net book value of £121.3 million at 30 September 2013, together with the contracts acquired in the current year as part of the Artio and SVG acquisitions which have a combined net book value of £57.6 million at 30 September 2013.

Company impairment review

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

At 30 September 2013, the Company held indefinite life open end fund contracts with a value of £3.4 million (2012: £3.4 million).

13 Acquisitions

a. On 21 May 2013, the Group completed the purchase of Artio Global Investors Inc. ("Artio"), a US listed asset manager, for a purchase consideration of £109.8 million ($166.5 million).

The acquisition of Artio adds scale to our existing US fixed income business and will complement our organic efforts to expand distribution in the US. In the four months to 30 September 2013, Artio contributed revenue of £8.5 million and profit before taxation of £4.1 million. If the acquisition had occurred on 1 October 2012, we estimate that consolidated revenues would have been increased by £24.2 million, and consolidated profit before taxation for the year would have been increased by £11.0 million. (This takes into account the post acquisition results). In determining these amounts, we have assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on 1 October 2012.

Acquisition-related costs of £16.3 million were incurred and have been included in exceptional costs. £10.8 million related to severance costs.

b. On 31 May 2013, the Group acquired 50.1% of the issued share capital of SVG Managers ("SVG"), a fund of private equity specialist, for a cash consideration of £17.5 million plus the contribution of the Group's existing fund of private equity business. This business has been combined with Aberdeen's existing private equity capability to create a substantial private equity fund of funds business with around £5 billion of assets under management.

The Group has a call option to acquire, and SVG Capital plc a put option to sell, the remaining 49.9% stake at any time from the third anniversary of completion, at a price based on a valuation of the business at the time the option is exercised, subject to a minimum of £20 million and a maximum of £35 million. As the exercise of the put option is outside the control of the Group, the option has been recognised as an other liability measured at fair value and the remaining 49.9% has been recorded as a non-controlling interest.

The fair value of the written put option has been recognised at £27.5 million. This value is determined based on the expected payment of £35 million and calculated by discounting the expected future liability at a market related discount rate, expected future performance and assuming the option will be exercised after three years.

Acquisition-related costs amount to £2.9 million and have been included in exceptional costs. These mainly relate to exiting the lease at SVG's previous premises.

SVG contributed £9.0 million revenue and £0.7 million to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date. If the acquisition of SVG had occurred on 1 October 2012, we estimate that consolidated revenues for the period would have been increased by £25.0 million and consolidated profit before taxation would have been £8.9 million. (This takes into account the post acquisition results).

c. **Acquisition costs**

The following exceptional acquisition costs were incurred during the year in relation to the two acquisitions described above.

	2013 £m
Redundancy and other severance costs	10.8
Transaction and deal costs	3.5
Lease termination costs	3.9
Other costs	1.0
	19.2

13 Acquisitions (continued)

d. Independent valuation specialists were engaged to carry out a valuation of the acquired goodwill and intangible assets. The fair value adjustments from this allocation process are reflected in the table below. Goodwill is mainly attributable to the skills of the workforce acquired and the synergies expected to be achieved from the acquisition. None of the goodwill is expected to be deductible for income tax purposes.

Fair value of the intangible assets has been valued based on the present value of expected cash flows of the underlying management contracts, with the exception of £1.7 million of internally developed software acquired in the SVG acquisition. The fair value for the internally developed software has been determined based on management's best estimate of replacement cost.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	Business acquired from Artio			Business acquired from SVG		
Group	**At date of acquisition £m**	**Fair value adjustments £m**	**Fair value £m**	**At date of acquisition £m**	**Fair value adjustments £m**	**Fair value £m**
Intangible assets	–	36.6	36.6	–	29.1	29.1
Property, plant & equipment	1.7	–	1.7	1.1	–	1.1
Seed capital investment	15.3	–	15.3	–	–	–
Trade and other receivables	28.0	(1.1)	26.9	5.2	–	5.2
Deferred tax assets	–	–	–	3.3	–	3.3
Cash	36.0	–	36.0	7.4	–	7.4
Trade and other payables	(13.5)	(4.3)	(17.8)	(12.0)	1.0	(11.0)
Derivatives at fair value through profit and loss	–	–	–	(0.3)	–	(0.3)
Deferred tax liabilities	(1.1)	(12.0)	(13.1)	–	(5.8)	(5.8)
Total identifiable net assets acquired	**66.4**	**19.2**	**85.6**	**4.7**	**24.3**	**29.0**
Goodwill			24.2			16.0
			109.8			45.0
Discharged by:						
Cash			109.8			17.5
Fair value of the written put option			–			27.5
Total consideration			**109.8**			**45.0**

If information obtained within one year of the acquisition dates about facts and circumstances that existed at acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at acquisition date, then the accounting for the acquisition will be revised.

14 Property, plant & equipment

Group	Heritable property £m	Short leasehold property £m	Computers, fixtures and fittings £m	Motor vehicles £m	Total £m
Cost					
At 1 October 2011	2.4	14.0	17.8	0.4	34.6
Additions	–	1.6	5.8	0.2	7.6
Disposals	–	–	(2.2)	(0.1)	(2.3)
Exchange movement	–	(0.2)	–	–	(0.2)
At 30 September 2012	2.4	15.4	21.4	0.5	39.7
Additions	–	4.0	3.2	0.1	7.3
On acquisitions of subsidiaries	–	2.0	0.7	–	2.7
Disposals	–	(8.5)	(8.1)	–	(16.6)
Exchange movement	–	(0.3)	(0.1)	–	(0.4)
At 30 September 2013	**2.4**	**12.6**	**17.1**	**0.6**	**32.7**
Depreciation					
At 1 October 2011	0.5	6.1	7.6	0.3	14.5
Charge for year	–	3.4	4.8	0.1	8.3
On disposals	–	–	(2.1)	(0.1)	(2.2)
At 30 September 2012	0.5	9.5	10.3	0.3	20.6
Charge for year	–	3.1	3.4	0.1	6.6
On disposals	–	(6.8)	(7.4)	–	(14.2)
Exchange movement	–	–	–	–	–
At 30 September 2013	**0.5**	**5.8**	**6.3**	**0.4**	**13.0**
Net book value					
At 30 September 2013	**1.9**	**6.8**	**10.8**	**0.2**	**19.7**
At 30 September 2012	1.9	5.9	11.1	0.2	19.1

14 Property, plant & equipment (continued)

Company	Heritable property £m	Short leasehold property £m	Computers, fixtures and fittings £m	Motor vehicles £m	Total £m
Cost					
At 1 October 2011	2.4	7.8	8.3	0.1	18.6
Additions	–	–	3.3	–	3.3
Disposals	–	–	(1.6)	–	(1.6)
At 30 September 2012	2.4	7.8	10.0	0.1	20.3
Additions	–	1.1	2.6	–	3.7
Disposals	–	–	(1.6)	–	(1.6)
At 30 September 2013	**2.4**	**8.9**	**11.0**	**0.1**	**22.4**
Depreciation					
At 1 October 2011	0.5	4.2	3.5	0.1	8.3
Charge for year	–	1.3	2.9	–	4.2
On disposals	–	–	(1.6)	–	(1.6)
At 30 September 2012	0.5	5.5	4.8	0.1	10.9
Charge for year	–	1.1	1.4	–	2.5
On disposals	–	–	(1.4)	–	(1.4)
At 30 September 2013	**0.5**	**6.6**	**4.8**	**0.1**	**12.0**
Net book value					
At 30 September 2013	**1.9**	**2.3**	**6.2**	**–**	**10.4**
At 30 September 2012	1.9	2.3	5.2	–	9.4

15 Other investments – non-current

Group	£m
Shares	
At 1 October 2011	46.8
Additions	17.9
Fair value losses – reserves	(1.1)
Fair value losses on impaired assets – income statement	(3.0)
Disposals	(5.7)
Exchange movement	(1.8)
At 30 September 2012	53.1
Additions	3.7
Fair value losses on impaired assets – income statement	(1.9)
Disposals	(1.3)
Exchange movement	0.9
At 30 September 2013	**54.5**

Company	Subsidiary undertakings £m	Other investments £m	Total £m
At 1 October 2011	1,577.3	11.1	1,588.4
Additions: increase in existing subsidiary undertakings	114.1	–	114.1
other investments	–	16.7	16.7
Fair value adjustment	–	(0.9)	(0.9)
Amounts written off	–	(0.8)	(0.8)
Disposals	–	(4.6)	(4.6)
At 30 September 2012	1,691.4	21.5	1,712.9
Additions: increase in existing subsidiary undertakings	135.1	–	135.1
other investments	–	1.1	1.1
acquisitions	49.9	–	49.9
Fair value adjustment	–	(1.1)	(1.1)
At 30 September 2013	**1,876.4**	**21.5**	**1,897.9**

15 Other investments – non-current (continued)

The Company's investments in subsidiary undertakings are measured at cost less provision for impairment.

Other investments are designated in the following categories.

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Available for sale	**38.6**	37.2	**5.6**	5.6
Amortised cost	**15.9**	15.9	**15.9**	15.9
	54.5	53.1	**21.5**	21.5

The principal subsidiaries at 30 September 2013 were as follows:

Subsidiary undertakings	Principal activity	% of ordinary shares owned	Country of registration	Country of operation
Aberdeen Asset Management Asia Limited	Fund management	100	Singapore	Singapore
Aberdeen Asset Managers Limited	Fund management	100	Scotland	UK
Aberdeen Asset Management Inc.	Fund management	100	USA	USA
Aberdeen Global Services SA	Fund management	100	Luxembourg	Luxembourg
Aberdeen International Fund Managers Limited	Fund distribution	100	Hong Kong	Hong Kong
Aberdeen Asset Management Life and Pensions Limited	Life and Pensions	100	England	UK
Aberdeen Fund Managers Limited	Administration of UK open end funds	100	England	UK
Aberdeen Investments Jersey Limited	Fund management	100	Jersey	Jersey
Aberdeen SVG Private Equity Managers Limited	Fund management	50.1	England	UK

A full list of subsidiary undertakings will be appended to the Company's Annual Return.

16 Deferred tax assets and liabilities

Deferred tax assets and liabilities recognised are as follows:

Group	Balance at 1 Oct 2011 £m	Recognised in profit and loss £m	Recognised in equity £m	Balance at 30 Sep 2012 £m	Acquired on acquisition £m	Recognised in profit and loss £m	Recognised in equity £m	Balance at 30 Sep 2013 £m
Available for sale financial assets	2.7	–	(1.4)	1.3	–	–	(1.3)	–
Defined benefit pension schemes	5.3	(1.2)	(1.3)	2.8	–	(1.0)	2.1	**3.9**
Share-based payments	8.6	3.8	(0.7)	11.7	3.3	2.7	1.8	**19.5**
Tax loss carry-forward	5.8	(5.8)	–	–	–	–	–	–
Other items	0.1	–	–	0.1	–	(0.1)	–	–
Deferred tax assets	22.5	(3.2)	(3.4)	15.9	3.3	1.6	2.6	**23.4**
Available for sale financial assets	–	–	–	–	–	–	(0.2)	**(0.2)**
Other items	–	–	–	–	–	(1.9)	–	**(1.9)**
Intangible assets	(44.9)	8.8	0.7	(35.4)	(17.8)	10.3	–	**(42.9)**
Convertible bonds	(1.6)	0.6	–	(1.0)	–	1.0	–	–
Deferred tax liabilities	(46.5)	9.4	0.7	(36.4)	(17.8)	9.4	(0.2)	**(45.0)**
	(24.0)	6.2	(2.7)	(20.5)	(14.5)	11.0	2.4	**(21.6)**

The Group has tax losses which arose in the UK of £77.7 million (2012: £87.5 million) and overseas of £107.9 million (2012: £118.9 million). Deferred tax assets of £nil (2012: £nil) have been recognised in respect of these losses, reflecting the inability to use these losses to offset taxable profits forecast in future years.

Company	Balance at 1 Oct 2011 £m	Recognised in profit and loss £m	Recognised in equity £m	Balance at 30 Sep 2012 £m	Recognised in profit and loss £m	Recognised in equity £m	Balance at 30 Sep 2013 £m
Available for sale financial assets	–	–	0.3	0.3	–	(0.3)	–
Defined benefit pension schemes	0.2	–	(0.2)	–	–	–	–
Share-based payments	1.3	0.9	–	2.2	0.2	–	**2.4**
Tax loss carry forward	5.2	(5.2)	–	–	–	–	–
Other items	1.3	–	–	1.3	–	–	**1.3**
Deferred tax assets	8.0	(4.3)	0.1	3.8	0.2	(0.3)	**3.7**
Available for sale financial assets	–	–	–	–	–	(0.5)	**(0.5)**
Convertible bonds	(1.6)	0.6	–	(1.0)	1.0	–	–
Deferred tax liabilities	(1.6)	0.6	–	(1.0)	1.0	(0.5)	**(0.5)**
	6.4	(3.7)	0.1	2.8	1.2	(0.8)	**3.2**

17 Trade and other receivables

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Current assets				
Due from trustees for open end fund redemptions	**17.5**	41.2	**–**	–
Due from investors for open end fund sales	**26.0**	14.8	**–**	–
	43.5	56.0	**–**	–
Other trade receivables	**49.1**	29.2	**0.4**	0.5
Amounts due by subsidiary undertakings	**–**	–	**83.8**	138.7
Other receivables	**17.0**	9.0	**6.2**	4.9
Accrued income	**156.5**	145.7	**–**	–
Prepayments	**31.3**	14.5	**7.2**	8.2
	297.4	254.4	**97.6**	152.3
Non-current assets				
Other receivables and prepayments	**2.8**	3.6	**–**	–
Amounts due by subsidiary undertakings	**–**	–	**37.5**	–
	2.8	3.6	**37.5**	–

18 Assets backing investment contract liabilities

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

Group	**2013 £m**	**2012 £m**
Listed investments	**2,158.0**	1,895.7
Unit trusts and OEICs	**281.8**	334.0
Cash, deposits and liquidity funds	**50.8**	71.2
Other net assets	**26.0**	11.0
	2,516.6	2,311.9

The risks and rewards of these assets fall to the benefit of or are borne by the underlying policyholders. Therefore, the investment contract liabilities shown in the Group's balance sheet are equal and opposite in value to the assets held on behalf of the policyholders. The Group has no direct exposure to fluctuations in the value of assets which are held on behalf of policyholders, nor to fluctuations in the value of the assets arising from changes in market prices or credit default. The Group's exposure to these assets is limited to the revenue earned, which varies according to movements in the value of the assets.

19 Other investments – current

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Seed capital investments	**69.6**	40.4	**49.8**	31.2
Investments in funds to hedge deferred bonus liabilities	**25.7**	11.5	**25.7**	11.5
Investments of life and pensions subsidiary	**12.2**	6.6	**–**	–
Other investments	**0.3**	–	**–**	–
	107.8	58.5	**75.5**	42.7

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

Investments in certain Aberdeen-managed funds are held to hedge against liabilities from bonus awards that are deferred and settled in cash by reference to the share price of those funds.

20 Cash and cash equivalents

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Cash at bank and in hand	**408.5**	298.6	**202.0**	143.4
Short-term money market funds	**18.1**	49.3	**–**	37.1
Bank overdrafts	**–**	–	**(442.1)**	(370.4)
Cash and cash equivalents in the statements of cash flows	**426.6**	347.9	**(240.1)**	(189.9)

Cash and cash equivalents are subject to floating rates of interest. Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term money market funds generate income based on underlying investments, principally in cash deposits and money market instruments with a weighted average maturity of less than 60 days.

The denomination and carrying amounts of the Group's cash and cash equivalents are disclosed in note 30.

21 Share capital

	2013 £m	2012 £m
Allotted, called up and fully paid:		
1,199,193,157 (2012: 1,150,958,744) Ordinary shares of 10p	**119.9**	115.1

	2013 No. of ordinary shares millions	2012 No. of ordinary shares millions
At 1 October	**1,150.9**	1,144.6
Shares issued in respect of options exercised	**1.3**	0.3
Shares issued on conversion of preference share units	**–**	4.4
Shares issued on conversion of 3.5% convertible bonds 2014	**47.0**	1.6
At 30 September	**1,199.2**	1,150.9

1,207,400 ordinary shares of 10p each were issued at an average price of 52.5p pursuant to the exercise of options granted to employees under the 1994 Executive Share Option Scheme.

47,027,013 ordinary shares of 10p each were issued in respect of the conversion of £87.0 million of 3.5% convertible bonds 2014.

22 Share-based payments

	Group		Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Employee expense				
Deferred share awards - equity settled	**46.2**	50.2	**7.2**	7.6
Deferred share awards - cash settled	**17.6**	9.5	**1.6**	0.9
Expense arising from the award of shares and options under the LTIP	**0.3**	2.2	**(0.3)**	1.3
Total expense recognised as employee costs	**64.1**	61.9	**8.5**	9.8

Deferred share awards - equity settled

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

		Number				
Date of award	Share price on date of grant	Original award total	Leavers/ forfeited awards	Exercised awards	Balance at 30 Sept 2013	Earliest vesting dates
1 December 2007	167.5p	8,879,284	(41,180)	(7,865,507)	**972,597**	Dec 2010
17 June 2008	135.2p	245,358	(15,000)	(215,358)	**15,000**	Jun 2011 - Jun 2013
1 December 2008	88.0p	40,171,397	(54,103)	(38,331,250)	**1,786,044**	Dec 2009 - Dec 2011
1 July 2009	127.0p	2,565,167	(75,410)	(2,480,998)	**8,759**	Jul 2012
1 December 2009	138.6p	24,410,288	(1,929,777)	(20,371,771)	**2,108,740**	Dec 2010 - Dec 2012
1 December 2010	184.9p	27,354,664	(1,608,270)	(14,849,337)	**10,897,057**	Dec 2011 - Dec 2013
25 March 2011	208.4p	893,199	–	(564,326)	**328,873**	Dec 2011 - Dec 2013
1 April 2011	212.0p	254,220	–	(14,152)	**240,068**	Dec 2011 - Dec 2013
1 December 2011	199.1p	24,454,611	(702,397)	(6,733,661)	**17,018,553**	Dec 2012 - Dec 2014
24 April 2012	191.1p	450,400	–	(10,619)	**439,781**	Dec 2012 - Dec 2014
1 December 2012	333.4p	12,603,474	(129,161)	–	**12,474,313**	Dec 2013 - Dec 2015
2 May 2013	448.1p	89,006	–	–	**89,006**	May 2013 - May 2023
1 June 2013	475.9p	291,249	(12,609)	–	**278,640**	Dec 2013 - Dec 2015
25 July 2013	482.3p	4,106	–	–	**4,106**	Jul 2013 - Jul 2023
30 August 2013	475.9p	27,126	–	–	**27,126**	Dec 2013 - Dec 2015
Total		142,693,549	(4,567,907)	(91,436,979)	**46,688,663**	

Awards made in 2009 to 2013 reach their earliest vesting dates in three equal tranches over a three year period, subject to the continued employment of the participant. On reaching the earliest vesting date, participants may require immediate exercise or may choose to defer exercise until a later date; if deferred, participants may thereafter require exercise, without condition, at any time until the end of the exercise period.

	Weighted average share price 2013	2013 Number	Weighted average share price 2012	2012 Number
Outstanding 1 October		**55,381,411**		58,596,116
Granted during the year	**337.01p**	**13,014,961**	198.96p	24,905,011
Exercised during the year	**352.39p**	**(20,942,423)**	216.04p	(26,596,468)
Forfeited during the year		**(765,286)**		(1,523,248)
Outstanding 30 September		**46,688,663**		55,381,411
Exercisable at 30 September		**8,937,822**		6,075,851

The awards outstanding at 30 September 2013 had a weighted average remaining contractual life of 8 years.

22 Share-based payments (continued)

Deferred share awards - cash settled

An element of bonus awards will be settled in cash by reference to the share prices of certain Aberdeen managed funds. These are accounted for as cash settled awards and are revalued to market price at the end of each reporting period. At 30 September 2013, the value of liabilities arising from cash settled deferred awards was £24.8 million (2012: £12.5 million). The fair value movement of the awards from grant date to 30 September 2013 was a charge of £1.3 million (2012: £0.3 million).

LTIP

£0.3million (2012: £2.2 million) of the LTIP charge arises from 20,400,000 incentive options granted on 17 June 2008. These awards vested, subject to the satisfaction of the performance conditions, one third after 3 years, one third after 4 years and one third after 5 years. The vesting in year 5 was subject to continued employment with the Group.

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

23 Reserves

Nature and purpose of reserves

Share premium account

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

Capital redemption reserve

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

Merger reserve

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

Warrant and other reserve

The warrant reserve was created on the issue of the convertible preference share units in June 2005. Each convertible preference share unit issued comprised one preference share and one warrant to subscribe for ordinary shares, of which £800 related to the preference share and £200 to the warrant. During the year, all remaining warrants were exercised or expired.

The equity element of the convertible bond, net of deferred tax, was shown within warrant and other reserves. This element of reserves was transferred to retained earnings on conversion of the bonds (note 25).

Foreign currency translation reserve

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

Fair value reserve

This reserve records fair value changes on available for sale investments until the investments are derecognised or impaired, when fair value movement goes to retained profit.

Retained profit

Retained earnings comprises:

- all realised gains and losses through the income statement less dividend distributions;
- actuarial gains and losses recognised in the pension liability, and related deferred tax;
- gains and losses on available for sale assets and deferred tax on these movements;

- transactions relating to equity-settled share-based payments, and all deferred tax movements on share-based payments reflected through equity;
- the purchase and sale of own shares in respect of share-based payments; and
- the exchange difference arising on the settlement of equity related instruments (note 24).

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

The Company reserve is distributable.

	2013				2012			
Group and Company	Number of shares	% of issued shares	Cost £m	Market value £m	Number of shares	% of issued shares	Cost £m	Market value £m
Own shares	50,751,059	4.2	165.4	192.1	42,048,410	3.7	84.0	130.8

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

The maximum number held by the Employee Benefits Trust during the year was 56,960,890 (4.7% of issued shares); (2012: 42,599,701, 3.7%).

Movements during the year are as follows:

	2013 millions	2012 millions
At 1 October	42.0	31.1
Own shares purchased	36.7	42.5
Own shares disposed through vesting	(27.9)	(31.6)
At 30 September	50.8	42.0

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

24 Perpetual capital securities

	2013 £m	2012 £m
US $500 million 7.0% Perpetual cumulative capital notes	321.6	–
US $400 million 7.9% Perpetual subordinated capital securities	–	198.1
	321.6	198.1

On 1 March 2013 the Group issued US$500 million perpetual cumulative capital notes. The securities bear interest on their principal amount at 7.0% per annum, payable quarterly in arrears on 1 March, 1 June, 1 September and 1 December in each year commencing on 1 June 2013. Net proceeds after deduction of issue expenses were £321.6 million.

US$400 million of the proceeds were used to repay the 7.9% perpetual capital securities on 29 May 2013. The reduction in equity arising from this repayment was £264.1 million.

The original value of the 7.9% perpetual was fixed in sterling at £198.1 million. The difference between the original value and the final repayment of £264.1 million was £66.0 million and this was treated as other comprehensive expense and debited to retained profit.

25 Interest bearing loans and borrowings

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Current liabilities				
3.5% convertible bonds 2014	**–**	82.7	**–**	82.7
Unamortised issue costs	**–**	(1.2)	**–**	(1.2)
Bank overdraft	**–**	–	**442.1**	370.4
	–	81.5	**442.1**	451.9

On 31 October 2012, the Group notified the remaining holders of the 3.5% convertible bonds that all outstanding bonds in issue on 3 January 2013 would be redeemed in full. All bondholders exercised their conversion rights prior to the redemption date and the remaining bonds were converted into ordinary shares of the Group at a conversion price of 185p.

The Company has £100 million revolving credit facilities with Lloyds Banking Group and Barclays Capital which run to 6 July 2014. Interest is charged at 1.75% over LIBOR on drawn amounts, with non-utilisation fees of 0.6125% on undrawn balances.

The Company's bank overdraft is part of a Group working capital facility in support of which cross guarantees are provided by certain subsidiary undertakings. At 30 September 2013 the net amount guaranteed under this arrangement was £nil (2012: £nil). The Group's bank borrowings are subject to a number of covenants which, in accordance with standard practice, are reviewed and discussed with lenders from time to time. The Board, having regard to its business plans, is confident that the Group will continue to comply with applicable conditions for the foreseeable future.

26 Trade and other payables

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Current liabilities				
Due to trustees for open end fund creations	**33.5**	24.3	**–**	–
Due to investors for open end fund redemptions	**10.7**	30.8	**–**	–
	44.2	55.1	**–**	–
Other trade creditors	**11.3**	17.3	**5.9**	8.7
Accruals	**212.6**	154.0	**24.1**	22.3
Tax and social security	**29.5**	14.9	**10.7**	4.8
Amounts due to subsidiary undertakings	**–**	–	**134.4**	136.9
Deferred income	**2.9**	2.8	**–**	–
Other creditors	**21.4**	25.3	**1.4**	1.3
	321.9	269.4	**176.5**	174.0

27 Provisions and contingent liabilities

Group and Company	Group			Company
	Legal £m	Onerous lease £m	Total £m	Onerous lease £m
At 1 October 2012	5.0	0.9	5.9	0.9
Utilised in the year	(1.0)	(0.5)	(1.5)	(0.5)
Provided in the year	1.0	–	1.0	–
At 30 September 2013	**5.0**	**0.4**	**5.4**	**0.4**

As more fully set out in the discussion of principal risks on pages 42 to 45, the Group is, from time to time and in the normal course of business, subject to a variety of legal claims, actions or proceedings. When such circumstances arise, the Board considers the likelihood of a material outflow of economic resources and provides for its best estimate of costs where an outflow of economic resources is considered probable. While there can be no assurances, the directors believe, based on information currently available to them, that the likelihood of other material outflows is remote.

28 Operating leases

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

	Group				Company	
	Land and buildings		Motor vehicles, and plant and equipment		Land and buildings	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Within one year	**18.4**	16.1	**0.7**	0.6	**5.4**	5.2
Between two and five years	**55.2**	50.5	**0.7**	1.0	**23.2**	19.9
After five years	**42.0**	36.0	**–**	–	**32.1**	27.5
	115.6	102.6	**1.4**	1.6	**60.7**	52.6

During the year ended 30 September 2013, £19.2 million was recognised as an expense in the income statement in respect of operating leases (2012: £13.5 million).

Sub-lease receivables

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

	Group		Company	
	Land and buildings		Land and buildings	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Within one year	**1.2**	1.1	**0.1**	0.1
Between two and five years	**5.0**	5.0	**2.3**	0.3
After five years	**1.4**	5.2	**1.3**	3.8
	7.6	11.3	**3.7**	4.2

29 Fair value of financial instruments

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

	Group				Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Financial assets								
Designated as fair value through profit or loss:								
Assets backing investment contract liabilities	**2,516.6**	2,311.9	**2,516.6**	2,311.9	**–**	–	**–**	–
Seed capital investments	**69.6**	40.4	**69.6**	40.4	**49.8**	31.2	**49.8**	31.2
Other investments	**26.0**	11.5	**26.0**	11.5	**25.7**	11.5	**25.7**	11.5
Investments of life and pensions subsidiary	**12.2**	6.6	**12.2**	6.6	**–**	–	**–**	–
Designated as available for sale:								
Other investments	**38.6**	37.2	**38.6**	37.2	**5.6**	5.6	**5.6**	5.6
Other financial assets:								
Investments in subsidiaries	**–**	–	**–**	–	**1,876.4**	1,691.4	**1,876.4**	1,691.4
Other investment held at amortised cost	**15.9**	15.9	**15.9**	15.9	**15.9**	15.9	**15.9**	15.9
Cash and cash equivalents	**426.6**	347.9	**426.6**	347.9	**202.0**	180.5	**202.0**	180.5
Trade and other receivables	**297.4**	254.4	**297.4**	254.4	**97.6**	152.3	**97.6**	152.3
Financial liabilities								
Interest bearing loans and borrowings:								
– Fixed rate borrowings	**–**	82.7	**–**	82.3	**–**	82.7	**–**	82.3
– Floating rate borrowings	**–**	–	**–**	–	**442.1**	370.4	**442.1**	370.4
Insurance contract liabilities	**2,516.6**	2,311.9	**2,516.6**	2,311.9	**–**	–	**–**	–
Trade and other payables	**321.9**	269.4	**321.9**	269.4	**176.5**	174.0	**176.5**	174.0
Fair value of the written put option	**27.5**	–	**27.5**	–	**–**	–	**–**	–

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

Securities

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

Where investments are not listed, fair value is determined in accordance with independent professional valuers or International Private Equity and Venture Capital Valuation Guidelines where relevant.

Interest bearing loans

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

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

Trade receivables and payables

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

Fair value of the written put option

As described in note 13, the Group has the option to acquire, and SVG Capital plc the option to sell, the remaining 49.9% stake in Aberdeen SVG. The option is exercisable by either party at or any time after the third anniversary of the transaction, except where shareholders are unable to resolve a significant disagreement known as a 'deadlock'. In the event of a deadlock, either party can exercise the option. Recognised within other liabilities, this represents the fair value of the remaining 49.9% stake in Aberdeen SVG. The fair value of the written put option has been calculated by discounting the expected future liability based on management's best estimate of the option being exercised after three years and at a discount rate based on the Group's cost of capital.

Changes in fair value and the discount will be taken through reserves.

Financial instruments relating to unit linked contracts

The Group's life assurance subsidiary provides unit linked wrappers which allow clients to benefit from investing in pooled funds. As explained in note 18, the risks and rewards of managing these assets are the same as other assets under management as the financial risks and rewards attributable to these assets also fall to be borne by, or to the benefit of, clients. Hence, while a number of significant financial instruments are recognised in the balance sheet in respect of the subsidiary, the key risk to the Group is the impact of the level of the fees which are earned from this entity which are directly impacted by the underlying value of the policyholder assets. While by necessity this subsidiary company has some insurance risks, these risks are completely reinsured, thereby negating any ultimate insurance risk to the Group's equity holders.

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

Fair value measurements recognised in the balance sheet

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

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

29 Fair value of financial instruments (continued)

	2013				2012			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fair value through profit or loss								
Seed capital investments	69.6	–	–	69.6	40.4	–	–	40.4
Other investments	25.7	–	0.3	26.0	11.5	–	–	11.5
Investments in life and pensions subsidiary	12.2	–	–	12.2	6.6	–	–	6.6
Available for sale financial assets								
Other investments	1.4	–	37.2	38.6	1.4	–	35.8	37.2
	108.9	–	37.5	146.4	59.9	–	35.8	95.7

Reconciliation of Level 3 fair value measurements of financial assets

	Available for sale financial assets £m	Designated as held for trading £m	Total £m
Balance at 1 October 2012	35.8	–	35.8
Total gains or losses:			
– in income statement	(1.4)	–	(1.4)
– in other comprehensive income	0.5	–	0.5
– loss recycled from equity	–	–	–
Purchases	3.7	0.3	4.0
Settlements	(1.4)	–	(1.4)
Balance at 30 September 2013	**37.2**	**0.3**	**37.5**

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

Investments classified as level 3 principally comprise investments in property funds. While the Group is not aware of significant differences between valuations received and reasonably possible alternatives, the value of these investments would be directly impacted by changes in the European and Asian property markets. The Group estimates that a 10% increase/decrease in the fair value of these investments will have a favourable/unfavourable impact on equity of £3.7 million.

30 Financial risk management

Overview

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

i) Risk management

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

- credit risk;
- liquidity risk;
- market price risk;
- foreign exchange risk; and
- interest rate risk.

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

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

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

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

ii) Credit risk

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

As detailed in note 29, the carrying value of financial instruments approximate their fair value, with the exception of interest bearing loans and borrowings. The Group's maximum exposure to credit risk is represented by the carrying amount of its financial assets.

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

	As at 30 September 2013					As at 30 September 2012				
Group	AAA £m	AA £m	A £m	Not rated £m	Total £m	AAA £m	AA £m	A £m	Not rated £m	Total £m
Cash and cash equivalents	18.1	237.4	163.5	7.6	426.6	49.3	142.1	152.0	4.5	347.9
Company										
Cash and cash equivalents	–	100.6	101.4	–	202.0	37.2	30.1	113.2	–	180.5

No other relevant financial assets are rated.

Financial statements

30 Financial risk management (continued)

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

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

An analysis of ageing of financial assets is shown below:

	As at 30 September 2013				As at 30 September 2012			
		Past due and not impaired				Past due and not impaired		
Group	**Neither past due nor impaired £m**	**Between 30 and 90 days £m**	**Between 90 days and 1 year £m**	**Total £m**	Neither past due nor impaired £m	Between 30 and 90 days £m	Between 90 days and 1 year £m	Total £m
Trade receivables	**32.2**	**14.1**	**2.8**	**49.1**	17.6	9.9	1.7	29.2
Company								
Trade receivables	**0.2**	**0.2**	**–**	**0.4**	0.3	0.1	0.1	0.5

All other financial assets are neither past due nor impaired.

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

Group	**2013 £m**	2012 £m
Trade receivables provision:		
Balance at 1 October	**0.5**	0.6
Bad debt charge (release) in the year	**0.2**	(0.1)
Balance at 30 September	**0.7**	0.5

This is a 100% provision held against gross trade receivable balances of £0.7 million at 30 September 2013 (2012: £0.5 million).

Fees are billed to clients as soon as values are available and settlement is due within agreed contractual terms. As a result, the average level for debtors and accrued income outstanding, at any point in time, will represent approximately 2.5 months' revenue.

At 30 September 2013 the Group had three (2012: three) individual clients with greater than £1 million outstanding. The total outstanding was £5.3 million (2012: £4.6 million).

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

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

iii) Liquidity risk

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

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

The Group's facilities include £100 million of revolving credit facilities, which are undrawn. The Group has cash balances of £426.6 million at 30 September 2013. Therefore, the current headroom between available facilities and amounts drawn is substantial and the Group's intention will be to maintain the headroom at a healthy level in the future.

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

	As at 30 September 2013					As at 30 September 2012				
Group	Within 1 year or repayable on demand £m	Within 1–2 years £m	Within 2–5 years £m	More than 5 years £m	Total £m	Within 1 year or repayable on demand £m	Within 1–2 years £m	Within 2–5 years £m	More than 5 years £m	Total £m
3.5% convertible bonds 2014	–	–	–	–	–	88.6	–	–	–	88.6
Company										
Bank overdraft	442.1	–	–	–	442.1	370.4	–	–	–	370.4
3.5% convertible bonds 2014	–	–	–	–	–	88.6	–	–	–	88.6
	442.1	–	–	–	442.1	459.0	–	–	–	459.0

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

iv) Market price risk

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

30 Financial risk management (continued)

The following financial assets are exposed to market risk:

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Financial assets at fair value through profit or loss				
Seed capital	**69.6**	40.4	**49.8**	31.2
Financial investments	**26.0**	11.5	**25.7**	11.5
Available for sale financial assets				
Financial investments	**38.6**	37.2	**5.6**	5.6
	134.2	89.1	**81.1**	48.3

The Group's defined benefit pension schemes hold assets which are exposed to market price risk. Details of these assets are shown in note 32.

Sensitivity analysis is disclosed below in section vii.

v) **Foreign currency risk**

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

Foreign currency transaction risk

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

Revenues are earned principally from fees which are calculated on the basis of the value of AuM managed for clients and many mandates include investments valued in currencies other than sterling. The fact that we operate on a global basis, with offices in a number of countries worldwide, means that a proportion of operating costs is also incurred in foreign currencies. Further, coupons on the 7.0% perpetual cumulative capital notes (and before redemption, the 7.9% perpetual capital securities) are incurred in US dollars. Variations in the sterling value of these operating costs and interest cost will, to an extent, offset any similar impact of fluctuating exchange rates on revenues. The Board has therefore decided that it is not appropriate to undertake any specific hedging of the Group's revenues or costs, except under limited circumstances.

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

Group

As at 30 September 2013	Total £m	Sterling £m	US$ £m	Euro £m	Nordic currencies £m	Singapore dollar £m	Other currencies £m
Financial assets							
Non-current asset investments	54.5	25.7	5.2	20.8	2.7	0.1	–
Trade and other receivables	297.4	86.4	129.1	41.6	12.0	5.3	23.0
Cash and cash equivalents	426.6	28.3	76.7	40.5	22.9	219.2	39.0
Current asset investments	38.2	35.0	0.9	2.3	–	–	–
Seed capital	69.6	16.5	32.2	15.7	–	1.6	3.6
	886.3	191.9	244.1	120.9	37.6	226.2	65.6
Financial liabilities							
Trade and other payables	321.9	171.0	86.1	29.1	10.1	12.5	13.1
As at 30 September 2012							
Financial assets							
Non-current asset investments	53.1	26.9	3.5	16.5	6.1	0.1	–
Trade and other receivables	254.4	116.7	83.9	19.9	11.1	3.2	19.6
Cash and cash equivalents	347.9	29.7	52.2	38.5	27.1	168.2	32.2
Current asset investments	18.1	16.8	0.7	0.6	–	–	–
Seed capital	40.4	15.8	22.1	0.1	–	2.0	0.4
	713.9	205.9	162.4	75.6	44.3	173.5	52.2
Financial liabilities							
Trade and other payables	269.4	151.1	54.4	31.3	11.9	9.8	10.9
Interest bearing loans and borrowings	82.7	82.7	–	–	–	–	–
	352.1	233.8	54.4	31.3	11.9	9.8	10.9

30 Financial risk management (continued)

Company

As at 30 September 2013	Total £m	Sterling £m	US$ £m	Euro £m	Other currencies £m
Financial assets					
Non-current asset investments	21.5	21.5	–	–	–
Trade and other receivables	97.6	97.6	–	–	–
Cash and cash equivalents	202.0	195.6	6.3	0.1	–
Current asset investments	25.7	22.5	0.9	2.3	–
Seed capital	49.8	16.6	16.2	15.3	1.7
	396.6	353.8	23.4	17.7	1.7
Financial liabilities					
Trade and other payables	176.5	176.1	0.1	0.2	0.1

As at 30 September 2012	Total £m	Sterling £m	US$ £m	Euro £m	Other currencies £m
Financial assets					
Non-current asset investments	21.5	21.5	–	–	–
Trade and other receivables	152.3	152.3	–	–	–
Cash and cash equivalents	180.5	170.3	0.4	9.8	–
Current asset investments	11.5	10.2	0.7	0.6	–
Seed capital	31.2	15.8	14.9	0.1	0.4
	397.0	370.1	16.0	10.5	0.4
Financial liabilities					
Trade and other payables	174.0	173.6	0.3	–	0.1
Interest bearing loans and borrowings	453.1	453.1	–	–	–
	627.1	626.7	0.3	–	0.1

Foreign currency translation risk

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

	2013 £m	2012 £m
US dollar	**121.3**	67.1
Euro	**40.6**	31.5
Nordic currencies	**23.9**	28.5
Singapore dollar	**224.8**	169.5
Other	**38.7**	28.9

vi) **Interest rate risk**

The Group is exposed to interest rate risk through borrowing at both fixed and floating rates. The risk is managed by maintaining an appropriate mix. The Group's debt consisted of convertible debt and the revolving credit facilities, which were undrawn at 30 September 2013. The convertible bonds, which carried interest at a fixed rate were fully redeemed in January 2013. Interest on the revolving credit facilities, which have been undrawn throughout the year, is at LIBOR plus a margin.

The Group also receives variable rate interest on cash deposits.

	2013			2012		
Group	**Fixed rate £m**	**Variable rate £m**	**Total £m**	Fixed rate £m	Variable rate £m	Total £m
3.5% convertible bonds 2014	–	–	–	82.7	–	82.7
Company						
Bank overdraft	–	**442.1**	**442.1**	–	370.4	370.4
3.5% convertible bonds 2014	–	–	–	82.7	–	82.7
	–	**442.1**	**442.1**	82.7	370.4	453.1

30 Financial risk management (continued)

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

	2013			2012		
Group	**Floating rate £m**	**No interest £m**	**Total £m**	Floating rate £m	No interest £m	Total £m
Non-current asset investments	**17.0**	**37.5**	**54.5**	15.9	37.2	53.1
Trade and other receivables	**–**	**297.4**	**297.4**	–	254.4	254.4
Cash and cash equivalents	**426.6**	**–**	**426.6**	347.9	–	347.9
Current asset investments	**–**	**38.2**	**38.2**	–	18.1	18.1
Seed capital	**0.2**	**69.4**	**69.6**	0.4	40.0	40.4
Total	**443.8**	**442.5**	**886.3**	364.2	349.7	713.9
Company						
Non-current asset investments	**15.9**	**5.6**	**21.5**	15.9	5.6	21.5
Trade and other receivables	**–**	**97.6**	**97.6**	–	152.3	152.3
Cash and cash equivalents	**202.0**	**–**	**202.0**	180.5	–	180.5
Current asset investments	**–**	**25.7**	**25.7**	–	11.5	11.5
Seed capital	**0.2**	**49.6**	**49.8**	0.4	30.8	31.2
Total	**218.1**	**178.5**	**396.6**	196.8	200.2	397.0

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

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

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

	Group		Company	
As at 30 September	**2013 Within 1 year £m**	2012 Within 1 year £m	**2013 Within 1 year £m**	2012 Within 1 year £m
Floating rates				
Cash and cash equivalents	**426.6**	347.9	**202.0**	180.5
Bank overdraft	**–**	–	**(442.1)**	(370.4)
	426.6	347.9	**(240.1)**	(189.9)

vii) Sensitivity analysis

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

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

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

- sterling exchange rates are assumed to increase or decrease by 10%;
- market interest rates are assumed to increase or decrease by 1%; and
- market prices are assumed to increase or decrease by 10% at each reporting date.

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

Group

As at 30 September 2013	Impact on profit or loss £m	Impact on profit or loss £m	Impact on equity £m	Impact on equity £m
Exchange rate movement	**+10%**	**-10%**	**+10%**	**-10%**
Currency				
Sterling/US dollar	13.0	(13.0)	12.1	(12.1)
Sterling/Euro	7.5	(7.5)	4.1	(4.1)
Sterling/Nordic currencies	2.3	(2.3)	2.4	(2.4)
Sterling/Singapore dollar	17.5	(17.5)	22.5	(22.5)
Market price movement	**+10%**	**-10%**	**+10%**	**-10%**
Financial investments at fair value through profit or loss	5.7	(5.7)	–	–
Financial investments available for sale	–	–	3.2	(3.2)
Interest rate movement	**+1%**	**-1%**	**+1%**	**-1%**
Sterling market interest rates	3.2	(3.2)	–	–

As at 30 September 2012				
Exchange rate movement	+10%	-10%	+10%	-10%
Currency				
Sterling/US dollar	8.9	(8.9)	6.7	(6.7)
Sterling/Euro	3.6	(3.6)	3.1	(3.1)
Sterling/Nordic currencies	2.7	(2.7)	2.9	(2.9)
Sterling/Singapore dollar	13.4	(13.4)	16.9	(16.9)
Market price movement	+10%	-10%	+10%	-10%
Financial investments at fair value through profit or loss	3.3	(3.3)	–	–
Financial investments available for sale	–	–	2.7	(2.7)
Interest rate movement	+1%	-1%	+1%	-1%
Sterling market interest rates	1.8	(1.8)	–	–

30 Financial risk management (continued)

Company

As at 30 September 2013	Impact on profit or loss £m	Impact on profit or loss £m	Impact on equity £m	Impact on equity £m
Exchange rate movement	+10%	-10%	+10%	-10%
Currency				
Sterling/US dollar	1.9	(1.9)	–	–
Sterling/Euro	1.4	(1.4)	–	–
Market price movement	+10%	-10%	+10%	-10%
Financial investments at fair value through profit or loss	4.1	(4.1)	–	–
Financial investments available for sale	–	–	0.1	(0.1)
Interest rate movement	+1%	-1%	+1%	-1%
Sterling market interest rates	(1.8)	1.8	–	–

As at 30 September 2012				
Exchange rate movement	+10%	-10%	+10%	-10%
Currency				
Sterling/US dollar	1.3	(1.3)	–	–
Sterling/Euro	0.9	(0.9)	–	–
Market price movement	+10%	-10%	+10%	-10%
Financial investments at fair value through profit or loss	2.6	(2.6)	–	–
Financial investments available for sale	–	–	0.1	(0.1)
Interest rate movement	+1%	-1%	+1%	-1%
Sterling market interest rates	(1.8)	1.8	–	–

viii) Capital management

The Board's policy with respect to capital is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to provide a sufficient base to sustain the future development of the business while at the same time ensuring compliance with all regulatory capital requirements. The Board receives monthly updates on headroom over regulatory capital and supervises key decisions that may impact the future capital position of the Group. Further information on the Group's regulatory capital position is given below.

The Group's capital structure consists of equity instruments, retained earnings and other equity reserves including perpetual capital securities. The perpetual capital securities satisfy the requirements of financial reporting standards for treatment as equity and are treated as an element of capital for regulatory purposes.

The Group uses cash generated from its operations to pay a progressive dividend. The Board seeks to avoid further dilutive issuance of new shares and has, since 2010, satisfied vesting of deferred bonus awards by purchasing shares in the market through the Employee Benefit Trust (EBT). The EBT now holds sufficient shares to cover all outstanding awards as at 30 September 2013.

Regulatory capital requirements
In accordance with the Capital Requirements Directive (CRD), as implemented in the UK by the Financial Conduct Authority (FCA), the Group is required to maintain a minimum level of capital. In common with many other independent asset managers, the Group currently operates under the terms of a waiver from the requirement to meet the full consolidated supervision rules of the CRD. The waiver was granted by the FCA with effect from January 2007 and is effective until August 2014. During the year to 30 September 2013 the Group achieved its objective of eliminating reliance on this waiver.

The Group is required to undertake an Internal Capital Adequacy Assessment Process (ICAAP), under which the Board quantifies the level of capital required to meet operational risks; this is referred to as the Pillar 2 capital requirement. The objective of this process is to ensure that firms have adequate capital to enable them to manage their risks which may not be adequately covered under the Pillar 1 requirements. This is a forward looking exercise which includes stress testing for the effects of major risks, such as those discussed on pages 42 to 45. These tests consider how the Group would cope with a significant market downturn, for example, and include an assessment of the Group's ability to mitigate the risks.

During the year to 30 September 2013 the acquisition of Aberdeen SVG added two regulated subsidiaries to the Group's existing three regulated subsidiaries in the United Kingdom. Each of the subsidiaries is regulated by the FCA, except for Aberdeen Asset Management Life and Pensions Limited, which is regulated by the Prudential Regulatory Authority (PRA). There are a further 33 subsidiaries which are subject to regulation in a number of overseas jurisdictions. With the exception of Aberdeen Asset Management Life and Pensions Limited, which is a regulated insurance firm, all others are regulated investment firms and are part of the Group consolidation for regulatory capital reporting purposes. The overseas regulated companies are subject to regulatory capital requirements which are determined by the respective local regulators.

All the regulated companies in the Group maintained surpluses over their respective regulatory capital requirements throughout the year.

31 Related party transactions

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

The principal subsidiary undertakings of the Company are shown in note 15. During the year, the Group entered into the following transactions with related parties:

a) Compensation of key management personnel of the Group

	2013 £m	2012 £m
Short-term employee benefits	**10.1**	9.2
Share-based payments	**13.7**	12.0
Pension contributions	**0.5**	0.4
Total	**24.3**	21.6
Deferred elements of employee benefits outstanding at the year end:		
Amounts owed to related parties (including amounts deferred from previous years)	**40.7**	34.6

The remuneration policy is described in more detail in the remuneration report on pages 64 to 78.

Financial statements

31 Related party transactions (continued)

b) Transactions with subsidiaries

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

	2013 £m	2012 £m
Interest receivable	**0.8**	1.2
Interest payable	**0.3**	0.4
Management fees	**126.4**	107.2
Dividends	**331.3**	217.6
Transfer of goodwill and intangibles to subsidiaries	**–**	4.4
Amounts due from subsidiaries	**121.3**	138.7
Amounts due to subsidiaries	**134.4**	136.9

c) Post employment benefit plans

The Group operates and participates in several post employment benefit plans as detailed in note 32.

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

	Employer contributions		Outstanding at 30 September	
	2013 £m	2012 £m	2013 £m	2012 £m
CGA Staff Pension Fund	**–**	2.3	**–**	–
Murray Johnstone Limited Retirement Benefits Plan	**18.8**	4.1	**–**	–
Edinburgh Fund Managers Group plc Retirement & Death Benefits Plan	**3.3**	3.3	**–**	–
DEGI Pension Plan	**0.3**	0.4	**–**	–
Other defined benefit plans	**0.8**	0.7	**–**	–
Defined contribution schemes	**22.4**	18.4	**–**	–

The contribution to the Murray Johnstone Limited Retirement Benefits Plan includes a one-off additional contribution offered by the Group to enhance the funding of the scheme.

The contribution to the CGA Staff Pension Fund in 2012 was to enable the trustees of the scheme to buy out the liabilities with an insurer. The scheme is now in the process of being wound up and no further contribution will be payable.

d) Asset management vehicles

The Group provides investment management services for a number of collective investment schemes where Group companies directly sponsor or are investment advisors of underlying funds, which meet the criteria or related parties. In return the Group receives management fees for provision of these services

These asset management vehicles and the investment management fees are summarised below:

	Gross Revenues 2013 £m	Outstanding at 30 Sep 2013 £m	Gross Revenues 2012 £m	Outstanding at 30 Sep 2012 £m
Collective investment schemes	**281.3**	**26.8**	256.4	23.6

32 Retirement benefits

The Group's principal form of pension provision is by way of three defined contribution schemes operated worldwide. The Group also operates a small number of legacy defined benefit schemes: the Murray Johnstone Limited Retirement Benefits Plan, the Edinburgh Fund Managers Group plc Retirement & Death Benefits Scheme and the DEGI Pension Plan. These defined benefit schemes are closed to new membership and to future service accrual.

The total contributions charged to the income statement in respect of the schemes operated by the Group were as follows:

			2013 £m	2012 £m
i)	In respect of the Group's defined contribution schemes:			
	Pension cost charged to operating profit:	UK schemes	11.8	9.0
		Overseas schemes	10.6	9.4
			22.4	18.4
ii)	In respect of the Group's defined benefit schemes:			
	Pension cost charged to operating profit:	UK and DEGI schemes	1.2	1.9
		Other schemes	1.5	1.3
			2.7	3.2
Total pension expense			**25.1**	**21.6**

The pension obligations are recognised as non-current liabilities in the balance sheet and are stated before deduction of the related deferred tax asset. The pension surplus is recognised as a non-current asset in the balance sheet and is stated before deduction of the deferred tax liability.

The pension surplus and deficits of the Group are summarised as follows:

	2013 £m	2012 £m
Pension surplus (deficits)		
Edinburgh Fund Managers Retirement & Death Benefits Plan	9.7	12.9
Murray Johnstone Limited Retirement Benefits Plan	(4.9)	(17.9)
DEGI Pension Plan	(6.4)	(6.3)
Deficit in main schemes (see (4) below)	(1.6)	(11.3)
Other defined benefit pension schemes	(2.8)	(4.1)
Net deficit	(4.4)	(15.4)

32 Retirement benefits (continued)

Disclosure relating to the Group's defined benefit obligations
The information given in (1) and (4) below reflects the aggregate disclosures in respect of the Group's three UK defined benefit pension arrangements and the DEGI scheme in Germany. The information given in (2) reflects the three UK schemes only. The information provided in (3) relates to the DEGI pension scheme.

1) Plan assets

	2013		2012	
	£m	%	£m	%
Plan assets				
Equities and alternatives	63.3	35.9	43.8	29.1
Gilts and other bonds	12.6	7.2	43.2	28.7
LDI funds	86.6	49.1	46.2	30.7
Other	12.2	6.9	12.3	8.2
Cash	1.7	0.9	5.0	3.3
	176.4	100.0	150.5	100.0

Basis used to determine the expected rate of return on plan assets
To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for the future returns of each asset class. The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long-term rate of return on assets assumptions for the portfolio.

2) Major assumptions used by UK schemes' actuaries

	2013 %	2012 %
Expected rate of return		
Equities and alternatives	6.6	6.2
Gilts and other bonds	3.6	3.4
LDI funds	3.3	3.1
Cash	0.5	0.5

	2013 %	2012 %
Discount rate	4.5	4.6
Pension increases		
– pre July 1997 accrual (Edinburgh 3%)	3.4	5.0
– post July 1997 accrual	3.4	2.8
Contributory salary increases (applies to Murray Johnstone only)	5.4	4.8
Rate of price inflation (RPI)	3.4	2.8
Rate of price inflation (CPI)	2.9	2.3

The weighted average assumptions used to determine the net pension cost are as follows:

	2013 %	2012 %
Discount rate	**4.6**	5.1
Expected long-term rate of return on plan assets	**3.5**	4.8
Rate of compensation increase (applies to Murray Johnstone only)	**4.8**	5.2
Rate of price inflation (RPI)	**2.8**	3.2

Mortality assumptions
The mortality assumptions for the UK defined benefit schemes at 30 September 2013 follow the SINA LIGHT CMI 2009 1.25% (YOB) tables. The impact of these assumptions on life expectancies is shown in the table below:

	2013 Years	2012 Years
Impact of mortality assumptions		
Expected age at death for a male currently aged 40 retiring in the future at age 60	**90.6**	90.5
Expected age at death for a female currently aged 40 retiring in the future at age 60	**91.9**	91.8
Expected age at death for a current male pensioner aged 60	**88.7**	88.6
Expected age at death for a current female pensioner aged 60	**89.9**	89.8

3) Major assumptions used by the DEGI scheme actuaries

	2013 %	2012 %
Major assumptions used by DEGI scheme actuaries		
Discount rate	**3.6**	3.4
Rate of compensation increase	**2.0**	2.0
Expected long-term rate of return on plan assets	**3.6**	3.4
Rate of price inflation	**2.0**	2.0
Assumed retirement age	**RVAGAnpG 2007**	RVAGAnpG 2007

The mortality tables used for the DEGI scheme were RT 2005 G with 80% invalidity.

32 Retirement benefits (continued)

4) Aggregate disclosure obligations

The following disclosure relates to the Group's three UK schemes plus the DEGI scheme in Germany:

	2013 £m	2012 £m
Change in benefit obligation		
Benefit obligation at beginning of year	161.8	148.4
Interest cost	6.9	7.5
Amendments	–	0.3
Actuarial loss recognised	13.5	10.8
Benefits paid from scheme	(4.8)	(4.3)
Exchange movement	0.6	(0.9)
Benefit obligation at end of year	178.0	161.8
Change in scheme assets		
Fair value of plan assets at beginning of year	150.5	127.0
Expected return on scheme assets	5.7	5.5
Actuarial gain on scheme assets	2.3	12.7
Employer contributions	22.4	10.1
Benefits paid from scheme	(4.8)	(4.3)
Exchange movement	0.3	(0.5)
Fair value of scheme assets at end of year	176.4	150.5
Deficit recognised at end of year	(1.6)	(11.3)

	2013 £m	2012 £m
Movement in deficit during the year		
Deficit in schemes at beginning of year	(11.3)	(21.4)
Movement in year:		
Transfer and amendments	–	(0.4)
Employer contributions	22.4	10.1
Pension expense recognised in income statement	(1.2)	(2.0)
Amounts recognised in the statement of comprehensive income	(11.2)	1.9
Exchange movement	(0.3)	0.5
Net deficit in schemes at end of year	(1.6)	(11.3)
Surplus in scheme at end of year	9.7	12.9
Deficits in schemes at end of year	(11.3)	(24.2)
	(1.6)	(11.3)

Amounts recognised in the statement of comprehensive income in the year include the amount shown above for the Group's main defined benefit schemes plus an actuarial gain of £1.6 million for other schemes.

The Group expects to pay approximately £7.1 million to the UK defined benefit schemes in the next financial year.

	2013 £m	2012 £m
Expense recognised in the income statement		
Interest cost	**6.9**	7.5
Expected return on scheme assets	**(5.7)**	(5.5)
	1.2	2.0
Actual return on scheme assets	**8.1**	18.3
Amount recognised in other comprehensive income		
Actuarial (loss) gain in the year	**(11.2)**	1.9
Cumulative amount recognised	**(45.6)**	(34.4)

5) **Five year summary**

The following disclosures relate to all Group schemes.

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Defined benefit schemes – five year history					
Benefit obligations at 30 September	**(184.7)**	(169.4)	(154.1)	(154.8)	(138.6)
Fair value of plan assets at 30 September	**180.3**	154.0	129.8	119.8	105.2
Net pension deficit	**(4.4)**	(15.4)	(24.3)	(35.0)	(33.4)
Difference between expected and actual return on plan assets					
Amount	**2.7**	11.3	2.4	8.6	(1.6)
Percentage of plan assets	**1.5%**	7.3%	1.8%	7.2%	-1.6%
Experience gains and losses on benefit obligations					
Amount	**–**	1.7	1.7	(13.4)	1.8
Percentage of benefit obligations	**–**	1.0%	1.1%	-8.6%	1.3%
Total gains and losses					
Amount	**(9.6)**	6.4	2.7	(5.0)	(25.4)
Percentage of benefit obligations	**-5.2%**	3.8%	1.8%	-3.2%	-18.3%

Relationships between Aberdeen Asset Management and the trustees of the defined benefit schemes

The schemes assets are held in separate trustee-administered funds to meet long-term pension liabilities to past employees. The trustees of the funds are required to act in the best interests of the funds' beneficiaries.

32 Retirement benefits (continued)

6) Company disclosures

Company	2013 £m	2012 £m
Net liability for defined benefit obligations at 1 October	–	0.7
Contributions paid	–	(2.3)
Actuarial losses recognised	–	1.6
Net liability for defined benefit obligations at 30 September	–	–

The above Company disclosures relate to the CGA Staff Pension Fund. The trustees of the fund have bought out the liabilities of the scheme with an insurer and the scheme is in the final stages of being wound up.

33 Post balance sheet event

We announced on 18 November 2013 that the Group has entered into an agreement to form a long-term strategic relationship with Lloyds Banking Group plc ("Lloyds"), as part of which Aberdeen will acquire Scottish Widows Investment Partnership Group Limited ("SWIP") and SWIP's related private equity and infrastructure fund management businesses. The completion of the transaction is subject to certain regulatory approvals. The acquired business includes the Investment Solutions division of SWIP which is a separate investment group that is responsible for the design, development and management of investment solutions for Lloyd's wealth clients.

The consideration for the acquisition of approximately £550 million (calculated by reference to an Aberdeen share price of 420 pence per share) will be satisfied by the issue of 131.8 million new Aberdeen shares to Lloyds, equivalent to an approximately 9.9% stake in the Group following completion of the acquisition. In addition, there will be a performance-related five year earn-out payment of up to £100 million dependent on growth delivered by the strategic relationship with Lloyds in the Investment Solutions business. The acquired business will add approximately £136 billion of assets under management.

Independent auditor's report to the members of Aberdeen Asset Management PLC only

Opinions and conclusions arising from our audit

Opinion on financial statements

We have audited the financial statements of Aberdeen Asset Management PLC for the year ended 30 September 2013 set out on pages 84 to 142. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Our assessment of risks of material misstatement

In arriving at our audit opinion above on the Group financial statements the risks of material misstatement that had the greatest effect on our Group audit were as follows:

Intangible Assets: We concentrate our audit on the two components of intangible assets which contain the key judgmental areas of goodwill and management contracts and distribution agreements. This is due to the range of significant assumptions used in the models as described in the subsections below and, as these assets represent 23% of the total assets on the Balance Sheet, were inappropriate assumptions to be used, this could lead to a significant misstatement. In auditing these areas, our procedures involved the use of our own valuation specialists to assist us in critically assessing the assumptions and methodologies used by the Group.

Goodwill: As detailed in the summary of significant accounting policies on pages 84 to 90, an impairment assessment of goodwill is carried out annually. We tested management's impairment assessment by comparing the Group's assumptions to externally derived data as well as our own assessments of key inputs such as projected economic growth, cost inflation and discount rates and assessed sensitivities as described in Note 12 as well as performing a break even analysis on key assumptions. We tested the Group's procedures around the preparation of the budget, upon which the value-in-use model is based, as well as comparing the sum of projected discounted cash flows to the market capitalisation of the Group to assess whether the projected cash flows appear reasonable. We also assessed whether the Group's disclosures (see Note 12) appropriately reflected the risks inherent in the valuation of goodwill.

Intangible assets arising from management contracts and distribution agreements: As detailed in the summary of significant accounting policies in on pages 84 to 90, an impairment assessment of indefinite life intangibles is carried out annually, while definite life intangibles are assessed for indicators of impairment. We assessed the appropriateness of classifying intangible assets as indefinite life and management's assessment for indicators of impairment for definite life assets in both cases by considering business activities such as fund outflows and associated results for the year. We tested the impairment model by comparing the Group's key assumptions, fee rates, projected assets under management and revenue multiples on projected cash flows, against data derived from internal sources, such as the Group's own implied fee rates and assets under management and external sources, such as recent transactions. We assessed the sensitivity analysis based on the key assumptions of the models.

Acquisition accounting: As detailed in Note 13, the Group made two acquisitions during the year. One focus of our audit work related to the judgement regarding the classification of transaction related payments as consideration or post-acquisition costs, as this classification determines the impact of the acquisitions on current year profit. We considered the nature and treatment of each type of payment, in conjunction with source documentation. We also focused on the identification and valuation of separately identifiable intangible assets and used our valuation specialists to assess the work of the Group's external experts who assisted management in identifying and valuing the separately identifiable intangible assets.

Share-based payments: This is a risk which also affected our parent company audit. As described in Note 22 for the Group and for the parent company, a significant proportion of the annual bonus is awarded in shares with vesting conditions attached. The key risks associated with share-based compensation arrangements is the quantification of such arrangements and the allocation of the expense between accounting periods, as certain assumptions need to be taken into account. Our procedures included, among others, recalculating the deferred awards element of the bonus pool and assessing the basis used to spread the charge over the performance period and ensuring the disclosures accurately reflected the awards in respect of current and previous years.

Each of these risks is also discussed in the section entitled 'Audit Committee' on pages 59 to 61.

Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £19.5m. This has been calculated with reference to a benchmark of Group profit before taxation which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £1.0m that have an impact on profit, in addition to other audit misstatements that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed at the key reporting components in the following countries: UK, Singapore, Hong Kong, Australia, USA, Luxembourg, Norway and Germany. These audits covered 88% of total Group revenue; 100% of Group profit before taxation; and 100% of total Group assets. The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to a component materiality level of £9.75m.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team visited components in the UK and USA. During the visits the audit team reviewed the planned approach to significant risks, discussed any issues identified by the component teams and held meetings with local management. Telephone meetings were also held with the auditors at locations that were not physically visited to discuss their audit approach, the findings from the audit and the detail of any issues identified.

Statutory audits are performed at the majority of the other subsidiaries that are not included in scope for Group reporting purposes but generally these are completed after the date of this report.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee section of the Corporate Governance report does not appropriately address matters communicated by us to the Audit Committee.

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 81, in relation to going concern;
- the part of the Corporate Governance Report on page 56 to 68 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 81, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

G. Bainbridge

G Bainbridge (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
37 Albyn Place
Aberdeen
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22 November 2013

Financial statements

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the annual report and financial statements, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and is fair, balanced and understandable; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

R C Cornick
Chairman

W J Rattray
Finance Director

22 November 2013

Five year summary

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Net revenue	**1,078.5**	869.2	784.0	638.2	421.9
Operating expenses					
– Operating costs	**(589.3)**	(516.5)	(474.7)	(416.3)	(326.2)
– Exceptional integration costs	**–**	–	–	(18.2)	(44.5)
– Amortisation and impairment of intangible assets	**(73.2)**	(78.1)	(77.8)	(66.2)	(30.1)
– Acquisition costs	**(19.2)**	–	–	–	–
Total operating expenses	**(681.7)**	(594.6)	(552.5)	(500.7)	(400.8)
Operating profit before amortisation, impairment, acquisition costs and exceptional items	**489.2**	352.7	309.3	221.9	95.7
Amortisation and impairment of intangible assets	**(73.2)**	(78.1)	(77.8)	(66.2)	(30.1)
Exceptional gains and charges and acquisition costs	**(19.2)**	–	–	(18.2)	(44.5)
Operating profit	**396.8**	274.6	231.5	137.5	21.1
Net finance costs	**(3.5)**	(5.1)	(7.4)	(11.9)	(10.6)
(Losses) gains on investments	**(3.0)**	0.2	–	–	–
Profit before taxation	**390.3**	269.7	224.1	125.6	10.5
Tax on profit on ordinary activities	**(61.5)**	(46.1)	(40.2)	(18.3)	(3.8)
Profit for the year	**328.8**	223.6	183.9	107.3	6.7
Earnings (loss) per share – IAS 33 basis					
– Basic	**27.16p**	18.88p	15.01p	8.32p	(1.71p)
– Diluted	**26.22p**	17.55p	14.06p	8.04p	(1.71p)
Underlying profit before taxation	**£482.7m**	£347.8m	£301.9m	£210.0m	£85.1m
Underlying earnings per share					
– Basic	**33.71p**	24.45p	20.13p	14.09p	6.52p
– Diluted	**32.48p**	22.62p	18.73p	13.28p	6.31p
Dividend per share	**16.0p**	11.5p	9.0p	7.0p	6.0p
Assets under management at year end	**£200.4bn**	£187.2bn	£169.9bn	£178.7bn	£146.2bn

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Details of other office locations can be found on the Group's website at **aberdeen-asset.com**

Corporate information

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Scott E Massie

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Registered Number
82015

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Auditor
KPMG Audit Plc
Chartered Accountants
37 Albyn Place
Aberdeen AB10 1JB

Stockbrokers
J.P.Morgan Cazenove
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Financial Calendar

Annual General Meeting
16 January 2014

Payment of final dividend
24 January 2014

Announcement of interim results
May 2014

Payment of interim dividend
June 2014

Aberdeen Asset Management PLC Annual Report and Accounts 2013

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