ABERDEEN ASSET MANAGEMENT PLC

(*incorporated with limited liability in Scotland with registered number SC082015*)

USD400,000,000

7.90 per cent. Perpetual Subordinated Capital Securities

Issue price: 100.0 per cent.

This Prospectus relates to the issue of USD400,000,000 in principal amount of 7.90 per cent. Perpetual Subordinated Capital Securities (the "**Capital Securities**") of Aberdeen Asset Management PLC (the "**Issuer**").

The Capital Securities will bear interest on their principal amount payable quarterly in arrear on 29 February (or 28 February in years where such month has only 28 days), 29 May, 29 August and 29 November in each year from 29 August 2007. Coupon Payments on the Capital Securities may be deferred as described under Condition 4 (*Deferred Interest*). Deferred Interest is cumulative. Deferred Interest will be required to be satisfied on the date of redemption or on exchange of the Capital Securities into Preference Shares or, if earlier, on the commencement of the winding-up of the Issuer. See "*Terms and Conditions of the Capital Securities*". Deferred Interest may only be satisfied by means of the Alternative Coupon Satisfaction Mechanism, as described herein.

The Capital Securities have no maturity date. The Capital Securities will be redeemable at the option of the Issuer in whole (but not in part) on 29 May 2012 or on any Coupon Payment Date falling thereafter at their principal amount together with any accrued and unpaid interest, including Deferred Interest. The Issuer may also redeem the Capital Securities in whole (but not in part) at any time on or prior to the First Call Date in the event of, *inter alia*, certain changes in certain U.K. tax laws or regulatory capital requirements applicable to the Issuer as described under Condition 7 (*Optional Redemption and Exchange*).

The Issuer may elect to exchange the Capital Securities in whole (but not in part) into Preference Shares on any Coupon Payment Date, subject to certain conditions. The Issuer may further elect to exchange the Capital Securities for Exchange Securities, as described herein, upon the occurrence of a Tax Event or a Regulatory Event as described in Condition 7 (*Optional Redemption and Exchange*).

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and has been prepared and filed with the United Kingdom Financial Services Authority (the "**FSA**") in accordance with rule 3.2 of the Prospectus Rules made under Section 73A of the Financial Services and Markets Act 2000 ("**FSMA**") which implemented the Prospectus Directive in the United Kingdom. Applications have been made to the FSA in its capacity as competent authority (the "**UK Listing Authority**") under FSMA for (i) a certificate of approval under Article 18 of the Prospectus Directive as implemented in the United Kingdom to be issued to the competent authority in each of Austria, Germany, Ireland, Italy, Luxembourg, The Netherlands and Spain and (ii) for the Capital Securities to be admitted to listing on the Official List of the UK Listing Authority and to trading on the gilt edged and fixed interest market of the London Stock Exchange plc (the "**London Stock Exchange**").

The Capital Securities have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Capital Securities are being offered outside the United States by the Lead Manager (as defined in "**Subscription and Sale**") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

An investment in the Capital Securities involves certain risks. For a discussion of these risks see "*Risk Factors*".

The Capital Securities will be in bearer form and in the denomination of USD2,000 each. The Capital Securities will initially be in the form of a temporary global capital security (the "**Temporary Global Security**"), without interest coupons, which will be deposited on or around 29 May 2007 (the "**Closing Date**") with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"). The Temporary Global Security will be exchangeable, in whole or in part, for interests in a permanent global capital security (the "**Permanent Global Security**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-US beneficial ownership. Interest payments in respect of the Capital Securities cannot be collected without such certification of non-US beneficial ownership. The Permanent Global Capital Security will be exchangeable in certain limited circumstances in whole, but not in part, for Capital Securities in definitive form in the denomination of USD2,000 each and with interest coupons attached. See "*Summary of Provisions Relating to the Capital Securities in Global Form*".

The Capital Securities are expected to be assigned a rating of BBB (low) by the Dominion Bond Rating Service ("**DBRS**"). Such credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by DBRS.

MERRILL LYNCH INTERNATIONAL

Sole Structuring Advisor and Lead Manager

15 May 2007

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IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Capital Securities other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Lead Manager.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Capital Security shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Capital Securities.

The distribution of this Prospectus and the offering, sale and delivery of Capital Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Lead Manager to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Capital Securities and on distribution of this Prospectus and other offering material relating to the Capital Securities, see "*Subscription and Sale*".

In particular, the Capital Securities have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Capital Securities may not be offered, sold or delivered within the United States or to US persons.

In this Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**USD**", "**US dollars**" or "**dollars**" are to United States dollars and references to "**£**", "**GBP**" and "**Sterling**" are to the lawful currency for the time being of the United Kingdom.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of the Capital Securities, Merrill Lynch International (the "Stabilising Manager")(or persons acting on behalf of the Stabilising Manager) may over-allot Capital Securities or effect transactions with a view to supporting the price of the Capital Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Capital Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Capital Securities and 60 days after the date of the allotment of the Capital Securities. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

INFORMATION INCORPORATED BY REFERENCE

The following documents (each of which has previously been published and filed with the FSA) shall be deemed to be incorporated in, and form part of, this Prospectus, provided however that any statement contained therein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such statement:

(a) the auditor's report and audited consolidated annual financial statements of the Issuer for the financial year ended 30 September 2005; and

(b) the corporate governance report forming part of the 2006 annual report and accounts of the Issuer.

Copies of such documents and this Prospectus will be made available, free of charge, during usual business hours at the registered office of the Issuer and at the specified offices of the Paying Agents.

SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the Capital Securities should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference. No civil liability attaches to the persons responsible for this summary, in any Member State which has implemented the Prospectus Directive, solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus, including any information incorporated by reference. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State, the claimant may, under the national legislation of the Member State, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Words and expressions defined in the "Terms and Conditions of the Capital Securities" below or elsewhere in this Prospectus have the same meanings in this summary.

Essential characteristics and risks associated with the Issuer

Introduction

The Issuer was incorporated and registered in Scotland under the Companies Acts 1948 to 1981 on 2 March 1983 with registered number 82015 as a private company limited by shares. Aberdeen Asset Management PLC is the legal and commercial name of the Issuer, which acts as the holding company for the Group.

Group Overview

The Group is an independent international asset management group managing assets around the world for both institutional and retail clients, including: some 122 open-end funds domiciled in the UK, Luxembourg and Ireland and marketed selectively in a number of countries worldwide, 15 open-end funds domiciled in Singapore and marketed locally, 20 closed-end funds listed in the UK (of which 13 are conventional investment trusts), 8 closed-end funds listed in the US and Canada, segregated accounts marketed on behalf of a variety of institutions worldwide and several substantial funds managed on behalf of life companies. The Group also has a private equity business and an institutional property asset management business. Total assets under management ("**AUM**") amounted to approximately £80.4 billion as at 31 March 2007, and £73.2 billion as at 30 September 2006. The Group provides asset management expertise encompassing the three principal asset classes of equity, fixed income and property.

Recent Developments

The scale and diversity of the Issuer's operations were transformed by the acquisition of certain UK and US businesses from Deutsche Bank, completed in two stages in September and December 2005. This transaction brought more balance to the Group's AUM by adding a high quality fixed income business to complement the Group's equity capability.

The Group's property division has made considerable progress over the last two years with a number of fund launches bringing an improved profile to the division's AUM with around 39 per cent. of AUM as at 31 March 2007 invested in funds.

The Group recently reached agreement with Real Estate Opportunities Limited ("**REO**") to settle the legal action initiated by REO in 2005 against members of the Group and a party not connected to the Issuer.

The Group has entered into an agreement with Deutsche Australia Limited to acquire certain Australian fund management businesses which on completion will have up to approximately A$14 billion of AUM.

Share Capital

The authorised and issued and fully paid up share capital of the Issuer as at 11 May 2007 is set out in the table below:

	Authorised No. of Shares	**Nominal Value**	**Issued and fully paid No. of Shares**	**Nominal Value**
		(£)		*(£)*
Ordinary Shares of 10p	1,000,000,000	100,000,000	628,604,267	62,860,426
Preference Shares of £100	80,000	8,000,000	79,926	7,992,600

Selected Financial Information

The following table sets out the key audited figures of the Group in respect of the two financial years ended 30 September 2006, which have been extracted directly from the Issuer's audited consolidated financial statements for the year ended 30 September 2006 together with the published key unaudited figures for the six months ended 31 March 2006 and 2007:

	30 September 2005	**30 September 2006**	**31 March 2006 (as restated)**	**31 March 2007**
	(£m)	*(£m)*	*(£m)*	*(£m)*
Revenue	156.1	302.1	147.4	162.5
Pre-tax profit (loss):				
Before exceptional items and amortisation of intangibles	24.8	79.0	36.8	43.6
After exceptional items and amortisation of intangibles	31.6	53.8	21.5	(21.9)
Net new business funded	£3.1bn	£5.0bn	£2.6bn	£4.1bn
Net new business awarded but not funded at period end	£0.5bn	£1.0bn	£1.0bn	£3.5bn

Directors

The Directors of the Issuer are as follows:

Charles Leonard Anthony Irby FCA
Martin James Gilbert MA LLB LLD CA
Andrew Arthur Laing MA LLB
William John Rattray MA CA
Donald Henry Waters OBE CA
Roger Courtenay Cornick
Anita Margaret Frew BA Hons MPhil
Rt. Hon. Sir Malcolm Rifkind QC MP
Christopher Giles Herron Weaver FCA

Memorandum of Association

The Memorandum of Association of the Issuer provides that the Issuer's principal objects are to carry on the business of investment and financial managers, advisers and consultants.

Significant/Material Change

Since 30 September 2006 there has been no material adverse change in the prospects of the Group and there has been no significant change in the financial or trading position of the Group since 31 March 2007, the date to which the unaudited consolidated interim financial information of the Group has been prepared.

Use of Proceeds

The net proceeds of the issue of the Capital Securities will be used by the Issuer to repay short term debt drawn down under the Issuer's bank revolving credit facility and for general corporate purposes.

Risk Factors

Split Capital Trusts

On 24 December 2004, the Issuer announced that the near three-year-long investigation into the marketing and management of split capital funds had been concluded with an omnibus settlement between the majority of the firms involved in the sector, the FSA, the Jersey Financial Services Commission and the Guernsey Financial Services Commission. The terms of the settlement entailed no admission of liability and effectively concluded the Group's exposure to the regulators in respect of these matters. The Issuer contributed £35 million to a central fund of approximately £143 million, which fund was used to provide a cash distribution for retail investors in the zero dividend preference shares issued by the relevant split capital investment companies.

The Issuer also made payments under an Uplift Plan to investors in Aberdeen Progressive Growth Unit Trust (a retail unit trust investing primarily in the zero dividend preference shares of closed-end collective investment vehicles). Following determinations by the Financial Ombudsman Service ("**FOS**"), it is making payments to investors who had not accepted the Uplift Plan. The aggregate cost incurred by the Issuer consequent on the Uplift Plan and the FOS determinations is approximately £33 million.

The Issuer has reached agreement with REO to settle the claims related to the Issuer's part in legal action initiated by REO in 2005. Although no admission of liability has been made, the Issuer's Board recognised it was in the best interests of the Group to conclude this matter and end the distraction it has caused. The cost to the Issuer, net of existing provisions and taxation, will be approximately £30 million.

Financial Markets, Exchange Rate Fluctuations and Regulation

The business of the Group is subject to change as a result of fluctuations in global financial markets, fluctuations between local currencies and financial regulations in each of the jurisdictions in which it operates.

Essential characteristics and risks associated with the Capital Securities

The Capital Securities will bear interest on their principal amount payable quarterly in arrear on 29 February (or 28 February in years where such month has only 28 days), 29 May, 29 August and 29 November in each year from 29 August 2007. Coupon Payments on the Capital Securities may be deferred. Deferred Interest is cumulative. Deferred Interest will be required to be satisfied on the date of redemption or on exchange of the Capital Securities into Preference Shares or, if earlier, on the commencement of the winding-up of the Issuer. Deferred Interest may only be satisfied by means of the Alternative Coupon Satisfaction Mechanism.

The Capital Securities have no maturity date. The Capital Securities will be redeemable at the option of the Issuer in whole (but not in part) on 29 May 2012 or on any Coupon Payment Date falling thereafter at their principal amount together with any accrued and unpaid interest, including Deferred Interest. The Issuer may also redeem the Capital Securities in whole (but not in part) at any time on or prior to the First Call Date in the event of a Tax Event or a Regulatory Event. The Issuer may further elect to exchange the Capital Securities for Exchange Securities upon the occurrence of a Tax Event or a Regulatory Event. Certain of such Tax Events or Regulatory Events may occur at any time after the Issue Date and it is therefore possible that the Issuer would be able to redeem or exchange the Capital Securities at any time after the Issue Date. In addition, the Issuer may elect to exchange the Capital Securities in whole (but not in part) into Preference Shares on any Coupon Payment Date, subject to certain conditions.

The Issuer is under no obligation to redeem the Capital Securities at any time and the Holders shall have no right to call for their redemption.

The Issuer may, at its sole discretion elect to defer any Coupon Payments on any Coupon Payment Date. Any Coupon Payments that the Issuer elects not to make, together with any Coupon Payments that the Issuer does not make because the Solvency Condition is not met on a relevant Coupon Payment Date, will be deferred. Deferred Interest will be payable upon redemption or purchase of the Capital Securities, on the Exchange Date or in the winding-up of the Issuer. Other than in the event of the winding-up of the Issuer, Deferred Interest will only be settled pursuant to the Alternative Coupon Satisfaction Mechanism. Interest will not accrue on Deferred Interest.

There is no restriction on the amount of securities which the Issuer may issue which rank pari passu with the Capital Securities. The issue of any such securities may reduce the amount recoverable by Holders on a winding-up of the Issuer and/or may increase the likelihood of a deferral of interest payments under the Capital Securities.

The ability of the Issuer to use the Alternative Coupon Satisfaction Mechanism to satisfy its payment of Deferred Interest on the Capital Securities by issuing Ordinary Shares (rather than ACSM Securities) is subject to the following conditions: (i) the Issuer shall not be required to issue any Ordinary Shares, or cause them to be issued, at a price below their nominal value; (ii) the Issuer must have a sufficient number of authorised but unissued Ordinary Shares prior to the issue of the Ordinary Shares; and (iii) the directors of the Issuer must have all the necessary authority under Scottish law to allot and issue a sufficient number of Ordinary Shares.

If, shortly before or during the operation of the Alternative Coupon Satisfaction Mechanism to satisfy a payment by the Issuer, a Market Disruption Event exists, the payment of all such amounts owing may be deferred until the cessation of such market disruption.

The sole remedy against the Issuer available to the Trustee to recover any amounts owing in respect of the principal amount of, or interest on, the Capital Securities will be to institute proceedings for the winding-up in Scotland of the Issuer.

The Capital Securities are new securities which may not be widely distributed and for which there is currently no active trading market. If the Capital Securities are traded after their initial issuance, they may trade at a discount to their issue price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Capital Securities to be admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Capital Securities.

The Capital Securities will be represented by the Global Securities and will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Security, investors will not be entitled to receive definitive Capital Securities. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Securities. While the Capital Securities are represented by the Global Securities, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Capital Securities by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Security must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Capital Securities. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Securities.

If the Issuer is declared insolvent and a winding-up is initiated, it will be required to pay the holders of senior debt and meet its obligations to all its Senior Creditors in full before it can make any payments on the Capital Securities. If this occurs, the Issuer may have insufficient assets remaining after these payments to pay amounts due under the Capital Securities.

RISK FACTORS

*All the information set out in this Prospectus should be carefully considered, together with the risks normally associated with companies of a similar nature to the Issuer and its subsidiaries (the "**Group**") and, in particular, those risks described below. In addition, factors which are material for the purpose of assessing the market risks associated with the Capital Securities are also described below.*

Whilst the Issuer believes that the factors described below represent the principal risks inherent in investing in the Capital Securities, further risks and uncertainties which are not known to the Issuer at the date of this document, or that the Issuer currently deems immaterial, may also have an adverse effect on the ability of the Issuer to pay interest, principal or other amounts on or in connection with the Capital Securities. Words and expressions defined in the "Terms and Conditions of the Capital Securities " below or elsewhere in this Prospectus have the same meanings in this section.

Risks relating to the Issuer

Split Capital Trusts

On 24 December 2004, the FSA announced that the near three-year-long investigation into the marketing and management of split capital funds had been concluded with an omnibus settlement between the majority of the firms involved in the sector, the FSA, the Jersey Financial Services Commission and the Guernsey Financial Services Commission. The terms of the settlement entailed no admission of liability and effectively concluded the Group's exposure to the regulators in respect of these matters. The Issuer contributed £35 million to a central fund, which fund was used to provide a cash distribution for retail investors in the zero dividend preference shares issued by the split capital investment companies which participated in the global settlement. In total, approximately £143 million was committed to the central fund by 18 companies involved in the sector.

The Issuer has completed the schedule of payments due under an uplift plan ("**Uplift Plan**") for investors in Aberdeen Progressive Growth Unit Trust ("**Progressive**") (a retail unit trust which, since launch in August 2000, had invested primarily in zero dividend preference shares of listed multi-class closed-end collective investment vehicles). The Uplift Plan was offered to all investors who had acquired units in the fund on or before 28 June 2002. Some 94.4 per cent. by value of eligible investors participated in the Uplift Plan on condition that they relinquished their rights to take any other action in relation to their holding in Progressive.

In February 2007, the Financial Ombudsman Service ("**FOS**") announced that final determinations had been made in favour of a number of investors in Progressive, who had referred complaints to FOS and had not accepted the Uplift Plan. Following on from this decision the Issuer is making similar payments to other investors who did not accept the Uplift Plan in respect of units in Progressive which they acquired whilst Progressive was promoted by the Issuer as a "low risk" investment. The aggregate cost incurred by the Issuer in respect of the Uplift Plan and other payments to be made to investors consequent on the FOS determination is approximately £33 million.

The Issuer has reached agreement with Real Estate Opportunities Limited ("**REO**") to settle the claims related to the Issuer's part in legal action initiated by REO in 2005 against the Issuer and a party not connected to the Issuer. The Issuer made no admission whatsoever of any liability or of acceptance of the validity of REO's claim, but the Board of the Issuer recognised that it was in the best interests of the Group to conclude this matter and to end the distraction it has caused. The cost to the Issuer, net of existing provisions and taxation, will be approximately £30 million.

In April 2004, the liquidator of the special purpose vehicle of Aberdeen Preferred Income Trust Limited wrote to the Issuer indicating that it was considering a claim. However, no further detail has been forthcoming.

The speculation that legal proceedings may be brought against a range of parties who have been involved in the UK split closed-end investment fund sector continues. Other than as stated above, no notice of any legal proceedings related to the Group's involvement in the splits sector has been served against any member of the Group and any such proceedings would be defended robustly.

Employees

The success of the Group depends, *inter alia*, upon the support of its employees and, in particular, the executive directors and fund managers. The loss of key members of the Group's staff could have an adverse effect on its performance.

Financial Markets

The income of the Group is subject to change as a result of fluctuations in the financial markets in which it operates which directly affect the level of assets under management and which may adversely affect the Group's performance. A sustained fall in equity and/or bond markets would reduce the Group's revenues and diminish its prospects of obtaining new assets to manage.

Exchange Rate Fluctuations

A significant proportion of the Group's turnover is generated overseas and, because the Group's reporting currency is sterling, the fluctuations between local currencies, particularly the US dollar, and sterling may have an adverse effect on the Group's performance.

Regulation

The Group's operations are subject to financial regulations in each of the jurisdictions in which they operate. Alterations to the regulatory requirements in any jurisdiction may adversely affect the Group's performance. In addition, any breach of relevant regulatory requirements may result in regulatory sanction (See "*Regulatory Environment*").

Economic Environment

The future results of the Group will be dependent on factors outside the Group's control such as general economic conditions, competition and regulation. These factors could have a positive or negative effect on the future results of the Group.

Risks relating to the Capital Securities

Deferral of Coupon Payments

The Issuer may, at its sole discretion, pursuant to Condition 4 (*Deferred Interest*) elect to defer any Coupon Payments on any Coupon Payment Date.

Any Coupon Payments that the Issuer elects not to make pursuant to Condition 4 (*Deferred Interest*), together with any Coupon Payments that the Issuer does not make because the Solvency Condition is not met on a relevant Coupon Payment Date, will be deferred. Deferred Interest will be payable upon redemption or purchase of the Capital Securities, on the Exchange Securities Date or on the winding-up of the Issuer. Other than in the event of the winding-up of the Issuer, Deferred Interest will only be settled pursuant to the Alternative Coupon Satisfaction Mechanism. Interest will not accrue on Deferred Interest.

Perpetual securities

The Issuer is under no obligation to redeem the Capital Securities at any time and the Holders shall have no right to call for their redemption.

Redemption and exchange

The Capital Securities have no maturity date, but the Issuer may redeem the Capital Securities in whole (but not in part) on 29 May 2012, or any Coupon Payment Date thereafter, at their principal amount plus accrued interest, including any Deferred Interest, subject to satisfaction of certain conditions and the obligation of the Issuer to make payment of any Deferred Interest only through the Alternative Coupon Satisfaction Mechanism. The Issuer may elect at any time to exchange the Capital Securities (in whole, but not in part) for non-cumulative preference shares. Upon the occurrence of a Tax Event or a Regulatory Event, the Issuer may also redeem the Capital Securities or exchange them (in whole but not in part) into another series of capital securities at any time prior to the First Call Date as more particularly described under Condition 7 (*Optional Redemption and Exchange*). Certain of such Tax Events or Regulatory Events may occur at any time after the Issue Date and it is therefore possible that the Issuer would be able to redeem or exchange the Capital Securities at any time after the Issue Date.

No limitation on issuing pari passu securities

There is no restriction on the amount of securities which the Issuer may issue which rank *pari passu* with the Capital Securities. The issue of any such securities may reduce the amount recoverable by Holders on a winding-up of the Issuer and/or may increase the likelihood of a deferral of interest payments under the Capital Securities.

Availability of shares to implement the Alternative Coupon Satisfaction Mechanism

The ability of the Issuer to use the Alternative Coupon Satisfaction Mechanism to satisfy its payment of Deferred Interest on the Capital Securities by issuing Ordinary Shares (rather than ACSM Securities) is subject to the following conditions: (i) the Issuer shall not be required to issue or sell any Ordinary Shares, or cause them to be issued or sold, at a price below their nominal value; (ii) the Issuer must have a sufficient number of authorised but unissued Ordinary Shares prior to the issue of the Ordinary Shares; and (iii) the directors of the Issuer must have all the necessary authority under Scottish law to allot and issue a sufficient number of Ordinary Shares.

Market Disruption Event

If, shortly before or during the operation of the Alternative Coupon Satisfaction Mechanism to satisfy a payment by the Issuer, a Market Disruption Event exists, the payment of all such amounts owing may be deferred until the cessation of such market disruption, as more particularly described under Condition 6(c) (*Market Disruption Event*).

Restricted remedy for non-payment

The sole remedy against the Issuer available to the Trustee to recover any amounts owing in respect of the principal amount of, or interest on, the Capital Securities will be to institute proceedings for the winding-up in Scotland of the Issuer. See Condition 10 (*Defaults; Limitation of Remedies*).

Absence of active trading market for the Capital Securities

The Capital Securities are new securities which may not be widely distributed and for which there is currently no active trading market. If the Capital Securities are traded after their initial issuance, they may trade at a discount to their issue price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Capital Securities to be admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Capital Securities.

Because the Global Securities are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

The Capital Securities will be represented by the Global Securities and will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Security, investors will not be entitled to receive definitive Capital Securities. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Securities. While the Capital Securities are represented by the Global Securities, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Capital Securities by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Security must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Capital Securities. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Securities.

The Capital Securities are subordinated to most of the Issuer's liabilities

If the Issuer is declared insolvent and a winding-up is initiated, it will be required to pay the holders of senior debt and meet its obligations to all its Senior Creditors in full before it can make any payments on the Capital Securities. If this occurs, the Issuer may have insufficient assets remaining after these payments to pay amounts due under the Capital Securities.

Credit Rating

The Capital Securities are expected to be assigned a rating of "BBB (low)" by DBRS. Such security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by DBRS. Any adverse change in an applicable credit rating could adversely affect the trading price for the Capital Securities.

KEY FEATURES OF THE CAPITAL SECURITIES

These key features must be read as an introduction to this Prospectus and any decision to invest in the Capital Securities should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference.

Words and expressions defined in the "Terms and Conditions of the Capital Securities" below or elsewhere in this Prospectus have the same meanings in these key features.

The Issuer:	Aberdeen Asset Management PLC.
Lead Manager:	Merrill Lynch International.
Trustee:	Citicorp Trustee Company Limited.
Issue:	USD400,000,000 7.90 per cent. Perpetual Subordinated Capital Securities.
Issue Price:	100 per cent. of the principal amount of the Capital Securities.
Issue Date:	Expected to be on or about 29 May 2007.
Use of Proceeds:	The net proceeds of the issue of the Capital Securities will be used by the Issuer to repay short term debt drawn down under the Issuer's bank revolving credit facility and for general corporate purposes.
Coupon:	The Capital Securities will bear interest quarterly in arrear on the principal amount of each of the Capital Securities from (and including) the Issue Date at a fixed rate of 7.90 per cent. per annum.
Coupon Payment Dates:	Coupon Payments will, subject as set out in Condition 4 (*Deferred Interest*), be payable quarterly in arrear on 29 February (or 28 February in years where such month has only 28 days), 29 May, 29 August and 29 November in each year starting on 29 August 2007.
Additional Amounts:	All payments of principal and interest in respect of the Capital Securities will be made without withholding taxes of the United Kingdom, unless the withholding is required by a UK taxing authority. In such event (subject to customary exceptions), the Issuer will pay such additional amounts as will be necessary to ensure that the net amount received by Holders or Couponholders, after the withholding, will equal the amount which would have been receivable in the absence of the withholding.
Status:	The Capital Securities are unsecured, subordinated obligations of the Issuer and will rank *pari passu* without any preference among themselves. The rights and claims of the Holders against the Issuer under the Capital Securities in respect of the principal amounts due and payable on redemption, any Deferred Interest and Coupon Payments are subject to Condition 2(c) (*Solvency Condition*)

and are subordinated in a winding-up in accordance with Condition 3 (*Winding-Up of the Issuer*).

Solvency Condition:

Except in a winding-up, all payments in respect of or arising under the Capital Securities (including Coupon Payments payable in cash or by way of the Alternative Coupon Satisfaction Mechanism) will be conditional upon the Issuer satisfying the Solvency Condition at the time of and immediately after any such payment and the Issuer will not make any payment and any such payment shall not be payable in respect of the Capital Securities and the Issuer may not redeem or purchase any of the Capital Securities unless it satisfies the Solvency Condition both at the time of and immediately after any such payment, redemption or purchase. See Condition 2(c) (*Solvency Condition*).

Issuer Payment Option:

Subject to the dividend and capital restriction described below, the Issuer may elect, at its sole discretion, to defer any Coupon Payment on any Coupon Payment Date.

The obligation of the Issuer to make payment of Deferred Interest (other than in the event of a winding-up of the Issuer) may be met only through the Alternative Coupon Satisfaction Mechanism. See Condition 6 (*Alternative Coupon Satisfaction Mechanism*).

Alternative Coupon Satisfaction Mechanism:

Holders will always receive payments made in respect of the Capital Securities in cash. However, if any Coupon Payment on the Capital Securities is deferred, such payment (other than a payment which becomes payable as a result of the winding-up of the Issuer) must be satisfied by the Issuer through the Alternative Coupon Satisfaction Mechanism. This will be achieved by the Issuer issuing Ordinary Shares or ACSM Securities. The Calculation Agent will agree to use reasonable endeavours to procure subscribers for such Ordinary Shares or ACSM Securities. The Calculation Agent will calculate in advance the number of Ordinary Shares or ACSM Securities to be issued in order to enable the Issuer to raise the full amount of the Deferred Interest.

Dividend and Capital Restriction:

If, on any Coupon Payment Date, payment of all Coupon Payments to be paid on such date is not made in full, then from such Coupon Payment Date the Issuer shall not, and shall not permit any entity it directly or indirectly controls to, (a) declare or pay a dividend or distribution or make any other payment on any of its Parity Securities or on any of its Junior Securities (other than a dividend declared by the Issuer with respect to its Ordinary Shares prior to the date on which notice of deferral of the Coupon Payment is given pursuant to Condition 4(e)), or (b) redeem, purchase or otherwise acquire any of its Parity Securities or any of its Junior Securities, in each case unless and until an amount equal to the Coupon Payments otherwise due and payable on the next succeeding Coupon Payment Date on all outstanding Capital Securities on such date is paid in full or duly set aside or provided for in full.

The Dividend and Capital Restriction will not prohibit the declaration and payment of any dividends and distributions or the making of any other payment between companies in the Group.

Optional Redemption or Exchange:

The Capital Securities are perpetual securities and have no maturity date. The Capital Securities are not redeemable at the option of the Holders at any time. The Capital Securities may be redeemed in whole (but not in part) at the option of the Issuer on the First Call Date, or on any Coupon Payment Date thereafter, at an amount equal to the outstanding principal amount of the Capital Securities together with any accrued interest to the Redemption Date and the aggregate amount of any Deferred Interest, subject to the Issuer giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice), of such redemption and subject further to the Solvency Condition being met by the Issuer both at the time of and immediately after such redemption.

In addition, the Issuer may redeem the Capital Securities in whole (but not in part) at any time prior to the First Call Date upon the occurrence of a Tax Event, subject to the Solvency Condition being met by the Issuer both at the time of and immediately after such redemption, and subject to the Issuer giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice), of such redemption. See Condition 7(c) (*Tax Event Redemption or Tax Event Exchange or Variation*)

Upon the occurrence of a Tax Event, the Issuer may also, at its sole discretion, subject in each case to compliance with applicable regulatory requirements, including the Issuer giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice) of such exchange or variation, at any time exchange the Capital Securities in whole (but not in part) for Exchange Securities, or vary the terms of the Capital Securities so that they become Exchange Securities.

The Issuer may redeem the Capital Securities in whole (but not in part) at any time prior to the First Call Date if a Regulatory Event shall have occurred and is continuing, subject to the Solvency Condition being met both at the time of and immediately after such redemption and the Issuer giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice) of such redemption.

Upon the occurrence of a Regulatory Event, the Issuer may also at its sole discretion, subject in each case to compliance with applicable regulatory requirements, including giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice) of such exchange or variation, at any time exchange the Capital Securities in whole (but not in part) for Exchange Securities or vary the terms of the Capital Securities so that they become Exchange Securities.

Option to Exchange into Preference Shares

The Issuer may elect to exchange the Capital Securities in whole (but not in part) for Preference Shares on any Coupon Payment Date, subject to the Solvency Condition being met both at the time of and immediately after such exchange and to the Issuer giving at least one month's prior written notice to, and received no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice) of such exchange. The Issuer may only exchange the Capital Securities if on, and immediately following, the Exchange Date it complies with the Capital Regulatory Requirements. Each Capital Security shall be exchanged for one Preference Share with a liquidation preference of USD2,000.

Sufficiency and Availability of Ordinary Shares:

So long as the Capital Securities are outstanding, the Issuer will review the sufficiency of its authorised but unissued Ordinary Shares and the authority of its directors to issue such Ordinary Shares prior to each annual general meeting and, if necessary, propose resolutions to increase the number so that it will have available for issue such number of Ordinary Shares as is required to satisfy the payment of Deferred Interest, if any, together with scheduled Coupon Payments on the Capital Securities for the next 12 months using the Alternative Coupon Satisfaction Mechanism.

Market Disruption Event:

If a Market Disruption Event exists during the 14 Business Days preceding any date upon which the Issuer is due to issue Ordinary Shares or ACSM Securities to satisfy a payment in accordance with the Alternative Coupon Satisfaction Mechanism the relevant payment may be deferred until such Market Disruption Event no longer exists.

Form and Denomination:

The Capital Securities will be issued in bearer form in the denomination of USD2,000. The Capital Securities will be represented initially by a Temporary Global Security which will be deposited outside the United States with a common depositary for Euroclear and Clearstream, Luxembourg on or about 29 May 2007. The Temporary Global Security will be exchangeable for interests in a Permanent Global Security on or after a date which is expected to be 9 July 2007 upon

	certification as to non-US beneficial ownership as required by US Treasury regulations and as described in the Temporary Global Security. Save in limited circumstances, Capital Securities in definitive bearer form with coupons attached on issue will not be issued in exchange for interests in the Permanent Global Security.
Offer Period:	From (and including) 9.00 a.m. CET on 17 May 2007 up to (and including) 3.00 p.m. CET on 28 May 2007 during the hours in which banks are generally open for business in each of the Public Offer Jurisdictions (as defined below).
Offer Price:	The Capital Securities will be offered through the Lead Manager and certain other Distributors (as defined below) to prospective investors at 100 per cent. of their principal amount. The Lead Manager will receive a combined management and underwriting commission on the Issue Date as set out in "*Subscription and Sale*" below. Any Distributor may also receive a selling commission and/or concession from the Lead Manager.
Conditions to which the offer is subject:	The issue of the Capital Securities is subject to certain conditions precedent customary for transactions of this type (including delivery of legal opinions and comfort letters) as set out in the Subscription Agreement. The Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the issue of the Capital Securities.
Description of the application process:	To participate in the offering of Capital Securities, each prospective investor should contact the Lead Manager or a Distributor, prior to the end of the Offer Period. Each investor will subscribe or purchase Capital Securities from the Lead Manager or, as the case may be, Distributor, in accordance with the arrangements existing between the Lead Manager or Distributor and its customers relating to the subscription of securities generally. Holders will not be required to enter into any contractual arrangements directly with the Issuer in order to subscribe or purchase the Capital Securities. If an investor in any jurisdiction other than the Public Offer Jurisdictions wishes to purchase Capital Securities, such investor should (a) be aware that sales in the relevant jurisdiction may not be permitted; and (b) contact his financial advisor, bank or financial intermediary for more information.
Passporting:	Upon submission of this Prospectus to the UK Listing Authority for approval, the Issuer intends to request that the UK Listing Authority provide to the competent authority in each of Austria, Germany, Ireland, Italy, Luxembourg, The Netherlands and Spain (the "**Public Offer Jurisdictions**") a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive. Upon such approval, the Capital Securities may be offered to the public in the Public Offer Jurisdictions only in accordance with the requirements of

	the Prospectus Directive as implemented in the relevant Public Offer Jurisdictions. The Capital Securities may only be offered or sold in any jurisdiction (including, without limitation, the Public Offer Jurisdictions), in accordance with the requirements of the relevant securities laws and regulations applicable in such jurisdiction. See in particular "*Subscription and Sale*" below.
Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants:	Not applicable
Details of the minimum and/or maximum amount of application:	The allotment of the Capital Securities will be on a "book building" basis in amounts of USD2,000 or multiples thereof until reaching the amount of USD400,000,000.
Details of the method and time limits for paying up and delivering the Capital Securities:	Prospective investors will be notified by Lead Manager or Distributor regarding their allocations and the settlement arrangements in respect thereof. The Capital Securities will be sold on a delivery versus payment basis on the Issue Date.
Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised:	Not applicable
Categories of potential investors to which the Capital Securities are offered and whether tranche(s) have been reserved for certain countries:	The Capital Securities will be publicly offered to institutional and retail investors in the Public Offer Jurisdictions and, elsewhere, to investors solely as permitted pursuant to the selling restrictions set out in "*Subscription and Sale*" below.
Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made:	At the end of the Offer Period the Lead Manager or Distributor, as the case may be, will proceed to notify the prospective investors as to the amount of their allotment of the Capital Securities. For the avoidance of doubt, no dealings in the Capital Securities may take place prior to the Issue Date.
Names, to the extent known to the Issuer, of the Distributors in the various countries where the offer takes place:	Caja Rural de Castellon, Banque de Financement et de Tresorerie, Bankhaus Lampe KG, Bankhaus Reuschel & Co, Hauck & Aufhaeuser Privatbankiers KGAA, WGZ Bank AG Westdeutsche Genossenschafts-Zentralbank, Alpha Bank A.E., Raiffeisen Zentralbank Oesterreich Aktiengesellschaft, Grupo Ahorro Corporacion, Intermoney Valores Sociedad de Valores S.A., Venture Finanzas Sociedad de Valores S.A., Banco Bilbao Vizcaya Argentaria S.A., Banque Safra Luxembourg S.A., Barclays Private Bank Limited, Insinger de Beaufort, Standard Bank PLC., Morgan Stanley & Co. International PLC., Smith & Williamson, Credit Foncier de Monaco, Banca Promos SPA, Banca Generali SPA, Societe Bancaire Privee S.A., Delta Lloyd Bank N.V., Van Lanschot N.V., Nykredit Bank AS, Carnegie Investment Bank AB (London), Banque Carnegie Luxembourg S.A., Interdin Bolsa Sociedad de Valores y Bolsa S.A., Landesbank Berlin Investment AG Gmbh (each a "**Distributor**").

Rating:	The Capital Securities are expected to be rated BBB (low) by DBRS. Such credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by DBRS.
Governing Law:	The Capital Securities, the Trust Deed, the Agency Agreement and the Subscription Agreement will be governed by English law.
Listing and Trading:	Applications have been made for the Capital Securities to be admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange.
Clearing Systems:	Euroclear and Clearstream, Luxembourg.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Capital Securities and on the distribution of offering materials in the United States of America, the European Economic Area, the United Kingdom, Hong Kong, the Republic of Italy, the Grand Duchy of Luxembourg, Singapore, Qatar and the United Arab Emirates, see "*Subscription and Sale*".
Risk Factors:	Investing in the Capital Securities involves risks. See "*Risk Factors*".
Financial Information:	See "*Description of the Issuer - Selected Financial Information*" and "*Financial Statements and Auditors' Reports*".

TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

The following terms and conditions, subject to alteration (and except for the paragraphs in italics), are the terms and conditions of the Capital Securities (the "Terms and Conditions") which will be endorsed on each Capital Security in definitive form if issued:

The USD400,000,000 7.90 per cent. Perpetual Subordinated Capital Securities (the "**Capital Securities**") are constituted by the Trust Deed. The issue of the Capital Securities was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 26 April 2007 and resolutions of a committee of the Board of Directors of the Issuer passed on 2 May 2007 and 14 May 2007. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours by the Holders and the Couponholders at the registered office of the Trustee, being at the date hereof Citicorp Centre, Canada Square, Canary Wharf, London E14 5LB, and at the specified office of each of the Paying Agents. The Holders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement and the Calculation Agency Agreement (which, once entered into, will be available for inspection at the above address) applicable to them.

1. Form, Denomination and Title

(a) *Form and Denomination*: The Capital Securities are serially numbered and in bearer form in the denomination of USD2,000 each with Coupons and one Talon attached on issue.

(b) *Title*: Title to the Capital Securities, Coupons and Talons will pass by delivery. The bearer of any Capital Securities will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss or anything written on it) and no person will be liable for so treating the Holder.

2. Status and Subordination of the Capital Securities

(a) *Status*: The Capital Securities constitute unsecured, subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves.

(b) *Subordination*: The rights and claims of the Holders and Couponholders against the Issuer under the Capital Securities in respect of the principal amounts due and payable on redemption and any Deferred Interest and Coupon Payments and any other sum payable in respect of or arising under the Capital Securities and the Trust Deed are subject to Condition 2(c) and subordinated on a winding-up in accordance with the provisions of Condition 3.

(c) *Solvency Condition*: Except in a winding-up, all payments in respect of or arising under the Capital Securities (including Coupon Payments payable in cash or by way of the Alternative Coupon Satisfaction Mechanism pursuant to Condition 6 and any Additional Amounts and including any damages awarded for breach of any obligation of the Issuer) will be conditional upon the Issuer satisfying the Solvency Condition both at the time of and immediately after any such payment and, accordingly, the Issuer will not make any payment and any such payment shall not be so due or payable unless the Solvency Condition is so satisfied.

The Issuer may not redeem or purchase any of the Capital Securities unless the Issuer satisfies the Solvency Condition both at the time of and immediately after any such redemption or purchase. Any redemption or purchase is subject to the Issuer giving at least one month's prior written notice (with such details as may be required from time to time) to, and receiving no objection from, the

FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice) and the Issuer may only redeem the Capital Securities if on, and immediately following, the Redemption Date it complies with the Regulatory Capital Requirements.

The Issuer shall satisfy the Solvency Condition if (i) it is able to pay its debts owed to its Senior Creditors as they fall due, and (ii) its Assets exceed its Liabilities (other than liabilities to persons who are not Senior Creditors).

Any payment which for the time being is not made by virtue of this Condition 2(c) shall not constitute a default for any purpose (including, but without limitation, Condition 10) on the part of the Issuer.

A report as to whether the Issuer has satisfied the Solvency Condition, by two directors of the Issuer or, in certain circumstances as provided in the Trust Deed, the Auditors (as defined in the Trust Deed), shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee and any Holder as correct and sufficient evidence thereof. In a winding-up, the amount payable on the Capital Securities will be determined in accordance with provisions of Condition 3.

(d) *Set-Off*: By acceptance of the Capital Securities, each Holder, each Couponholder and the Trustee, on behalf of such Holders and Couponholders, will be deemed to have waived any right of set-off or counterclaim that such Holders might otherwise have against the Issuer in respect of or arising under the Capital Securities and the Coupons whether prior to or in bankruptcy or winding-up. Notwithstanding the preceding sentence, if any of the rights and claims of any Holder or Couponholder in respect of or arising under the Capital Securities or the Coupons are discharged by set-off, such Holder or Couponholder will immediately pay an amount equal to the amount of such discharge to the Issuer or, if applicable, the liquidator or trustee or receiver of the Issuer and, until such time as payment is made, will hold a sum equal to such amount in trust for the Issuer or, if applicable, the liquidator or trustee or receiver in the Issuer's winding-up. Accordingly, such discharge will be deemed not to have taken place.

3. Winding-Up of the Issuer

If at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purpose of a reconstruction or amalgamation, the terms of which reconstruction or amalgamation have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed)), the amounts payable by the Issuer to the Holders in respect of the Capital Securities shall be subordinated, such that, in lieu of any other payment, the Holders shall be paid such amount, if any, that would have been payable in respect thereof as if, on the day immediately before the commencement of the winding-up of the Issuer and thereafter, they were the holders of a class of preference shares in the capital of the Issuer having an equal right to a return of assets in the winding-up to, and so ranking (a) *pari passu* with the holders of the class or classes of preference shares (if any) from time to time issued by the Issuer which have a preferential right to a return of assets in the winding-up over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer, but (b) junior to the claims of Senior Creditors, on the assumption that the amount that each such Holder is entitled to receive in respect of such preference share on a return of assets in such winding-up were an amount equal to the principal amount of the relevant Capital Security and any Coupon Payment, Deferred Interest or other amount payable under or in respect of each Capital Security which are outstanding thereon. To the extent not otherwise included within the foregoing, such amount will include all amounts of principal, Coupon Payments, Deferred Interest, Additional Amounts and any other amounts in respect of each Capital Security which were not satisfied on the date upon which the same would otherwise be due and payable by virtue of the Solvency Condition.

As a consequence of the subordination conditions, the Holders may recover less rateably than the holders of the Issuer's unsubordinated liabilities and the holders of certain of the Issuer's subordinated liabilities. If, in any winding-up of the Issuer, the amount payable under or in respect of any Capital Securities (including any damages awarded for breach of any obligations in respect of which the Solvency Condition is not satisfied on the date on which the same would otherwise be due and payable or which otherwise have not been satisfied) and any claims ranking equally with the Capital Securities are not paid in full, the Holders and the holders of other claims ranking equally will share rateably in any such distribution of assets of the Issuer in proportion to the respective amounts to which they are entitled. If any Holder is entitled to any recovery with respect to the Capital Securities in a winding-up of the Issuer, the Holder might not be entitled in those proceedings to a recovery in US dollars and might be entitled only to a recovery in pounds sterling or any other lawful currency of the United Kingdom.

4. **Deferred Interest**

(a) *Optional Deferral of Coupon Payments*: The Issuer may in its sole discretion defer Coupon Payments (in whole or in part) on any Coupon Payment Date.

Notwithstanding the existence of resources legally available for distribution by the Issuer, the Issuer will not make Coupon Payments to the Holders on any Coupon Payment Date, if:

(i) the Board of Directors of the Issuer, in its absolute discretion has resolved prior to such Coupon Payment Date that such Coupon Payments (or part thereof) shall not be paid on such next Coupon Payment Date; or

(ii) subject as set out below, the making of such Coupon Payments, together with the amount of any distributions or dividends paid or scheduled to be paid to holders of any Parity Securities on the relevant Coupon Payment Date, would exceed the Distributable Profits of the Issuer.

In the case of sub-clause (ii) above, and subject always to sub-clause (i) as well as the Solvency Condition, the Board of Directors shall make Coupon Payments to the extent of the available Distributable Profits on a pro rata basis so that the amount of the Coupon Payment to be paid on each Capital Security and the amounts scheduled to be payable on such date on each Parity Security will bear to each other the same ratio that accrued Coupon Amounts on each Capital Security and the said amounts payable on each Parity Security bear to each other.

(b) *Deferred Interest*: Any Coupon Payment in respect of the Capital Securities not paid (in whole or in part) on a Coupon Payment Date, by virtue of Condition 4(a) or by virtue of the Solvency Condition (or as a result of any restriction imposed under the terms of any of its Parity Securities), shall, so long as the same remains unpaid, constitute "Deferred Interest". Any Deferred Interest will, subject to the Solvency Condition, automatically become immediately due and payable upon the earliest of the following:

(i) the date on which any of the Capital Securities are redeemed or purchased for cancellation by or on behalf of the Issuer or any entity directly or indirectly controlled by it pursuant to Condition 7 or the Exchange Date; and

(ii) the commencement of the winding-up of the Issuer.

The Issuer shall (except where the Solvency Condition is not satisfied) satisfy its obligation to pay Deferred Interest on a redemption or purchase of the Capital Securities or exchange of Capital Securities into Preference Shares only in accordance with the Alternative Coupon Satisfaction Mechanism pursuant to Condition 6.

Deferred Interest shall not itself bear interest.

In addition, the Issuer may at its option at any time settle all or part of the Deferred Interest in accordance with the procedures set out in Condition 6.

The Issuer shall give not more than 20 nor less than 10 days' irrevocable notice to Holders of any such settlement.

(c) *No Default*: Notwithstanding any other provision in these Conditions or the Trust Deed, any payment which for the time being is not made by virtue of Condition 4(a) shall not constitute a default for any purpose (including, without limitation, Condition 10) on the part of the Issuer.

(d) *Dividend and Capital Restriction*: If, on any Coupon Payment Date, payment of all Coupon Payments to be paid on such date is not made in full, then from such Coupon Payment Date the Issuer shall not, and shall not permit any entity it directly or indirectly controls to, (a) declare or pay a dividend or distribution or make any other payment on any of its Parity Securities or on any of its Junior Securities (other than a dividend declared by the Issuer with respect to its Ordinary Shares prior to the date on which notice of deferral of the Coupon Payment is given pursuant to Condition 4(e)) or (b) redeem, purchase or otherwise acquire any of its Parity Securities or any of its Junior Securities, in each case unless and until an amount equal to the Coupon Payments otherwise due and payable on the next succeeding Coupon Payment Date on all outstanding Capital Securities on such date is paid in full or duly set aside or provided for in full.

If the Issuer is unable to issue sufficient Ordinary Shares or ACSM Securities, as the case may be, to enable payment in full of all Deferred Interest to be paid on an ACSM Payment Date, the Issuer shall not, and shall not permit any entity it directly or indirectly controls, to (a) declare or pay a dividend or distribution or make any other payment on any of its Parity Securities or on any of its Junior Securities (other than a dividend declared by the Issuer with respect to the Ordinary Shares prior to such ACSM Payment Date) or (b) redeem, purchase or otherwise acquire any of its Parity Securities or any of its Junior Securities, in each case until all Deferred Interest to be satisfied has been paid in full or duly set aside or provided for in full.

The restrictions set out in this Condition 4(d) do not apply to the declaration and payment of any dividends and distributions or the making of any other payment between companies in the Group.

For the purposes of this provision, the payment (or declaration of payment) of a dividend or distribution on Junior Securities and Parity Securities shall be deemed to include the making of any interest, coupon or dividend payment (or payment under any guarantee in respect thereof) and the redemption, purchase or other acquisition of such securities (save where the funds used to redeem, purchase or acquire those securities are derived from an issue of Junior Securities or Parity Securities (i) made at any time within the six month period prior to the time of such redemption, purchase or acquisition, and (ii) with the same ranking or ranking junior on a return of assets on a winding-up or in respect of a distribution or payment of interest, coupons or dividends and/or any other amounts thereunder to those securities being redeemed, purchased or acquired). The Trustee shall be entitled to rely on a certificate signed by two directors of the Issuer as to whether the redemption, purchase or acquisition falls within the exception set out above and, if the Trustee does so rely, such certificate shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Holders and the Couponholders.

(e) *Notice of Deferral*: The Issuer shall give notice to the Trustee, the Principal Paying Agent and the Holders of any Coupon Payment Date in respect of which Coupon Payments are to be deferred pursuant to these Conditions not more than 30 nor less than 15 days prior to such Coupon Payment Date.

5. Coupons

(a) *Coupon Rate*: The Capital Securities bear interest at the fixed rate of 7.90 per cent. per annum (the "**Coupon Rate**") from the Issue Date in accordance with the provisions of this Condition 5.

Subject as set out in Conditions 2(c) and 4, interest shall be payable on the principal amount of each of the Capital Securities quarterly in arrear on each Coupon Payment Date, as provided in this Condition 5.

Where it is necessary to compute an amount of interest in respect of any Capital Securities for a period which is not a Coupon Period such interest shall be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the actual number of days elapsed.

(b) *Interest Accrual*: The Capital Securities will cease to bear interest from (and including) the due date for redemption or exchange thereof pursuant to Condition 7(b), (c) or (d) or Condition 8 unless, upon due presentation, payment of principal in respect of the Capital Securities is improperly withheld or refused, in which event interest shall continue to accrue, and shall be payable, as provided in these Conditions up to (but excluding) the Redemption Date.

6. Alternative Coupon Satisfaction Mechanism

(a) *General*: Unless an order is made, or an effective resolution is passed, for the winding-up of the Issuer in the circumstances set out in Condition 3, the Issuer must satisfy its obligation to pay any Deferred Interest only in accordance with the procedures described below (the "**Alternative Coupon Satisfaction Mechanism**" or "**ACSM**").

The obligation of the Issuer to pay any Deferred Interest in accordance with the Alternative Coupon Satisfaction Mechanism will be satisfied as follows:

(i) the Issuer shall give a notice of the ACSM Payment Date in accordance with Condition 18, specifying the amount of Deferred Interest and Additional Amounts (if any) to be settled on such date;

(ii) not later than 14 Business Days prior to the ACSM Payment Date, the Calculation Agent shall determine the number of Ordinary Shares or of ACSM Securities, as the case may be, which, in the opinion of the Calculation Agent, have an aggregate fair market value of not less than the aggregate amount of the relevant Deferred Interest and Additional Amounts to be settled on the ACSM Payment Date after payment of any taxes, duties, costs and expenses payable by the Issuer in and associated with the issue of the Ordinary Shares or of ACSM Securities, as the case may be, (the "**Alternative Coupon Satisfaction Amount**");

(iii) not later than 10 Business Days prior to the ACSM Payment Date, the Calculation Agent, or an appointed intermediary, shall place such number of Ordinary Shares or of ACSM Securities, as the case may be, in the market;

(iv) not later than the close of business on the eighth Business Day prior to the ACSM Payment Date, the Calculation Agent, or an appointed intermediary, shall notify the Issuer of the number of Ordinary Shares or of ACSM Securities, as the case may be, for which it has procured subscribers;

(v) as soon as reasonably practicable following such notification, but not later than the seventh Business Day prior to the ACSM Payment Date, and subject to having necessary corporate authorisations in place, the Issuer will issue and allot such Ordinary Shares or ACSM Securities, as the case may be, to the subscribers who have agreed to subscribe for them;

(vi) if, after the operation of the above procedures, there would, in the opinion of the Calculation Agent, be a shortfall of proceeds towards the satisfaction of the Alternative Coupon Satisfaction Amount payable on the ACSM Payment Date, the Calculation Agent shall use its reasonable endeavours to find subscribers for further Ordinary Shares or further ACSM Securities, as the case may be, and the Issuer shall, subject to having the necessary corporate authorisations in place, issue and allot such further Ordinary Shares or further ACSM Securities, as the case may be, to the subscribers who have agreed to subscribe for them in accordance with these provisions to try to ensure that a sum (after payment of any taxes, duties, costs and expenses payable by it and associated with the issue of the Ordinary Shares or ACSM Securities) at least equal to the Alternative Coupon Satisfaction Amount is available on the Business Day prior to the ACSM Payment Date to make the payments in full on the ACSM Payment Date; provided that, if, despite the operation of the above provisions, such a shortfall exists on the Business Day preceding the ACSM Payment Date, the Issuer may, subject to having the necessary corporate authorisations in place, continue to issue and allot the relevant number of Ordinary Shares or ACSM Securities, as the case may be, until the Trustee (or the Principal Paying Agent) shall have received funds on behalf of the Issuer equal to the full amount of such shortfall;

(vii) the Issuer shall transfer or arrange for the transfer of the issue proceeds raised from the operation of the provisions set out in Condition 6(a)(iii) to (vi) to satisfy the Alternative Coupon Satisfaction Amount to the Trustee (or the Principal Paying Agent) on the Business Day preceding the ACSM Payment Date for payment by the Trustee (or the Principal Paying Agent) on the ACSM Payment Date, towards the satisfaction on behalf of the Issuer of the Alternative Coupon Satisfaction Amount. If applicable, the Calculation Agent shall be required to exchange the issue proceeds into United States dollars at prevailing market exchange rates;

(viii) if, pursuant to the Alternative Coupon Satisfaction Mechanism, proceeds are raised in excess of the amount required to pay the applicable Alternative Coupon Satisfaction Amount plus the claims for the fees, costs and expenses to be borne by the Issuer in connection with using the Alternative Coupon Satisfaction Mechanism, any remaining proceeds shall be paid to (or may be retained by) the Issuer; and

(ix) for the avoidance of doubt, the Issuer may satisfy its obligations (in part or in whole) to pay any Deferred Interest by selling Ordinary Shares which are held by it as treasury shares (as defined in the Companies Act 1985, as amended, supplemented or replaced from time to time) ("**Treasury Shares**"). Accordingly, (a) references in this Condition 6 and in the definition of Market Disruption Event to Ordinary Shares and to the allotment, issue and subscription of or for Ordinary Shares shall be deemed to include references to Treasury Shares and the sale of Treasury Shares, and (b) references in this Condition 6 to the Issuer's authority to allot and issue Ordinary Shares or authorised but unissued Ordinary Shares shall be deemed to include references to the Issuer's authority to sell Treasury Shares.

If the Issuer is required to make payments of the Alternative Coupon Satisfaction Amount in accordance with the Alternative Coupon Satisfaction Mechanism, the proceeds from the issue of Ordinary Shares or ACSM Securities, as the case may be, pursuant to the Alternative Coupon Satisfaction Mechanism will be paid to the Couponholders by the Trustee or Principal Paying Agent.

(b) *Sufficiency and Availability of Ordinary Shares*: The ability of the Issuer to use the Alternative Coupon Satisfaction Mechanism to satisfy its payment of Deferred Interest on the Capital Securities on a relevant ACSM Payment Date is subject to the following conditions:

(i) the Issuer shall not be required to issue any Ordinary Shares, or cause them to be issued, at a price below their nominal value;

(ii) the Issuer must have a sufficient number of authorised but unissued Ordinary Shares prior to the issue of the Ordinary Shares in accordance with Condition 6(a); and

(iii) the directors of the Issuer must have the necessary authority under Scottish law to allot and issue a sufficient number of Ordinary Shares in accordance with Condition 6(a)(v) and 6(a)(vi).

(c) *Market Disruption Event*: If a Market Disruption Event exists during the 14 Business Days preceding any ACSM Payment Date, then the related payment of Deferred Interest may be deferred until such Market Disruption Event no longer exists. A market disruption deferral will not constitute a Capital Securities Default, provided that if any Deferred Interest has not been paid, or an amount set aside for payment, within 14 days after the date on which any such Market Disruption Event is no longer continuing, such failure will constitute a Capital Securities Default.

At the date of this Offering Circular, the Issuer has a sufficient number of authorised but unissued Ordinary Shares and the directors of the Issuer have the necessary authority to issue such Ordinary Shares to raise sufficient funds to make the Coupon Payments required to be made in respect of the Capital Securities during the next 12-month period, assuming the Alternative Coupon Satisfaction Mechanism were to be used for each Coupon Payment during such 12-month period and on the basis of the current market price of the Ordinary Shares at the date of this Offering Circular.

The Issuer will, for so long as any Capital Securities remain outstanding, review its Ordinary Share price and relevant exchange rates prior to each annual general meeting of its shareholders. If the Issuer determines, as the result of any such review, that it does not have a sufficient number of authorised but unissued Ordinary Shares to permit it to issue at that date a number of Ordinary Shares at the then current market price equal to the amount of Deferred Interest, if any, outstanding together with scheduled Coupon Payments for the next 12 months (or such longer period as, in the opinion of the Board of Directors of the Issuer, is prudent having regard to amounts which may become payable through the Alternative Coupon Satisfaction Mechanism), and/or if the directors of the Issuer do not have the necessary authority to allot and issue such number of Ordinary Shares, then, at the next annual general meeting of the Issuer, the Issuer shall propose a resolution to increase the number of authorised but unissued Ordinary Shares and the directors' authority to allot and issue Ordinary Shares to the level that would enable the Issuer to issue at that date a sufficient number of Ordinary Shares at that price to enable payment of Deferred Interest, if any, outstanding together with scheduled Coupon Payments for the next 12 months pursuant to the Alternative Coupon Satisfaction Mechanism.

7. Optional Redemption and Exchange

(a) *No Maturity Date*: The Capital Securities are perpetual securities in respect of which there is no maturity date. The Capital Securities are not redeemable at the option of the Holders at any time.

(b) *Issuer's Call Option*: The Issuer may redeem the Capital Securities in whole (but not in part), at its option, on the First Call Date, or on any Coupon Payment Date thereafter, subject to the Solvency Condition being met both at the time of and immediately after such redemption and subject, further, to the Issuer giving at least one month's prior written notice (with such details as may be required from time to time) to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice), and provided that the Issuer may only redeem the Capital Securities if on, and immediately following, the Redemption Date it complies with the Regulatory Capital Requirements.

(c) *Tax Event Redemption or Tax Event Exchange or Variation*: The Issuer may redeem the Capital Securities in whole (but not in part) at any time prior to the First Call Date upon the occurrence of a Tax Event subject to (i) the Solvency Condition being met both at the time of and immediately after such redemption; and (ii) the Issuer giving at least one month's prior written notice (with such details as may be required from time to time) to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice); and (iii) the Issuer obtaining the FSA's consent to such redemption in the form of a waiver of the FSA Redemption Restriction, and provided that the Issuer may only redeem the Capital Securities if on, and immediately following, the Redemption Date it complies with the Regulatory Capital Requirements.

Upon the occurrence of a Tax Event, the Issuer may also, at its sole discretion, subject in each case to compliance with applicable regulatory requirements, including the Issuer giving at least one month's prior written notice (with such details as may be required from time to time) to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice), at any time exchange the Capital Securities in whole (but not in part) for Exchange Securities or vary the terms of the Capital Securities so that they become Exchange Securities, and provided that the Issuer may only so exchange or so vary the terms of the Capital Securities if on, and immediately following, the Exchange Securities Date it complies with the Regulatory Capital Requirements.

(d) *Regulatory Event Redemption or Regulatory Event Exchange or Variation*: The Issuer may redeem the Capital Securities in whole (but not in part) at any time prior to the First Call Date if a Regulatory Event shall have occurred and is continuing, subject to (i) the Solvency Condition being met both at the time of and immediately after such redemption; (ii) the Issuer giving at least one month's prior written notice (with such details as may be required from time to time) to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice); and (iii) the Issuer obtaining the FSA's consent to such redemption in the form of a waiver of the FSA Redemption Restriction, and provided that the Issuer may only redeem the Capital Securities if on, and immediately following the Redemption Date it complies with the Regulatory Capital Requirements.

Upon the occurrence of a Regulatory Event, the Issuer may also at its sole discretion, subject in each case to compliance with applicable regulatory requirements, including the Issuer giving at least one month's prior written notice (with such details as may be required from time to time) to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice), at any time exchange the Capital Securities in whole (but not in part) for Exchange Securities or vary the terms of the Capital Securities so that they become Exchange Securities, and provided that the Issuer may only so exchange, or so vary the terms of the Capital Securities if on, and immediately following, the Exchange Securities Date it complies with the Regulatory Capital Requirements.

(e) *Redemption and Exchange Procedures*: Any redemption under paragraphs (b), (c) or (d) above will be at an amount equal to the outstanding principal amount of the Capital Securities together with all accrued interest to the Redemption Date and the aggregate amount of any Deferred Interest and shall be paid on not less than 30 nor more than 60 days' notice to the Holders. If, upon due presentation, payment of principal on the Capital Securities is improperly withheld or refused, then interest shall continue to accrue and shall be payable, as provided in these Conditions, up to (but excluding) the Relevant Date.

The Issuer is permitted to satisfy its obligation to pay any Deferred Interest due upon redemption only in accordance with Condition 6.

Any exchange of the Capital Securities into a series of Exchange Securities or any variation of the terms of the Capital Securities, in each case under Condition 7(c) or 7(d) above, shall be made on not less than 30 nor more than 60 days' notice to the Holders.

Prior to the giving of any notice of redemption, exchange or variation following the occurrence of a Tax Event or Regulatory Event, the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer, stating that the Issuer is entitled to effect such redemption, exchange or variation (as the case may be) and setting forth a statement of facts showing that the conditions precedent to the right to redeem, exchange or vary the terms have occurred, and (b) in the case of a Tax Event, an opinion of independent advisers of recognised standing to the effect that the Issuer is entitled to exercise its right of redemption, exchange or variation (as the case may be). The Trustee shall accept such certificate as conclusive proof as provided in the Trust Deed.

Any notice of redemption will be irrevocable and will provide details of the Redemption Date. If the redemption price in respect of any Capital Securities is improperly withheld or refused and is not paid by the Issuer, interest on the outstanding principal amount of such Capital Securities will continue to be payable until the redemption price is actually paid.

(f) *Purchases*: The Issuer may, at any time and from time to time, purchase outstanding Capital Securities upon the terms and conditions that the Board of Directors of the Issuer or an authorised committee of the Board of Directors of the Issuer shall determine.

(g) *Cancellations*: All Capital Securities which are redeemed, exchanged into Exchange Securities or Preference Shares or purchased by or on behalf of the Issuer will forthwith be cancelled and accordingly may not be held, reissued or resold.

(h) *Deferred Interest*: The Issuer shall satisfy its obligation to pay any Deferred Interest due upon a redemption or purchase of Capital Securities or exchange of the Capital Securities into Preference Shares only in accordance with Condition 6. Any Deferred Interest outstanding at the time of an exchange of Capital Securities into Exchange Securities or a variation of the terms of the Capital Securities pursuant to this Condition 7, will be carried over and become outstanding deferred cumulative interest payments for the purposes of the Exchange Securities.

8. Option to Exchange for Preference Shares

(a) *General*: The Issuer may elect to exchange the Capital Securities in whole (but not in part) for Preference Shares on any Coupon Payment Date, subject to the Solvency Condition being met both at the time of and immediately after such exchange and to the Issuer giving at least one month's prior written notice (with such details as may be required from time to time) to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice) prior to the applicable Exchange Date. The Issuer may only exchange the Capital Securities if (i) on, and immediately following, the Exchange Date it complies with the Regulatory Capital Requirements and (ii) (if exchange of Capital Securities is to take place before the First Call Date) if the Preference Shares would, on issue, be included in the same stage of capital or a higher stage of capital of the Issuer under the Capital Regulations as the Capital Securities.

Each Capital Security shall be exchanged for one Preference Share with a liquidation preference of USD2,000.

Any such exchange shall be effected by redemption of the Capital Securities being exchanged at their principal amount and the immediate application of such principal amount to subscription for the applicable number of Preference Shares being issued to the holders.

(b) *Deferred Interest and Accrued Interest*: Upon exchange, any Deferred Interest outstanding on the Capital Securities being exchanged shall be paid only in accordance with the Alternative Coupon Satisfaction Mechanism. Upon surrender of any Capital Security for exchange into Preference Shares in accordance with the notice of the exchange, the Issuer will pay all accrued interest to the Exchange Date. Such payments of accrued interest and Deferred Interest will be a condition to the exchange and no exchange will occur unless such payment is made.

(c) *Conditions for Exchange into Preference Shares*: The Issuer shall not exchange any Capital Securities for Preference Shares unless:

(i) there is no accrued but unpaid interest on such Capital Securities;

(ii) any Deferred Interest related to such Capital Securities has been paid in accordance with the Alternative Coupon Satisfaction Mechanism;

(iii) the Issuer has a sufficient number of authorised but unissued Preference Shares immediately prior to the exchange; and

(iv) the Board of Directors of the Issuer have all the necessary authority under Scottish law to allot and issue the Preference Shares arising on exchange.

(d) *Procedures for exchange*: The Issuer shall give not less than 30 nor more than 60 days' notice to the Holders of the exercise of the option to exchange.

A notice to exchange the Capital Securities for Preference Shares will at least specify (i) the Exchange Date, (ii) the place or places where the Capital Securities are to be exchanged and (iii) the form in which the Preference Shares will be issued.

(e) *Listing of the Preference Shares*: The Issuer shall ensure (to the extent possible) that, at the time when any Preference Shares are issued pursuant to this Condition 8, such Preference Shares are admitted to the Official List of the FSA in its capacity as competent authority under the FSMA and are admitted to trading on the market for listed securities of the London Stock Exchange's EEA Regulated Market (or, if the London Stock Exchange is not a Recognised Stock Exchange at that time, such other stock exchange as is a Recognised Stock Exchange at that time).

(f) *Terms of the Preference Shares*: The Preference Shares shall rank (i) *pari passu* as to return of assets on a winding-up with the class or classes of preference shares (if any) from time to time issued by the Issuer which have a preferential right to a return of assets in the winding up over, and so ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer, but (ii) junior to the claims of Senior Creditors. Non-cumulative preferential dividends on the Preference Shares shall be payable if declared by the Board of Directors of the Issuer. If declared, any such dividend will amount to 7.90 per cent. of the liquidation preference per annum, payable quarterly in arrear on 29 February (or 28 February in years where such month has only 28 days), 29 May, 29 August and 29 November of each year, beginning on the first such date occurring after the applicable issue date.

On any dividend payment date on which:

(i) the Solvency Condition is satisfied;

(ii) the Issuer is not prohibited from paying a dividend under the terms of a Parity Security; and

(iii) the Issuer has sufficient distributable profits to cover the payment in full of, or the setting aside and providing for, the dividend on the Preference Shares and dividends on any other preference shares stated to be payable on the same date and ranking equally as to dividends with the Preference Shares,

the Board of Directors of the Issuer, in its sole discretion, may elect to declare and pay dividends or not to declare and pay dividends on the Preference Shares. If the Issuer does not declare a dividend on any dividend payment date the Dividend and Capital Restriction set out in Condition 4(d) above will apply mutatis mutandis to the Preference Shares.

If no dividend is declared by the Board of Directors on any dividend payment date, holders of the Preference Shares will have no claim in respect of non-payment and the Issuer will have no obligation to pay such dividend or part thereof or interest thereon.

The Issuer shall not pay any additional amounts in relation to taxes required by a United Kingdom taxing authority to be withheld from payments made with respect to the Preference Shares. As a result, the net amount received by each holder of Preference Shares, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or withholding.

At the election of the Issuer, the Preference Shares may be redeemed, in whole (but not in part), on any dividend payment date later than five years after they are issued, upon the Issuer giving at least one month's prior written notice (with such details as may be required from time to time) to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice). The Issuer may only redeem the Preference Shares if on, and immediately following, the date fixed for redemption of the Preference Shares it complies with the Regulatory Capital Requirements.

The Issuer may not issue any shares that rank senior to the Preference Shares of any series, in regard to rights to participate in the profits or assets of the Issuer, without the prior written consent of the holders of at least three-quarters in nominal value of such series or the passing of an extraordinary resolution at a separate class meeting of the holders thereof.

The Preference Shares will be governed by, and construed in accordance with, Scottish law.

9. Payments

(a) *Method of Payment*: Save as provided in paragraph (b) below, payments of principal and coupon amounts will be made by or on behalf of the Issuer against presentation and surrender of Capital Securities or the appropriate Coupons at the specified office of any of the Paying Agents outside the United States, except that payments of coupon amounts in respect of any period not ending on a Coupon Payment Date will only be made upon surrender of the relative Capital Securities. Such payments will be made, at the option of the payee, by US dollar cheque drawn on, or by transfer to a US dollar account maintained by the payee with, a bank in New York City.

(b) *Payments in New York City*: Payments of principal or coupon amounts may be made at the specified office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the Coupon on the Capital Securities in U.S. dollars when due, (ii) payment of the full amount of such Coupon at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(c) *Talons and Coupons*: Upon the due date for redemption of any Capital Securities, any unexchanged Talons relating to such Capital Securities (whether or not attached) shall become void and no Coupons shall be delivered in respect of such Talons and unmatured Coupons relating to such Capital Security (whether or not attached) shall also become void and no payment shall be made in respect of them. If any Capital Security is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.

(d) *Coupon Sheet*: On or after the Coupon Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Capital Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 14).

(e) *Agents*: The names of the initial Paying Agents and their initial specified office are set out below. The Issuer reserves the right, subject to the prior written approval of the Trustee, such approval not to be unreasonably withheld, at any time to vary or terminate the appointment of any Paying Agent or the Calculation Agent and to appoint additional or other Paying Agents or other Calculation Agent provided that it will at all times maintain (aa) a Paying Agent having a specified office in London for so long as the Capital Securities are admitted to the Official List of the UK Listing Authority and the rules of the UK Listing Authority so require and (bb) a Paying Agent in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26 – 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 18.

If the Calculation Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Calculation Agency Agreement, the Issuer shall appoint, on terms acceptable to the Trustee, an independent investment bank acceptable to the Trustee to act as such in its place. All calculations and determinations made by the Calculation Agent shall (save in the case of manifest error or error proven to the satisfaction of the Trustee) be final and binding on the Issuer, the Trustee, the Paying Agents, the Holders and the Couponholders.

(f) *Payments subject to Fiscal Laws*: Without prejudice to the terms of Condition 11, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Holders in respect of such payments.

(g) *Payments on Payment Business Days*: A Capital Security or a Coupon may only be presented for payment on a day which is a Business Day. No further interest or other payment will be made as a consequence of the day on which the relevant Capital Securities or Coupon may be presented for payment under this paragraph falling after the due date.

10. Defaults; Limitation of Remedies

Notwithstanding any of the provisions below in this Condition 10, the right to institute winding-up proceedings is limited to circumstances where payment has become due. Pursuant to Condition 2(c), no *principal or coupon payments will be due from the Issuer on the relevant payment date if the Solvency Condition relating to the Issuer is not or would not be satisfied at the time of and immediately after any such payment.*

(a) *Winding-up*: If a Capital Securities Default occurs and is continuing, the Trustee may, notwithstanding the provisions of paragraph (b) of this Condition 10, institute proceedings for the winding-up in Scotland (but not elsewhere) of the Issuer.

(b) *Enforcement*: The Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed, the Capital Securities or the Coupons (other than for a failure to pay any amount under or in respect of the Capital Securities or the Trust Deed, including any damages awarded for breach of any obligation of the Issuer) if the Issuer is in default of such term and fails to remedy such default within 14 days after notice of the same shall have been given to the Issuer by the Trustee, provided that the Issuer shall not, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

(c) *Entitlement of the Trustee*: The Trustee shall not be bound to take any of the actions referred to in paragraph (a) or (b) above against the Issuer to enforce the terms of the Trust Deed, the Capital Securities or the Coupons unless (i) it shall have been so requested by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders or in writing by the Holders of at least one-third in principal amount of the Capital Securities then outstanding and (ii) it shall have been indemnified and/or secured to its satisfaction.

(d) *Rights of Holders*: No Holder or Couponholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up in Scotland of the Issuer unless the Trustee, having become so bound to proceed, fails to do so within a reasonable period and such failure is continuing, in which case the Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No remedy against the Issuer shall be available to the Trustee or any Holder or Couponholder (i) for the recovery of amounts owing under or in respect of the Capital Securities or the Coupons or the Trust Deed other than the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up and (ii) for the breach of any other term under the Trust Deed, the Capital Securities or the Coupons, other than as provided in paragraph (b) above.

11. **Additional Amounts**

All payments by or on behalf of the Issuer of principal and interest in respect of the Capital Securities and Coupons will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of the United Kingdom, or any political subdivision of, or any authority of, or in, the United Kingdom having power to tax, unless the withholding or deduction is required by law. In such event, the Issuer, will pay such additional amounts as shall be necessary in order that the net amounts received by the Holders or Couponholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Capital Securities or Coupons, as the case may be, in the absence of the withholding or deduction ("**Additional Amounts**"), except that no such Additional Amounts shall be payable in relation to any Capital Securities or Coupon:

(i) presented for payment by, or on behalf of, a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Capital Securities or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Capital Securities or Coupon; or

(ii) presented for payment more than 30 days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day; or

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26 – 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) presented for payment by, or on behalf of, a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Capital Security or Coupon to another Paying Agent in a Member State of the European Union.

Whenever, in these Conditions or the Trust Deed, reference is made to "principal" that term shall (unless the context otherwise requires) include the relevant amount payable on redemption of the Capital Securities, to "interest" that term shall (unless the context otherwise requires) include any Deferred Interest, and in any such case any Additional Amounts payable in respect thereof.

If the Issuer becomes resident for tax purposes in any jurisdiction other than the United Kingdom, references in these Conditions to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction.

12. Undertaking

For so long as any Capital Securities remain outstanding, the Issuer will not issue any preference shares or any other non-cumulative perpetual instruments (including cumulative perpetual instruments where interest payments may be satisfied through a mechanism similar to the Alternative Coupon Satisfaction Mechanism) of a kind capable of counting as cover for the minimum or notional amount of solvency or minimum capital pursuant to the Capital Regulations, if such instruments would rank senior to the Capital Securities or give any guarantee or support undertaking in respect of any such qualifying instruments ranking senior to the Capital Securities, unless the Issuer alters the terms of the Capital Securities such that the Capital Securities rank equally with any such preference shares, such other qualifying instruments, or such guarantee or support undertaking.

13. Amendments

Except as provided herein, any amendment or variation to these Terms and Conditions will require the Issuer giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice) in respect of the proposed amendment or variation.

14. Prescription

Capital Securities and Coupons (which, for this purpose, shall not include Talons) will become void unless presented for payment within a period of 10 years in the case of Capital Securities and five years in the case of Coupons from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition or Condition 9(c), or any Talon which would be void pursuant to Condition 9(c).

15. Meetings of Holders, Modification and Waiver

(a) *Meetings of Holders*: The Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests, including the modification by Extraordinary Resolution (as defined in the Trust Deed) of any of these Conditions or any of the provisions of the Trust Deed.

Such a meeting may be convened by the Issuer or by the Trustee and shall also be convened by the Trustee, subject to its being indemnified and/or secured to its satisfaction, upon the request in writing of Holders holding not less than one-tenth of the aggregate principal amount of the outstanding Capital Securities. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing more than half of the principal amount of the Capital Securities for the time being outstanding, or at any adjourned such meeting two or more persons being or representing Holders whatever the principal amount of the Capital Securities so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions and the Trust Deed (including, inter alia, the provisions regarding subordination referred to in Conditions 2 and 3, the terms concerning currency and the due dates for payment of principal or Coupon Payments in respect of the Capital Securities and reducing or cancelling the principal amount of any Capital Securities or reducing the Coupon Rate) the quorum will be two or more persons holding or representing not less than three-quarters, or at any adjourned such meeting not less than one quarter, in principal amount of the Capital Securities for the time being outstanding.

An Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting, and on all Couponholders.

In addition, a resolution in writing signed by or on behalf of all Holders who for the time being are entitled to receive notice of a meeting of Holders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

(b) *Modification and Waiver*: Notwithstanding any other provision of these Conditions, the Trustee may agree, without the consent of the Holders or Couponholders, to any modification (subject to certain exceptions) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Holders or to any modification which is of a formal, minor or technical nature or to correct a manifest error or to comply with the mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

(c) *Binding on Holders*: Any such modification, waiver or authorisation shall be binding on all Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Holders in accordance with Condition 18 as soon as practicable thereafter.

16. Replacement of the Capital Securities, Coupons and Talons

Should any Capital Securities, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent (or any other place of which notice shall have been given in accordance with Condition 18) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Capital Securities, Coupons or Talons must be surrendered before any replacement Capital Securities, Coupons or Talons will be issued.

17. **The Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any action unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, or any subsidiary of the Issuer without accounting for any profit resulting therefrom. The Trustee is entitled under the Trust Deed to rely on reports and certificates addressed and/or delivered to it by the Auditors (as defined in the Trust Deed) whether or not the same are addressed to the Trustee and whether or not they are subject to any limitation on the liability of the Auditors, whether by reference to a monetary cap or otherwise. No liability shall attach to the Trustee if, as a result of any Market Disruption Event or any other event outside the control of the Trustee or its agent, the Trustee or its agent is unable to comply with any of the provisions of these Terms and Conditions.

18. **Notices**

Notices to Holders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Holders in accordance with this Condition.

19. **Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Holders or the Couponholders, to create and issue further capital securities ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further capital securities) and so that the same shall be consolidated and form a single series with the outstanding Capital Securities. Any such Capital Securities shall be constituted by a deed supplemental to the Trust Deed.

20. **Agents**

The Issuer will procure that there shall at all times be a Principal Paying Agent so long as any of the Capital Securities is outstanding. If the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Agency Agreement, as appropriate, the Issuer shall appoint, on terms acceptable to the Trustee, a leading international bank acceptable to the Trustee, to act as such in its place. Neither the termination of the appointment of the Principal Paying Agent nor the resignation of the Principal Paying Agent will be effective without a successor having been appointed.

All calculations and determinations made by the Calculation Agent or the Principal Paying Agent in relation to the Capital Securities shall (save in the case of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents, the Holders and the Couponholders.

None of the Issuer, the Trustee and the Paying Agents shall have any responsibility to any person for any errors or omissions in any calculation by the Calculation Agent.

21. **Governing Law and Jurisdiction**

The Trust Deed, the Capital Securities, the Coupons and the Talons are governed by, and shall be construed in accordance with, the laws of England.

The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Holders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Capital Securities; and (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient.

The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Holders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Holders may take concurrent Proceedings in any number of jurisdictions.

22. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Capital Securities by virtue of the Contracts (Rights of Third Parties) Act 1999.

23. **Definitions**

In these Terms and Conditions:

"**ACSM Payment Date**" means the date on which any Deferred Interest is due to be satisfied pursuant to Condition 6.

"**ACSM Securities**" means securities issued by the Issuer which comply with the requirements for Tier One Capital under the Regulatory Capital Requirements.

"**Additional Amounts**" has the meaning set forth in Condition 11.

"**Agency Agreement**" means the paying agency agreement dated 29 May 2007 between the Issuer, the Trustee and the Paying Agents, relating to the Capital Securities under which each Paying Agent agrees to perform the duties required of it under these Conditions.

"**Alternative Coupon Satisfaction Mechanism**" means the mechanism described in Condition 6.

"**Assets**" means the unconsolidated gross assets of the Issuer as shown in the latest published audited balance sheet of the Issuer but adjusted for subsequent events in such manner as the directors of the Issuer may determine.

"**Business Day**" means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open for general business in London and New York City.

"**Calculation Agency Agreement**" means the calculation agency agreement to be entered into between the Issuer, the Trustee and the Calculation Agent relating to the Capital Securities under which the Calculation Agent agrees to perform the duties required of it under these Conditions.

"**Calculation Agent**" means an independent investment bank, merchant bank, commercial bank or stockbroker appointed by the Issuer and approved by the Trustee which agrees to act as calculation agent in relation to the Capital Securities, or its successor or successors for the time being appointed under the Calculation Agency Agreement.

"**Capital Regulations**" means at any time the regulations, requirements, guidelines and policies of the FSA relating to capital adequacy then in effect.

A "**Capital Securities Default**" with respect to the Capital Securities shall occur if the Issuer (i) on a Redemption Date fails to pay the principal amount of the Capital Securities (otherwise than as a result of the Solvency Condition not being satisfied) or any Deferred Interest (other than as a result of a Market Disruption Event or as a result of the Solvency Condition not being satisfied) and where in any such case such failure continues for 14 days or (ii) on any Coupon Payment Date where the Issuer shall not have deferred pursuant to Condition 4(a), fails to pay the Coupon Payment on such Coupon Payment Date and where such failure continues for 14 days.

“**Coupon**” means an interest coupon relating to the Capital Securities and includes, where the context so permits, a Talon.

“**Coupon Amount**” means, in respect of a Coupon, the amount of interest payable on the presentation and surrender of such Coupon for the relevant Coupon Period in accordance with Condition 5.

“**Coupon Payment**” means with respect to a Coupon Payment Date the aggregate Coupon Amounts for the Coupon Period ending on such Coupon Payment Date.

“**Coupon Payment Date**” means 29 February (or 28 February in years where such month has only 28 days), 29 May, 29 August, 29 November in each year, starting on 29 August 2007 provided that if any Coupon Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day, unless it would thereby fall in the next calendar month, in which event it shall be brought forward to the immediately preceding Business Day.

“**Couponholder**” means the bearer of any Coupon.

“**Coupon Period**” means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Coupon Payment Date and each successive period beginning on (and including) a Coupon Payment Date and ending on (but excluding) the next succeeding Coupon Payment Date.

“**Coupon Rate**” has the meaning given to it in Condition 5(a).

“**Deferred Interest**” has the meaning given to it in Condition 4(b).

“**Distributable Profits**” means accumulated realised profits less accumulated realised losses, as defined in the UK Companies Act 1985.

“**Exchange Date**” means the date on which the Capital Securities are exchanged for Preference Shares in accordance with Condition 8.

“**Exchange Securities**” means undated cumulative subordinated securities of the Issuer exchanged or varied pursuant to Conditions 7(c) or 7(d) and having the same material terms as the Capital Securities and which are no less favourable to an investor than the current terms of the Capital Securities, and any such Exchange Securities will without limitation:

(i) contain terms which comply with the then current requirements of the FSA in relation to Tier One Capital and/or (at the Issuer’s option) Upper Tier Two Capital;

(ii) be a perpetual capital security issued by the Issuer with cumulative interest payments;

(iii) following exchange be redeemable upon any Tax Event or Regulatory Event, modified as necessary to be applicable to a class of undated cumulative subordinated securities;

(iv) rank *pari passu* with any other undated cumulative subordinated securities issued by the Issuer and then outstanding; and

(v) be listed on a Recognised Stock Exchange.

“**Exchange Securities Date**” means the date on which the Capital Securities are exchanged for Exchange Securities or the terms of the Capital Securities are varied so that they become Exchange Securities, in each case in accordance with Condition 7.

"**First Call Date**" means 29 May 2012.

"**FSA**" means the Financial Services Authority or any successor regulatory body or other governmental authority in the U.K.

"**FSA Handbook**" means the handbook of rules and guidance published by the FSA, as amended, supplemented or replaced from time to time.

"**FSA Redemption Restriction**" means the restriction on redemption of a tier one instrument contained (as at 15 May 2007) in GENPRU 2.2.72R, as such provision is amended, supplemented or replaced from time to time.

"**FSMA**" means the Financial Services and Markets Act 2000 as amended, supplemented or replaced from time to time.

"**GENPRU**" means the General Prudential Sourcebook issued by the FSA and which comprises part of the FSA Handbook.

"**Holder**" means the bearer of any Capital Security.

"**Issue Date**" means 29 May 2007, being the date of initial issue of the Capital Securities.

"**Junior Securities**" means ordinary shares or any other securities which in each case rank, as regards distributions on a return of assets on a winding-up of the Issuer or in respect of distributions or payments of dividends or any other payments thereon by the Issuer, after the Capital Securities.

"**Liabilities**" means the unconsolidated gross liabilities of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events in such manner as the directors of the Issuer may determine.

"**London Stock Exchange**" means London Stock Exchange plc.

"**Market Disruption Event**" means (i) the occurrence or existence of any material suspension of, or limitation imposed on trading or on settlement procedures for, transactions in Ordinary Shares or ACSM Securities, as the case may be, through the London Stock Exchange (or other national securities exchange or designated offshore securities market constituting the principal trading market for Ordinary Shares or ACSM Securities); or (ii) in the reasonable opinion of the Issuer there has been a substantial deterioration in the price and/or value of Ordinary Shares or ACSM Securities, or circumstances are such as to prevent or to a material extent restrict the issue or delivery of Ordinary Shares or ACSM Securities, as the case may be, to be issued in accordance with the Alternative Coupon Satisfaction Mechanism; or (iii) where monies are required to be converted from one currency upon issue of Ordinary Shares or ACSM Securities, as the case may be, into another currency for payment of Deferred Interest, the occurrence of any event that makes it impracticable to effect such conversion.

"**Ordinary Shares**" means ordinary shares of the Issuer having at the date hereof a par value of 10 pence each.

"**Parity Securities**" means preference shares or other securities (including other innovative Tier One Capital instruments and, on the Issue Date, the GBP Convertible Preference Share Units issued by the Issuer on 30 June 2005) which in each case rank *pari passu* with the Capital Securities, as to rights to coupons or dividend payments and participation in the assets of the Issuer in the event of a winding-up of the Issuer.

"**Paying Agents**" means the paying agents appointed pursuant to the Agency Agreement and such term shall, unless the context otherwise requires, include the Principal Paying Agent.

"**Preference Shares**" means the perpetual non-cumulative preference shares of the Issuer issued upon an exchange of Capital Securities.

"**Principal Paying Agent**" means the principal paying agent appointed pursuant to the Agency Agreement.

"**Recognised Stock Exchange**" means a recognised stock exchange as defined in Section 841 of the Income and Corporation Taxes Act 1988 and in Section 1005 of the Income Tax Act 2007, as the same may be amended from time to time and any provisions, statute or statutory instrument replacing the same from time to time.

"**Redemption Date**" means the date fixed for redemption of the Capital Securities, or any of them, pursuant to Condition 7.

"**Regulatory Capital Requirements**" means any requirements contained in Capital Regulations from time to time applicable to the Issuer.

A "**Regulatory Event**" is deemed to have occurred if, as a result of Regulatory Change (as defined below), either (i) the Capital Securities would not be capable of counting or would not otherwise qualify as cover for the minimum or notional margin of solvency or minimum capital or capital ratios required of the Issuer or (ii) if the Issuer is required under Regulatory Capital Requirements to have Tier One Capital, the Capital Securities would no longer be eligible to qualify (save where such non-qualification is due only to any applicable limitation on the amount of such capital) for inclusion in the Tier One Capital of the Issuer. For the purposes of the definition of Regulatory Event, a "**Regulatory Change**" means a change in, or amendment to, any Regulatory Capital Requirement or any change in the application of or official or generally published guidance or interpretation of any Regulatory Capital Requirement, which change or amendment becomes, or would become, effective on or after 29 May 2007.

"**Relevant Date**" in respect of a payment means the date on which such payment first becomes due, except that if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders in accordance with Condition 18.

"**Senior Creditors**" means:

(i) any creditors who are unsubordinated creditors with claims admitted in the event of a winding-up of the Issuer;

(ii) any creditors having claims in respect of liabilities that are, or are expressed to be, subordinated, whether only in the event of a winding-up or otherwise, to the claims of unsubordinated creditors of the Issuer, but not further or otherwise;

(iii) any creditor who is a holder of capital securities of the Issuer (other than the Capital Securities) or guaranteed by the Issuer except those that rank, or are expressed to rank, *pari passu* with or junior to the Capital Securities; and

(iv) all other creditors having claims, including other such creditors holding subordinated debt securities, except those that rank, or are expressed to rank, equally with (including holders of Parity Securities of the Issuer) or junior to (including holders of Junior Securities of the Issuer) the claims of any Holder.

"**Solvency Condition**" has the meaning set forth in Condition 2(c).

“**Talon**” means a talon for future coupons.

“**Tax Event**” means an event where the Issuer determines that as a result of a Tax Change in Law (as defined below) either (i) in making any Coupon Payments on the Capital Securities, it has paid, or will or would on the next Coupon Payment Date be required to pay, Additional Amounts in accordance with Condition 11, or (ii) in respect of the Issuer’s obligation to pay any Coupon Payment on the next following Coupon Payment Date, there is a substantial risk that the Issuer would not be entitled to claim a deduction in respect thereof when computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced, and in any such case, such requirement or circumstance cannot be avoided by the Issuer taking reasonable measures available to it.

For the purposes of the definition of Tax Event a “**Tax Change in Law**” means a change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax (including any treaty to which the United Kingdom is a party), or any change in the application of or official or generally published interpretation of those laws or regulations, including the decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions, which change or amendment becomes, or would become, effective on or after 29 May 2007.

“**Tier One Capital**” and “**Upper Tier Two Capital**” have the respective meanings given to such terms in the Glossary comprising part of the FSA Handbook, as amended, supplemented or replaced from time to time.

“**Trust Deed**” means the trust deed dated 29 May 2007 between the Issuer and the Trustee.

“**Trustee**” means Citicorp Trustee Company Limited.

“**USD**” or “**US dollars**” means the lawful currency of the United States of America.

There will appear at the foot of the Conditions endorsed on each Capital Security in definitive form the names and specified offices of the Paying Agents as set out at the end of this Prospectus.

SUMMARY OF PROVISIONS RELATING TO THE CAPITAL SECURITIES IN GLOBAL FORM

The Capital Securities will initially be in the form of the Temporary Global Security which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg.

The Temporary Global Security will be exchangeable in whole or in part for interests in the Permanent Global Security not earlier than 40 days after the Closing Date upon certification as to non-US beneficial ownership. No payments will be made under the Temporary Global Security unless exchange for interests in the Permanent Global Security is improperly withheld or refused. In addition, interest payments in respect of the Capital Securities cannot be collected without such certification of non-US beneficial ownership.

The Permanent Global Security will become exchangeable in whole, but not in part, for Capital Securities in definitive form ("**Definitive Securities**") in the denomination of USD2,000 each at the request of the bearer of the Permanent Global Security against presentation and surrender of the Permanent Global Security to the Principal Paying Agent if either of the following events (each, an "**Exchange Event**") occurs: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 10 (*Defaults; Limitation of Remedies*) occurs.

Whenever the Permanent Global Security is to be exchanged for Definitive Securities, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Securities, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Security to the bearer of the Permanent Global Security against the surrender of the Permanent Global Security to or to the order of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

In addition, the Temporary Global Security and the Permanent Global Security will contain provisions which modify the Terms and Conditions of the Capital Securities as they apply to the Temporary Global Security and the Permanent Global Security. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Security and the Permanent Global Security will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Security or (as the case may be) the Permanent Global Security to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Capital Securities. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Security or (as the case may be) the Permanent Global Security, the Issuer shall procure that the payment is noted in a schedule thereto.

Call Options: The options of the Issuer provided for in Conditions 7 (*Optional Redemption and Exchange*) and 8 (*Option to Exchange into Preference Shares*) shall be exercised by the Issuer giving notice to the relevant clearing system for communication by it to entitled accountholders (subject to the satisfactions of the conditions contained therein) within the time limits set out in and containing the information required by that Condition.

Notices: Notwithstanding Condition 18 (*Notices*), while all the Capital Securities are represented by the Permanent Global Security (or by the Permanent Global Security and/or the Temporary Global Security) and the Permanent Global Security is (or the Permanent Global Security and/or the Temporary Global Security are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Holders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Holders in accordance with Condition 18 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

USE OF PROCEEDS

The net proceeds of the issue of the Capital Securities, expected to amount to USD389,000,000 after deduction of the combined management and underwriting commission, will be used by the Issuer to repay short term debt drawn down under the Issuer's bank revolving credit facility and for general corporate purposes.

The estimated total expenses, inclusive of the combined management and underwriting commission, will be approximately USD11,950,000.

DESCRIPTION OF THE ISSUER

Introduction

The Issuer was incorporated and registered in Scotland under the Companies Acts 1948 to 1981 on 2 March 1983 with registered number 82015 as a private company limited by shares with the name Arisino Limited. The Issuer changed its name to Aberdeen Fund Managers Limited on 13 April 1983, to Abtrust Holdings Limited on 23 December 1987 and to Aberdeen Trust Holdings Limited on 13 June 1988. On 12 September 1989, the Issuer re-registered as a public company limited by shares, on 22 March 1991 it changed its name to Aberdeen Trust PLC and on 1 May 1997 it changed its name to Aberdeen Asset Management PLC. Aberdeen Asset Management PLC is the legal and commercial name of the Issuer, which acts as the holding company for the Group.

The Issuer's head offices and principal places of business are at 10 Queen's Terrace, Aberdeen AB10 1YG and One Bow Churchyard, Cheapside, London EC4M 9HH. The Issuer's registered office is at 10 Queen's Terrace, Aberdeen AB10 1YG and its telephone number is 01224 631999.

Share Capital

The authorised and issued and fully paid up share capital of the Issuer as at 11 May 2007 is set out in the table below:

	Authorised No. of Shares	Nominal Value	Issued and fully paid No. of Shares	Nominal Value
		(£)		*(£)*
Ordinary Shares of 10p................................	1,000,000,000	100,000,000	628,604,267	62,860,426
Preference Shares of £100	80,000	8,000,000	79,926	7,992,600

Group Overview

The Group is an independent international asset management group managing assets around the world for both institutional and retail clients, including: some 122 open-end funds domiciled in the UK, Luxembourg and Ireland and marketed selectively in a number of countries worldwide, 15 open-end funds domiciled in Singapore and marketed locally, 20 closed-end funds listed in the UK (of which 13 are conventional investment trusts), 8 closed-end funds listed in the US and Canada, segregated accounts marketed on behalf of a variety of institutions worldwide and several substantial funds managed on behalf of life companies. The Group also has a private equity business and an institutional property asset management business. The Group's equities and fixed income activities are undertaken within a single integrated reporting segment, referred to in published reports as the fund management division, and many of the Group's administrative and central functions support both activities. Property management is operated as a separate division, and is reported as a separate segment.

Total AUM amounted to approximately £80.4 billion as at 31 March 2007 and £73.2 billion as at 30 September 2006. The Group provides asset management expertise encompassing the three principal asset classes of equity, fixed income and property.

The Group's investment style is that of long term investor and the Group's investment process is founded on the performance of primary research by its management teams. The Group believes that this style is best implemented by being present in major global time zones and its principal investment operations are therefore located in the United Kingdom (London and Edinburgh), the United States (Philadelphia) and Asia (Singapore).

The majority of the Group's revenue is earned from recurring investment management fees, which are generally directly related to the value of AUM at individual mandate or fund level, and this is supplemented, in certain cases, by performance fees earned on the achievement of outperformance against benchmark.

The Group, which has approximately 1,300 employees worldwide, is headquartered in Aberdeen and has its main investment offices in London, Edinburgh, Singapore, Philadelphia, Bangkok and Sydney. It operates from 28 offices including offices in 9 towns and cities in the UK, together with offices in Europe, North America, Asia and Australia.

Business Strategy

The Group's overriding objective is to create value for its shareholders by operating a profitable business founded on the delivery of consistent investment performance and superior service to customers. The Group aims to achieve this objective by employing high quality teams throughout the Group and fostering an open and constructive relationship with staff. While recognising that achieving scale can bring opportunities not available to smaller groups, growth in AUM has never been the primary target. The Group's strategy has always been to grow revenues and profits in a sustainable manner by adding AUM with appropriate fee margins for the service provided. In terms of growth the Group has sought to grow and diversify its recurring revenue streams across a range of asset classes while leveraging off the Group's efficient cost base and operating model.

The Group operates its businesses according to the following key principles:

- Achievement of consistent long term investment performance;
- Provision of superior client service;
- Diversification of AUM by means of product offerings and winning new business; and
- Outsourcing of process-driven tasks, in particular investment administration.

The Group's investment strategy is predicated upon four primary principles:

Active portfolio management. For equity strategies, the Group employs a research-based, bottom-up approach to stock selection. This equity process, which originated in the Group's Singapore office, established in 1992, has proved highly successful and has, over time, been adopted rigorously on a Group-wide basis. Stock selection is the key source of equity alpha. For fixed income strategies, Aberdeen combines bottom-up security selection with a top-down macro investment approach. The fixed income process can be traced back to Morgan Grenfell's London fixed income business, which came to the Group through its acquisition of certain fund management businesses from Deutsche Bank in 2005.

Proprietary research. For equity strategies, investment managers conduct onsite due diligence and management visits to prospective portfolio companies, making thousands of visits annually to both existing and potential investments. Each investment must go through a rigorous selection process. Fixed income research applies a similar discipline with company and country visits complemented by in-house financial modelling and macro-economic analysis.

Long term focus. The equity strategy is based on a buy-and-hold approach: add to positions on price dips; and lighten positions on rallies. This strategy keeps portfolios focused and reduces transaction costs. The Group rarely focuses on short term returns. The fixed income strategy is based on a similar approach. Where mandates permit, the Group follows a total return approach, utilising multiple sources of added value with an emphasis on real yields. The aim is to optimise non-correlated positions via budgeting of tracking error, rather than through any single type of exposure.

Team approach. Portfolio decisions are made collectively and the Group is careful to avoid cultivating "star" managers. Cross coverage of securities also increases objectivity and lessens reliance on individual managers.

Clients. The Group's client base is predominantly institutional, with segregated account mandates representing 78 per cent. of AUM at 31 March 2007 and a further 7 per cent. comprised of closed-end fund mandates. The nature of investors in the Group's open-end fund ranges is also largely institutional, either by way of institutions investing direct in the funds or by third party intermediaries and distributors investing in these funds on behalf of their underlying customers. Clients include governments, pension schemes, local government agencies, listed investment companies, foundations and charities. The Group's marketing effort targets investment consultants as well as professional investment fund buyers such as private banks, funds-of-funds and discretionary fund managers. There is considerable overlap between these areas and each requires a sophisticated client relationship infrastructure. The Group's investment managers and product development teams work closely with intermediaries and plan sponsors to establish a client's investment profile, providing customised benchmarks and reporting as necessary. The Group does not market or sell any of its products direct to retail customers.

Assets Under Management by Client Type and Client Domicile

	As of 31 March 2007	
	(£bn)	*(Per cent.)*
By Client Type:		
Closed-end funds	5.4	7
Open-end funds	11.9	15
Institutional mandates	62.6	77
Other	0.5	1
	80.4	100
By Domicile:		
Europe ex UK	20.3	25
UK	34.1	42
Asia Pacific	4.0	5
North America	18.1	23
Middle East	3.9	5
Total Assets Under Management	80.4	100

Products

The AUM of the Group by asset class as at 31 March 2006, as at 30 September 2006 and as 31 March 2007 were as set out below:

Assets under Management by principal asset class

	31 March 2006	30 September 2006	31 March 2007
	(£m)	*(£m)*	*(£m)*
Fixed income	37,479	38,126	38,926
Equities	30,375	28,456	33,795
Property	6,511	6,588	7,693
Total Assets Under Management	74,365	73,170	80,414

Net new business for the six month period to 31 March 2007 totalled £7,638 million. For the year to 30 September 2006, net new business was £5,993 million and for the six month period to 31 March 2006, £3,596 million.

The following table sets out net new business of the Group by client type for the six months ended 31 March 2006, the year ended 30 September 2006 and the six months ended 31 March 2007:

	31 March 2006	30 September 2006	31 March 2007
	(£m)	*(£m)*	*(£m)*
Funds	932.5	1,071.0	353.0
Segregated account mandates	1,836.0	3,455.0	5,695.0
Total investment management division	2,768.5	4,526.0	6,048.0
Property division	827.3	1,467.0	1,590.0
Group total	3,595.8	5,993.0	7,638.0

Open-end funds

The Group operates open-end funds domiciled in Luxembourg and Ireland which are distributed cross-border in Europe, Asia and South America. Registrations for certain of these funds are in place, or are in the course of being finalised, for some 23 countries. In addition, the Group operates funds domiciled in the UK, Singapore, Austria, Thailand and Australia which are distributed primarily in the relevant domestic funds markets. A mutual fund has recently been established in the US with plans for more in due course and the Group also holds the management contract for a Cayman-domiciled fund, distributed primarily to the US offshore market. Marketing is carried out from various offices in Europe, Asia and the US, focused primarily on those markets as well as Middle East, South Africa and South America.

Distribution efforts are typically focused on discretionary fund managers, private banks and fund-of-fund providers, as well as a number of third party distributors and dealing platforms. There are agreements in place governing dealings with a number of groups (typically the large private banks) which operate globally and who place regular and substantial deals with us under the terms of those agreements from their offices worldwide.

Fund holders also include institutional clients of the Group who hold funds as efficient asset allocation vehicles or as part of a multi-asset management service.

Institutional

(i) *Segregated Mandates and Pooled Funds*

Segregated (separate) accounts are tailored to specific client mandate requirements, while still being managed in accordance with the Group's distinct investment style and process. As of 31 March 2007 segregated accounts represented 78 per cent. of AUM. The Group operates in the institutional market primarily in the US, UK, Continental Europe, Asia and Australia, with customer bases in each location.

(ii) *Closed-End Funds*

Closed-end funds are essentially segregated account mandates, awarded by the respective fund boards, which are additionally subject to specific reporting requirements or restrictions imposed as a result of legislation as opposed to individual client considerations.

The Group has the investment management contracts for 30 closed-end funds domiciled in the UK, the Channel Islands and North America and Australia, including funds listed on UK, US and Canadian stock exchanges. In recent years, the Group has been involved in a number of fund raisings in the closed-end market and provides marketing and promotional services to the boards of a number of these funds.

Property

The Group's property division manages around £7.7 billion (as at 31 March 2007) in property investments through property funds and segregated mandates. It employs over 400 staff in offices in Belgium, Denmark, Finland, France, Germany, Luxembourg, the Netherlands, Norway, Sweden and the UK.

Private Equity

The Group has specialist fund management capability in private equity, which is managed in the form of segregated fund mandates, limited partnerships and venture capital trusts in the UK markets in which the Group is active.

Recent Developments

The scale and diversity of the Issuer's operations were transformed by the acquisition of certain UK and US businesses from Deutsche Bank, completed in two stages in September and December 2005. This transaction brought more balance to the Group's AUM by adding a high quality fixed income business to complement the Group's equity capability.

As a result, the Group has experienced strong, broadly based inflows of new business, and has invested in additional business development personnel to identify and pursue the wide range of new business opportunities available. The interim results for the 6 months to 31 March 2007 disclosed record levels of new business. However the rate and timing of future new business flows cannot be predicted.

The successful completion of the third and final phase of the migration of the acquired businesses to a third party administration provider brings to an end a huge technical and logistical exercise and the Group is again able to operate on a single back office structure. The aim now will be to enhance margins through further operating efficiencies.

The Group's property division has made considerable progress over the last two years with a number of fund launches bringing an improved profile to the division's AUM with around 39 per cent. of AUM as at 31 March 2007 invested in funds. If the proportion continues to grow, this will lead to improved operating margins in future years.

The Group recently reached agreement with Real Estate Opportunities Limited ("**REO**") to settle the legal action initiated by REO in 2005 against members of the Group and a party not connected to the Issuer. Whilst the Issuer made no admission whatsoever of any liability or of acceptance of the validity of REO's claim, the Issuer recognised that it was in the best interests of the Group and its shareholders to conclude the matter and to end the distraction it caused. The Issuer believes that this concludes the Group's exposure to claims which arose, directly or indirectly, from split capital trusts.

The Group has entered into an agreement with Deutsche Australia Limited to acquire certain Australian fund management businesses which on completion will have up to approximately A$14 billion of AUM. As a result, the Group's presence in the Australian institutional asset management sector will be significantly enhanced both among corporate and superannuation buyers and the growing mezzanine market that includes master trusts and dealer groups. While the acquisition is expected to generate value for the Issuer's shareholders primarily through the elimination of duplicated costs and the scope for regional integration, it is not expected to have a material impact on the Issuer's earnings per share.

Selected Financial Information

The following table sets out the key audited figures of the Group in respect of the two financial years ended 30 September 2006, which have been extracted directly from the Issuer's audited consolidated financial statements for the year ended 30 September 2006 together with the published key unaudited figures for the six months ended 31 March 2006 and 2007:

	30 September 2005	**30 September 2006**	**31 March 2006 (as restated)**	**31 March 2007**
	(£m)	*(£m)*	*(£m)*	*(£m)*
Revenue	156.1	302.1	147.4	162.5
Pre-tax profit (loss):				
Before exceptional items and amortisation of intangibles	24.8	79.0	36.8	43.6
After exceptional items and amortisation of intangibles	31.6	53.8	21.5	(21.9)
Net new business funded	£3.1bn	£5.0bn	£2.6bn	£4.1bn
Net new business awarded but not funded at period end	£0.5bn	£1.0bn	£1.0bn	£3.5bn

Directors' and other interests

The Directors of the Issuer, each of whose business address is 10 Queen's Terrace, Aberdeen AB10 1YG and their functions in relation to the Group are as follows:

Name	**Function(s) within the Group**
Charles Leonard Anthony Irby FCA	Chairman
Martin James Gilbert MA LLB LLD CA	Chief Executive
Andrew Arthur Laing MA LLB	Chief Operating Officer

William John Rattray MA CA	Finance Director
Donald Henry Waters OBE CA	Senior Independent Non-Executive Director
Roger Courtenay Cornick	Independent Non-Executive Director
Anita Margaret Frew BA Hons MPhil	Independent Non-Executive Director
Rt. Hon. Sir Malcolm Rifkind QC MP........................	Independent Non-Executive Director
Christopher Giles Herron Weaver FCA	Independent Non-Executive Director

There are no potential conflicts of interest between any of the Directors' duties to the Issuer and their private interests or other duties.

Memorandum of Association

The Memorandum of Association of the Issuer provides that the Issuer's principal objects are to carry on the business of investment and financial managers, advisers and consultants. The objects of the Issuer are set out in full in clause 4 of its Memorandum of Association.

Recent Investments

As referred to previously, the Issuer has entered into a share sale agreement dated 23 March 2007 with Deutsche Australia Limited pursuant to which the Issuer has agreed to acquire the entire issued share capital of Deutsche Asset Management (Australia) Limited (the "**Target**") for a cash consideration that is not expected to exceed £61 million. The consideration is subject to adjustment in respect of the revenues generated by the Target and its net asset value at, or shortly after, completion. Completion is subject to approvals from the relevant Australian regulatory authorities and is expected to take place by 1 July 2007.

REGULATORY ENVIRONMENT

Group businesses

The Group's principal operating subsidiaries are investment companies and property asset management companies. Those investment companies comprise fund management, fund distribution, unit trust management and unit linked pension companies, and are incorporated in various European countries (including the UK), south-east Asia, Australia and the USA. The UK companies also carry out business in other jurisdictions. All of the principal investment companies are subject to regulation and supervision in their place of incorporation and in the other countries in which they carry on business.

UK

The principal UK investment subsidiaries carry on fund management, unit trust management and unit-linked pensions business in the UK and in other European countries. The UK subsidiaries are subject to the regulation and supervision of the FSA under FSMA. In addition to complying with FSMA, these investment subsidiaries must also comply with the rules and guidance issued by the FSA under powers granted by FSMA. Important sections of these rules and guidance relate to conduct of business and the organisation of the relevant company's affairs.

The FSA has also issued rules and guidance, which apply to the principal UK investment subsidiaries, in relation to prudential and capital requirements. With effect from 1 January 2007, new rules and guidance were issued, contained in the General Prudential Sourcebook ("**GENPRU**") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("**BIPRU**"). However, transitional arrangements apply and the UK investment subsidiaries may choose to calculate the capital requirements for credit risk under the previous prudential rules and guidance, contained in the Interim Prudential Sourcebook for Investment Businesses ("**IPRU INV**"), with some adjustments under BIPRU transitional provisions, until 1 November 2007. The UK investment subsidiaries have elected to comply with GENPRU and BIPRU in full with effect from 1 January 2008, which will impact on the Group's 2007/8 financial year.

Authorisation and permission to carry on business

Subject to the exemptions provided in FSMA, no person may carry on regulated activities in the UK unless permitted to do so under FSMA by the FSA. In deciding whether to grant permission, the FSA is required to determine whether the applicant is a fit and proper person, having regard to all the circumstances, including whether the applicant's affairs are conducted soundly and prudently. Each of the principal UK investment subsidiaries is authorised by the FSA under FSMA and has permission to carry on the regulated activities that comprise its business.

Principal UK investment subsidiaries also carry out business in other European countries – see *Authorisation and permission to carry on business* under "Other European Countries", below.

Regulatory reporting

UK companies have to prepare accounts in accordance with provisions of the Companies Act 1985 and are required to file, and provide their shareholders with, audited financial statements and related reports. In addition, investment companies regulated by the FSA are separately required to provide financial and other prudential reports to the FSA under the Supervision rules and guidance issued by the FSA.

Solo capital requirements

Under GENPRU and BIPRU, an investment firm (such as the principal UK subsidiaries) must ensure that its capital resources exceed its capital resources requirement at all times. The items that qualify as capital resources under GENPRU are determined by reference to the type of firm. In the case of a BIPRU investment firm with a waiver from consolidated supervision (which is the case for the principal UK subsidiaries), the relevant items include permanent share capital, share premium account, externally verified interim net profits, certain innovative tier one instruments, certain preference shares, certain subordinated debt and net interim trading book profits, but deductions are to be made for (amongst other things) investments in own shares, intangible assets, certain losses, contingent liabilities, illiquid assets and other material holdings. Items are allocated according to three tiers of capital and there are restrictions on the proportion of each tier that may qualify as capital resources. The capital resources requirement is determined under BIPRU, by reference to risks and exposures in the business, such as credit risk and counterparty risk.

Until full adoption of GENPRU and BIPRU, an investment management firm (such as the principal UK subsidiaries) must calculate the capital requirements for credit risk under IPRU INV. Under the BIPRU transitional provisions, this involves finding equivalents under IPRU INV for the credit risk capital requirement and so there are some adjustments to IPRU INV to achieve a workable method of calculation.

Consolidated capital requirements

In addition to solo capital requirements, the FSA requires investment firms to maintain capital in respect of consolidated groups and sub-groups. A firm will need to agree the extent of a consolidated group with the FSA and there can be multiple sub-groups within a group, within the UK and/or within the EEA. Consolidation will often extend to the ultimate UK or EEA financial holding company parent.

A firm may apply to the FSA for a waiver from consolidation, provided that certain conditions are satisfied. The FSA has granted such a waiver to the UK regulated investment companies. Even where a waiver is granted, the ultimate UK or EEA financial holding company (in the case of the Group, the Issuer) is required to maintain capital resources in excess of a solo notional capital resources requirement, calculated (broadly) by reference to the aggregate of the solo capital resources requirements for the regulated subsidiaries and certain contingent liabilities, but excluding material holdings.

Where a consolidation waiver has been granted for capital purposes allowing this alternative capital requirement, the FSA will continue to supervise the consolidated group for prudential purposes.

Supervision and enforcement

The FSA has wide powers to supervise, and intervene in, the affairs of a UK investment company under FSMA. For instance, it can require a company to provide particular information or documents, require a company to provide a “skilled persons” report or formally investigate a firm. It has the power to take a range of disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and the award of compensation.

Future developments

The introduction of BIPRU and GENPRU has been discussed above.

In addition, the EU Markets in Financial Instruments Directive (“**MiFID**”) is to be implemented in the UK with effect from 1 November 2007. MiFID implementation will involve changes to the FSA’s conduct of business rules and guidance and also the rules and guidance relating to systems and controls that a regulated firm, such as the principal UK investment subsidiaries, must have in relation to its business.

Other European countries

Apart from the activities in the UK, the Group's other principal European investment activities are conducted in Ireland and Luxembourg.

The Irish investment subsidiary is Aberdeen Fund Management Ireland Limited ("**AFMIL**"). It is regulated and supervised by the Irish Financial Services Regulatory Authority ("**IFSRA**") to provide management services to Irish collective investment schemes.

AFMIL has appointed Aberdeen Fund Management Limited, a wholly owned subsidiary of Aberdeen Asset Management plc to act as Investment Manager of the funds noted below.

AFMIL acts as manager of the following regulated UCITS funds: Aberdeen Global Select Funds plc, Aberdeen Funds plc, Aberdeen Investment Funds (Ireland) plc, Aberdeen Global Spectrum Common Contractual Fund, Aberdeen Global Spectrum Fund plc and Select International Funds plc (the "**Funds**").

AFMIL is authorised by IFSRA to act as management company of the Funds pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) (Amendment No.2) Regulations 2003 (S.I. 497 of 2003) (the "**Regulations**").

The Group operates in Luxembourg through the establishment of a branch office of Aberdeen Asset Managers Ltd. The branch has been approved by the FSA in the UK and the Commission de Surveillance du Secteur Financier ("**CSSF**") in Luxembourg under the provisions of the European Investment Services Directive 93/22/EEC.

The Branch provides local language support to the activities of AAM's business development team in the promotion of Aberdeen Global SICAV to institutional investors. It does not carry out investment management activities.

The Luxembourg branch has to comply with the general legal framework (general provisions of civil law, commercial law, labour law and criminal law) applicable to all activities carried on in Luxembourg. In particular CSSF has specified that the branch is required to apply the Luxembourg rules regarding the prevention of money laundering as set out in the law of 12 November 2004 on the fight against money laundering and financing of terrorism as well as in Part II of the amended law of 5 April 1993 on the financial sector and detailed in particular in the CSSF 05/211.

The branch is required to periodically provide the CSSF as the home country supervisory authority with financial and operational information including financial statements and staff numbers.

In addition, principal UK investment subsidiaries carry on business in other European countries. Although authorisation is not required from the local European regulatory body (see *Authorisation and permission to carry on business*, below), the UK investment subsidiaries are required to comply with certain laws and regulatory requirements, for instance in respect of conduct of business and money laundering, in relation to business carried on in the relevant country.

Authorisation and permission to carry on business

In Ireland and Luxembourg, authorisation is required from the relevant regulator referred to above under the relevant legislation referred to above for any person to carry on investment activities. In deciding whether to grant permission, the relevant regulator is required to determine whether the applicant is a fit and proper person, having regard to all the circumstances, including whether the applicant's affairs are conducted soundly and prudently.

A person who is authorised by the FSA to carry on investment business in the UK is entitled to use a procedure known as "passporting" to authorise it to carry on business in another EU member state, avoiding the need for a full authorisation application. Under this arrangement, the FSA continues to supervise the passporting person, who must comply with UK prudential requirements and high-level standards, although the regulator in the host European country will regulate compliance with conduct of business, money laundering and certain other limited requirements. Principal UK investment subsidiaries are entitled to carry on business in other EU countries under this passporting arrangement.

Solo capital requirements

In Luxembourg there are no specific financial requirements for the branch other than to provide periodic information as noted above. In Ireland the company must at all times meet minimum financial resource requirements and have these approved by external auditors.

Supervision and enforcement

In the case of the Luxembourg branch, the FSA is the principal regulator and the supervision and enforcement processes are similar to the UK. There are additional requirements for the "host" regulator as noted above. In Ireland, IFSRA is responsible for the supervision and enforcement of the applicable regulations.

Future developments

Luxembourg and Ireland will both be affected by the introduction of MiFID (see above). The detailed requirements have yet to be finalised.

South-east Asia and Australia

The principal investment subsidiaries in south-east Asia are incorporated in Singapore, Thailand and Malaysia. In addition, there is a principal investment subsidiary which is incorporated in Sydney, Australia.

The principal Singaporean investment subsidiary, which carries on fund management activities, is regulated and supervised by the Monetary Authority of Singapore ("**MAS**") under the Securities and Futures Act 2006 ("**SFA**").

The principal Thai investment subsidiary carries on fund management activities and is regulated and supervised by the Office of the Securities and Exchange Commission, Thailand ("**SECT**"), under the Securities and Exchange Act B.E.2535 ("**SEA**").

The principal Malaysian investment subsidiary, carrying on fund management activities, is regulated and supervised by the Securities Commission (Malaysia) ("**SCM**") under the Securities Industry Act 1983 ("**SIA**").

The principal Australian investment subsidiary, carrying on fund management activities, is regulated and supervised by the Australian Securities and Investments Commission ("**ASIC**") under the Corporations Act 2001.

Authorisation and permission to carry on business

In Singapore, Thailand, Malaysia and Australia, authorisation is required from the relevant regulator referred to above under the relevant legislation referred to above for any person to carry on investment activities. In deciding whether to grant permission, the relevant regulator is required to determine whether the applicant is a fit and proper person, having regard to all the circumstances, including whether the applicant's affairs are conducted soundly and prudently. Each of the principal Singaporean, Thai, Malaysian and Australian investment subsidiaries is authorised by the relevant regulator under the relevant country's legislation.

Regulatory reporting

Singapore

Aberdeen Asset Management Asia Limited ("**AAMAL**") is required to prepare accounts in accordance with provisions of the Singapore Companies Act (Chapter 50) and Singapore Financial Reporting Standards, and is required to file, and provide their shareholders with, audited financial statements and related reports. In addition, AAMAL holds a Capital Market Services Licence under the SFA (Chapter 289) to carry on the business of fund management and is separately required to provide financial and other prudential reports to the MAS. AAMAL is also an Exempt Financial Adviser under the Financial Advisers Act (Chapter 110) ("**FAA**").

Thailand

Aberdeen Asset Management Company Limited ("**AMCL**") is required to prepare accounts in accordance with provisions of the Civil and Commercial Code and are required to file, and provide their shareholders with, audited financial statements and related reports. In addition, asset management companies regulated by the SECT are separately required to provide financial and other prudential reports to the SECT under the Supervision rules and guidance issued by the SECT.

Malaysia

Aberdeen Asset Management Sdn Bhd ("**AAMSB**") has to prepare accounts in accordance with provisions of the Commission Companies of Malaysia ("**CCM**") and Malaysian Accounting Standard Board ("**MASB**"), and is required to file, and provide their shareholders with, audited financial statements and related reports within the required dates. In addition, AAMSB holds a Fund Managers Licence issued by the SCM to carry on the business of fund management. Under the SIA, AAMSB is required to submit a semi-annual report on fund management, compliance report (semi-annual basis) and the financial reports to the SCM.

Australia

Australian companies are required to prepare accounts in accordance with provisions of the Corporations Act 2001 and are required to file with the regulator, audited financial statements and related reports. Additional report filing to the regulator is required in relation to certain significant changes within the company or schemes they operate or manage.

Solo capital requirements

Singapore

AAMAL, holding a capital market services licence, is regulated under the Securities and Futures Act Chapter 289 (Financial and Margin Requirements for Holders of Capital Markets Services Licences Regulations ("**SFFMR**"). Under SFFMR, AAMAL is required to comply with the following financial requirements on a continuing basis under a Risk Based Capital ("**RBC**") framework:

(a) a Minimum Capital Requirement of not less than S$1 million; and

(b) a Minimum Financial Resources Requirement of not less than its Total Risk Requirements ("**TRR**").

For the purpose of RBC framework, TRR is broadly grouped into five categories: counterparty risk, position risk, large exposure risk, underwriting risk and operational risk. AAMAL is currently only exposed to operational risk.

Thailand

Under the SECT Notification Gor.(Nor) 13/2548: Capital Adequacy and Insurance for the third party, a management company which has mutual fund or provident fund business must maintain capital equity base at a minimum of Bht 20 million. A management company which has private fund business must maintain capital equity base at a minimum of Bht 10 million. A management company (that has mutual fund or provident fund business) may require having third party insurance according to the net asset value of the funds under management and its shareholder equity.

Malaysia

Under the Guidelines for Application for Fund Manager's and Fund Manager's Representative Licences under the SIA, the minimum paid-up-capital is RM2,000,000. In addition, a licence fund manager company under the SIA must maintain its shareholders fund at RM2,000,000 at all times.

Australia

The principal Australian investment subsidiary, holding a Australian Financial Services Licence (AFSL), is regulated under the Corporations Act 2001, by the Australian Securities and Investments Commission (ASIC). Under the AFSL financial requirements, the principal Australian investment subsidiary is required to comply with the net tangible assets requirement (if acting as a Responsible Entity for managed investment schemes), surplus liquid funds, adjusted surplus liquid funds, the net positive asset requirement and sufficient cash resources to cover next 3 months' expenses with adequate cover for contingencies, on a continuing basis.

Supervision and enforcement

Singapore

The MAS has wide powers to supervise, and intervene in, the affairs of AAMAL under the SFA. For instance, it can require a company to provide particular information or documents, issue written directions to a company or formally investigate a company. It has the power to take a range of disciplinary or enforcement actions, including public censure, restitution, fines and sanctions.

Thailand

The SECT has wide powers to supervise, and intervene in, the affairs of AAMCL under the SEA. For instance, it can require a company to provide particular information or documents, issue written directions to a company or formally investigate a company. It has the power to take a range of disciplinary or enforcement actions, including public censure, restitution, fines and sanctions.

Malaysia

The SCM has wide powers to supervise, and intervene in, the affairs of AAMSB under the SIA. For instance, it can require a company to provide particular information or documents, require a company to provide a "skilled persons" report or formally investigate a firm. It has the power to take a range of disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and the award of compensation.

Australia

ASIC has wide powers to inspect books, request documentation, supervise and intervene in, the affairs of an Australian company under the Australian Securities and Investments Commission Act 2001 and the Corporations Act 2001.

It has the power to take a range of disciplinary or enforcement actions, including enforceable undertakings, restitution, fines or sanctions such as additional licensing requirements or licence cancellation.

Future developments

Singapore

The MAS is conducting a series a policy consultation on proposed amendments to the SFA and the FAA. These amendments were aimed at strengthening the market and disclosure-based regulatory approach underpinning the SFA and the FAA, enhancing confidence in our markets, and encouraging continued innovation and growth. To date, there are no material changes affecting the activities of AAMAL.

Thailand

The SECT is conducting a series a policy consultation on proposed amendments to the SEA and the regulation related thereto. These amendments were aimed at strengthening confidence of investors in the local capital market and promoting the development of the Thai market to be in line with international standards, for example, strengthening CG standards, improving financial reporting and shelf filing for Baht bond. Developments worth mentioning in asset management area are the proposals for establishment of education mutual funds to promote savings for education purpose with tax incentives and the liberalization of securities businesses licenses in 2012 and brokerage fee within 5 years.

Malaysia

The SCM is looking into the possibility of consolidating the licensing structure. However, proposal for the consolidation is still at the preliminary stage.

Australia

With the passing of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 in December 2006, 2007 will be a transition period for all financial service providers as they implement to accompanying rules to ensure compliance. The rules have just been released in April 2007.

USA

There is one principal investment subsidiary in the USA, which is incorporated in Delaware. That principal investment subsidiary carries on fund management activities and is regulated and supervised by the Securities and Exchange Commission ("**SEC**") under the Investment Advisers Act of 1940 ("**40 Act**"). In addition to complying with the 40 Act, the principal US investment subsidiary must also comply with the rules and guidance issued by the SEC relating to investment companies under the Investment Company Act of 1940 and qualified retirement accounts under rules and guidance issued by the Department of Labor. The most important of these rules relate to fiduciary duties.

Authorisation and permission to carry on business

In the USA, authorisation is required from the SEC as the federal regulator under the 40 Act for a person to carry on investment activities. The US investment subsidiary does make notice filings in all 50 US states as certain states require such filings when a registered investment adviser has clients in that state. No other separate state authorisations, consents, licences or permissions are required to carry on investment business. The SEC uses its audit and examination powers to determine whether the applicant is a fit and proper person, having regard to all the circumstances, including whether the applicant's affairs are conducted soundly and prudently.

Regulatory reporting

The US investment advisory subsidiary must file a form ADV annually or when material changes require more frequent filings.

Solo capital requirements

There are no specific capital requirements for a US registered investment adviser. The subsidiary in the USA is wholly owned by the Issuer.

Consolidated capital requirements

The 40 Act does not require consolidated reporting. The US investment adviser subsidiary does have fully, annually audited non-consolidated financial statements

Supervision and enforcement

The SEC has wide powers to regulate, and intervene in, the affairs of a US registered investment adviser. For instance, it can require a company to provide particular information or documents, require a company to report to the SEC or formally investigate a firm. It has the power to take a range of disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and the award of compensation.

Future developments

No significant future developments are planned.

TAXATION

The following is a general description of certain United Kingdom, Republic of Austria, Germany, Ireland, Republic of Italy, Luxembourg, The Netherlands and Spain tax considerations relating to the Capital Securities. It does not purport to be a complete analysis of all tax considerations relating to the Capital Securities whether in those countries or elsewhere. Prospective purchasers of Capital Securities should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the United Kingdom, the Republic of Austria, Germany, Ireland, the Republic of Italy, Luxembourg, The Netherlands and Spain of acquiring, holding and disposing of Capital Securities and receiving payments of interest, principal and/or other amounts under the Capital Securities. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in Capital Securities, or any person through which an investor holds Capital Securities, of a custodian, collection agent or similar person in relation to such Capital Securities in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

UNITED KINGDOM

The following is a summary of the current United Kingdom law and HM Revenue & Customs published practice relating to certain aspects of the taxation treatment of the Capital Securities and the Preference Shares as at the date of this Prospectus and may be subject to change, possibly with retroactive effect. It relates only to the position of persons who are the absolute beneficial owners of Capital Securities or Preference Shares and may not apply to certain classes of Holders, such as dealers in securities. This summary deals only with: the question of whether payments of interest on the Capital Securities and dividends on the Preference Shares may be made without withholding or deduction for or on account of United Kingdom income tax; liabilities to stamp duty or stamp duty reserve tax ("SDRT"); and does not deal with other United Kingdom tax consequences that might arise from holding Capital Securities or Preference Shares. Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

Withholding tax

Capital Securities

So long as the Capital Securities continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007, payments of interest may be made without withholding or deduction for or on account of income tax. The London Stock Exchange is a recognised stock exchange for these purposes. Under HM Revenue & Customs published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange. This practice is expected to be formally enacted in the Finance Act 2007. Securities that are admitted to trading on the Gilt-Edged and Fixed Interest Market satisfy the condition of being admitted to trading on the London Stock Exchange.

If the Capital Securities cease to be listed on a recognised stock exchange, interest on the Capital Securities will generally be paid under deduction of income tax at the savings rate (currently 20 per cent.), subject to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Interest on the Capital Securities may also be paid without deduction or withholding on account of United Kingdom tax where interest on the Capital Securities is paid to a person who belongs in the United Kingdom for United Kingdom tax purposes and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Capital Securities is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HM Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person who is an individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

The interest has a United Kingdom source and, accordingly may be chargeable to United Kingdom tax by direct assessment even if paid without withholding or deduction. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of Holders of the Capital Securities who are not resident in the United Kingdom, except where the Holder in question carries on a trade, profession or vocation in the United Kingdom through a branch or agency or, in the case of a corporate Holder, through a permanent establishment in the United Kingdom in connection with which the interest is received or to which the Capital Securities are attributable in which case (subject to exemptions for certain categories of agent) tax may be levied on the United Kingdom branch or agency or permanent establishment.

If interest were paid under deduction of United Kingdom income tax (eg, if the Capital Securities cease to be listed on a recognised stock exchange), Holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

Holders should note that the provisions relating to additional payments referred to in Condition 11 of "Terms and Conditions of the Capital Securities" would not apply if HM Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

Preference Shares

There is no requirement to withhold United Kingdom tax from any dividends paid on the Preference Shares.

Stamp Duty and SDRT

No United Kingdom stamp duty or SDRT will be payable by Holders on the issue or transfer by delivery of the Capital Securities.

No United Kingdom stamp duty or SDRT will be payable by Holders on a redemption of the Capital Securities.

No United Kingdom stamp duty or SDRT will be payable by Holders if the Issuer elects to exchange the Capital Securities into Preference Shares or into Exchange Securities.

A United Kingdom stamp duty or SDRT charge will arise if the Preference Shares are transferred for consideration (currently at the rate of 0.5 per cent. of the consideration paid, with a rounding up to the nearest £5). In the ordinary course of events, liability to pay stamp duty or SDRT is that of the transferee or purchaser.

EU Savings Directive

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires each Member State to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to an individual resident in another Member State; except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) unless during such period they elect otherwise. A number of other non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the adoption of the Directive.

REPUBLIC OF AUSTRIA

This section on taxation contains a brief summary of the Issuer's understanding with regard to certain important principles which are of significance in Austria in connection with the purchase, holding or sale of the Capital Securities (but does not deal with a possible exchange of the Capital Securities into Preference Shares and with the tax consequences of the holding or sale of such Preference Shares). This summary does not purport to exhaustively describe all possible tax aspects and does not deal with specific situations which may be of relevance for certain potential investors. It is based on the currently valid tax legislation, case law and regulations of the tax authorities, as well as their respective interpretation, all of which may be amended from time to time. Such amendments may possibly also be effected with retroactive effect and may negatively impact on the tax consequences described. It is recommended that potential purchasers of the Capital Securities consult with their legal and tax advisors as to the tax consequences of the purchase, holding or sale of the Capital Securities. Tax risks resulting from the Capital Securities shall in any case be borne by the purchaser.

1. General Remarks

Individuals having a permanent domicile (*Wohnsitz*) and/or their habitual abode (*gewöhnlicher Aufenthalt*) in Austria are subject to income tax (*Einkommensteuer*) in Austria on their worldwide income (unlimited income tax liability; unbeschränkte Einkommensteuerpflicht). Individuals having neither a permanent domicile nor their habitual abode in Austria are subject to income tax only on income from certain Austrian sources (limited income tax liability; *beschränkte Einkommensteuerpflicht*).

Corporations having their place of effective management (*Ort der Geschäftsleitung*) and/or their legal seat (*Sitz*) in Austria are subject to corporate income tax (*Körperschaftsteuer*) in Austria on their worldwide income (unlimited corporate income tax liability; *unbeschränkte Körperschaftsteuerpflicht*). Corporations having neither their place of effective management nor their legal seat in Austria are subject to corporate income tax only on income from certain Austrian sources (limited corporate income tax liability; *beschränkte Körperschaftsteuerpflicht*).

Both in case of unlimited and limited (corporate) income tax liability Austria's right to tax may be restricted by double taxation treaties.

2. Taxation of the Capital Securities

(Corporate) Income tax

In general, the Capital Securities qualify as bonds (*Forderungswertpapiere*) in the sense of sec. 93(3) of the Austrian Income Tax Act (*Einkommensteuergesetz*).

Individuals subject to unlimited income tax liability in Austria holding bonds in the sense of sec. 93(3) of the Austrian Income Tax Act as a non-business asset (*Privatvermögen*) are subject to income tax on all resulting interest payments (which term also encompasses the difference between the redemption price and the issue price) pursuant to sec. 27(1)(4) and sec. 27(2)(2) of the Austrian Income Tax Act. If such interest is paid out by an Austrian paying agent (*kuponauszahlende Stelle*) then the payments are subject to a withholding tax of 25%. No additional income tax is levied over and above the amount of tax withheld (final taxation; *Endbesteuerung*) in case the bonds are legally and factually offered to an indefinite number of persons. If interest payments are not effected through an Austrian paying agent, a flat income tax rate of 25% applies in case the bonds are in addition legally and factually offered to an indefinite number of persons. Since in this case no withholding tax is levied, interest payments must be included in the income tax return of the investor. If the bonds are not legally and factually offered to an indefinite number of persons then the interest payments must be included in the investor's income tax return and are subject to income tax at a marginal rate of up to 50%, any withholding tax being creditable against the income tax liability.

Individuals subject to unlimited income tax liability in Austria holding bonds as a business asset (*Betriebsvermögen*) are subject to income tax on all resulting interest payments (which term also encompasses the difference between the redemption price and the issue price). Such interest payments are subject to a withholding tax of 25% in case they are paid out by an Austrian paying agent. No additional income tax is levied over and above the amount of tax withheld (final taxation) in case the bonds are legally and factually offered to an indefinite number of persons. If interest payments are not effected through an Austrian paying agent, a flat income tax rate of 25% applies in case the bonds are in addition legally and factually offered to an indefinite number of persons. Since in this case no withholding tax is levied, interest payments must be included in the income tax return of the investor. If the bonds are not legally and factually offered to an indefinite number of persons, then the interest payments must be included in the investor's income tax return and are subject to income tax at a marginal rate of up to 50%, any withholding tax being creditable against the income tax liability.

Corporations subject to unlimited corporate income tax liability in Austria are subject to corporate income tax on all interest payments (which term also encompasses the difference between the redemption price and the issue price) resulting from bonds at a rate of 25%. Under the conditions set forth in sec. 94(5) of the Austrian Income Tax Act no withholding tax is levied.

Private foundations (*Privatstiftung*) pursuant to the Austrian Private Foundations Act (*Privatstiftungsgesetz*) fulfilling the prerequisites contained in sec. 13(1) of the Austrian Corporate Income Tax Act (*Körperschaftsteuergesetz*) and holding bonds as a non-business asset are subject to corporate income tax (interim taxation; *Zwischenbesteuerung*) on all resulting interest payments received (which term also encompasses the difference between the redemption price and the issue price) pursuant to sec. 13(3)(1) of the Austrian Corporate Income Tax Act at a rate of 12.5% in case the bonds are in addition legally and factually offered to an indefinite number of persons. If the bonds are not legally and factually offered to an indefinite number of persons, then the interest payments are subject to corporate income tax at a rate of 25%. Under the conditions set forth in sec. 94(11) of the Austrian Income Tax Act no withholding tax is levied.

Individuals subject to limited income tax liability in Austria holding bonds within the meaning of sec. 93(3) of the Austrian Income Tax Act are subject to income tax at a rate of 25% on all resulting interest payments (which term also encompasses the difference between the redemption price and the issue price) in Austria if, broadly speaking, the bonds are attributable to an Austrian permanent establishment (*Betriebsstätte*) of the investor. The same applies with respect to corporations subject to limited corporate income tax liability in Austria, the tax rate also being 25%. If interest received by non-resident individuals and corporations is not subject to (corporate) income tax but if at the same time it is subject to withholding by virtue of an Austrian paying agent, the withholding tax will be refunded upon the investor's application. The Austrian Ministry of Finance has also provided for the possibility for the non-resident investor to furnish proof of non-residency, in which case the Austrian paying agent may refrain from withholding in the first place.

EU withholding tax

Sec. 1 of the Austrian EU Withholding Tax Act (*EU-Quellensteuergesetz*), which transforms into national law the provisions of Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payment, provides that interest payments paid or credited by an Austrian paying agent to a beneficial owner who is an individual resident in another Member State is subject to a withholding tax if no exception from such withholding applies. Currently, the withholding rate amounts to 15%.

GERMANY

The information set out in the following section about certain issues under the German withholding tax rules relating to Capital Securities issued pursuant to the Prospectus is not exhaustive and is based on current tax laws in force at the time of printing of this Prospectus which may be subject to change at short notice and, within certain limits, may also have retroactive effect. It does not address the taxation of any payments under Preference Shares after a possible exchange of Capital Securities into Preference Shares.

The information is not intended to be, nor should it be construed to be, legal or tax advice. Moreover, the following section cannot take into account the individual tax situation of each investor and only deals with German withholding tax rules. With regard to the taxation of an investor not only the German withholding tax rules will be relevant. Therefore, we recommend that prospective investors should ask their own tax adviser for advice on their individual German taxation with respect to an acquisition, sale and redemption of the Capital Securities. Only these advisers are in a position to duly consider the specific situation of the investor. The following statement is therefore limited to the provision of a general outline of certain withholding tax consequences in Germany for investors.

German Tax Resident Persons

Payments of interest (e.g. Coupon Payments and Deferred Interest) on the Capital Securities to persons who are tax residents of Germany (i.e. persons whose residence, habitual abode, seat or place of effective management is located in Germany) are subject to German income or corporate income tax (plus solidarity surcharge). Such interest is also subject to trade tax if the Capital Securities form part of the property of a German trade or business.

If the Capital Securities are held in a custodial account which the investor maintains with a German branch of a German or non-German credit or financial services institution (the "**Disbursing Agent**") a 30 % withholding tax on interest payments (*Zinsabschlag*) (plus 5.5 % solidarity surcharge on such tax) will be levied, resulting in a total tax charge of 31.65 % on the gross interest payments. If the Capital Securities qualify as so-called financial innovations for German tax purposes and are kept in a custodial account which the holder of the Capital Securities maintains with a Disbursing Agent, such Disbursing Agent will generally withhold tax at a rate of 30 % (plus 5.5 % solidarity surcharge thereon) from the difference between proceeds from the redemption, sale or assignment and the issue or purchase price of the Capital Securities if the Capital Securities have been kept in a custodial account with such Disbursing Agent since the time of issuance or acquisition, respectively. If the Capital Securities have not been kept in a custodial account since their issuance or acquisition the 30 % withholding tax (plus 5.5 % solidarity surcharge thereon) is applied to 30 % of the proceeds from the redemption sale or assignment of the Capital Securities. Where the Capital Securities are issued in a currency other than euro, the difference will be computed in the foreign currency and will then be converted into euro. The Disbursing Agent may deduct the accrued interest paid by the holder of the Capital Securities in the same calendar year when calculating the tax base for withholding tax purposes.

In general, no withholding tax will be levied if the holder of Capital Securities is an individual (i) whose Capital Securities do not form part of the property of a German trade or business, and (ii) who filed a withholding exemption certificate (*Freistellungsauftrag*) with the Disbursing Agent but only to the extent the interest income and other taxable savings income does not exceed the maximum exemption amount shown on the withholding exemption certificate. Similarly, no withholding tax will be deducted if the holder of the Capital Securities has submitted to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the relevant local tax office.

Withholding tax and solidarity surcharge thereon are credited as prepayments against the German income tax and the solidarity surcharge liability of the German tax resident person. If the tax withheld exceeds the tax liability, the difference will be refunded to a German tax resident holder of Capital Securities within the tax assessment procedure.

Nonresident Persons

Persons, who are not tax resident in Germany, are not subject to tax with regard to the interest payments under the Capital Securities unless (i) the Capital Securities are held as business assets of a German permanent establishment (including a permanent representative) which is maintained by the holder of the Capital Securities or (ii) the income under the Capital Securities qualifies as taxable German source income for other reasons. If a non-resident person is subject to tax on its income earned under the Capital Securities, in principle, similar withholding tax rules are applicable as set out above with regard to German tax resident persons.

German tax reform

According to the draft 2008 tax reform proposal a German withholding tax system will be introduced as from 1 January 2009 pursuant to which income and capital gains from the sale of financial instruments are subject to a general withholding tax rate of 25%. For individuals holding the financial instruments as private assets such 25% withholding tax is intended to be a final tax. A deduction of expenses economically related to such financial instrument is not allowed.

The draft 2008 tax reform could also have an effect on the taxation of the holders of the Capital Securities.

It is unclear, if and in which form the new withholding tax system will be introduced. It cannot be excluded that also a retroactive application of the new rules will be required.

IRELAND

The following is a summary of the current Irish taxation law and practice with regard to the holders of the Capital Securities or Preference Shares. It is based on Irish taxation law and the practices of the Revenue Commissioners (the Irish tax authorities) as in force at the date of this Prospectus, and which may be subject to change. It does not purport to be, and is not a complete description of all of the tax considerations that may be relevant to a decision to subscribe for, buy, hold, sell, redeem, exchange or dispose of Capital Securities or Preference Shares and does not constitute tax or legal advice. Prospective investors should consult with their own professional advisers on the overall tax implications of such ownership.

Withholding tax

Capital Securities and Preference Shares

The Issuer is not incorporated in Ireland. Therefore, on the basis that the Issuer is not managed and controlled in Ireland, the Issuer is not resident in Ireland for the purposes of Irish tax. The Issuer will not be deemed to be resident in Ireland for the purposes of Irish tax or otherwise taxable in Ireland by virtue only of the fact that the Capital Securities or Preference Shares are to be offered to the public in Ireland and/or the Issuer has appointed an Irish Paying Agent.

Irish withholding tax applies to certain payments including payments of:

(a) Irish source yearly interest (i.e. interest that is capable of arising for a period in excess of one year);

(b) Irish source annual payments (annual payments are payments that are pure income-profit in the hands of the recipient); and

(c) distributions (including interest that is treated as a distribution under Irish law) made by Irish resident companies, at the standard rate of Irish income tax (currently 20 percent.).

On the basis that the Issuer is not resident in Ireland for the purposes of Irish tax and does not operate in Ireland operate in Ireland through a branch or agency with which the Capital Securities or Preference Shares are connected, the Issuer will not be obliged to deduct any amount on account of Irish income tax from payments on the Capital Securities or the Preference Shares, as the case may be.

Irish encashment tax

Interest or distributions on any Capital Securities or Preference Shares issued by the Issuer paid:

(a) by a paying agent in Ireland; or

(b) to an agent in Ireland on behalf of a holder of the relevant Capital Securities or Preference Shares as the case may be,

will be subject to Irish encashment tax at the standard rate of Irish income tax (currently 20 per cent.) unless it is proved on a claim made in the required manner to the Revenue Commissioners of Ireland, that the beneficial owner of the relevant Capital Securities or Preference Share, as the case may be, entitled to the interest or distribution, is not resident in Ireland and such interest or distribution is not deemed, under the provisions of Irish tax legislation, to be income of another person that is resident in Ireland.

REPUBLIC OF ITALY

Taxation in the Republic of Italy

The following is a general summary of certain Italian tax consequences of acquiring, holding and disposing of the Capital Securities. It does not purport to be a complete analysis of all tax considerations that may be relevant to the decision to purchase, own or dispose of the Capital Securities and does not purport to deal with the tax consequences applicable to all categories of prospective beneficial owners of the Capital Securities, some of which may be subject to special rules. This summary is based upon tax laws and/or practice in force as at the date of this Securities Note, which are subject to any changes in law and/or practice occurring after such date, which could be made on a retroactive basis. The CompanyIssuer will not update this summary to reflect changes in law and, if any such change occurs, the information in this summary could be superseded.

Prospective purchasers of Capital Securities should consult their tax advisers as to the overall tax consequences of acquiring, holding and disposing of Capital Securities and receiving payments of interest, principal and/or other amounts under the Capital Securities, including in particular the effect of any state, regional or local tax laws.

In the coming months, the Italian Government could be authorised by the Parliament to amend the tax treatment of financial income, which may impact upon the tax regime of the Capital Securities.

Taxation of the Capital Securities

Interest

Italian resident investors

Legislative Decree April 1st, 1996, No. 239 ("**Decree No. 239**") regulates the tax treatment of interest, premiums and other income (including the difference between the redemption amount and the issue price) (hereinafter collectively referred to as "**Interest**") from Capital Securities issued, inter alia, by non-Italian resident entities. The provisions of Decree No. 239 only apply to those Capital Securities which qualify as *obbligazioni* or *titoli similari alle obbligazioni* pursuant to Article 44 of Presidential Decree 22nd December, 1986, No. 917 ("**Decree No. 917**").

Pursuant to Decree 239, as amended, payments of interest and other proceeds in respect of the Capital Securities:

(a) will be subject to final *imposta sostitutiva* at the rate of 12.5 per cent. in Italy if made to beneficial owners who are: (i) individuals resident in Italy for tax purposes holding Capital Securities not in connection with entrepreneurial activity (unless they have entrusted the management of their financial assets, including the Capital Securities, to an authorised intermediary and have opted for the *risparmio gestito* regime according to article 7 of Legislative Decree number 461 of 21 November 1997 - the "**Asset Management Option**"); (ii) Italian resident partnerships (other than *società in nome collettivo, società in accomandita semplice* or similar partnerships), de facto partnerships not carrying out commercial activities and professional associations; (iii) Italian resident public and private entities, other than companies, not carrying out commercial activities;

(b) will not be subject to the *imposta sostitutiva* at the rate of 12.5 per cent. if made to beneficial owners who are: (i) Italian resident corporations or permanent establishments in Italy of non-resident corporations to which the Capital Securities are effectively connected; (ii) Italian resident collective investment funds, Italian resident pension funds and Italian resident real estate investment funds; (iii) Italian resident individuals holding Capital Securities not in connection with entrepreneurial activity who have entrusted the management of their financial assets, including the Capital Securities, to an Italian authorised financial intermediary and have opted for the Asset Management Option.

To ensure payment of interest and other proceeds in respect of the Capital Securities without the application of *imposta sostitutiva*, investors indicated above sub-paragraph (b) must (i) be the beneficial owners of payments of interest and other proceeds on the Capital Securities (or certain non-Italian resident institutional investors); (ii) timely deposit the Capital Securities together with the coupons relating to such Capital Securities directly or indirectly with an Italian authorised financial intermediary (or permanent establishment in Italy of foreign intermediary).

Interest and other proceeds accrued on the Capital Securities would be included in the corporate taxable income (and in certain circumstances, depending on the "status" of the Noteholders, also in the net value of production for the purposes of regional tax on productive activities - IRAP) of beneficial owners who are Italian resident corporations and permanent establishments in Italy of foreign corporation to which the Capital Securities are effectively connected, subject to tax in Italy in accordance with ordinary tax rules.

Early Repayment

Without prejudice to the above provisions, in the event that the Capital Securities with an original maturity of eighteen months or more are made subject to an early repayment within eighteen months from the date of issue, Italian resident investors will be required to pay an additional amount equal to 20 per cent of

Interest and other proceeds from the Capital Securities accrued up to the time of the early repayment. Where Italian withholding agents intervene in the collection of Interest on the Capital Securities or in the redemption of the Capital Securities, this additional amount will be levied by such withholding agents by way of withholding. In accordance with one interpretation of Italian tax law, the above 20 per cent additional amount may also be due in the event of any purchase of Capital Securities by the CompanyIssuer with subsequent cancellation thereof prior to eighteen months from the date of issue.

Non-Italian resident investors

Interest payments relating to Capital Securities received by non-Italian resident beneficial owners are not subject to taxation in Italy.

If Capital Securities beneficially owned by non-Italian residents are deposited with an Italian bank or other resident intermediary (or a permanent establishment in Italy of a foreign intermediary) or are sold through an Italian bank or other resident intermediary (or a permanent establishment in Italy of a foreign intermediary) or in any case an Italian resident intermediary (or a permanent establishment in Italy of a foreign intermediary) intervenes in the payment of Interest on such Capital Securities, to ensure payment of Interest without application of Italian taxation a non-Italian resident investor may be required to produce to the Italian bank or other intermediary a declaration stating that he or she is not resident in Italy for tax purposes.

THE GRAND DUCHY OF LUXEMBOURG

The following is a general description of certain Luxembourg tax considerations relating to the holding, disposal or redemption of the Capital Securities. It specifically contains information on taxes on the income from the Capital Securities withheld at source and provides an indication as to whether the Issuer assumes responsibility for the withholding of taxes at the source. It does not purport to be a complete analysis of all tax considerations relating to the Issuer, whether in Luxembourg or elsewhere. Prospective purchasers of the Capital Securities should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Capital Securities payments of interest, principal and/or other amounts under the Capital Securities and the consequences of such actions under the tax laws of Luxembourg. This summary is based upon the law as in effect on the date of this Prospectus. The information contained within this section is limited to withholding taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Capital Securities.

All payments of interest and principal by the Issuer in the context of the holding, disposal or redemption of the Capital Securities can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to:

(i) the application of the Luxembourg law of 21 June 2005 implementing the EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**") and providing for the possible application of a withholding tax (15% from 1 July 2005 to 30 June 2008, 20% from 1 July 2008 to 30 June 2011 and 35% from 1 July 2011) on interest paid to certain non Luxembourg resident investors (individuals and certain types of entities called "residual entities") in the event of the Issuer appointing a paying agent in Luxembourg within the meaning of the EU Savings Directive;

(ii) the application as regards Luxembourg resident individuals of the Luxembourg law of 23 December 2005 which has introduced a 10% final withholding tax on savings income (i.e. with certain exemptions, savings income within the meaning of the Luxembourg law of 21 June 2005 implementing the EU Savings Directive). This law applies to savings income accrued as from 1 July 2005 and paid as from 1 January 2006.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg laws of 21 June 2005 and 23 December 2005 is assumed by the Luxembourg paying agent within the meaning of these laws and not by the Issuer.

THE NETHERLANDS

The following summary of certain Dutch taxation matters is based on the laws and practice in force as of the date of this Prospectus and is subject to any changes in law and the interpretation and application thereof, which changes could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Capital Securities, and does not purport to deal with the tax consequences applicable to all categories of investors. Investors are advised to consult their professional advisers as to the tax consequences of purchase, ownership and disposition of the Capital Securities. For the purpose of this summary, it is assumed that the Issuer is tax resident outside the Netherlands for Dutch tax purposes.

Witholding Tax on Interest

All payments by the Issuer of interest and principal under the Capital Securities can be made free of withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

SPAIN

Payments received by Spanish resident investors under the Capital Securities will not be subject to withholding tax or payment on account in Spain unless the Capital Securities are deposited with a Spanish resident entity acting as depositary or being in charge of the collection of any income arising from the Capital Securities.

SUBSCRIPTION AND SALE

Merrill Lynch International (the "**Lead Manager**") has, in a subscription agreement dated 15 May 2007 (the "**Subscription Agreement**") and made between the Issuer and the Lead Manager upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Capital Securities at their issue price of 100 per cent. of their principal amount less a combined management and underwriting commission of 2.75 per cent. of their principal amount. The Issuer has also agreed to reimburse Merrill Lynch International for certain of its expenses incurred in connection with the management of the issue of the Capital Securities. The Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Capital Securities. The Issuer has agreed to indemnify the Lead Manager in respect of certain matters pursuant to the Subscription Agreement.

United States of America

The Capital Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Capital Securities are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

The Lead Manager has represented, warranted and undertaken that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Capital Securities, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Capital Securities, within the United States or to, or for the account or benefit of, US persons, and that it will have sent to each dealer to which it sells Capital Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Capital Securities within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Capital Securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

The Lead Manager has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) received by it in connection with the issue or sale of the Capital Securities in circumstances in which Section 21(1) of FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Capital Securities in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Lead Manager has represented, warranted and undertaken to the Issuer that with effect from and including the date on which the Prospectus Directive is implemented in that Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Capital Securities to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Capital Securities to the public in that Relevant Member State:

(a) in (or in Germany, where the offer starts within) the period beginning on the date (in Austria on the day after) of publication of a prospectus in relation to those Capital Securities which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, and ending on the date which is 12 months after the date of such publication;

(b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR43,000,000 and (3) an annual turnover of more than EUR50,000,000, all as shown in its last annual or consolidated accounts; or

(d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression "**offer of Capital Securities to the public**" in relation to any Capital Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Capital Securities to be offered so as to enable an investor to decide to purchase or subscribe for the Capital Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

Republic of Italy

The Lead Manager has acknowledged that the offer of the Capital Securities has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") (i.e., the Italian Securities and Exchange Commission) pursuant to Italian securities legislation and, accordingly, the Capital Securities may not be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Capital Securities be distributed in the Republic of Italy in a public offer of financial products (*offerta al pubblico di prodotti finanziari*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998 as amended ("**Decree No. 58**"), unless an exemption applies.

Accordingly, the Lead Manager has acknowledged that the Capital Securities may be offered in the Republic of Italy only:

(1) to "**Qualified Investors**", as defined in Article 31.2 of CONSOB Regulation No. 11522 of 2 July 1998 as amended ("**Regulation No. 11522**"), pursuant to Article 100 of Decree No. 58, or

(2) in any other circumstances where an expressed exemption to comply with the public offer restrictions provided by Decree No. 58 or Regulation No. 11971 of 14 May 1999, as amended, applies.

Moreover, and subject to the foregoing, the Lead Manager has acknowledged that any offer, sale or delivery of the Capital Securities or distribution of copies of the Prospectus or any other document relating to the Capital Securities in the Republic of Italy under (1) or (2) above must be:

(a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993 as amended, Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations; and

(b) in compliance with any other applicable laws and regulations, including any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of the EU Directive No 2003/71 (the "**Prospectus Directive**"), such requirements shall be replaced by the applicable requirements under the Prospectus Directive or the relevant implementing provisions.

The Grand Duchy of Luxembourg

The Capital Securities may not be offered or sold to the public within the territory of the Grand-Duchy of Luxembourg unless:

(i) a prospectus has been duly approved by the CSSF if Luxembourg is the home member state (as defined in the Law of 10 July 2005 on prospectuses for securities and implementing the Prospectus Directive); or

(ii) if Luxembourg is not the home member state, the CSSF has been notified by the competent authority in the home member state that a prospectus in relation to the Capital Securities has been duly approved in accordance with the Prospectus Directive; or

(iii) the offer benefits from an exemption to or constitutes a transaction not subject to, the requirement to publish a prospectus.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**Securities and Futures Act**"). Accordingly, the Capital Securities may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of such Capital Securities be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (ii) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (iii) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following relevant persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Capital Securities, namely a person who is:

(a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Capital Securities under Section 275 of the Securities and Futures Act except:

(a) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275(1A) of the Securities and Futures Act;

(b) where no consideration is given for the transfer; or

(c) by operation of law.

Hong Kong

The Lead Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Capital Securities other than (a) to "**professional investors**" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "**prospectus**" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Capital Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Capital Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "**professional investors**" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

Qatar

This Prospectus has not been filed with, reviewed or approved by the Qatar Central Bank or any other relevant Qatar governmental body or securities exchange.

United Arab Emirates

The Lead Manager has represented and agreed that the Capital Securities have not and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates or the Dubai International Financial Centre other than in compliance with any laws applicable in the United Arab Emirates or the Dubai International Financial Centre, as the case may be, governing the issue, offering and sale of securities.

General

The Lead Manager has represented, warranted and undertaken that to the best of its knowledge and belief it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Capital Securities or possesses, distributes or publishes this Prospectus or any other offering material relating to the Capital Securities. Persons into whose hands this Prospectus comes are required by the Issuer and the Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Capital Securities or possess, distribute or publish this Prospectus or any other offering material relating to the Capital Securities, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Capital Securities has been authorised by a resolution of the Board of Directors of the Issuer dated 26 April 2007 and resolutions of a committee of the Board of Directors of the Issuer dated 2 May 2007 and 14 May 2007.

Litigation and other proceedings

2. Save as disclosed in the paragraph entitled "*Split Capital Trusts*" under "*Risk Factors*" on pages 10 to 11 of this document, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the 12 months prior to the date of this document, a significant effect on the Group's financial position or profitability.

Significant/Material Change

3. Since 30 September 2006 there has been no material adverse change in the prospects of the Group and there has been no significant change in the financial or trading position of the Group since 31 March 2007, the date to which the unaudited consolidated interim financial information of the Group has been prepared.

Dividends

4. In the past five financial years, the Issuer has paid the following dividends:

ORDINARY DIVIDEND PAYMENTS

Payment date	Details	Original payment amount	Adjusted for rights issue	Cost £'000
6 June 2001	Year to 30 September 2001 - interim	3.85p	2.477p	6,062
23 January 2002	Year to 30 September 2001 - final	6.65p	4.279p	11,520
				17,582
19 June 2002	Year to 30 September 2002 – interim	3.85p	2.477p	6,725
22 January 2003	Year to 30 September 2002 – final	2.15p	1.383p	3,775
				10,500
16 July 2003	Year to 30 September 2003 – interim	2.0p	1.287p	3,536
25 February 2004	Year to 30 September 2003 – final	2.0p	1.287p	3,538
				7,074
23 June 2004	Year to 30 September 2004 – interim	2.0p	1.287p	4,713
23 February 2005	Year to 30 September 2004 - second interim	2.0p	1.287p	4,724
				9,437
15 June 2005	Year to 30 September 2005 – interim	2.2p	1.416p	5,321
1 February 2006	Year to 30 September 2005 – final	N/A	1.584p	9,899

Payment date	Details	Original payment amount	Adjusted for rights issue	Cost £'000
				15,220
7 June 2006	Year to 30 September 2006 – interim	N/A	2.0p	12,814
31 January 2007	Year to 30 September 2006 - final	N/A	2.4p	15,027
				27,841

DIVIDEND PAYMENTS – 5.25% REDEEMABLE PREFERENCE SHARES

Payment date	Details	Cost £'000
31 January 2001	Dividend on £31.028m redeemable prefs in issue	183
30 April 2001	Dividend on £31.028m redeemable prefs in issue	394
31 July 2001	Dividend on £31.028m redeemable prefs in issue	414
31 October 2001	Dividend on £31.028m redeemable prefs in issue	411
31 January 2002	Dividend on £20.685m redeemable prefs in issue	274
30 April 2002	Dividend on £20.685m redeemable prefs in issue	265
31 July 2002	Dividend on £20.685m redeemable prefs in issue	274
31 October 2002	Dividend on £20.685m redeemable prefs in issue	273
31 January 2003	Dividend on £10.343m redeemable prefs in issue	136
30 April 2003	Dividend on £10.343m redeemable prefs in issue	136
31 July 2003	Dividend on £10.343m redeemable prefs in issue	135
31 October 2003	Dividend on £10.343m redeemable prefs in issue	137

DIVIDEND PAYMENTS – 6.75% NON-CUMULATIVE, NON-VOTING PERPETUAL PREFERENCE SHARES

Payment date	Details	Cost £'000
30 June 2006	Dividend on £79.956m prefs in issue	5,397

Auditors

5. The annual consolidated audited accounts of the Issuer for each of the two years ended 30 September 2005 and 2006 were audited by the Issuer's auditors, KPMG Audit Plc, Chartered Accountants and regulated by ICAEW, of 37 Albyn Place, Aberdeen AB10 1JB.

Documents on Display

6. Copies of the following documents will be available for inspection during normal business hours on any weekday (public holidays excepted) from the date of publication of this document at the offices of Maclay Murray & Spens LLP, One London Wall, London EC2Y 5AB:

   (a) the memorandum and articles of association of the Issuer;

   (b) the Subscription Agreement;

   (c) drafts (subject to modification) of the Paying Agency Agreement and the Trust Deed; and

(d) the audited consolidated accounts of the Issuer for the two years ended 30 September 2005 and 30 September 2006 and the unaudited consolidated financial statements of the Issuer for the six months ended 31 March 2007.

Yield

7. The gross annual yield of the Capital Securities is 7.90 per cent. payable on a quarterly basis. The yield is calculated as of the date of this Prospectus and may fluctuate in the future. It is not an indication of future yield.

Legend Concerning US Persons

8. The Capital Securities and any Coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

ISIN and Common Code

9. The Capital Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0300154878 and the common code is 030015487.

Admission to Listing and Trading

10. It is expected that the Capital Securities will be admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange on or about 29 May 2007, subject only to the issue of the Temporary Global Note. However, prior to official listing dealings in the Capital Securities will be permitted by the London Stock Exchange in accordance with its rules.

FINANCIAL STATEMENTS AND AUDITORS' REPORTS

CONTENTS

Independent Auditors' report to the Members of Aberdeen Asset Management PLC

We have audited the Group and parent company financial statements (the 'financial statements') of Aberdeen Asset Management PLC for the year ended 30 September 2006 which comprise the Group income statement, the Group and parent company balance sheets, the Group and parent company cash flow statements, the Group and parent company statements of recognised income and expenses, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 38.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and financial review that is cross referred from the business review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 30 September 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30 September 2006;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
11 December 2006

Accounting policies

Basis of preparation

The financial statements have been prepared for the first time in accordance with International Financial Reporting Standards, as adopted in the EU ('IFRS'), and its interpretations adopted by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee or their predecessors ('IFRIC'), which had been approved by the European Commission as at 30 September 2006. The disclosures required by IFRS 1 *First time adoption of IFRS* concerning the transition from UK GAAP to IFRS are set out in note 37.

In accordance with the transitional provisions set out in IFRS 1 *First time adoption of IFRS* and other relevant standards, the Group has applied the Companies Act 1985 and IFRS in force as at 30 September 2006 in its financial reporting with effect from 1 October 2004 with the exception of the standards relating to financial instruments which were applied from 1 October 2005, as described below. Therefore in accordance with IFRS 1, the impact of adopting IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* are not included in the 2005 comparatives.

The financial statements have been prepared on the historical cost basis, except that the following assets and liabilities are stated at their fair values: derivative financial instruments, financial assets held as available for sale and financial assets held for trading. The principal accounting policies, which have been consistently applied, are set out below.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported values of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and they are reviewed on an ongoing basis. Actual results may differ from these estimates. Where estimates were previously made under UK GAAP, consistent estimates have been made on transition to IFRS.

Statement of compliance

Both the parent company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with IFRS. On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in section 230 of the Companies Act 1985 not to present its individual income statement and related notes that form part of the approved financial statements.

First time adoption of IFRS

Under the first time adoption procedures set out in IFRS 1, the Group is required to establish its IFRS accounting policies as at 1 October 2005 and to apply these retrospectively in the determination of prior period comparatives from 1 October 2004, the date of transition to IFRS. There are a number of optional exemptions to this general principle, the most significant of which are set out below.

IFRS 3 Business Combinations

The Group has not applied IFRS 3 Business Combinations retrospectively to business combinations that occurred prior to the date of transition. The carrying value of goodwill in the UK GAAP balance sheet as at 30 September 2004 has accordingly been brought forward without adjustment.

IFRS 2 Share-based Payments

The Group has elected to apply IFRS 2 to all share based awards and payments granted after 7 November 2002 but not vested at 1 January 2005.

IAS 21 The Effects of Changes in Foreign Exchange Rates

Cumulative translation differences for all foreign exchange operations have been deemed to be zero at the date of transition. Gains or losses on the subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition.

IAS 16 Property, Plant and Equipment

The fair value of owner occupied property at the date of transition has been used as its deemed cost at that date.

Accounting estimates and judgements

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts 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 best 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 balances as at the year-end are specifically identified, where appropriate, in the notes to the Group financial statements.

New standards and interpretations not applied

During the year, the IASB and IFRIC have issued a number of new standards and interpretations with an effective date after the date of these financial statements. The Directors do not anticipate that the adoption of these standards will materially impact on the Group's financial statements in the period of initial application. The Group plans to apply these standards in the reporting period when they become effective. The new standards include IFRS 7 *Financial Instruments: Disclosures* which is effective for accounting periods starting after 1 January 2006.

Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no impact on reported income or net assets.

Basis of consolidation

The consolidated financial information in these financial statements incorporates the results, cash flows and financial position of the Company and its subsidiaries for the period to 30 September 2006. Subsidiaries are entities controlled by the Company and their results 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.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. When the Group's share of losses exceeds its interest in an associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

All inter-company transactions, balances, income and expenses between Group entities are eliminated on consolidation. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Revenue

Revenue from the provision of asset management and property asset management services is recognised as the services are provided and includes management fees, transaction fees, performance fees and registration fees.

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

The Group has entitlement to earn performance fees from a number of clients where the actual fund performance of the clients' assets exceed deferred benchmarks by an agreed level of outperformance in a set time period. Performance fees are recognised when the quantum of the fee can be estimated reliably, which is normally at the end of the performance period, when this occurs on or before the reporting date, or where there is a period of less than six months remaining to the end of the performance period and there is evidence at the reporting date which suggests that the current performance will be sustainable.

Finance revenue

Finance revenue comprises interest, dividends and expected return on pension assets. Interest income is recognised 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.

Realised and unrealised gains and losses on investments

Gains and losses (both realised and unrealised) on financial assets designated as held for trading are recognised in the consolidated income statement. Realised and unrealised gains are recognised as part of revenue.

Gains and losses on financial assets designated as available-for-sale are initially recognised through the consolidated statement of recognised income and expense. Upon disposal, any gain or loss taken through the consolidated statement of recognised income and expense is reversed out and the full gain or loss from purchase, after any impairment charge previously recognised, taken through the consolidated income statement.

Realised gains and losses on investments are calculated as the difference between the net sales proceeds and cost or amortised cost. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their original cost, or if they have been previously revalued, the valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the accounting period also includes the reversal of investment disposals in the current accounting period.

Finance costs

Finance costs comprise interest payable on borrowings, interest on pension liabilities and dividends on preference shares.

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 are recognised as a reduction in the rental expense, recognised on a straight line basis over the term of the lease.

Pension costs

The principal pension scheme operated by the Group is a self-administered money purchase scheme. In addition overseas subsidiaries make contributions to various trade and state defined contribution schemes. Benefits from these schemes are based on contributions made. Obligations for contributions to these defined contribution pension schemes are recognised as an expense in the Income Statement.

The Group also operates three legacy defined benefit pension schemes which arose on acquisitions. All three 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.

Interest costs (on the liability), expected return on plan assets and the costs of curtailments and settlements are recognised in the Income Statement.

All actuarial gains and losses as at 1 October 2004, the date of transition to IFRS, were recognised. Actuarial gains and losses arising after 1 October 2004 are recognised in the period in which they occur directly in equity.

Employee benefits

Short term employee benefits

Short term employee benefits are recognised as an undiscounted expense and liability when the employee has rendered services during an accounting period. Short term accumulating compensated absences are recognised when the employee renders the service that increases his entitlement to future compensated absence. Non-accumulating compensated absences are recognised when the absence occurs.

Profit sharing and bonus payments

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

Termination benefits
Termination benefits are recognised as a liability and an expense when the Group is committed to the termination of employment before the normal retirement date. A commitment to such termination benefits arises when the Group has initiated detailed plans which cannot realistically be withdrawn.

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 directly in equity, in which case it is recognised in equity.

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

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

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

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

- In respect of taxable or deductible temporary differences associated with investments in subsidiaries and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that they will not reverse in the foreseeable future.
- Where the deferred tax asset or liability arises from the initial recognition of goodwill.
- Where the deferred 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 associated with the item and the cost of the item can be measured reliably. All other expenditure is recognised in the Income Statement as an expense 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 5 years or the period of the lease
- Computers, fixtures & fittings: 3 – 10 years
- Motor vehicles: 4 years

The carrying value of these assets is reviewed at each reporting date. An assessment is made as to whether there is any indication that an asset may be impaired; if any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is 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 arising on consolidation, 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. The carrying value of goodwill at 1 October 2004, the date of transition to IFRS, is equivalent to the carrying value under UK GAAP.

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to the appropriate cash-generating unit for the purpose of impairment testing.

Management contracts

The useful lives of management contracts in respect of open end funds are considered indefinite and are therefore not subject to amortisation. 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. Management contracts in respect of segregated mandates are considered to have a finite life and are therefore amortised on a straight line basis over their estimated average contract term of 10 years, with amortisation charged to the Income Statement.

Other intangible assets

Purchased intangible assets have a finite life and are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the Income Statement on a straight line basis according to the useful economic life of the intangible asset as follows:

Software – 3 years

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. At each reporting date, an assessment is made as to whether there is any indication that an asset in use may be impaired. If any such indication exists and the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and value in use.

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.

Financial investments at fair value through profit or loss include investments held for trading purposes. They are carried at fair value in the balance sheet and gains or losses are taken to the income statement. The following assets and liabilities are classified as held for trading:

Current assets

- Financial investments
- Stock of units and shares

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. The following assets are designated as available for sale:

Non-current assets

- Other financial investments

Included in this category are the Group's investments in private equity partnerships. The fair value of these investments represents the Group's direct investments and entitlement to carried interest distributions, both of which are measured with reference to the European Private Equity and Venture Capital Association Valuation Guidelines.

Loans and receivables and other financial liabilities are recognised at amortised cost using the effective interest rate method. The following assets and liabilities are classified as loans and receivables:

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

IAS 32/39 has been adopted prospectively from 1 October 2005. Prior to its adoption financial instruments were stated at the lower of cost and net realisable value.

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

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

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

L&P is consolidated into the Group financial statements on a line-by-line basis. Unit linked policyholder assets 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 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.

Investment in subsidiares
In the Company balance sheet, investments in subsidiaries are carried at cost less impairment.

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

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

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

Goodwill was tested for impairment at 1 October 2004, the date of transition to IFRS, even though no indication of impairment existed.

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.

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

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. 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 equity, the corresponding exchange movements are also recognised directly in equity.

The assets and liabilities of foreign operations are translated to sterling at 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 from the translation of the net investment in foreign operations are taken to translation reserve. They are released into the income statement on disposal.

Segment reporting
The Group's primary reporting segments are its two operating divisions, namely the fund management division and the property division.

Share based payments
The Executive Share Option Scheme allows Group employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted is measured using a trinomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The fair value of awards under the Group's long term incentive plan ('LTIP') is recognised as an expense with a corresponding increase in equity. The fair value is initially measured at the date of the award and is spread over the period during which employees become unconditionally entitled to the shares. The fair value of LTIP awards is based on the market price of the underlying shares at the date of the award, taking into account the terms and conditions upon which the award was made.

Employee benefits trust
The Group has an Employee Benefit Trust ('EBT') which owns shares in the Company for the purposes of administering the Group's Long Term Incentive Plan. The EBT is consolidated into the Group's and parent company's financial statements, with these shares deducted from equity.

Group Income Statement

For the year ended 30 September 2006

	Notes	2006 £'000	2005 £'000
Revenue	1	**302,124**	156,124
Operating costs	1	**(228,792)**	(123,215)
Exceptional integration costs	5	**(33,282)**	–
Amortisation of intangible assets	14	**(8,958)**	–
Exceptional (charge) release of provision	8	**(236)**	2,600
Operating expenses		**(271,268)**	(120,615)
Exceptional gains on investments	4	**18,381**	8,868
Gains on investments and other income	4	**7,925**	2,179
Other operating income	4	**26,306**	11,047
Share of results of associates		**–**	(12)
Operating profit before:		**81,257**	35,076
Exceptional gains and charges		**(15,137)**	11,468
Amortisation of intangible assets		**(8,958)**	–
Operating profit		**57,162**	46,544
Finance revenue	9	**11,608**	1,098
Finance costs	9	**(13,823)**	(11,325)
Exceptional finance costs	9	**(1,100)**	(4,670)
Net finance costs	9	**(3,315)**	(14,897)
Profit before exceptional items, amortisation and taxation		**79,042**	24,849
Exceptional items and amortisation before taxation		**(25,195)**	6,798
Profit before taxation		**53,847**	31,647
Tax expense before exceptional items and amortisation		**(17,404)**	(5,368)
Tax on exceptional items		**7,429**	(501)
Tax expense	10	**(9,975)**	(5,869)
Profit for the year		**43,872**	25,778
Attributable to:			
Equity shareholders of the Company*		**43,872**	25,689
Minority interests		**–**	89
		43,872	25,778
Memo – dividends paid during the year	12	**28,110**	10,045
Earnings per share			
Basic	13	**6.41p**	6.68p
Diluted	13	**6.27p**	6.64p

*2005 included non-equity shareholders funds on an FRS4 basis.

Statements of Recognised Income and Expense

For the year ended 30 September 2006

	Notes	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Net actuarial loss on defined benefit pension schemes		**(6,835)**	(5,968)	**(660)**	(109)
Translation of foreign currency net investments		**(5,882)**	189	**1,008**	–
Movement in fair value of available for sale investments		**7,365**	–	**365**	–
Tax on items taken directly to equity		**2,324**	1,137	**198**	220
Net expense recognised directly in equity		**(3,028)**	(4,642)	**911**	111
Profit for the year		**43,872**	25,778	**43,515**	33,409
Total recognised income and expense for the year		**40,844**	21,136	**44,426**	33,520
Attributable to:					
Equity holders of the parent		**40,844**	21,047	**44,426**	33,520
Minority interest		**–**	89	**–**	–
Total recognised income and expense for the year		**40,844**	21,136	**44,426**	33,520
Impact of change in accounting policy at beginning of period on:					
Available for sale reserve	37	**5,995**	–	**5,995**	–
Other reserves	37	**3,052**	–	**3,052**	–

Balance Sheets

30 September 2006

	Notes	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Assets					
Non-current assets					
Intangible assets	14	**553,565**	468,322	**5,088**	4,916
Property, plant and equipment	15	**9,351**	8,172	**6,104**	5,703
Other investments	16	**13,818**	27,947	**731,331**	681,339
Deferred tax assets	17	**11,022**	8,932	**383**	193
Other receivables	18	**1,038**	4,324	**–**	3,993
Total non-current assets		**588,794**	517,697	**742,906**	696,144
Current assets					
Stock of units and shares	20	**264**	2,317	**–**	–
Other financial investments	19	**1,412,579**	2,554,983	**–**	–
Trade and other receivables	18	**132,635**	142,640	**89,543**	95,500
Other investments	21	**33,541**	20,977	**4,449**	4,414
Cash and cash equivalents	22	**50,497**	97,016	**15,447**	9,259
Assets classified as available for sale	23	**7,000**	–	**–**	–
Total current assets		**1,636,516**	2,817,933	**109,439**	109,173
Total assets		**2,225,310**	3,335,630	**852,345**	805,317
Equity					
Called up share capital	24	**70,605**	68,502	**70,605**	68,502
Share premium account	26	**286,277**	261,040	**286,277**	261,040
Other reserves	26	**224,514**	219,994	**224,215**	219,805
Retained (loss) profit	26	**(131,301)**	(119,239)	**16,729**	25,099
Total equity attributable to equity holders of the parent*		**450,095**	430,297	**597,826**	574,446
Liabilities					
Non-current liabilities					
Interest bearing loans and borrowings	27	**90,192**	51,330	**90,192**	50,431
Other creditors		**1,998**	277	**156**	193
Provisions	30	**500**	4,781	**–**	4,631
Pension deficit	34	**32,255**	30,034	**1,190**	641
Deferred tax liabilities	17	**24,380**	27,882	**1,464**	2,574
Total non-current liabilities		**149,325**	114,304	**93,002**	58,470
Current liabilities					
Investment contract liabilities	19	**1,412,579**	2,554,983	**–**	–
Interest bearing loans and borrowings	27	**50,551**	591	**87,068**	50,866
Trade and other payables	28	**143,849**	207,001	**69,891**	101,571
Provisions	30	**2,109**	19,478	**309**	19,478
Deferred income	31	**2,188**	1,576	**–**	–
Current tax payable		**14,614**	7,400	**4,249**	486
Total current liabilities		**1,625,890**	2,791,029	**161,517**	172,401
Total liabilities		**1,775,215**	2,905,333	**254,519**	230,871
Total equity and liabilities		**2,225,310**	3,335,630	**852,345**	805,317

*2005 included non-equity shareholders funds on an FRS4 basis.

The financial statements were approved by the Board of Directors on 11 December 2006, and signed on its behalf by:

C L A Irby
Chairman

W J Rattray
Finance Director

Cash Flow Statements

For the year ended 30 September 2006

	Notes	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Core cashflow from operating activities		**45,886**	33,321	**51,228**	85,776
Effects of short-term timing differences on unit trust settlements		**6,681**	995	**–**	–
		52,567	34,316	**51,228**	85,776
Split capital settlement costs paid		**(15,836)**	(50,491)	**(15,836)**	(50,491)
Other exceptional costs paid		**(33,282)**	(1,329)	**(6,287)**	(1,082)
Net cash from (used in) operating activities	6	**3,449**	(17,504)	**29,105**	34,203
Cash flows from investing activities					
Proceeds from sale of investments		**73,451**	41,205	**62,960**	40,344
Proceeds from sale of property, plant and equipment		**173**	27	**–**	–
Disposal of subsidiaries, net of cash disposed of		**4,824**	3,012	**5,987**	9,804
Disposal of private client business		**2,946**	–	**(200)**	–
Acquisition of subsidiaries, net of cash acquired		**(71,441)**	(79,224)	**(98,678)**	(177,015)
Acquisition of intangible assets		**(74,934)**	–	**(1,527)**	(801)
Acquisition of property, plant & equipment		**(3,619)**	(2,492)	**(1,360)**	(1,653)
Acquisition of investments		**(43,913)**	(13,989)	**(41,216)**	(12,459)
Net cash used in investing activities		**(112,513)**	(51,461)	**(74,034)**	(141,780)
Cash flows from financing activities					
Issue of ordinary share capital		**870**	219,180	**870**	219,180
Issue of preference share capital		**3**	76,443	**3**	76,443
Issue of convertible bonds		**–**	25,584	**–**	25,584
Issue of subordinated loan notes		**66,153**	–	**66,153**	–
Purchase of own shares		**(3,024)**	–	**(3,024)**	–
New borrowings		**25,000**	–	**25,000**	–
Repayment of borrowings		**(475)**	(155,770)	**–**	(150,137)
Dividends paid		**(28,110)**	(10,044)	**(28,110)**	(10,044)
Net cash from financing activities		**60,417**	155,393	**60,892**	161,026
Net (decrease) increase in cash and cash equivalents		**(48,647)**	86,428	**15,963**	53,449
Cash and cash equivalents at 1 October		**97,016**	(23,672)	**(41,607)**	(130,056)
Non-cash movement		**–**	35,000	**–**	35,000
Effect of exchange rate fluctuations on cash and cash equivalents		**(249)**	(740)	**1,182**	–
Cash and cash equivalents at 30 September	22	**48,120**	97,016	**(24,462)**	(41,607)

Notes to the Accounts
For the year ended 30 September 2006

1 Segment reporting
Segment information is presented in respect of the Group's business and geographical segments. The primary, business segments, based on the Group's management and reporting structure, are the investment management division and the property management division.

The results, analysed by these two business segments, are shown below.

	Investment management £'000	Property asset management £'000	Group total £'000
Year to 30 September 2006			
Turnover	**240,105**	**60,202**	**300,307**
Net fair value gains on assets at fair value through income	**1,817**	**–**	**1,817**
Revenue	**241,922**	**60,202**	**302,124**
Operating costs	**(177,241)**	**(51,551)**	**(228,792)**
Integration costs	**(33,282)**	**–**	**(33,282)**
Amortisation of intangible assets (excluding software)	**(8,958)**	**–**	**(8,958)**
Exceptional charge	**(236)**	**–**	**(236)**
Operating expenses	**(219,717)**	**(51,551)**	**(271,268)**
Exceptional gains on investments	**18,381**	**–**	**18,381**
Gains on investments and other income	**6,429**	**1,496**	**7,925**
Other operating income	**24,810**	**1,496**	**26,306**
Operating profit (before exceptional items and amortisation of intangibles)	**71,110**	**10,147**	**81,257**
Operating profit (after exceptional items and amortisation of intangibles)	**47,015**	**10,147**	**57,162**
Total assets	**2,178,991**	**46,319**	**2,225,310**
Total liabilities	**(1,753,846)**	**(21,369)**	**(1,775,215)**

	Investment management £'000	Property asset management £'000	Group total £'000
Year to 30 September 2005			
Revenue	109,979	46,145	156,124
Operating costs	(83,046)	(40,169)	(123,215)
Non-recurring release of provisions	2,600	–	2,600
Total operating expenses	(80,446)	(40,169)	(120,615)
Exceptional gains on investments	8,868	–	8,868
Gains on investments and other income	2,179	–	2,179
Other operating income	11,047	–	11,047
Share of results of associates	(12)	–	(12)
Operating profit (before exceptional items and amortisation of intangibles)	29,100	5,976	35,076
Operating profit (after exceptional items and amortisation of intangibles)	40,568	5,976	46,544
Total assets	3,316,207	19,423	3,335,630
Total liabilities	(2,893,685)	(11,648)	(2,905,333)

1 Segment reporting continued

The results of the Group presented on a geographical basis are shown below.

	UK / Europe £'000	Asia £'000	Americas £'000	Eliminations £'000	Total £'000
Year to September 2006					
Revenue	**216,067**	**59,722**	**26,335**	**–**	**302,124**
Operating profit (loss)	**14,537**	**46,867**	**(4,242)**	**–**	**57,162**
Profit (loss) before tax	**10,395**	**49,050**	**(5,598)**	**–**	**53,847**
Total assets	**2,927,317**	**75,970**	**70,767**	**(848,744)**	**2,225,310**
Total liabilities	**(1,779,525)**	**(26,469)**	**(59,227)**	**90,006**	**(1,775,215)**
Depreciation	**1,712**	**344**	**238**	**–**	**2,294**
Amortisation of intangible assets (excluding software)	**4,684**	**–**	**4,274**	**–**	**8,958**
Total significant non-cash expenses	**6,163**	**–**	**–**	**–**	**6,163**
Capital expenditure	**1,702**	**607**	**1,310**	**–**	**3,619**
Acquisition of intangible assets	**26,786**	**–**	**74,045**	**–**	**100,831**

	UK / Europe £'000	Asia £'000	Americas £'000	Eliminations £'000	Total £'000
Year to September 2005					
Revenue	120,542	31,566	4,016	–	156,124
Operating profit	21,620	23,972	952	–	46,544
Profit before tax	6,723	23,972	952	–	31,647
Total assets	4,060,370	51,704	1,896	(778,340)	3,335,630
Total liabilities	(2,947,487)	(21,888)	(837)	64,879	(2,905,333)
Depreciation	3,103	315	30	–	3,448
Amortisation of intangible assets (excluding software)	–	–	–	–	–
Total significant non-cash expenses	964	–	–	–	964
Capital expenditure	2,011	376	105	–	2,492
Acquisition of intangible assets	123,110	2,335	–	–	125,445

Turnover and operating profit before interest and tax by origin are not materially different to the information given above.

2 Operating expenses

	2006 £'000	2005 £'000
Operating profit is stated after charging (crediting):		
Fees payable to the company's auditors for the audit of the company's accounts	**97**	56
Fees payable to the company's auditors and its associates for other services		
– statutory audit of the company's subsidiaries pursuant to legislation	**377**	222
– other services pursuant to legislation	**178**	93
	652	371
– tax services	**69**	38
– all other services (see below)	**321**	57
	1,042	466
Fees paid in respect of the Group's pension schemes		
– audit	**14**	8
	1,056	474
Operating lease payments	**5,603**	5,807
Share of results of associates	**–**	(12)
Depreciation	**2,294**	3,448
Amortisation of intangible assets	**8,958**	–
Amortisation of intangible software assets	**889**	1,818
Amortisation of PVIF of life assurance company	**–**	608
Directors' emoluments	**4,619**	2,426
Exchange (loss) gain	**(1,156)**	275
Loss on disposal of property, plant & equipment	**47**	34

Fees paid to the Company's auditors

In 2006, other services pursuant to legislation includes £66,000 for work carried out in respect of a SAS 70 review, £82,000 for regulatory reporting and £30,000 for the interim review.

The total for all other services in 2006 includes £109,000 for work carried out in connection with unit trust fund mergers, £70,000 in respect of conversion to IFRS, £100,000 for services provided to the property division and Asian subsidiaries, £25,000 for regulatory training and £17,000 for other professional services.

The Company's auditors received fees of £6,000 (2005 – £427,000) for advisory and reporting services provided in relation to certain acquisitions, disposals and fund raising activities. These costs are included within the costs of the respective acquisition, disposal or fund raising activity to which they relate.

Details of Directors' remuneration are given in the Remuneration Report on pages 24 to 31.

3 Net fair value gains on assets at fair value through income

	2006 £'000	2005 £'000
Fair value gains on investments	**1,817**	–

The above fair value adjustment represents gains and losses (both realised and unrealised) on financial assets held for trading. IAS39 has been applied prospectively from 1 October 2005 and therefore no fair value adjustment was made in 2005.

4 Other operating income

	2006 £'000	2005 (as restated) £'000
Other operating income comprises the following items:		
Gains on disposal of significant investments	**15,355**	12,484
Gains (losses) on disposal of subsidiaries and contracts	**3,026**	(3,616)
Exceptional gains	**18,381**	8,868
Gains on disposal of other investments	**5,729**	1,163
Other income	**2,196**	1,016
	7,925	2,179
	26,306	11,047

2006

The gains on disposal of significant investments in 2006 comprises gains realised on (i) the sale of the Group's investment in New Star Asset Management Group PLC which was sold on 11 November 2005; and (ii) contingent deferred consideration received in respect of the sale, in January 2005, of the Group's investment in Lombard International Assurance SA. The gain includes the transfer of £8.6 million from the available for sale reserve.

The gains on disposal of subsidiaries and contracts comprises of a gain of £2,946,000 on the sale of the Group's UK private client business, and net deferred proceeds received in the current year in respect of disposals completed in previous years.

The Board considers that these two categories of gains are outwith the course of the Group's normal business and sufficiently material that they should be disclosed separately to enable a proper understanding of the financial statements, and has therefore chosen to disclose these items as exceptional gains.

Gains on disposal of other investments includes £3,807,000 of deferred consideration received from the sale, in October 2003, of Asset Value Investors Limited. These proceeds form an element of a wider transaction, the substance of which was to retain an interest in an ongoing revenue stream until 30 September 2006.

2005

The Group disposed of its investment in the ordinary shares of Lombard International Assurance SA ('Lombard'), a Luxembourg registered life company, on 11 January 2005 to Friends Provident plc. The Group's holding represented approximately 15% of the equity of Lombard, the original cost of which was £1,163,000. The gain on disposal recognised to date, net of expenses, is £12,484,000. Further consideration will be received in April 2006 and April 2007, dependent on Lombard achieving or exceeding certain performance targets for both new business profits and growth in embedded value for the two financial years to 31 December 2006. The further consideration will be paid in cash or Friends Provident ordinary shares, at Friends Provident's option. No tax arose on the disposal of this asset as it was held in a jurisdiction in which no tax was charged on the capital gain.

The loss on disposal of subsidiaries of £3,616,000 represents the loss realised on disposal of the Group's Isle of Man and Guernsey life assurance subsidiaries. This loss is reduced by £2,796,000 of contingent deferred proceeds received in the current year in respect of disposals completed in previous years.

The Group also received £1,163,000 of deferred proceeds in respect of the sale of Asset Value Investors Limited which was sold in 2004. These proceeds form an element of a wider transaction, the substance of which was to retain an interest in an ongoing revenue stream until 30 September 2006, and are therefore not considered to be exceptional.

5 Exceptional integration costs

On 30 September 2005 the Company completed the acquisition of certain fund management businesses of Deutsche Bank AG. These businesses consisted of the London fixed interest business, the OEIC business and the equities/multi assets business. On 1 December 2005 the second and final stage of the acquisition was completed when the Philadelphia fixed income business was acquired. During the year substantial integration costs have been incurred in combining these acquired businesses with the existing business of the Group. These integration costs comprise charges in respect of a transitional services agreement with the vendor to ensure that both people and systems are transferred in a controlled manner; set-up costs in respect of the migration of the back office data and systems to the Group's third party administrator; and costs of retaining duplicate staffing for a transitional period to ensure a smooth migration of data.

	2006 £'000	2005 £'000
Transitional service costs from vendor	11,190	–
Set-up costs in respect of back office data and systems	7,579	–
Duplicate staff costs, redundancy costs and third party integration costs	12,130	–
Amortisation of staff retention costs	2,383	–
	33,282	–

6 Analysis of consolidated cash flows

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Reconciliation of profit after tax to operating cash flow				
Profit after tax	43,872	25,778	43,515	33,409
Depreciation charge	2,294	3,448	959	2,138
Amortisation of intangible assets	9,847	608	1,355	1,020
Impairment of investments in subsidiary undertakings	–	–	–	20,216
Fair value gains on investments	(1,817)	–	(1,468)	–
Gain on disposal of investments	(20,224)	(11,052)	(9,833)	(11,695)
Share based element of remuneration	6,163	964	6,163	964
Share of results of associated undertakings	–	12	–	–
Net finance costs	3,315	14,897	10,508	7,420
Income tax expense	9,975	5,869	3,123	3,027
	53,425	40,524	54,322	56,499
Decrease in provisions	(26,752)	(5,707)	(23,211)	(18,189)
Decrease in stock	2,110	247	–	–
Decrease (increase) in trade and other receivables	13,703	(3,762)	(560)	(49,306)
(Decrease) increase in trade and other payables	(32,037)	(36,187)	8,186	51,804
Net cash inflow (outflow) from operating activities	10,449	(4,885)	38,737	40,808
Net finance costs paid	(334)	(11,498)	(7,527)	(3,953)
Corporation tax paid	(6,666)	(1,121)	(2,105)	(2,652)
Net cash generated from (used in) operating activities	3,449	(17,504)	29,105	34,203

7 Employees

	Recurring £'000	Exceptional £'000	2006 Total £'000	2005 £'000
Group				
Aggregate employee costs, including Directors:				
Salaries and bonuses	**103,476**	**6,663**	**110,139**	52,159
Share based element of remuneration	**6,163**	**–**	**6,163**	776
Other benefits	**1,704**	**166**	**1,870**	898
Social security costs	**8,438**	**436**	**8,874**	5,420
Other pension costs	**11,252**	**51**	**11,303**	6,065
	131,033	**7,316**	**138,349**	65,318
Redundancy costs	**766**	**2,986**	**3,752**	1,068
	131,799	**10,302**	**142,101**	66,386

The redundancy and exceptional staff costs noted above are included within exceptional integration costs as detailed in note 5.

	Recurring Number	Exceptional Number	2006 Total Number	2005 Number
Average number of employees during the year				
Investment management	**807**	**30**	**837**	494
Property asset management	**500**	**–**	**500**	245
	1,307	**30**	**1,337**	739

	2006 Total £'000	2005 £'000
Company		
Aggregate employee costs, including Directors:		
Salaries and bonuses	**22,917**	7,468
Share based element of remuneration	**801**	153
Other benefits	**338**	167
Social security costs	**1,312**	739
Other pension costs	**2,066**	1,214
	27,434	9,741
Redundancy costs	**269**	70
	27,703	9,811

	2006 Total Number	2005 Number
Average number of employees during the year		
Investment management	**235**	153

8 Exceptional (charge) release of provision

	2006 £'000	2005 £'000
Recognised within operating profit		
Release of provision for Uplift Plan to eligible investors in Aberdeen Progressive Growth Unit Trust (note 30)	**7,264**	2,600
Payment in relation to defence of proceedings by Real Estate Opportunities (note 35)	**(7,500)**	–
	(236)	2,600

The final payments to participating investors were made in early October 2006. A provision for an amount which the Board believes will adequately cover any costs which might arise from dealing with any claims by investors who elected not to participate in the Uplift Package, including potential legal expenses of defending the Group's position, has been retained. An amount of £7,264,000 which Directors now believe is surplus to these requirements has been released in 2006 following a partial release of £2,600,000 in 2005.

9 Net finance costs

	2006 £'000	2005 £'000
Interest on 5.875% Convertible bonds 2007	**1,469**	4,864
Interest on 4.5% Convertible bonds 2010	**1,196**	660
Interest on 7.2% Subordinated loan notes	**1,124**	134
Interest on term loans	**–**	3,710
Interest on unsecured guaranteed loan notes	**51**	72
Interest on overdrafts, revolving credit facilities and other interest bearing accounts	**9,580**	1,230
	13,420	10,670
Amortisation of issue costs on Convertible Bonds	**403**	655
	13,823	11,325
Unwinding of discount on Progressive Growth Uplift Plan provision	**1,100**	3,000
Write off of bond expenses and repayment premium	**–**	1,670
	1,100	4,670
Total finance costs	**14,923**	15,995
Finance revenue – interest income	**(11,608)**	(1,098)
Net finance costs	**3,315**	14,897

The provision for the cost of the Uplift Plan to eligible investors in Aberdeen Progressive Growth Unit Trust is shown at note 30. The payments to eligible investors have been made over the period to October 2006. In accordance with the provisions of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, provision for the potential cost was made on the basis of the present value of the best estimate of the cost to the Group. The charge shown above represents the unwinding of the discount during the period to 30 September 2006.

10 Tax expense

	2006 Total £'000	2005 Total £'000
Current tax expense		
UK corporation tax on profits for the year	**7,512**	1,115
Adjustments in respect of prior periods	**(2,269)**	(2,352)
	5,243	(1,237)
Foreign tax – current	**8,955**	4,126
Foreign tax – adjustments in respect of prior periods	**(43)**	(207)
Total current tax	**14,155**	2,682
Deferred tax expense		
Origination and reversal of temporary differences	**(1,574)**	3,150
Adjustments in respect of prior periods	**(2,606)**	37
Total income tax expense in income statement	**9,975**	5,869

	2006 £'000	2005 £'000
Reconciliation of effective tax rate		
Profit before tax	**53,847**	31,647
Income tax using the domestic corporation tax rate	**16,154**	9,494
Effect of tax rates in foreign jurisdictions (rates decreased)	**(13,118)**	(7,355)
Effect of capital gains deductions and exempt capital losses	**(108)**	1,124
Effect of non-UK group dividends net of double tax relief	**8,850**	11,458
Movement in unprovided deferred tax asset	**793**	(1,966)
Non-taxable income/disallowed expenses	**5,349**	(418)
Gain on significant investment not subject to tax	**(2,037)**	(3,745)
Prior year underlying foreign tax on overseas dividends	**(990)**	(1,318)
Adjustments in respect of prior years	**(2,312)**	(1,241)
Pension contribution paid treated as fair value adjustment	**–**	(201)
Deferred tax prior year	**(2,606)**	37
	9,975	5,869
Deferred tax recognised directly in equity		
Relating to convertible bonds	**1,355**	–
Relating to IAS 19 pension deficits	**(2,051)**	(858)
Other IAS32/39 adjustments	**110**	–
	(586)	(858)

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 (30%). The tax benefit of lower tax rates is only one of timing to the extent that these overseas profits are subsequently remitted to the UK. Additionally, the Group will be able to benefit from the offset of tax losses brought forward from prior years against its UK taxable profits for the next 3–5 years.

11 Profit for the financial year

The profit dealt with in the accounts of the Company was £43,515,000 (2005 – £33,409,000).

12 Dividends

	2006 £'000	2005 £'000
Dividends on perpetual preference shares:		
Dividend paid 30 June	**5,397**	–
Ordinary dividends		
Declared and paid during the year		
Dividends paid on ordinary shares:		
Final dividend for 2005 – 1.584p (2004 – second interim dividend 1.287p)	**9,899**	4,724
Interim dividend for 2006 – 2.00p (2005 – 1.416p)	**12,814**	5,321
	22,713	10,045
Total dividends paid during the year	**28,110**	10,045
Proposed for approval at the Annual General Meeting (not recognised as a liability at 30 September)		
Dividends on ordinary shares:		
Final dividend for 2006 – 2.4p (2005 – 1.584p)	**15,027**	9,500

The total ordinary dividend for the year is 4.4p per share including the proposed final dividend for 2006 of 2.4p per share. This payment will trigger an adjustment to the subscription price applying to the warrants which form part of the 6.75% Convertible Preference Share Units issued in June 2005. Assuming approval of the final dividend payment at the forthcoming Annual General Meeting, the subscription price will reduce from 99p per ordinary share to 98p per ordinary share.

13 Earnings per share

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

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

Diluted earnings per share amounts are calculated by dividing the net profit for the period 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 net profit to exclude exceptional items and amortisation of intangible assets.

The purpose of providing the underlying earnings per share is to allow readers of the accounts to clearly consider trends without the impact of exceptional and non-cash items.

	IAS 33		Underlying	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Basic earnings per share				
Profit attributable to shareholders	**43,872**	25,689	**43,872**	25,689
Dividends on redeemable preference shares	**(5,397)**	(1,350)	**(5,397)**	(1,350)
Profit for the financial year – IAS 33 basis	**38,475**	24,339	**38,475**	24,339
Amortisation of intangible assets			**8,070**	–
Exceptional gains on disposal of investments, net of attributable taxation			**(14,867)**	(8,868)
Exceptional integration costs, net of attributable taxation			**23,298**	
Exceptional finance costs, net of attributable taxation			**1,100**	4,169
Exceptional charge (release of provision), net of attributable taxation			**165**	(2,600)
Profit for the financial year – underlying basis			**56,241**	17,040
Weighted average number of shares (000's)	**600,085**	364,289	**600,085**	364,289
Basic earnings per share	**6.41p**	6.68p	**9.37p**	4.68p
Diluted earnings per share				
Profit for calculation of basic earnings per share, as above	**38,475**	24,339	**56,241**	17,040
Add: interest on 2010 convertible bonds, net of attributable taxation	**837**	N/A	**837**	462
Add: dividend on convertible preference share units	**N/A**	N/A	**5,397**	N/A*
Profit for calculation of diluted earnings per share	**39,312**	24,339	**62,475**	17,502
Weighted average number of shares (000's)				
For basic earnings per share	**600,085**	364,289	**600,085**	364,289
Dilutive effect of 2010 convertible bonds	**24,737**	N/A	**24,737**	14,029
Dilutive effect of convertible preference share units	**N/A**	N/A	**80,733**	N/A*
Dilutive effect of exercisable share options	**2,282**	2,362	**2,282**	2,362
	627,104	366,651	**707,837**	380,680
Diluted earnings per share	**6.27p**	6.64p	**8.83p**	4.60p

* the effects of the convertible preference share units was anti-dilutive in 2005.

14 Intangible assets

	Goodwill £'000	Management contracts £'000	Software £'000	Total £'000
Group				
Cost				
At 1 October 2004	297,083	49,859	7,157	354,099
Goodwill arising on the acquisition of business from Deutsche Bank AG	118,359	–	–	118,359
Additions	5,493	–	1,593	7,086
Disposals	–	(20,868)	–	(20,868)
Adjustment to additions in previous years	(7,000)	–	–	(7,000)
Exchange movement	(73)	–	–	(73)
At 30 September 2005	413,862	28,991	8,750	451,603
Finalisation of provisional fair value (note 16)	(55,859)	79,663	–	23,804
At 30 September 2005 (as restated)	358,003	108,654	8,750	475,407
Additions	397	600	949	1,946
Arising on acquisition	42,905	55,980	–	98,885
Exchange movement	(1,043)	(4,698)	–	(5,741)
At 30 September 2006	**400,262**	**160,536**	**9,699**	**570,497**
Amortisation and impairment				
At 1 October 2004	–	9,071	5,267	14,338
Amortisation for year	–	608	1,818	2,426
Disposals	–	(9,679)	–	(9,679)
At 30 September 2005	–	–	7,085	7,085
Amortisation for year	–	8,958	889	9,847
At 30 September 2006	**–**	**8,958**	**7,974**	**16,932**
Net book value				
At 30 September 2006	**400,262**	**151,578**	**1,725**	**553,565**
At 30 September 2005	358,003	108,654	1,665	468,322

	Goodwill £'000	Management contracts £'000	Software £'000	Total £'000
Company				
Cost				
At 1 October 2004	5,710	502	7,363	13,575
Additions	289	–	512	801
At 30 September 2005	5,999	502	7,875	14,376
Additions	–	600	927	1,527
At 30 September 2006	**5,999**	**1,102**	**8,802**	**15,903**
Amortisation				
At 1 October 2004	3,165	–	5,275	8,440
Amortisation for year	–	–	1,020	1,020
At 30 September 2005	3,165	–	6,295	9,460
Amortisation for year	–	–	855	855
Impairment charge	500	–	–	500
At 30 September 2006	**3,665**	**–**	**7,150**	**10,815**
Net book value				
At 30 September 2006	**2,334**	**1,102**	**1,652**	**5,088**
At 30 September 2005	2,834	502	1,580	4,916

14 Intangible assets continued

Following the finalisation of fair value of assets acquired on the acquisition of business and assets from Deutsche Bank AG (note 16) and the completion of a valuation exercise on the assets acquired the allocation of the value of intangible assets between goodwill and management contracts has been restated. In addition a deferred tax provision of £23.8 million has been made in respect of timing differences in relation to the intangible assets.

Goodwill has arisen on business combinations which the Group, in accordance with its business strategy and practice, has integrated with its continuing business activities.

The Group has determined that it has two business segments or cash generating units ('CGUs') for the purpose of assessing the carrying value of goodwill and intangible assets: (i) the investment management division and (ii) the property asset management division. Goodwill acquired in a business combination is allocated to the most appropriate CGU. The carrying value of goodwill and intangible assets attributable to each segment is as follows:

	Group		Company	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Investment management	**539,918**	454,960	**5,088**	4,916
Property asset management	**13,647**	13,362	**–**	–
	553,565	468,322	**5,088**	4,916

The recoverable amount of each CGU is determined by value-in-use calculations which use cash flow projections based on the Group's latest approved budget which covers the 2006/7 financial year. The long term cash flow projections extrapolate the 2006/7 budget figures over ten years with assumptions made on revenue, market growth and increases in overheads to cover inflation and increased levels of business. Revenue is assumed to increase at a rate based on the Group's recent experience of new business inflows. Equity assets under management ('AUM') are assumed to increase by 6% per annum and fixed income AUM by 3% per annum to reflect general market performance and/or reinvestment of income by clients. Increases in operating costs have been factored in at existing rates to cover assumed new business volumes and an allowance of 3% per annum has been made for general inflation of costs. To arrive at a net present value the cash flows are discounted using the Group's weighted average cost of capital which has been calculated at 10.5% at 30 September 2006.

The value-in-use is estimated by calculating a terminal value and adding this to the net present value of the cash flows. This overall value is then compared to the carrying value of goodwill and intangible assets in order to assess whether any impairment exists.The Board considers the terminal value fairly reflects the long term nature of the business and there is no reason to believe that the business will not continue in the long term.

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 in estimating the final value-in-use. The review also covers management contracts in respect of open ended funds which are considered to have indefinite lives and are therefore not subject to amortisation. These assets are tested annually for impairment or more frequently if there is an indication that the carrying amount may not be recoverable.

The impairment review of goodwill and intangible assets revealed a surplus of value-in-use over book value for both CGUs and therefore no impairment charge is required.

Management contracts at 30 September 2006 includes £78.7 million of assets which are considered to have an indefinite life. These assets comprise contracts for the management of unit trusts and open ended investment companies ('OEIC's') and are contracts with no limit of time or termination provisions.

15 Property, plant and equipment

	Heritable property £'000	Short leasehold property £'000	Computers fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Group					
Cost					
At 1 October 2004	2,446	5,632	17,057	184	25,319
Additions	–	355	2,115	22	2,492
Arising on acquisition of subsidiary	–	14	199	–	213
Disposals	–	–	(428)	(30)	(458)
Exchange movement	–	43	85	3	131
At 30 September 2005	2,446	6,044	19,028	179	27,697
Additions	–	1,087	2,482	50	3,619
Disposals	–	(62)	(2,107)	(69)	(2,238)
Exchange movement	–	(46)	(57)	–	(103)
At 30 September 2006	**2,446**	**7,023**	**19,346**	**160**	**28,975**
Depreciation					
At 1 October 2004	295	2,895	13,158	68	16,416
Charge for year	49	615	2,746	38	3,448
On disposals	–	–	(367)	(30)	(397)
Exchange movement	–	32	24	2	58
At 30 September 2005	344	3,542	15,561	78	19,525
Charge for year	49	563	1,628	54	2,294
On disposals	–	(33)	(1,929)	(56)	(2,018)
Exchange movement	–	(34)	(142)	(1)	(177)
At 30 September 2006	**393**	**4,038**	**15,118**	**75**	**19,624**
Net book value					
At 30 September 2006	**2,053**	**2,985**	**4,228**	**85**	**9,351**
At 30 September 2005	2,102	2,502	3,467	101	8,172

	Heritable property £'000	Short leasehold property £'000	Computers fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Company					
Cost					
At 1 October 2004	2,446	4,277	12,082	67	18,872
Additions	–	169	976	–	1,145
Disposals	–	–	–	(30)	(30)
At 30 September 2005	2,446	4,446	13,058	37	19,987
Additions	–	170	1,190	–	1,360
At 30 September 2006	**2,446**	**4,616**	**14,248**	**37**	**21,347**
Depreciation					
At 1 October 2005	295	1,959	9,876	46	12,176
Charge for year	49	349	1,734	6	2,138
Disposals	–	–	–	(30)	(30)
At 30 September 2005	344	2,308	11,610	22	14,284
Charge for year	48	278	628	5	959
At 30 September 2006	**392**	**2,586**	**12,238**	**27**	**15,243**
Net book value					
At 30 September 2006	**2,054**	**2,030**	**2,010**	**10**	**6,104**
At 30 September 2005	2,102	2,138	1,448	15	5,703

At 30 September 2006 and 2005 none of the above assets were held under finance leases.

16 Non-current asset investments

	Associated companies (unlisted) £'000	Other investments (unlisted) £'000	Total £'000
Group			
Shares			
At 1 October 2004	292	45,728	46,020
Additions	–	3,410	3,410
Reclassified as subsidiary	(287)	–	(287)
Reclassification	32	(32)	–
Disposals	–	(21,254)	(21,254)
Exchange movement	(7)	45	38
At 30 September 2005	30	27,897	27,927
Additions	–	5,619	5,619
Fair value adjustment	–	365	365
Disposals	(30)	(20,043)	(20,073)
Exchange movement	–	(20)	(20)
At 30 September 2006	**–**	**13,818**	**13,818**
Share of results			
At 1 October 2004	431	–	431
Share of results of associates	(12)	–	(12)
Impairment provision	(37)	–	(37)
Reclassified as subsidiary	(362)	–	(362)
At 30 September 2005	20	–	20
Disposals	(20)	–	(20)
At 30 September 2006	**–**	**–**	**–**
Net book value			
At 30 September 2006			
Available for sale	**–**	**13,818**	**13,818**
At 30 September 2005			
At lower of cost and net realisable value on a UK GAAP basis	50	27,897	27,947

Additions to other unlisted investments during the year include a £2.6 million investment by the Group's property division, a £1.3 million investment by the parent company plus six other investments totalling £1.7 million.

Other unlisted investments in 2005 included £11.3 million of preference shares which were fully redeemed by the investee company on 7 October 2005. In addition, the Company held an investment of £6 million in New Star Asset Management Group PLC which was sold on 11 November 2005 following the listing of this company's shares on the Alternative Investment Market ('AIM'). On adoption of IAS 32, with effect from 1 October 2005, this investment was restated at its fair value of £14.6 million and was subsequently sold for cash consideration of the same amount. In addition there was £1.8 million realised from private equity funds and £845,000 of investments realised by the property division.

The Group's remaining associated company, Apollo Investment Management Limited, was disposed of on 11 October 2005. The proceeds from the disposal were £50,000.

16 Non-current asset investments continued

	Subsidiary undertakings (unlisted) £'000	Other investments (unlisted) £'000	Total £'000
Company			
Shares			
At 1 October 2004	329,345	22,483	351,828
Reclassified	172,950	–	172,950
Additions: increase in existing subsidiary undertakings	35,155	–	35,155
investment in subsidiaries	177,713	–	177,713
other investments	–	2,057	2,057
Write down of investment in subsidiaries	(20,216)	–	(20,216)
Disposals	(37,959)	(189)	(38,148)
At 30 September 2005	656,988	24,351	681,339
Additions: increase in existing subsidiary undertakings	60,111	–	60,111
investment in subsidiaries	48	–	48
other investments	–	7,343	7,343
Fair value adjustment	–	1,468	1,468
Disposals	–	(18,804)	(18,804)
Exchange movement	–	(174)	(174)
At 30 September 2006	**717,147**	**14,184**	**731,331**
Net book value			
At 30 September 2006			
At cost less provisions for impairment	**717,147**	**–**	**717,147**
Available for sale	**–**	**14,184**	**14,184**
At 30 September 2005			
At cost less provisions for impairment	656,988	24,351	681,339

Acquisitions

On 7 July 2005 the Company announced the acquisition of certain fund management businesses of Deutsche Bank AG for a cash consideration and this transaction was completed in two stages, on 30 September 2005 and 1 December 2005. The acquisition was effected by the transfer of certain legal entities to Aberdeen and the novation of certain client mandates.

On 30 September 2005 Aberdeen paid £133.4 million in respect of the London fixed interest business, and the OEIC business and the equities and multi-asset business. On 1 December 2005, the Philadelphia fixed income business was acquired for a cash consideration of £73 million and the further elements of the UK businesses were acquired for a consideration of £50.4 million. The deferred consideration in respect of the equities & multi-asset business was finalised during the year which resulted in a payment of £24.6 million being made. This was £10.4 million less than the provisional estimate and was based on the value of run-rate management fees on assets retained within this business.

Provisional fair values were assigned to the assets acquired at 30 September 2005. They were finalised during 2006 resulting in the adjustments shown in the table below. These adjustments reflect a re-allocation of value between goodwill and intangible assets plus the recognition of deferred tax of £23.8 million in respect of the intangible assets.

An independent firm of valuation specialists was engaged to carry out a valuation exercise of the goodwill and intangible assets acquired. The value of goodwill in the acquisition takes account of the value of the assembled workforce in place and the value of new business flows.

In accordance with the requirements of IFRS 3 the goodwill has been adjusted from the date of acquisition and the 2005 comparatives have been restated. The table opposite shows the provisional fair values of the assets acquired at 30 September 2005 and the subsequent fair value adjustments together with the fair value of the assets acquired on 1 December 2005.

16 Non-current asset investments continued

	Provisional fair value to the Group at 30 Sept 2005 £'000	Finalisation of fair value £'000	Adjusted fair value to Group £'000	**Additions during 2006 £'000**	Finalisation of deferred consideration £'000	Total assets acquired £'000
Cash and cash equivalents	67,394	–	67,394	**3,557**	–	70,951
Stock	2,045	–	2,045	**57**	–	2,102
Trade and other receivables	102,767	–	102,767	**10,922**	–	113,689
Current asset investments	175	–	175	**7,573**	–	7,748
Financial investments	2,554,983	–	2,554,983	**8,123**	–	2,563,106
Deferred taxation	(240)	–	(240)	**–**	–	(240)
Trade and other payables	(113,369)	–	(113,369)	**(11,527)**	–	(124,896)
Investment contract liabilities	(2,554,983)	–	(2,554,983)	**(8,123)**	–	(2,563,106)
Net assets of acquired business	58,772	–	58,772	**10,582**	–	69,354
Goodwill	118,359	(55,859)	62,500	**53,305**	(10,400)	105,405
Intangible assets	–	79,663	79,663	**55,980**	–	135,643
Deferred taxation on intangible assets	–	(23,804)	(23,804)	**–**	–	(23,804)
	177,131	–	177,131	**119,867**	(10,400)	286,598
Discharged by:						
Cash consideration	133,412	–	133,412	**123,386**	24,600	281,398
Estimated deferred consideration	35,000	–	35,000	**–**	(35,000)	–
Further payment due in respect of net assets acquired	5,456	–	5,456	**(5,456)**	–	–
Expenses of acquisition	7,866	–	7,866	**–**	–	7,866
Less: advance payment for assets to be acquired	(4,603)	–	(4,603)	**4,603**	–	–
Debtor to be recovered	–	–	–	**(2,666)**	–	(2,666)
	177,131	–	177,131	**119,867**	(10,400)	286,598

The fund management businesses acquired from Deutsche Bank AG have been fully integrated with the existing investment management business of the Group and therefore the results and cashflows can no longer be separately identified.

The principal companies in which the Group interest was more than 10% at 30 September 2006 were as follows:

Subsidiary undertakings	Principal activity	% owned	Country of registration	Country of operation
Aberdeen Asset Management Asia Limited	Fund management	100	Singapore	Singapore
Aberdeen Asset Management Company Limited	Fund management	100	Thailand	Thailand
Aberdeen Asset Management Funds Limited	Unit trust management	100	England	UK
Aberdeen Asset Management Life and Pensions Limited	Unit linked pensions	100	England	UK
Aberdeen Asset Management Limited[1]	Fund management	100	Australia	Australia
Aberdeen Asset Management Sdn Bhd	Fund management	100	Malaysia	Malaysia
Aberdeen Asset Managers Limited	Fund management	100	Scotland	UK
Aberdeen Asset Management Inc	Fund management	100	USA	USA
Aberdeen Fund Management Ireland Limited	Fund management	100	Ireland	Ireland
Aberdeen Fund Management Limited	Fund management	100	England	UK
Aberdeen Global Services SA	Fund management	100	Luxembourg	Luxembourg
Aberdeen International Fund Managers Limited	Fund distribution	100	Hong Kong	Hong Kong
Aberdeen International Management Ireland Limited	Fund management	100	Ireland	Ireland
Aberdeen Murray Johnstone Limited[2]	Fund management	100	Scotland	UK
Aberdeen Private Wealth Management Limited	Fund management	100	Jersey	Jersey
Aberdeen Property Investors Holding AB[3]	Property asset management	100	Sweden	Sweden
Aberdeen Unit Trust Managers Limited	Unit trust management	100	England	UK
Edinburgh Fund Managers Group Limited	Fund management	100	Scotland	UK

[1]Held by Aberdeen Asset Management Asia Limited
[2]Includes the Murray Johnstone Group of companies
[3]Includes the Aberdeen Property Group of companies

All of the above investments consist of holdings of ordinary share capital. The Company also owns 100% of the deferred shares issued by Aberdeen Unit Trust Managers Limited and holds investments in other subsidiary undertakings, the results of which are not significant in the Group context.

17 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Group						
Intangible assets	–	–	(22,916)	(23,804)	(22,916)	(23,804)
Employee benefits	10,988	8,932		–	10,988	8,932
Other items	34	–	–	(4,078)	34	(4,078)
Financial instruments	–	–	(1,464)	–	(1,464)	–
Net tax assets (liabilities)	11,022	8,932	(24,380)	(27,882)	(13,358)	(18,950)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2006 £'000	2005 £'000
Tax losses – UK (£52,577,000 at 30%)	15,773	15,557
Deductible temporary differences	–	283
	15,773	15,840

Deferred tax assets have not been recognised due to the lack of certainty as to the utilisation of these assets.

	Assets		Liabilities		Net	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Company						
Employee benefits	357	193	–	–	357	193
Other items	26	–	–	(2,574)	26	(2,574)
Financial instruments	–	–	(1,464)	–	(1,464)	–
Net tax assets (liabilities)	383	193	(1,464)	(2,574)	(1,081)	(2,381)

Unrecognised deferred tax on the Company's investment in subsidiaries at 30 September 2006 was £217 million.

18 Trade and other receivables

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Current assets				
Unit trust trustees for units liquidated	11,830	29,263	–	–
Debtors for unit sales	15,462	47,423	–	–
	27,292	76,686	–	–
Other trade debtors	16,656	11,031	1,342	218
Amounts due by subsidiary undertakings	–	–	77,381	80,703
Other debtors	20,228	10,305	2,671	7,376
Prepayments and accrued income	66,959	42,367	6,649	4,952
Deferred consideration	1,500	2,251	1,500	2,251
	132,635	142,640	89,543	95,500

18 Trade and other receivables continued

Non-current assets

	Group		Company	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Other debtors	**1,038**	331	**–**	–
Deferred consideration	**–**	3,993	**–**	3,993
	1,038	4,324	**–**	3,993

19 Investment contract liabilities

The following assets are held by the Group's life assurance subsidiary to meet its contracted liabilities:

	Group	
	2006 £'000	2005 £'000
Listed investments	**1,044,565**	2,295,264
Unit trusts	**307,736**	136,047
Cash and deposits	**65,538**	71,288
Other (liabilities) assets	**(5,260)**	52,384
	1,412,579	2,554,983

20 Stock of units and shares

	2006 £'000	2005 £'000
Units and shares in managed funds	**264**	2,317

Stocks of units and shares are held in relation to investment management activities and are classified as held for trading current assets.

21 Other investments

	Group		Company	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Listed equities – held for trading	**10,780**	5,234	**4,449**	4,414
Liquid investments of life and pensions subsidiary	**22,761**	15,743	**–**	–
	33,541	20,977	**4,449**	4,414

Investments held at 30 September 2006 are stated at fair value.

The market value of listed investments held at 30 September 2005 was £21,059,000. The Group has applied IAS 32 prospectively from 1 October 2005 therefore the comparative information for 2005 is not stated under IFRS.

22 Cash and cash equivalents

	Group		Company	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Cash at bank and in hand	**50,497**	97,016	**15,447**	9,259
Bank overdrafts	**(2,377)**	–	**(39,909)**	(50,866)
Cash and cash equivalents in the statement of cash flows	**48,120**	97,016	**(24,462)**	(41,607)

Cash at bank earns interest at floating rates based on daily bank deposit rates. The book value of cash and cash equivalents approximates their fair value. The Group's exposure to credit risk is represented by the carrying value of the assets.

22 Cash and cash equivalents continued

The cash and cash equivalents are all subject to floating rates of interest.

At 30 September 2006, the Group had £75.1 million of undrawn committed borrowing facilities under its revolving credit arrangements (note 27).

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

	2006 £'000
Sterling	**20,487**
US dollar	**14,428**
Euro	**347**
Nordic currencies	**6,808**
Other currencies	**6,050**
	48,120

23 Assets classified as available for sale

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Deferred consideration on sale of investment	**7,000**	–	**–**	–

The Group disposed of its investment in the ordinary shares of Lombard International Assurance SA ('Lombard'), a Luxembourg registered life company on 11 January 2005. The deferred consideration recognised of £7,000,000 represents the estimated fair value of the deferred proceeds which the Group expects to receive in April 2007. The deferred proceeds are dependent on Lombard achieving or exceeding certain performance targets for both new business profits and growth in embedded value for the financial year to 31 December 2006. This estimate is based on the most recent information received from Lombard and the estimated proceeds have been discounted to a 30 September 2006 value.

24 Share capital

	2006 £'000	2005 £'000
Authorised:		
Ordinary shares of 10p	**100,000**	100,000
5.25% Redeemable preference shares of £1	**39,000**	39,000
6.75% Non-cumulative, non-voting perpetual preference shares of £100	**12,500**	12,500
Deferred shares of 10p	**–**	1,250
Performance shares of 50p	**–**	1,250
	151,500	154,000
Allotted, called up and fully paid:		
Ordinary shares of 10p	**62,612**	60,502
6.75% Non-cumulative, non-voting perpetual preference shares of £100	**7,993**	8,000
	70,605	68,502

On 16 December 2005 19,600,000 ordinary shares of 10p were issued at a price of 135p per share in respect of the Company's Long Term Incentive Plan.

On 20 January 2006 an ordinary resolution was passed at the Annual General Meeting to cancel the authorised deferred shares of 10p each and the performance shares of 50p each.

During the year a total of 1,429,900 ordinary shares of 10p each were issued at an average price of 62.6p pursuant to the exercise of options granted to employees under the 1994 Executive Share Option Scheme.

80,000 convertible preference share units of £1,000 each were issued on 30 June 2005. Each convertible preference share unit of £1,000 comprised one preference share and one warrant to subscribe to ordinary shares, of which £800 relates to the preference share and £200 to the warrant.

24 Share capital continued

Each preference share is entitled to a non-cumulative dividend accruing at a rate of £67.50 per share per annum payable annually in arrears on 30 June in each year (payments subject to Directors discretion).

During the year a total of 77 preference share units were converted at the option of the holders into a total of 77,775 ordinary shares.

The preference shares are perpetual securities and have no maturity date, but are redeemable in whole, but not in part only, at the option of the Company on 30 June 2012 or any dividend payment date thereafter at a price equal to the aggregate of £1,000 and any dividends accrued for the then current dividend period.

25 Share-based payments

The Group has in place the following share-based payment arrangements:

1994 Executive Share Option Scheme

This scheme was established in 1994 and is approved by the Inland Revenue and was approved by the shareholders prior to its introduction. In accordance with its rules, no further options can be issued after March 2004.

The following share options granted under the Scheme were in place at 30 September 2006:

Date option granted	Option price per share	Period of exercise	Number of shares Total	Number of shares Directors
9 July 1998	86p	9 July 2003 – 9 July 2008	223,500	–
20 January 1999	71p	20 January 2004 – 20 January 2009	750,000	–
8 December 1999	166p	8 December 2004 – 8 December 2009	113,000	–
8 December 1999	185p	8 December 2004 – 8 December 2009	1,687,000	540,000
11 June 2003	42p	11 June 2006 – 11 June 2013	2,408,100	89,000
23 January 2004	57p	23 January 2007 – 23 January 2014	322,300	–
23 January 2004	59p	23 January 2007 – 23 January 2014	3,607,700	646,000

Options may only be exercised if the Remuneration committee is satisfied that the Group's earnings per share have increased over a period of three years by 5% per annum in excess of the average growth in the stock markets in which the Group's assets under management are invested.

Full details of options held by Directors who served during the financial year are given in the Remuneration report on pages 24 to 31.

The number and weighted average exercise prices of share option is as follows:

	Weighted average exercise price 2006	**Number of options 2006**	Weighted average exercise price 2005	Number of options 2005
Outstanding at the beginning of the year		**10,701,500**		14,272,750
Exercised during the year	**62.6p**	**(1,429,900)**	58.2p	(207,500)
Lapsed during the year		**(160,000)**		(3,363,750)
Outstanding at the end of the year		**9,111,600**		10,701,500
Exercisable at the end of the year		**5,181,600**		3,603,500

The options outstanding at 30 September 2006 have exercise prices in the range of 42p to 185p and a weighted average contractual life of 5.8 years (2005 – 6.6 years).

The fair values of services received in return for the grant of share options are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received has been measured based on a trinomial lattice model using a Monte Carlo simulation model for assessing the likelihood of performance conditions being satisfied.

25 Share-based payments continued

The key assumptions which have been used in the trinomial lattice model to ascertain the fair value of options are as follows:

Date option granted	11 Jun 2003 approved/ unapproved	23 Jan 2004 approved	23 Jan 2004 unapproved
Number of options granted	3,543,000	436,700	4,097,800
Share price at grant date	42p	57p	59p
Exercise price	42p	57p	59p
Vesting period	3 years	3 years	3 years
Expected volatility at award date	96.9%	78.9%	78.9%
Risk free rate at grant date (based on 3 month sterling LIBOR)	3.65%	4.07%	4.07%
Expected dividend yield	6.10%	4.50%	4.40%
Average expected term to exercise	7.5 years	7.6 years	7.6 years

2005 Long Term Incentive Plan

The fair value of services received in return for the award of LTIP shares are measured by reference to the fair value of LTIP shares awarded. The estimate of the fair value of the services received has been measured based on a trinomial lattice model using assumptions for employee exit/forfeiture rates, zero dividend yields (because dividends accrue to the employee as from the date of the award) share price and composite volatility and performance conditions.

The key assumptions which have been used in the trinomial lattice model to ascertain the fair value of options are as follows:

	12 May 2005	16 December 2005
Number of shares awarded	5,680,000	19,600,000
Share price at award date	116p	135p
Vesting period	3 years	3 years
Expected volatility at award date	37.4%	56.5%
Risk free rate at award date (based on 3 month sterling LIBOR)	4.89%	4.62%
Expected dividend yield	0%	0%
Average expected term to vesting	3 years	3 years

	2006 £'000	2005 £'000
Employee expenses		
Share options granted in 2003	**138**	88
Share options granted in 2004	**156**	100
Expense arising from the award of shares under the LTIP	**5,869**	776
Total expense recognised as employee costs	**6,163**	964

26 Reserves

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Fair value reserve £'000	Warrant/ other reserve £'000	Total other reserves £'000	Retained earnings £'000
Group									
At 1 October 2004	23,620	19,710	31,115	172,690	–	–	–	203,805	(124,245)
Total recognised income and expense	–	–	–	–	189	–	–	189	20,947
Arising on the issue of shares	44,882	241,330	–	–	–	–	16,000	16,000	–
Issue of LTIP shares	–	–	–	–	–	–	–	–	(5,896)
Dividends to shareholders	–	–	–	–	–	–	–	–	(10,045)
Exchange gain	–	–	–	–	–	–	–	–	–
At 30 September 2005	68,502	261,040	31,115	172,690	189	–	16,000	219,994	(119,239)
Adjustment on adoption of IAS 39	–	–	–	–	–	5,995	3,052	9,047	–
On disposal	–	–	–	–	–	(5,995)	–	(5,995)	–
Total recognised income and expense	–	–	–	–	(5,882)	7,365	–	1,483	39,361
Arising on the issue of shares	2,103	25,237	–	–	–	–	(15)	(15)	–
Issue of LTIP shares	–	–	–	–	–	–	–	–	(26,452)
Amortisation of share based payments	–	–	–	–	–	–	–	–	6,163
Purchase of own shares	–	–	–	–	–	–	–	–	(3,024)
Dividends paid to shareholders	–	–	–	–	–	–	–	–	(28,110)
At 30 September 2006	**70,605**	**286,277**	**31,115**	**172,690**	**(5,693)**	**7,365**	**19,037**	**224,514**	**(131,301)**

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Fair value reserve £'000	Warrant/ other reserve £'000	Total other reserves £'000	Retained earnings £'000
Company									
At 1 October 2004	23,620	19,710	31,115	172,690	–	–	–	203,805	7,520
Total recognised income and expense	–	–	–	–	–	–	–	–	33,520
Arising on the issue of shares	44,882	241,330	–	–	–	–	16,000	16,000	–
Issue of LTIP shares	–	–	–	–	–	–	–	–	(5,896)
Dividends to shareholders	–	–	–	–	–	–	–	–	(10,045)
At 30 September 2005	68,502	261,040	31,115	172,690	–	–	16,000	219,805	25,099
Adjustment on adoption of IAS 39	–	–	–	–	–	5,995	3,052	9,047	–
On disposal	–	–	–	–	–	(5,995)	–	(5,995)	–
Total recognised income and expense	–	–	–	–	1,008	365	–	1,373	43,053
Arising on the issue of shares	2,103	25,237	–	–	–	–	(15)	(15)	–
Issue of LTIP shares	–	–	–	–	–	–	–	–	(26,452)
Amortisation of share based payments	–	–	–	–	–	–	–	–	6,163
Purchase of own shares	–	–	–	–	–	–	–	–	(3,024)
Dividends paid to shareholders	–	–	–	–	–	–	–	–	(28,110)
At 30 September 2006	**70,605**	**286,277**	**31,115**	**172,690**	**1,008**	**365**	**19,037**	**224,215**	**16,729**

On adoption of IAS 32 and 39 on 1 October 2005 the convertible bonds have been classified as compound instruments and each instrument has been separated into its liability and equity component. The equity element of the bonds, net of deferred tax, is shown within warrant and other reserves.

The total movements in retained earnings related 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.

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.

26 Reserves continued

Warrant reserve

The warrant reserve was created on the issue of the £80,000,000 convertible preference share units in June 2005. Each convertible preference share unit issued comprised one preference share and one warrant to subscribe for ordinary shares, of which £800 related to the preference share and £200 to the warrant. The balance in the reserve reflects the value of unexcercised warrants.

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 such time as the investments are derecognised.

Retained earnings

Retained earnings comprise:

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

This reserve is distributable.

27 Interest bearing loans and borrowings

	Group		Company	
	2006 £'000	2005* £'000	**2006 £'000**	2005* £'000
Non-current liabilities				
7.2% Subordinated notes 2016	**66,916**	–	**66,916**	–
Unamortised issue costs	**(744)**	–	**(744)**	–
4.5% Convertible bonds 2010	**24,712**	26,570	**24,712**	26,570
Unamortised issue costs	**(692)**	(890)	**(692)**	(890)
5.875% Convertible bonds 2007	**–**	24,997	**–**	24,997
Unamortised issue costs	**–**	(246)	**–**	(246)
Unsecured guaranteed loan notes 2003 – 2008	**–**	899	**–**	–
	90,192	51,330	**90,192**	50,431
Current liabilities				
Amount drawn under bank revolving credit facility	**25,000**	–	**25,000**	–
Bank overdraft	**2,377**	–	**39,909**	50,866
5.875% Convertible bonds 2007	**22,219**	–	**22,219**	–
Unamortised issue costs	**(60)**	–	**(60)**	–
Unsecured guaranteed loan notes 2003 – 2008	**1,015**	591	**–**	–
	50,551	591	**87,068**	50,866

*2005 figures stated on a UK GAAP basis.

US$125 million 7.2% Subordinated notes 2016 were issued on 7 July 2006. The notes have a term of 10 years although the Company has the option, subject to certain restrictions, to prepay all (but not part) of the notes from 8 July 2011 onwards. Interest is payable semi-annually on 7 July and 7 January each year until 7 July 2011. From 8 July 2011 each note converts to a floating rate note bearing interest at the LIBOR rate in effect for the applicable quarterly interest period plus a margin of 2.25%.

£26.57 million 4.5% Convertible bonds 2010 were issued on 8 March 2005. The bonds are convertible into ordinary shares of the Company at any time on or after 20 April 2005 at a conversion price of 107.41p (after adjustment for the rights issue on 23 September 2005). Unless the Bonds have been previously purchased and cancelled, redeemed or converted, the bonds will be redeemed on 10 March 2010 at their principal amount.

£100 million 5.875% Convertible bonds 2007 were issued on 14 January 2002. The bonds are convertible into ordinary shares at any time after 24 February 2002 at a conversion price of 372.35p per share (after adjustment for the rights issue on 23 September 2005). Unless previously redeemed, purchased and cancelled, or converted the bonds are redeemable on 14 January 2007 at their principal amount. The Company repaid £75,000,000 of these bonds on 30 June 2005 from the proceeds of the Convertible Preference Share issue.

27 Interest bearing loans and borrowings continued

The liability in respect of the Unsecured guaranteed loan notes 2003 – 2008 was taken on by the Group as a result of the acquisition of Edinburgh Fund Managers Group plc. The total value of the loan notes outstanding at 30 September 2006 was £1,015,000. The loan notes are redeemable , subject to certain restrictions during the period 31 December 2006 to 30 June 2008. The maximum amount which may be redeemed during the next year is £1,015,000 and is included in creditors due within one year.

The Company entered into a revolving credit and guarantee facility with Bank of Scotland on 5th October 2005. The revolving credit is split into facility A of £65,125,000 expiring 31st July 2007 and facility B of £35,000,000 expiring 31st July 2008. Both of these facilities carry interest rates of 1.5% over LIBOR per annum on drawn amounts and a non utilisation fee of 0.25% per annum on undrawn amounts. Two guarantees had been issued under the facility; one in favour of the holders of the Unsecured guaranteed loan notes 2003-2008 for £1,015,041, the other in favour of the Edinburgh Fund Managers Group plc Retirement and Death Benefits Scheme for £277,788.

The Company's bank balance is part of a group working capital facility in support of which cross guarantees are provided by certain subsidiary undertakings. At 30 September 2006 the net amount guaranteed under this arrangement was £2,377,000 (2005 – £nil). The Company regards such guaratees as insurance contracts and accounts for them accordingly. The Group's borrowings are subject to a number of covenants which, in accordance with standard practice, are reviewed and discussed with the 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.

On adoption of IAS 32 and 39 on 1 October the Convertible bonds are classified as compound instruments and each instrument has been separated into its liability and equity component. The equity element of the bonds, net of deferred tax is shown with warrant and other reserves.

28 Trade and other payables

	Group		Company	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Unit trust trustees for units created	**12,262**	7,536	**–**	–
Creditors for unit repurchases	**15,212**	63,521	**–**	–
	27,474	71,057	**–**	–
Other trade creditors	**7,091**	7,676	**4,518**	4,604
Accruals	**85,135**	46,960	**10,591**	11,999
Tax and social security	**1,368**	3,434	**1,258**	817
Amount due to subsidiary undertakings	**–**	–	**44,864**	43,437
Deferred consideration due on acquisition	**–**	40,456	**–**	40,456
Other creditors	**22,781**	37,418	**8,660**	258
	143,849	207,001	**69,891**	101,571

The deferred consideration due on acquisition relates to the acquisition in 2005 of certain fund management businesses of Deutsche Bank AG which were acquired on 30 September 2005 (note 16).

29 Financial instruments

Group

(i) Designated as held for trading

	2006 £'000	2005 £'000
Stock of units and shares in managed funds	**264**	2,317
Other investments	**10,780**	5,234
Liquid investments of life and pensions subsidiary	**22,761**	15,743
	33,760	23,294

(ii) Designated as available for sale assets

	2006 £'000	2005 £'000
Unlisted investments	**13,818**	27,947
Deferred consideration on sale of investment	**7,000**	–
	20,818	27,947

Available for sale financial assets consist of investments in ordinary shares, warrants and private equity investments and deferred consideration on sale of assets.

29 Financial instruments continued

The fair value of the unlisted available for sale investments has been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The Directors believe that the estimated fair values resulting from the valuation technique which are recorded in the Balance Sheet, and the related fair value gains recorded in the Income Statement are reasonable and most appropriate at the balance sheet date.

Fair values

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

	Carrying amount		Fair value	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Financial assets				
Other investments	**13,818**	27,947	**13,818**	36,547
Other financial investments	**1,412,579**	2,554,983	**1,412,579**	2,554,983
Other current asset investments	**33,541**	20,977	**33,541**	21,705
Stock of units and shares	**264**	2,317	**264**	2,317
Cash and cash equivalents	**50,497**	97,016	**50,497**	97,016
Deferred consideration	**1,500**	6,244	**1,500**	6,244
Assets classified as available for sale	**7,000**	–	**7,000**	–

	Carrying amount		Fair value	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Financial liabilities				
Interest bearing loans and borrowings:				
Fixed rate borrowings	**113,847**	51,567	**116,407**	49,647
Floating rate borrowings	**28,392**	6,294	**28,392**	6,294
No interest liabilities	**500**	–	**500**	–
Insurance contract liabilities	**1,412,579**	2,554,983	**1,412,579**	2,554,983
Deferred consideration due on acquisition	**–**	40,456	**–**	40,456

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

Securities

The fair value of listed investments is based on market bid prices at the balance sheet date without any deduction for transaction costs. The fair value of unlisted investments have been valued in accordance with International Private Equity and Venture Capital Valuation Guidelines Limited Partnership agreements where possible.

Interest bearing loans

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

Where discounted cash flow techniques are used, estimated cash flows are based on managements 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.

29 Financial instruments continued

Interest rate and currency risk profiles

The interest rate and currency profiles of the Group's financial liabilities at 30 September were as follows:

	2006			
	Fixed rate £'000	Variable rate £'000	No interest £'000	Total £'000
Sterling				
Bank revolving credit facility	–	25,000	–	25,000
Bank overdraft	–	2,377	–	2,377
4.5% Convertible bonds 2010	24,712	–	–	24,712
5.875% Convertible bonds 2007	22,219	–	–	22,219
Unsecured guaranteed loan notes 2003 – 2008	–	1,015		1,015
Long term business provision	–	–	500	500
	46,931	28,392	500	75,823
US dollar				
7.2% Subordinated notes 2016	66,916	–	–	66,916
	113,847	28,392	500	142,739

	2005			
	Fixed rate £'000	Variable rate £'000	No interest £'000	Total £'000
Sterling				
4.5% Convertible bonds 2010	26,570	–	–	26,570
5.875% Convertible bonds 2007	24,997	–	–	24,997
Unsecured guaranteed loan notes 2003 – 2008	–	1,490	–	1,490
Deferred consideration due on acquisition	–	–	40,456	40,456
	51,567	1,490	40,456	93,513
US dollar				
8% Convertible loan notes	–	4,804	–	4,804
	51,567	6,294	40,456	98,317

The sterling liabilities, comprise the convertible bonds 2010 which bear interest at a fixed rate of 4.5% p.a., the convertible bonds 2007 which bear interest at a fixed rate of 5.875% p.a.,the unsecured guaranteed loan notes which bear interest at 1% below LIBOR. Interest on the revolving credit facility and overdraft is at a variable rate of 1.5% above LIBOR. Further details of the liabilities are given in note 27.

The interest rate and currency profiles of the Group's financial assets at 30 September were as follows:

	30 September 2006			30 September 2005		
	Floating rate £'000	No interest £'000	Total £'000	Floating rate £'000	No interest £'000	Total £'000
Sterling	47,160	25,787	72,947	82,123	52,999	135,122
US dollar	13,933	4	13,937	3,721	–	3,721
Euro currencies	342	–	342	2,445	–	2,445
Nordic currencies	6,808	3,829	10,637	9,602	–	9,602
Other currencies	6,038	2,719	8,757	3,929	4,486	8,415
Total	74,281	32,339	106,620	101,820	57,485	159,305

The no interest financial assets do not have a maturity date. They principally comprise available for sale investments and assets and other debtors. The floating rate financial assets principally comprise cash and deposit balances which earn interest at rates which fluctuate according to money market rates.

29 Financial instruments continued

Foreign net investment

The majority of the Group's subsidiaries use sterling as their reporting currencies. The foreign currency net monetary assets of subsidiaries which adopt a different reporting currency are as follows:

	2006 £'000	2005 £'000
US dollar	**14,267**	2,932
Singapore dollar	**14,458**	1,767
Australian dollar	**1,400**	1,367
Nordic currencies	**12,970**	1,240
Other	**3,111**	2,465

Financial instruments relating to unit linked contracts

The Group's life assurance subsidiary provides unit linked wrappers which avail clients of a number of benefits from these pooled arrangements. From the Group's perspective, 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 invested also fall to be borne by, or to the benefit of, our clients. Hence, while a number of significant financial instruments are recognised in the Balance Sheet in respect of the subsidiary, the key risk to the Group is the impact of the level of the fees which are earned from this entity which are directly impacted by the underlying value of the policyholder assets. While by necessity this Group subsidiary company has some insurance risks, these risks are completely reinsured, thereby negating any ultimate insurance risk to the Group's equity holders.

The unit linked assets are matched by the associated insurance contract liabilities disclosed in note 19.

The assets 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.

30 Provisions

		Provision for Uplift Plan £'000	Long term business provision £'000	Total £'000
Group				
At 1 October 2005	– non-current liabilities	4,631	150	4,781
	– current liabilities	19,478	–	19,478
		24,109	150	24,259
Utilised		(15,836)	–	(15,836)
(Released) provided in the year		(7,264)	350	(6,914)
Unwinding of discount		1,100	–	1,100
At 30 September 2006		**2,109**	**500**	**2,609**
Non-current		–	**500**	**500**
Current		**2,109**	**–**	**2,109**
		2,109	**500**	**2,609**

30 Provisions continued

The final payments to eligible investors of the Aberdeen Progressive Growth Unit Trust Uplift Plan were made in early October 2006. In the Board's opinion, the provision at 30 September 2006 is sufficient to cover the final payments made in October plus any remaining exposure to claims made by investors who elected not to participate in the Uplift Package. The amount utilised represents payments made to investors and legal fees incurred in relation to split capital issues in the year to 30 September 2006.

		Provision for Uplift Plan £'000
Company		
At 1 October 2005	– non-current liabilities	**4,631**
	– current liabilities	**19,478**
		24,109
Utilised		**(15,836)**
Released in the year		**(7,264)**
Transferred to subsidiary		**(1,800)**
Unwinding of discount		**1,100**
At 30 September 2006		**309**
Non-current		**–**
Current		**309**
		309

31 Deferred income

	Group		Company	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Initial fees on sales of open end funds	**2,188**	1,576	**–**	–

Initial fees on sales of open end funds are being spread over the average life of the contracts which has been estimated at 3 years.

32 Operating leases

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

	Land and buildings		Motor vehicles and plant and equipment	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Group				
Within one year	**1,491**	696	**156**	113
Between two and five years	**5,487**	5,908	**242**	572
After five years	**38,592**	40,428	**–**	–
	45,570	47,032	**398**	685

During the year ended 30 September 2006, £5,603,000 was recognised as an expense in the income statement in respect of operating leases.

	Land and buildings		Motor vehicles and plant and equipment	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Company				
Within one year	**8**	8	**–**	–
Between two and five years	**685**	938	**–**	–
After five years	**34,933**	38,028	**–**	–
	35,626	38,974	**–**	–

33 Commitments

In 2002 the Group made a commitment to invest up to £10 million in the Aberdeen Murray Johnstone Private Equity Fund, a limited partnership managed by its wholly owned subsidiary, Aberdeen Asset Managers Limited. Of that amount some £5.2 million has subsequently been drawn and a further £4.8 million remains committed but not yet drawn.

34 Retirement benefits

a) The Group's principal form of pension provision is by way of three defined contribution schemes operated world-wide. The Group also operates three legacy defined benefit schemes in the UK: the CGA Staff Pension Fund, the Murray Johnstone Limited Retirement Benefits Plan and the Edinburgh Fund Managers Group plc Retirement & Death Benefits Scheme. All three 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:

		2006 £'000	2005 £'000
(i)	In respect of the Group's money purchase schemes:		
	Pension cost charged to operating profit	**6,390**	2,478
(ii)	In respect of the Group's defined benefit schemes:		
	Pension cost charged to operating profit	**746**	1,401
(ii)	In respect of the Group's overseas schemes:		
	Pension cost charged to operating profit	**4,167**	3,126

b) The actuarial valuations of the defined benefit schemes referred to in (a) above were updated to 30 September 2006 by the respective independent actuaries using the projected unit valuation method.

	CGA Staff Pension Fund		Murray Johnstone Limited Retirement Benefits Plan		Edinburgh Fund Managers Retirement & Death Benefits Plan	
	2006 %	2005 %	2006 %	2005 %	2006 %	2005 %
Discount rate	**5.10**	5.10	**5.10**	5.10	**5.10**	5.10
Pension increases						
– pre July 1997 accrual	**5.00**	5.00	**5.00**	5.00	**3.00**	3.00
– post July 1997 accrual	**2.80**	2.60	**2.80**	2.60	**2.80**	2.60
Contributory salary increases	**n/a**	n/a	**4.80**	4.60	**n/a**	n/a
Price inflation	**2.80**	2.60	**2.80**	2.60	**2.80**	2.60

The weighted average assumptions used to determine the obligations are as follows:

	CGA Staff Pension Fund		Murray Johnstone Limited Retirement Benefits Plan		Edinburgh Fund Managers Retirement & Death Benefits Plan	
	2006 %	2005 %	2006 %	2005 %	2006 %	2005 %
Discount rate	**5.10**	5.10	**5.10**	5.10	**5.10**	5.10
Rate of compensation increase	**2.80**	2.60	**4.80**	4.60	**n/a**	n/a
Rate of price inflation	**2.80**	2.60	**2.80**	2.60	**2.80**	2.60

The weighted average assumptions used to determine the net pension cost are as follows:

	CGA Staff Pension Fund		Murray Johnstone Limited Retirement Benefits Plan		Edinburgh Fund Managers Retirement & Death Benefits Plan	
	2006 %	2005 %	2006 %	2005 %	2006 %	2005 %
Discount rate	**5.10**	5.10	**5.10**	5.70	**5.10**	5.70
Expected long-term rate of return on plan assets during the financial year	**5.00**	4.70	**6.01**	6.47	**6.01**	6.47
Rate of compensation increase	**2.80**	2.60	**4.60**	4.60	**n/a**	n/a
Rate of price inflation	**2.80**	2.60	**2.60**	2.60	**2.60**	2.60

34 Retirement benefits continued

The assumed long term rates of return on the scheme assets were as follows:

	CGA Staff Pension Fund		Murray Johnstone Limited Retirement Benefits Plan		Edinburgh Fund Managers Retirement & Death Benefits Plan	
	2006 %	2005 %	**2006 %**	2005 %	**2006 %**	2005 %
Equities	**7.00**	7.00	**7.25**	7.25	**7.25**	7.25
Bonds	**4.50**	4.25	**4.50**	4.50	**4.50**	4.50
Cash	**4.75**	4.25	**4.75**	4.50	**4.75**	4.50

Mortality assumptions

The mortality assumptions for the defined benefit schemes at 30 September 2006 are shown below. In prior years, the mortality assumptions were not comparable, however as an indication of the improvement in mortality, in 2005 the Edinburgh Fund Managers scheme used a male life expectancy at age 60 of 24.9 years for all age groups.

	Years of life expectancy at age 60	
	Male 2006	**Female 2006**
Current age		
40	27.8	30.7
45	27.6	30.4
50	27.3	30.2
55	27.0	29.9
60	26.6	29.5

Projected

The fair value at 30 September 2006 of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain were:

	CGA Staff Pension Fund		Murray Johnstone Limited Retirement Benefits Plan		Edinburgh Fund Managers Retirement & Death Benefits Plan	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
Change in benefit obligation						
Benefit obligation at beginning of year	**5,213**	4,800	**52,705**	44,608	**48,652**	39,719
Current service cost	**–**		**–**	–	**–**	173
Past service cost	**240**	–	**–**	–	**–**	–
Interest cost	**265**	266	**2,392**	2,519	**2,446**	2,258
Amendments	–	–	**–**	90	**15**	178
Actuarial loss	**730**	369	**9,285**	6,410	**2,148**	7,162
Benefits paid from plan	**(290)**	(222)	**(1,030)**	(922)	**(1,371)**	(838)
Benefit obligation at end of year	**6,158**	5,213	**63,352**	52,705	**51,890**	48,652
Change in plan assets						
Fair value of plan assets at beginning of year	**4,572**	4,170	**30,759**	24,965	**41,205**	32,819
Expected return on plan assets	**226**	214	**1,872**	1,654	**2,514**	2,215
Actuarial gain on plan assets	**70**	260	**3,049**	2,962	**2,479**	4,751
Employer contributions	**390**	150	**2,040**	2,100	**2,930**	2,258
Benefits paid from plan	**(290)**	(222)	**(1,300)**	(922)	**(1,371)**	(838)
Fair value of plan assets at end of year	**4,968**	4,572	**36,420**	30,759	**47,757**	41,205
Deficit recognised at end of year	**(1,190)**	(641)	**(26,932)**	(21,946)	**(4,133)**	(7,447)

34 Retirement benefits continued

	CGA Staff Pension Fund		Murray Johnstone Limited Retirement Benefits Plan		Edinburgh Fund Managers Retirement & Death Benefits Plan	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
Movement in deficit during the year						
Deficit in scheme at beginning of year	**(641)**	(630)	**(21,946)**	(19,643)	**(7,447)**	(6,900)
Movement in year:						
Employer contributions in the financial year	**390**	150	**2,040**	2,100	**2,930**	2,258
Pension expense recognised in P&L in the financial year	**(279)**	(52)	**(520)**	(955)	**53**	(394)
Amounts recognised in the SORIE in the financial year	**(660)**	(109)	**(6,506)**	(3,448)	**331**	(2,411)
Deficit in scheme at end of year	**(1,190)**	(641)	**(26,932)**	(21,946)	**(4,133)**	(7,447)

	Group		Company	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Net liability for defined benefit obligations at 1 October	**30,034**	27,173	**641**	630
Contributions paid	**(5,360)**	(4,508)	**(390)**	(150)
Expense recognised in the income statement	**746**	1,401	**279**	52
Actuarial losses	**6,835**	5,968	**660**	109
Net liability for defined benefit obligations at 30 September	**32,255**	30,034	**1,190**	641

	CGA Staff Pension Fund		Murray Johnstone Limited Retirement Benefits Plan		Edinburgh Fund Managers Retirement & Death Benefits Plan	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
Expense recognised in the income statement						
Current service costs	**–**	–	**–**	–	**–**	173
Interest cost	**265**	266	**2,392**	2,519	**2,446**	2,258
Expected return on plan assets	**(226)**	(214)	**(1,872)**	(1,654)	**(2,514)**	(2,215)
Past service cost	**240**	–	**–**	90	**15**	178
	279	52	**520**	955	**(53)**	394
Actual return on plan assets	**296**	503	**4,921**	4,616	**4,993**	6,966
Amount recognised in statement of recognised income and expense						
Recognised in the year	**660**	109	**6,506**	3,448	**(331)**	2,411
Cumulative amount recognised	**769**	109	**9,954**	3,448	**2,080**	2,411

	CGA Staff Pension Fund		Murray Johnstone Limited Retirement Benefits Plan		Edinburgh Fund Managers Retirement & Death Benefits Plan	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
Analysis of net interest cost on pension scheme						
Expected return on pension scheme assets	**226**	214	**1,872**	1,654	**2,514**	2,215
Interest on pension liabilities	**(265)**	(266)	**(2,392)**	(2,519)	**(2,446)**	(2,258)
Net interest (cost) benefit	**(39)**	(52)	**(520)**	(865)	**68**	(43)

34 Retirement benefits continued

The amounts under IAS 19 that have been recognised in the Statement of Recognised Income and Expense ('SORIE') are set out below:

	2006		2005	
	£'000	**%**	£'000	%
Actual return less expected return on scheme assets	**5,598**		8,002	
Percentage of year end market value of scheme assets		**6.3**		10.5
Experience gains and losses arising on scheme liabilities	**39**		(507)	
Percentage of year end present value of scheme liabilities		**0.0**		(0.5)
Changes in assumptions underlying the present value of scheme liabilities	**(12,472)**		(13,463)	
Percentage of year end present value of scheme liabilities		**10.3**		12.6
Actuarial gains/(losses) recognised in SORIE	**(6,835)**		(5,968)	
Percentage of year end present value of scheme liabilities		**9.8**		5.6

35 Contingent liabilities

On 28 June 2005, proceedings were issued in the High Court in London against Aberdeen Asset Managers Limited and Aberdeen Asset Managers Jersey Limited (together 'the Aberdeen parties') and a non-Aberdeen party by Real Estate Opportunities Limited ('REO'). In 2003, the board of REO announced, with regard to the Aberdeen parties, that REO had terminated its management contract with immediate effect and indicated that it held the Aberdeen Parties liable for damages in respect of losses incurred on its income portfolio. The Aberdeen parties do not accept the validity of REO's termination without notice. The Aberdeen parties believe that the claim is without merit and will vigorously defend the proceedings and counterclaim for their accrued fees and the fees relating to the 12 months' notice period provided for in the management contract.

The Company provided a guarantee in favour of Hypo Real Estate Bank International AG in the amount of €5,630,500 for the period to 15th October 2007 in respect of borrowings by Aberdeen Shopping Holland 2 BV a property fund managed by the Group's property division.

36 Related party transactions

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

The principal subsidiary undertakings of the Company are shown in note 16. Transactions between the Company and its subsidiaries which are related parties of the Company are disclosed below.

During the year, the Group entered into the following transactions with related parties.

(a) Compensation of key management personnel of the group

	2006 £'000	2005 £'000
Short-term employee benefits	**13,847**	6,303
Pension contributions	**1,191**	328
Total	**15,038**	6,631
Of which outstanding at the year end:		
Amounts owed to related parties	**11,717**	3,396

The amounts outstanding to related parties includes £1.1 million in respect of earnings prior to joining the management board.

36 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:

	2006 £'000	2005 £'000
Interest receivable	**1,417**	–
Interest payable	**404**	418
Management fees	**56,040**	20,016
Dividends	**43,500**	67,416
Amounts due from subsidiaries	**77,381**	80,703
Amounts due to subsidiaries	**44,864**	43,437

(c) Transactions and balances with related parties

Post employment benefit plans

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

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

	Employer contributions		Outstanding at 30 September	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
CGA Staff Pension Fund	**390**	150	**–**	–
Murray Johnstone Retirement Benefits Plan	**2,040**	2,100	**170**	170
Edinburgh Fund Managers Group plc Retirement & Death Benefits Plan	**2,930**	2,258	**–**	–
Defined contribution schemes	**10,557**	5,604	**661**	96

37 Explanation of transition to IFRS

As stated in the accounting policies, these are the Group's first consolidated financial statements prepared in accordance with IFRS. These accounting policies have been applied in preparing the financial statements for the year ended 30 September 2006, the comparative information presented in these financial statements for the year ended 30 September 2005, and in the preparation of an opening IFRS Balance Sheet at 1 October 2004 (the Group's date of transition to IFRS).

In preparing its opening IFRS Balance Sheet, the Group has adjusted the amounts reported previously in financial statements prepared in accordance with its previous basis of accounting ('UK GAAP'). An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The Group issued its IFRS transition statement on 28 March 2006 in which it outlined the impact of the changes in accounting treatment under IFRS on the financial results of the Group previously reported under UK GAAP.

At the time the Group's interpretation of IAS 27 Consolidated and Separate Financial Statements resulted in the consolidation of certain companies where the Group's private equity business were deemed to have controlling interest. The Group has reviewed its interpretation of the standard and has concluded that there is no requirement under IAS 27 to consolidate these companies. The following tables therefore differ from those issued in the transition statement as they exclude the adjustments previously included in respect of IAS 27. The impact on equity at the date of transition was £1.8 million and the impact on profit after tax at 30 September 2005 was an increase of £1.1 million.

The analysis below sets out the most significant adjustments arising from the transition to IFRS.

IFRS 2: Share-based Payment

The Group recognises a charge to the income statement for the fair value of outstanding share options granted to employees after 7 November 2002. The charge is calculated using a binomial lattice valuation model and is charged over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting, which are dependent on forfeit rates and the satisfaction of performance conditions. Under UK GAAP there was no charge to the income statement for share options granted to employees.

There is no change in respect of shares issued under the Group's Long Term Incentive Plan ('LTIP'). The UK GAAP policy of charging to profit or loss the fair value of LTIP awards, adjusted to reflect actual and expected levels of vesting and spread over the relevant performance and vesting periods, will continue under IFRS.

The impact of the charge for share options is to increase balance sheet equity at 1 October 2004 by £0.1 million. The effect for the year to 30 September 2005 is to increase the post tax charge in the income statement by £0.1 million.

IFRS 3: Business Combinations

In accordance with the transitional provisions of IFRS 1, the Group has elected to apply IFRS 3 prospectively from the date of transition. This results in (i) the value of goodwill and intangible assets recognised on previous acquisitions being frozen at their respective carrying values in the consolidated balance sheet at 1 October 2004; and (ii) the reversal of any amortisation charged in the year to 30 September 2005.

IFRS 3 requires intangible assets acquired as part of a business combination to be separately identified. A review of the businesses acquired from Deutsche Bank in late 2005 has therefore been undertaken for this purpose. This acquisition was completed in two stages, on 30 September and 1 December 2005. A valuation exercise has been carried out which has identified £135.6 million of fair value in respect of client contracts and relationships which fall to be treated as intangible assets. Of this amount, £85.8 million relates to the fixed income business and equities and multi-assets business, which will be amortised on a straight line basis over 10 years. The remaining £49.8 million relates to the open end funds which are considered to have an indefinite life. This item will not be amortised but will be subject to an annual impairment review.

From 1 October 2004 goodwill is not amortised but is subject to an annual impairment review, and more frequently if there are indications that the carrying value may not be recoverable. The impact of this change is to increase the balance sheet equity at 30 September 2005 by £19.5 million and to reduce the post tax charge in the income statement by £19.5 million.

The intangible assets acquired on the acquisition of the DeAM fixed income business has no impact on the income statement for the year to 30 September. However, the amortisation of these assets will result in a charge to the income statement of £8.5million for the year to 30 September 2006 and an annual charge of £8.5 million in subsequent years.

IAS 10: Events after the Balance Sheet Date.

The Group recognises dividends declared after the balance sheet date in the reporting period in which they are declared, as they represent non-adjusting events after the balance sheet date under IFRS.

This change results in an increase in balance sheet equity at 1 October 2004 of £4.7 million. The effect for the year to 30 September 2005 is to decrease the dividend recorded in the year by £6.1 million and to increase balance sheet equity at 30 September 2005 by £10.8 million.

IAS 19: Employee Benefits

The Group recognises the net liability on defined benefit schemes in the balance sheet and takes all actuarial gains and losses to the statement of recognised income and expense, in accordance with the methods of recognition permitted by the amendment to IAS 19, issued in December 2004. Under UK GAAP, the Group accounted for defined benefit schemes in accordance with SSAP 24 Accounting for pension costs. In addition, adjustments to staff costs have been made in accordance with IAS 19 to reflect the short-term employee benefits (accrued holiday entitlement) not recognised under UK GAAP.

These changes reduce balance sheet equity at 1 October 2004 by £14.0 million. The effect for the year to 30 September 2005 is to increase the post tax charge in the income statement by £0.4 million and to reduce balance sheet equity by £19.3 million. A net charge of £4.8 million has been recognised directly in equity.

IAS 38: Intangible Assets

Under UK GAAP capitalised software and licence costs were included within property, plant and equipment. In compliance with IAS 38, these have been reclassified as 'other intangible assets'. The net book value of amounts reclassified were £3.2 million at 1 October 2004 and £1.7 million at 30 September 2005.

The change has no effect on the balance sheet equity at 1 October 2004 or at 30 September 2005 and nor is there any effect on the income statement for the year to 30 September 2005.

IAS 18: Revenue

Under IAS 18, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the balance sheet date. The guidance issued in the appendix to IAS 18 on the application of this principle states that revenues earned on investment management contracts, and related incremental costs associated with securing such contracts, should be recognised over the life of the contract.

Under UK GAAP, and in accordance with industry practice, the Group recognised initial income on the sale of shares in open ended investment companies, and any related initial commissions payable to intermediaries, on completion of the sale contract. This is no longer permitted under the current interpretation of IAS 18 and such revenue and costs are therefore spread over the estimated average life of the contract.

These changes reduce balance sheet equity at 1 October 2004 by £0.8 million. The effect on the year to 30 September 2005 is to increase the post tax profit in the income statement by £0.1 million and to reduce balance sheet equity by £0.7 million.

37 Explanation of transition to IFRS continued

IAS 39: Financial Instruments

The Group opted not to apply the requirements of IAS 39 in respect of comparative information. The nature of the main adjustments required for the comparative information to comply with IAS 39 in the Group's first interim accounts under IFRS are set out below;

Effects of adoption of IAS 32 and IAS 39 at 1 October 2005

The Group took the exemption not to restate its comparative information in respect of IAS 32 and IAS 39. These standards were adopted prospectively from 1 October 2005. The following note explains the adjustments made at 1 October 2005 to the Group's balance sheet at 30 September 2005 to reflect the adoption of IAS 32 and IAS 39.

	IFRS pre adoption of IAS 32 and IAS 39 £'000	Movement on adoption of IAS 32 and IAS 39 £'000	IFRS post adoption of IAS 32 and IAS 39 £'000
Interest bearing loans and borrowings	(51,921)	4,636	(47,285)
Other reserves	(219,994)	(9,047)	(229,041)
Other non-current asset investments	27,947	8,565	36,512
Deferred tax	(4,078)	(4,154)	(8,232)
Equity attributable to equity holders of the parent	430,297	9,047	439,344

The adjustment to interest bearing loans and borrowings represents the IAS 32 adjustment to the convertible bonds to reflect the liability and equity nature of the instruments. The adjustment to other non-current asset investments and available for sale investments represents the movement in fair value on adoption of IAS 32.

Group summary reconciliation of changes in equity as at 1 October 2004 and September 2005

	1 October 2004 £'000	30 September 2005 £'000
UK GAAP equity (as previously reported)	133,204	419,849
Dividends	4,724	10,850
Reversal of goodwill amortisation	–	19,510
Share-based payments	55	111
Revenue	(844)	(706)
Employee benefits	(13,967)	(19,317)
IFRS – (decrease) increase in equity	(10,032)	10,448
IFRS equity	123,172	430,297

Group summary reconciliation of changes in profit after tax for the year ended 30 September 2005

	Year ended 30 September 2005 £'000
UK GAAP profit after tax (as previously reported)	6,682
Reversal of goodwill amortisation	19,510
Share-based payments	(132)
Pension costs	(420)
Revenue	138
IFRS – increase in profit	19,096
IFRS profit after tax	25,778

Group summary reconciliation of changes in underlying profit before tax for the year ended 30 September 2005

	Year ended 30 September 2005 £'000
UK GAAP underlying profit before tax (as previously reported)	25,680
Share-based payments	(188)
Pension costs	(840)
Revenue	197
IFRS – increase in profit	(831)
IFRS underlying profit before tax	24,849

Underlying profit before tax excludes the effects of non-recurring income and costs and the amortisation of intangible assets (under IFRS) and goodwill (under UK GAAP).

37 Explanation of transition to IFRS continued

Group Balance Sheet as at 1 October 2004 – effect of IAS 1 'Presentation of Financial Statements' on UK GAAP balances

	As reported under UK GAAP £'000	IFRS adjustments Assets £'000	IFRS adjustments Liabilities £'000	UK GAAP balances in IFRS format £'000	
Assets					
Fixed assets					**Non-current assets**
Intangible assets	40,788	297,083	–	337,871	Intangible assets
Goodwill	297,083	(297,083)	–	–	
Tangible fixed assets	10,567	–	–	10,567	Property, plant and equipment
Investments	46,654	–	–	46,654	Other investments
	395,092	–	–	395,092	**Total non-current assets**
Current assets					**Current assets**
	–	231,045	–	231,045	Financial investments
Stock	519	–	–	519	Stock
Debtors	45,730	–	–	45,730	Trade and other receivables
Investments	424	–	–	424	Other investments
Cash at bank and in hand	17,763	–	–	17,763	Cash and cash equivalents
	64,436	–	–	295,481	Total current assets
Assets attributable to equity shareholders	**459,528**	–	–	**690,573**	
Assets of long-term life assurance business	231,045	(231,045)	–	–	
Total assets	**690,573**	**–**	**–**	**690,573**	**Total assets**
Liabilities					
Capital and reserves					**Equity**
Called up share capital	23,620	–	–	23,620	Called up share capital
Share premium account	19,710	–	–	19,710	Share premium account
Revaluation reserve	19,901	–	(19,901)	–	Revaluation reserve
Other reserves	203,805	–	–	203,805	Other reserves
Profit & loss account	(134,114)	–	19,901	(114,213)	Retained loss
Equity shareholders' funds	**132,922**	**–**	**–**	**132,922**	**Total equity attributable to equity holders of the parent**
Minority interests	282	–	–	282	**Minority interests**
Provisions for liabilities and charges	45,625	–	(45,625)	–	
					Liabilities
Creditors: due within one year, including convertible debt					**Non-current liabilities**
	–	–	102,080	102,080	Interest bearing loans and borrowings
Creditors	145,409	–	(144,949)	460	Other creditors
Proposed ordinary dividend	4,724	–	(4,724)	–	
Current tax	12,829	–	(12,829)	–	
	–	–	24,721	24,721	Provisions
	–	–	–	–	Pension deficit
	–	–	–	–	Deferred income
	–	–	693	693	Deferred tax liabilities
Convertible debt	15,197	–	(15,197)	–	
	178,159	–		127,954	**Total non-current liabilities**
					Current liabilities
Creditors: due after more than one year, including convertible debt		–	231,045	231,045	Investment contract liabilities
Creditors	4,267	–	(4,267)	–	
	–	–	84,948	84,948	Interest bearing loans and borrowings
	–	–	75,658	75,658	Trade and other payables
	–	–	20,211	20,211	Provisions
	–	–	–	–	Deferred income
	–	–	12,829	12,829	Current tax payable
	–	–	4,724	4,724	Ordinary dividend payable
Convertible debt	98,273	–	(98,273)	–	
	102,540	–		429,415	**Total current liabilities**
	459,528	–	(45,625)	690,573	
Liabilities of long-term life assurance business	231,045	–	(231,045)	–	
Total liabilities	**690,573**	**–**		**690,573**	**Total equity and liabilities**

37 Explanation of transition to IFRS continued

Group Balance Sheet as at 1 October 2004 – measurement effect of other IFRS on UK GAAP balances

	UK GAAP balances in IFRS format £'000	Dividends IAS 10 £'000	Revenue IAS 18 £'000	Employee benefits IAS 19 £'000	Intangibles IAS 38 £'000	Share based payments IFRS 2 £'000	As reported under IFRS £'000
Non-current assets							
Property, plant and equipment	10,567	–	–	–	(3,204)	–	7,363
Intangible assets	337,871	–	–	–	3,204	–	341,075
Other investments	46,654	–	–	–	–	–	46,654
Deferred tax assets	–	–	–	8,152	–	–	8,152
Total non-current assets	**395,092**	**–**	**–**	**8,152**	**–**	**–**	**403,244**
Current assets							
Financial investments	231,045	–	–	–	–	–	231,045
Stock	519	–	–	–	–	–	519
Trade and other receivables	45,730	–	–	–	–	–	45,730
Other investments	424	–	–	–	–	–	424
Cash and cash equivalents	17,763	–	–	-	–	–	17,763
Total current assets	295,481	–	–	–	–	–	295,481
Total assets	**690,573**	–	–	**8,152**	–	–	**698,725**
Equity							
Called up share capital	23,620	–	–	–	–	–	23,620
Share premium account	19,710	–	–	–	–	–	19,710
Other reserves	203,805	–	–	–	–	–	203,805
Retained loss	(114,213)	4,724	(844)	(13,967)	–	55	(124,245)
Total equity attributable to equity holders of the parent	132,922	4,724	(844)	(13,967)	–	55	122,890
Minority interests	282	–	–	–	–	–	282
Total equity	133,204	4,724	(844)	(13,967)	–	55	123,172
Liabilities							
Non-current liabilities							
Interest bearing loans and borrowings	102,080	–	–	–	–	–	102,080
Other creditors	460	–	–	–	–	–	460
Provisions	24,721	–	–	(5,732)	–	–	18,989
Pension deficit	–	–	–	27,173	–	–	27,173
Deferred tax liabilities	693	–	–	678	–	–	1,371
Total non-current liabilities	127,954	–	–	22,119	–	–	150,073
Current liabilities							
Investment contract liabilities	231,045	–	–	–	–	–	231,045
Interest bearing loans and borrowings	84,948	–	–	–	–	–	84,948
Trade and other payables	75,658	–	–	–	–	–	75,658
Provisions	20,211	–	–	–	–	–	20,211
Deferred income	–	–	1,206	–	–	–	1,206
Current tax payable	12,829	–	(362)	–	–	(55)	12,412
Ordinary dividend payable	4,724	(4,724)	–	–	–	–	–
Total current liabilities	429,415	(4,724)	844	–	–	(55)	425,480
Total liabilities	557,369	(4,724)	844	22,119	–	(55)	575,553
Total equity and liabilities	**690,573**	–	**–**	**8,152**	–	–	**698,725**

37 Explanation of transition to IFRS continued

Group Income Statement for the year ended 30 September 2005 – effect of IAS 1 'Presentation of Financial Statements' on UK GAAP balances

	As reported under UK GAAP £'000	Revenues £'000	Amortisation of goodwill £'000	Other expenses £'000	UK GAAP balances in IFRS format £'000	
						Revenues
Turnover	155,927	–	–	–	155,927	Investment management fees
	–	11,047	–	–	11,047	Other revenue
	155,927	11,047	–	–	166,974	**Total revenues**
Operating expenses, excluding amortisation of goodwill	(122,199)	–	(19,510)	(263)	(141,972)	Operating expenses
Release from Progressive Growth Uplift Plan	2,600	–	–	–	2,600	Release from provision
Amortisation of goodwill, impariment provisions and exceptional operating items	(19,510)	–	19,510	–	–	
	–	–	–	–	–	Amortisation of intangible assets
	–	–	–	275	275	Gain on foreign exchange
Total administrative expenses	(139,109)	–	–	12	(139,097)	**Total operating expenses**
Other operating income	1,016	(1,016)	–	–	–	
	–	–	–	(12)	(12)	Share of results of associates
Operating profit before goodwill amortisation	34,744	–	–	–	–	
Amortisation of goodwill	(16,910)	–	–	–	–	
Operating profit	**17,834**	**10,031**	**–**	**–**	**27,865**	Profit from operations
Gain on disposal of investments	10,031	(10,031)	–	–	–	
Interest payable and similar charges	(10,227)	–	–	–	–	
Unwinding of discount on Progressive Growth provision	(3,000)	–	–	–	–	
Write off of bond expenses and repayment premium	(1,670)	–	–	–	–	
Net interest payable and similar charges	(14,897)	–	–	–	(14,897)	Finance costs
Profit on ordinary activities before taxation	12,968	–	–	–	12,968	Profit before tax
Tax on profit (loss) on ordinary activities	(6,286)	–	–	–	(6,286)	Income tax expense
Profit on ordinary activities after taxation	**6,682**				**6,682**	**Profit after tax**
						Attributable to:
					6,593	Equity holders of the parent
Minority interests – equity	89	–	–	–	89	Minority interests
Profit for the financial period	**6,593**				**6,682**	**Profit for the period**
Dividends						**Memo – dividends**
Equity dividends on ordinary shares	(14,821)	–	–	–	(14,821)	Equity dividends on ordinary shares
Non-equity dividends on preference shares	(1,350)	–	–	–	(1,350)	Non-equity dividends on preference shares
	(16,171)				(16,171)	
Retained loss for the financial period	(9,578)					

37 Explanation of transition to IFRS continued

Group Income Statement for the year ended 30 September 2005 – measurement effect of other IFRS on UK GAAP balances

	UK GAAP balances in IFRS format £'000	Revenue IAS 18 £'000	Employee benefits IAS 19 £'000	Intangible assets IAS 38 £'000	Share based payments IFRS 2 £'000	Goodwill & management contracts IFRS 3 £'000	As reported under IFRS £'000
Revenues							
Investment management fees	155,927	197	–	–	–	–	156,124
Other revenue	11,047	–	–	–	–	–	11,047
Total revenues	166,974	197	–	–	–	–	167,171
Operating expenses	(141,972)	–	(840)	1,818	(188)	19,510	(121,672)
Release from provision	2,600	–	–	–	–	–	2,600
Amortisation of intangible assets	–	–	–	(1,818)	–	–	(1,818)
Gain on foreign exchange	275	–	–	–	–	–	275
Total operating expenses	(139,097)	–	(840)	–	(188)	19,510	(120,615)
Share of results of associates	(12)	–	–	–	–	–	(12)
Profit from operations	**27,865**	**197**	**(840)**	**-**	**(188)**	**19,510**	**46,544**
Finance costs	(14,897)	–	–	–	–	–	(14,897)
Profit before tax	**12,968**	**197**	**(840)**	**–**	**(188)**	**19,510**	**31,647**
Income tax expense	(6,286)	(59)	420	–	56	–	(5,869)
Profit after tax	**6,682**	**138**	**(420)**	**–**	**(132)**	**19,510**	**25,778**
Attributable to:							
Equity holders of the parent	6,593	138	(420)	–	(132)	19,510	25,689
Minority interests	89	–	–	–	–	–	89
Profit for the period	6,682	138	(420)	–	(132)	19,510	25,778

37 Explanation of transition to IFRS continued

Group Balance Sheet as at 30 September 2005 – effect of IAS 1 'Presentation of Financial Statements' on UK GAAP balances

	As reported under UK GAAP £'000	IFRS adjustments Assets £'000	IFRS adjustments Liabilities £'000	UK GAAP balances in IFRS format £'000	
Assets					
Fixed assets					**Non-current assets**
Intangible assets	28,991	394,353	–	423,344	Intangible assets
Goodwill	394,353	(394,353)	–	–	
Tangible assets	9,836	–	–	9,836	Property, plant and equipment
Investments	28,593	(646)	–	27,947	Other investments
	–	4,324	–	4,324	Other receivables
	461,773			465,451	**Total non-current assets**
Current assets					**Current assets**
	–	2,554,983	–	2,554,983	Financial investments
Stock	2,317	–	–	2,317	Stock
Debtors	146,396	(4,324)	–	142,072	Trade and other receivables
Investments	20,331	646	–	20,977	Other investments
Cash at bank and in hand	97,016	–	–	97,016	Cash and cash equivalents
	266,060			2,817,365	**Total current assets**
Non-current assets held for sale					
Assets attributable to equity shareholders	**727,833**	**–**	**–**	**3,282,816**	
Assets of long-term life assurance business	2,554,983	(2,554,983)	–	–	
Total assets	**3,282,816**			**3,282,816**	**Total assets**
Liabilities					
Capital and reserves					**Equity**
Called up share capital	68,502	–	–	68,502	Called up share capital
Share premium account	261,040	–	–	261,040	Share premium account
Other reserves	219,994	–	–	219,994	Other reserves
Profit & loss account	(129,687)	–	–	(129,687)	Retained loss
Equity shareholders' funds	**419,849**			**419,849**	**Total equity attributable to equity holders of the parent**
Provisions for liabilities and charges	29,972		(29,972)	–	
					Liabilities
Creditors: due within one year, including convertible debt					**Non-current liabilities**
	–	–	51,330	51,330	Interest bearing loans and borrowings
Creditors	207,742	–	(207,465)	277	Other creditors
Proposed dividends	10,850	–	(10,850)	–	
Current tax	7,813	–	(7,813)	–	
	–	–	6,566	6,566	Provisions
	–	–	–	–	Pension deficit
	–	–	–	–	Deferred income
	–	–	4,078	4,078	Deferred tax liabilities
	226,405			62,251	Total non-current liabilities
Creditors: due after more than one year, including convertible debt					**Current liabilities**
		–	2,554,983	2,554,983	Investment contract liabilities
Creditors	1,176	–	(1,176)	–	
	–	–	591	591	Interest bearing loans and borrowings
	–	–	207,001	207,001	Trade and other payables
	–	–	19,478	19,478	Provisions
	–	–	–	–	Employee benefits
	–	–	–	–	Deferred income
	–	–	7,813	7,813	Current tax payable
	–	–	10,850	10,850	Ordinary dividend payable
Convertible debt	50,431	–	(50,431)	–	
	51,607			2,800,716	**Total current liabilities**
	727,833	–	(29,972)	3,282,816	
Liabilities of long - term life assurance business	2,554,983	–	(2,554,983)	–	
Total liabilities	**3,282,816**			**3,282,816**	**Total equity and liabilities**

37 Explanation of transition to IFRS continued

Group Balance Sheet as at 30 September 2005 – measurement effect of other IFRS on UK GAAP balances

	UK GAAP balances in IFRS format £'000	Dividends IAS 10 £'000	Revenue IAS 18 £'000	Employee benefits IAS 19 £'000	Intangibles IAS 38 £'000	Share based payments IFRS 2 £'000	Goodwill & intangibles IFRS 3 £'000	As reported under IFRS £'000
Assets								
Non-current assets								
Property, plant and equipment	9,836	–	–	–	(1,664)	–	–	8,172
Intangible assets	423,344	–	–	–	1,664	–	19,510	444,518*
Other investments	27,947	–	–	–	–	–	–	27,947
Deferred tax assets	–	–	–	8,932	–	–	–	8,932
Other receivables	4,324	–	–	–	–	–	–	4,324
Total non-current assets	465,451	–	–	8,932	–	–	19,510	493,893
Current assets								
Financial investments	2,554,983	–	–	–	–	–	–	2,554,983
Stock	2,317	–	–	–	–	–	–	2,317
Trade and other receivables	142,072	–	568	–	–	–	–	142,640
Other investments	20,977	–	–	–	–	–	–	20,977
Cash and cash equivalents	97,016	–	–	–	–	–	–	97,016
Total current assets	2,817,365	–	568	–	–	–	–	2,817,933
Total assets	**3,282,816**	**–**	**568**	**8,932**	**–**	**–**	**19,510**	**3,311,826**
Equity								
Called up share capital	68,502	–	–	–	–	–	–	68,502
Share premium account	261,040	–	–	–	–	–	–	261,040
Other reserves	219,994	–	–	–	–	–	–	219,994
Retained loss	(129,687)	10,850	(706)	(19,317)	–	111	19,510	(119,239)
Total equity attributable to equity holders of the parent	419,849	10,850	(706)	(19,317)	–	111	19,510	430,297
Minority interests	–	–	–	–	–	–	–	–
Total equity	419,849	10,850	(706)	(19,317)	–	111	19,510	430,297
Liabilities								
Non-current liabilities								
Interest bearing loans and borrowings	51,330	–	–	–	–	–	–	51,330
Other creditors	277	–	–	–	–	–	–	277
Provisions	6,566	–	–	(1,785)	–	–	–	4,781
Pension deficit	–	–	–	30,034	–	–	–	30,034
Deferred tax liabilities	4,078	–	–	–	–	–	–	4,078*
Total non-current liabilities	62,251	–	–	28,249	–	–	–	90,500
Current liabilities								
Investment contract liabilities	2,554,983	–	–	–	–	–	–	2,554,983
Interest bearing loans and borrowings	591	–	–	–	–	–	–	591
Trade and other payables	207,001	–	–	–	–	–	–	207,001
Provisions	19,478	–	–	–	–	–	–	19,478
Deferred income	–	–	1,576	–	–	–	–	1,576
Current tax payable	7,813	–	(302)	–	–	(111)	–	7,400
Dividends payable	10,850	(10,850)	–	–	–	–	–	–
Total current liabilities	2,800,716	(10,850)	1,274	–	–	(111)	–	2,791,029
Total liabilities	2,862,967	(10,850)	1,274	28,249	–	(111)	–	2,881,529
Total equity and liabilities	**3,282,816**	**–**	**568**	**8,932**	**–**	**–**	**19,510**	**3,311,826**

*Restated in 2006 on finalisation of provisional fair values as explained in note 16.

37 Explanation of transition to IFRS continued

Group Cash Flow Statement for the year ended 30 September 2005

	As reported under UK GAAP £'000	Employee benefits IAS 19 £'000	Revenue IAS 18 £'000	Goodwill IFRS 3 £'000	Share based payment IFRS 2 £'000	Total IFRS adjustments £'000	As reported under IFRS £'000
Operating activities							
Profit from operations	27,865	(840)	197	19,510	(188)	18,679	46,544
Depreciation of property, plant & equipment	3,448	–	–	–	–	–	3,448
Amortisation of goodwill and intangibles	20,118	–	–	(19,510)	–	(19,510)	608
(Increase) decrease in debtors	(3,194)	–	(568)	–	–	(568)	(3,762)
(Decrease) increase in creditors	(36,558)	–	371	–	–	371	(36,187)
Decrease in stock	247	–	–	–	–	–	247
(Decrease) increase in provisions	(6,547)	840	–	–	–	840	(5,707)
Gain on disposal of investments	(10,031)	–	–	–	–	–	(10,031)
Gain on disposal of non-current asset investments	(611)	–	–	–	–	–	(611)
(Gains) losses on current asset investments	(444)	–	–	–	–	–	(444)
Loss on disposal of non-current assets	34	–	–	–	–	–	34
Share based element of remuneration	776	–	–	–	188	188	964
Share of results of associate	12	–	–	–	–	–	12
UK corporation tax paid	(1,121)	–	–	–	–	–	(1,121)
Interest paid	(11,498)	–	–	–	–	–	(11,498)
Net cash from operating activities	(17,504)	–	–	–	–	–	(17,504)
Investing activities							
Proceeds from disposal of subsidiary undertakings	10,004	–	–	–	–	–	10,004
Net cash and cash equivalents disposed of in subsidiary undertakings	(6,992)	–	–	–	–	–	(6,992)
Purchase of subsidiary undertakings	(148,406)	–	–	–	–	–	(148,406)
Net cash and cash equivalents acquired on acquisition of subsidiary undertakings	69,182	–	–	–	–	–	69,182
Purchase of property, plant & equipment	(2,492)	–	–	–	–	–	(2,492)
Purchase of non-current asset investments	(3,588)	–	–	–	–	–	(3,588)
Proceeds from sale of property, plant & equipment	27	–	–	–	–	–	27
Proceeds from sale of non-current asset investments	34,353	–	–	–	–	–	34,353
Net purchase of current asset investments	(3,549)	–	–	–	–	–	(3,549)
Net cash from investing activities	(51,461)	–	–	–	–	–	(51,461)
Financing activities							
Proceeds from issue of ordinary share capital	219,180	–	–	–	–	–	219,180
Proceeds from issue of preference share capital	76,443	–	–	–	–	–	76,443
Proceeds from issue of convertible bonds 2010	25,584	–	–	–	–	–	25,584
Repayment of convertible bonds 2007	(75,750)	–	–	–	–	–	(75,750)
Repayment of loan notes	(508)	–	–	–	–	–	(508)
Repayment of convertible loan notes	(14,387)	–	–	–	–	–	(14,387)
Instalments repaid on long term loans	(65,125)	–	–	–	–	–	(65,125)
Dividends paid	(10,044)	–	–	–	–	–	(10,044)
Net cash used in financing	155,393	–	–	–	–	–	155,393
Net increase in cash and cash equivalents	86,428	–	–	–	–	–	86,428
Cash and cash equivalents at 1 October 2004	17,763	–	–	–	–	–	17,763
Net increase in cash and cash equivalents	86,428	–	–	–	–	–	86,428
Bank overdraft less transfer to revolving credit	(6,435)	–	–	–	–	–	(6,435)
Effect of exchange rate changes	(740)	–	–	–	–	–	(740)
Cash and cash equivalents at 30 September 2005	97,016	–	–	–	–	–	97,016

37 Explanation of transition to IFRS continued

Group Statement of Recognised Income and Expense for the year ended 30 September 2005 measurement of effect of IFRS on UK GAAP balances

	UK GAAP balances in IFRS format £'000	Revenue IAS 18 £'000	Employee benefits IAS 19 £'000	Share based payments IFRS 2 £'000	Goodwill IFRS 3 £'000	As reported under IFRS £'000
Net actuarial loss on defined benefit pension schemes	–	–	(5,968)	–	–	(5,968)
Translation of foreign currency net investments	189	–	–	–	–	189
Tax on items taken directly to equity	–	–	1,137	–	–	1,137
Net income (expense) recognised directly in equity	189	–	(4,831)	–	–	(4,642)
Profit (loss) for the year	6,682	138	(420)	(132)	19,510	25,778
Total recognised income and expense for the year	6,871	138	(5,251)	(132)	19,510	21,136
Attributable to:						
Equity holders of the parent	6,782	138	(5,251)	(132)	19,510	21,047
Minority interest	89	–	–	–	–	89
Total recognised income and expense for the year	6,871	138	(5,251)	(132)	19,510	21,136

37 Explanation of transition to IFRS continued

Company summary reconciliation of changes in equity as at 1 October 2004 and 30 September 2005

	1 October 2004 £'000	30 September 2005 £'000
UK GAAP equity (as previously reported)	130,145	563,068
Dividends	4,724	10,850
Reversal of goodwill amortisation	–	865
Share-based payments	55	111
Employee benefits	(441)	(448)
Investment in subsidiaries	120,172	–
IFRS – increase in equity	4,338	11,378
IFRS equity	254,655	574,446

Company summary reconciliation of changes in profit after tax for the year ended 30 September 2005

	Year ended 30 September 2005 £'000
UK GAAP profit after tax (as previously reported)	32,607
Reversal of goodwill amortisation	865
Share-based payments	(132)
Pension credit	69
IFRS – increase in profit	802
IFRS profit after tax	33,409

37 Explanation of transition to IFRS continued

Company Balance Sheet as at 1 October 2004 – effect of IAS 1 'Presentation of Financial Statements' on UK GAAP balances

	As reported under UK GAAP £'000	IFRS adjustments Assets £'000	IFRS adjustments Liabilities £'000	UK GAAP balances in IFRS format £'000	
Assets					
Fixed assets					**Non-current assets**
Intangible assets	502	2,545	–	3,047	Intangible assets
Goodwill	2,545	(2,545)	–	–	
Tangible fixed assets	8,276	–	–	8,276	Property, plant and equipment
Investments	404,606	–	–	404,606	Other investments
	415,929	–	–	415,929	**Total non-current assets**
Current assets					**Current assets**
Debtors	39,477	–	–	39,477	Trade and other receivables
Investments	424	–	–	424	Other investments
Cash at bank and in hand	11	–	–	11	Cash and cash equivalents
	39,912	–	–	39,912	**Total current assets**
Assets attributable to equity shareholders	**455,841**	–	–	**455,841**	
Assets of long-term life assurance business	–	–	–	–	
Total assets	**455,841**	**–**	**–**	**455,841**	**Total assets**
Liabilities					
Capital and reserves					**Equity**
Called up share capital	23,620	–	–	23,620	Called up share capital
Share premium account	19,710	–	–	19,710	Share premium account
Revaluation reserve	–	–	–	–	Revaluation reserve
Other reserves	83,633	–	–	83,633	Other reserves
Profit & loss account	3,182	–	–	3,182	Retained loss
Equity shareholders' funds	**130,145**	**–**	**–**	**130,145**	**Total equity attributable to equity holders of the parent**
Minority interests	–	–	–	–	**Minority interests**
Provisions for liabilities and charges	39,200	–	(39,200)	–	
					Liabilities
Creditors: due within one year, including convertible debt					**Non-current liabilities**
	–	–	98,273	98,273	Interest bearing loans and borrowings
Creditors	165,478	–	(165,202)	276	Other creditors
Proposed ordinary dividend	4,724	–	(4,724)	–	
Current tax	2,548	–	(2,548)	–	
	–	–	22,936	22,936	Provisions
	–	–	–	–	Pension deficit
	–	–	–	–	Deferred income
	–	–	–	–	Deferred tax liabilities
Convertible debt	15,197	–	(15,197)	–	
	187,947			121,485	**Total non-current liabilities**
					Current liabilities
Creditors: due after more than one year, including convertible debt	–	–	–	–	Investment contract liabilities
Creditors	276	–	(276)	–	
	–	–	170,264	170,264	Interest bearing loans and borrowings
	–	–	10,411	10,411	Trade and other payables
	–	–	16,264	16,264	Provisions
	–	–	–	–	Deferred income
	–	–	2,548	2,548	Current tax payable
	–	–	4,724	4,724	Ordinary dividend payable
Convertible debt	98,273	–	(98,273)	–	
	98,549			204,211	**Total current liabilities**
	455,841	–	(39,200)	455,841	
Total liabilities	**455,841**			**455,841**	**Total equity and liabilities**

37 Explanation of transition to IFRS continued

Company Balance Sheet as at 1 October 2004 – measurement effect of other IFRS on UK GAAP balances

	UK GAAP balances in IFRS format £'000	Dividends IAS 10 £'000	Intangibles IAS 38 £'000	Share based payments IFRS 2 £'000	Investment in subsidiaries IAS 27 £'000	Employee benefits IAS 19 £'000	As reported under IFRS £'000
Non-current assets							
Property, plant and equipment	8,276	–	(2,088)	–	–	–	6,188
Intangible assets	3,047	–	2,088	–	–	–	5,135
Other investments	404,606	–	–	–	120,172	–	524,778
Deferred tax assets	–	–	–	–	–	189	189
Total non-current assets	415,929	–	–	–	120,172	189	536,290
Current assets							
Trade and other receivables	39,477	–	–	–	–	–	39,477
Other investments	424	–	–	–	–	–	424
Cash and cash equivalents	11	–	–	–	–	–	11
Total current assets	39,912	–	–	–	–	–	39,912
Total assets	**455,841**	**–**	**–**	**–**	**120,172**	**189**	**576,202**
Equity							
Called up share capital	23,620	–	–	–	–	–	23,620
Share premium account	19,710	–	–	–	–	–	19,710
Other reserves	83,633	–	–	–	120,172	–	203,805
Retained loss	3,182	4,724	–	55	–	(441)	7,520
Total equity attributable to equity holders of the parent	130,145	4,724	–	55	120,172	(441)	254,655
Minority interests	–	–	–	–	–	–	–
Total equity	130,145	4,724	–	55	120,172	(441)	254,655
Liabilities							
Non-current liabilities							
Interest bearing loans and borrowings	98,273	–	–	–	–	–	98,273
Other creditors	276	–	–	–	–	–	276
Provisions	22,936	–	–	–	–	–	22,936
Pension deficit	–	–	–	–	–	630	630
Total non-current liabilities	121,485	–	–	–	–	630	122,115
Current liabilities							
Interest bearing loans and borrowings	170,264	–	–	–	–	–	170,264
Trade and other payables	10,411	–	–	–	–	–	10,411
Provisions	16,264	–	–	–	–	–	16,264
Current tax payable	2,548	–	–	(55)	–	–	2,493
Ordinary dividend payable	4,724	(4,724)	–	–	–	–	–
Total current liabilities	204,211	(4,724)	–	(55)	–	–	199,432
Total liabilities	325,696	(4,724)	–	(55)	–	189	321,547
Total equity and liabilities	**455,841**	**–**	**–**	**–**	**120,172**	**189**	**576,202**

37 Explanation of transition to IFRS continued

Company Balance Sheet as at 30 September 2005 – effect of IAS 1 'Presentation of Financial Statements' on UK GAAP balances

	As reported under UK GAAP £'000	IFRS adjustments Assets £'000	IFRS adjustments Liabilities £'000	UK GAAP balances in IFRS format £'000	
Assets					
Fixed assets					**Non-current assets**
Intangible assets	502	1,969	–	2,471	Intangible assets
Goodwill	1,969	(1,969)	–	–	
Tangible assets	7,283	–	–	7,283	Property, plant and equipment
Investments	681,339	–	–	681,339	Other investments
	–	3,993	–	3,993	Other receivables
	691,093			695,086	**Total non-current assets**
Current assets					**Current assets**
Debtors	99,493	(3,993)	–	95,500	Trade and other receivables
Investments	4,414	–	–	4,414	Other investments
Cash at bank and in hand	9,259	–	–	9,259	Cash and cash equivalents
	113,166			109,173	**Total current assets**
Total assets	**804,259**			**804,259**	**Total assets**
Liabilities					
Capital and reserves					**Equity**
Called up share capital	68,502	–	–	68,502	Called up share capital
Share premium account	261,040	–	–	261,040	Share premium account
Other reserves	219,805	–	–	219,805	Other reserves
Profit & loss account	13,721	–	–	13,721	Retained loss
Equity shareholders' funds	**563,068**			**563,068**	**Total equity attributable to equity holders of the parent**
Provisions for liabilities and charges	26,683		(26,683)	–	
					Liabilities
Creditors: due within one year, including convertible debt					**Non-current liabilities**
	–	–	50,431	50,431	Interest bearing loans and borrowings
Creditors	152,437	–	(152,244)	193	Other creditors
Proposed dividends	10,850	–	(10,850)	–	
Current tax	597	–	(597)	–	
	–	–	4,631	4,631	Provisions
	–	–	–	–	Pension deficit
	–	–	–	–	Deferred income
	–	–	2,574	2,574	Deferred tax liabilities
	163,884			57,829	**Total non-current liabilities**
Creditors: due after more than one year, including convertible debt					**Current liabilities**
Creditors	193	–	(193)	–	
	–	–	50,866	50,866	Interest bearing loans and borrowings
	–	–	101,571	101,571	Trade and other payables
	–	–	19,478	19,478	Provisions
	–	–	597	597	Current tax payable
	–	–	10,850	10,850	Ordinary dividend payable
Convertible debt	50,431	–	(50,431)	–	
	50,624			183,362	**Total current liabilities**
Total liabilities	**804,259**			**804,259**	**Total equity and liabilities**

37 Explanation of transition to IFRS continued

Company Balance Sheet as at 30 September 2005 – measurement effect of other IFRS on UK GAAP balances

	UK GAAP balances in IFRS format £'000	Dividends IAS 10 £'000	Employee benefits IAS 19 £'000	Intangibles IAS 38 £'000	Share based payments IFRS 2 £'000	Goodwill & intangibles IFRS 3 £'000	As reported under IFRS £'000
Assets							
Non-current asset							
Property, plant and equipment	7,283	–	–	(1,580)	–	–	5,703
Intangible assets	2,471	–	–	1,580	–	865	4,916
Other investments	681,339	–	–	–	–	–	681,339
Deferred tax assets	–	–	193	–	–	–	193
Other receivables	3,993	–	–	–	–	–	3,993
Total non-current assets	695,086	–	193	–	–	865	696,144
Current assets							
Trade and other receivables	95,500	–	–	–	–	–	95,500
Other investments	4,414	–	–	–	–	–	4,414
Cash and cash equivalents	9,259	–	–	–	–	–	9,259
Total current assets	109,173	–	–	–	–	–	109,173
Total assets	**804,259**	**–**	**193**	**–**	**–**	**865**	**805,317**
Equity							
Called up share capital	68,502	–	–	–	–	–	68,502
Share premium account	261,040	–	–	–	–	–	261,040
Other reserves	219,805	–	–	–	–	–	219,805
Retained loss	13,721	10,850	(448)	–	111	865	25,099
Total equity attributable to equity holders of the parent	563,068	10,850	(448)	–	111	865	574,446
Minority interests	–	–	–	–	–	–	–
Total equity	563,068	10,850	(448)	–	111	865	574,446
Liabilities							
Non-current liabilities							
Interest bearing loans and borrowings	50,431	–	–	–	–	–	50,431
Other creditors	193	–	–	–	–	–	193
Provisions	4,631	–	–	–	–	–	4,631
Pension deficit	–	–	641	–	–	–	641
Deferred tax liabilities	2,574	–	–	–	–	–	2,574
Total non-current liabilities	57,829	–	641	–	–	–	58,470
Current liabilities							
Interest bearing loans and borrowings	50,866	–	–	–	–	–	50,866
Trade and other payables	101,571	–	–	–	–	–	101,571
Provisions	19,478	–	–	–	–	–	19,478
Current tax payable	597	–	–	–	(111)	–	486
Dividends payable	10,850	(10,850)	–	–	–	–	–
Total current liabilities	183,362	(10,850)	–	–	(111)	–	172,401
Total liabilities	241,191	(10,850)	641	–	(111)	–	230,871
Total equity and liabilities	**804,259**	**–**	**193**	**–**	**–**	**865**	**805,317**

Group Income Statement

For the six months to 31 March 2007

	Notes	6 months to 31 Mar 2007 £'000	6 months to 31 Mar 2006 (as restated) £'000	Year to 30 Sept 2006 £'000
Revenue	3	**162,486**	147,438	302,124
Operating costs		**(119,439)**	(110,917)	(228,792)
Exceptional integration costs	4	**(18,936)**	(17,237)	(33,282)
Amortisation of intangible assets		**(4,500)**	(5,462)	(8,958)
Exceptional settlement costs	5	**(50,000)**	–	(236)
Operating expenses		**(192,875)**	(133,616)	(271,268)
Exceptional gains on investments		**7,892**	8,238	18,381
Gains on investments and other income		**3,482**	–	7,925
Other operating income	6	**11,374**	8,238	26,306
Operating profit before:		**46,529**	36,521	81,257
Exceptional gains and charges		**(61,044)**	(8,999)	(15,137)
Amortisation of intangible assets		**(4,500)**	(5,462)	(8,958)
Operating (loss) profit		**(19,015)**	22,060	57,162
Finance revenue		**5,890**	1,813	11,608
Finance costs		**(8,805)**	(1,539)	(13,823)
Exceptional finance costs		**–**	(800)	(1,100)
Net finance costs		**(2,915)**	(526)	(3,315)
Profit before exceptional items, amortisation and taxation		**43,614**	36,795	79,042
Exceptional items and amortisation before taxation		**(65,544)**	(15,261)	(25,195)
(Loss) profit before taxation		**(21,930)**	21,534	53,847
Tax expense before exceptional items and amortisation		**(8,006)**	(8,901)	(17,404)
Tax credit on exceptional items		**16,213**	2,700	7,429
Tax credit (expense)		**8,207**	(6,201)	(9,975)
(Loss) profit for the period, attributable to equity shareholders		**(13,723)**	15,333	43,872
Memo - dividends paid during the period		**14,979**	9,899	28,110
(Loss) earnings per share				
Basic	14	**(2.73p)**	2.11p	6.41p
Diluted	14	**(2.73p)**	2.09p	6.27p
Underlying earnings per share				
Basic	14	**5.47p**	4.20p	9.37p
Diluted	14	**5.07p**	4.10p	8.83p
Dividend per share		**2.60p**	2.00p	4.40p

All items dealt with in arriving at the profits stated above relate to continuing operations

Group Statement of Recognised Income and Expense

For the six months to 31 March 2007

	Notes	**6 months to 31 Mar 2007 £'000**	6 months to 31 Mar 2006 (as restated) £'000	Year to 30 Sept 2006 £'000
Net actuarial loss on defined benefit pension schemes		**–**	–	(6,835)
Translation of foreign currency net investments		**183**	191	(5,882)
Movement in fair value of available for sale investments		**(6,930)**	1,043	7,365
Tax on items taken directly to equity		–	(158)	2,324
Net income (expense) recognised directly in equity	12	**(6,747)**	1,076	(3,028)
(Loss) profit for the financial period		**(13,723)**	15,333	43,872
Total recognised income and expense for the period, attributable to equity shareholders		**(20,470)**	16,409	40,844

Group Balance Sheet

As at 31 March 2007

	Notes	31 Mar 2007 £'000	31 Mar 2006 (as restated) £'000	30 Sept 2006 £'000
Assets				
Non-current assets				
Intangible assets	8	**547,168**	548,011	553,565
Property, plant and equipment		**11,246**	7,364	9,351
Other investments	9	**19,343**	15,561	13,818
Deferred tax assets		**28,424**	8,932	11,022
Other receivables		**3,302**	–	1,038
Total non-current assets		**609,483**	579,868	588,794
Current assets				
Stock of units and shares	10	**679**	2,262	264
Other financial investments	11	**1,328,924**	1,634,007	1,412,579
Trade and other receivables		**152,659**	168,011	132,635
Other investments	9	**26,391**	27,571	33,541
Cash and cash equivalents		**56,937**	25,104	50,497
Assets classified as available for sale		**–**	–	7,000
Total current assets		**1,565,590**	1,856,955	1,636,516
Total assets		**2,175,073**	2,436,823	2,225,310
Equity				
Called up share capital		**70,812**	70,547	70,605
Share premium account		**287,226**	290,573	286,277
Other reserves		**217,767**	220,974	224,514
Retained loss		**(156,069)**	(136,667)	(131,301)
Total equity attributable to equity holders of the parent	12	**419,736**	445,427	450,095
Liabilities				
Non-current liabilities				
Interest bearing loans and borrowings	13	**121,936**	24,512	90,192
Other creditors		**1,843**	–	1,998
Provisions	16	**500**	–	500
Pension deficit	17	**30,737**	28,437	32,255
Deferred tax liabilities		**25,565**	4,866	24,380
Total non-current liabilities		**180,581**	57,815	149,325
Current liabilities				
Investment contract liabilities	11	**1,328,924**	1,634,007	1,412,579
Interest bearing loans and borrowings	13	**59,899**	22,867	50,551
Trade and other payables		**162,744**	243,258	143,849
Employee benefits		**1,631**	1,377	-
Provisions	16	**1,775**	18,463	2,109
Deferred income		**2,351**	2,876	2,188
Current tax payable		**17,432**	10,733	14,614
Total current liabilities		**1,574,756**	1,933,581	1,625,890
Total liabilities		**1,755,337**	1,991,396	1,775,215
Total equity and liabilities		**2,175,073**	2,436,823	2,225,310

Summary Group Cash Flow Statement

For the six months to 31 March 2007

	Notes	6 months to 31 Mar 2007 £'000	6 months to 31 Mar 2006 (as restated) £'000	Year to 30 Sept 2006 £'000
Core cashflow from operating activities		**19,269**	9,924	45,886
Effects of short-term timing differences on unit trust settlements		**(4,791)**	(2,149)	6,681
		14,478	7,775	52,567
Split capital settlement costs paid		**(334)**	(6,446)	(15,836)
Other exceptional integration and settlement costs paid		**(37,867)**	(12,018)	(33,282)
Net cash (used in) from operating activities	7	**(23,723)**	(10,689)	3,449
Cash flows from investing activities				
Proceeds from sale of investments		**21,646**	28,393	73,451
Proceeds from sale of property, plant and equipment		**–**	21	173
Disposal of subsidiaries, net of cash disposed of		**1,500**	2,124	4,824
Disposal of private client business		**–**	–	2,946
Acquisition of subsidiaries, net of cash acquired		**–**	(45,006)	(71,441)
Acquisition of intangible assets		**(960)**	(65,672)	(74,934)
Acquisition of property, plant & equipment		**(3,091)**	(1,993)	(3,619)
Acquisition of investments		**(16,058)**	(2,943)	(43,913)
Net cash from (used in) investing activities		**3,037**	(85,076)	(112,513)
Cash flows from financing activities				
Issue of ordinary share capital		**1,156**	602	870
Issue of preference share capital		**–**	–	3
Issue of subordinated loan notes		**–**	–	66,153
Purchase of own shares		**–**	–	(3,024)
New borrowings		**68,487**	33,000	25,000
Repayment of convertible bonds		**(24,997)**	–	–
Repayment of borrowings		**(3)**	(98)	(475)
Dividends paid		**(14,979)**	(9,899)	(28,110)
Net cash from financing activities		**29,664**	23,605	60,417
Net increase (decrease) in cash and cash equivalents		**8,978**	(72,160)	(48,647)
Cash and cash equivalents at 1 October		**48,120**	97,016	97,016
Effect of exchange rate fluctuations on cash held		**(161)**	248	(249)
Cash and cash equivalents at end of period		**56,937**	25,104	48,120

Notes

1 **Basis of preparation**

The financial information contained in these interim financial statements has been prepared in accordance with International Financial Reporting Standards, as adopted in the EU ('IFRS'), and its interpretations adopted by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee or their predecessors ('IFRIC'), which has been approved by the European Commission as at 31 March 2007.

At 31 March 2006 the Group's interpretation of IAS 27 Consolidated and Separate Financial Statements resulted in the consolidation of certain companies where the Group's private equity business was deemed to have a controlling interest. At 30 September 2006 the Group reviewed its interpretation of the standard and concluded that there was no requirement under IAS 27 to consolidate these companies. Comparative financial information for 31 March 2006 has therefore been restated, where necessary, to exclude the consolidation of these companies. The impact of excluding these companies has increased the profit for the period, attributable to equity shareholders, by £334,000 and increased equity attributable to equity holders of the parent by £2,041,000.

The interim results have not been audited but have been reviewed by the auditors. The comparative figures for the financial year ended 30 September 2006 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

2 **Interim dividend**

The interim ordinary dividend of 2.6p per share will be paid on 13 June 2007 to qualifying shareholders on the register at 11 May 2007.

3 **Segmental information**

Segment information is presented in respect of the Group's business segments. The primary business segments, based on the Group's management and reporting structure, are the investment management division and the property management division.

The results, analysed by these two business segments, are shown below.

Six months to 31 March 2007	Investment management £'000	Property asset management £'000	Group total £'000
Turnover	128,926	32,867	161,793
Net fair value gains on assets at fair value through income	693	–	693
Revenue	129,619	32,867	162,486
Operating costs	(93,126)	(26,313)	(119,439)
Integration costs	(18,936)	–	(18,936)
Amortisation of intangible assets (excluding software)	(4,500)	–	(4,500)
Exceptional settlement costs	(50,000)	–	(50,000)
Operating expenses	(166,562)	(26,313)	(192,875)
Exceptional gains on investments	7,892	–	7,892
Gains on investments and other income	3,482	–	3,482
Other operating income	11,374	–	11,374
Operating profit (before exceptional items and amortisation of intangibles)	39,975	6,554	46,529
Operating (loss) profit (after exceptional items and amortisation of intangibles)	(25,569)	6,554	(19,015)

3 Segmental information continued

Six months to 31 March 2006	Investment management (as restated) £'000	Property asset management (as restated) £'000	Group total (as restated) £'000
Turnover	119,203	28,060	147,263
Net fair value gains on assets at fair value through income	175	-	175
Revenue	119,378	28,060	147,438
Operating costs	(86,957)	(23,960)	(110,917)
Integration costs	(17,237)	-	(17,237)
Amortisation of intangible assets (excluding software)	(5,462)	-	(5,462)
Operating expenses	(109,656)	(23,960)	(133,616)
Exceptional gains on investments	8,238	-	8,238
Other operating income	8,238	-	8,238
Operating profit (before exceptional items and amortisation of intangibles)	32,421	4,100	36,521
Operating profit (after exceptional items and amortisation of intangibles)	17,960	4,100	22,060

Year to 30 September 2006	Investment management £'000	Property asset management £'000	Group total £'000
Turnover	240,105	60,202	300,307
Net fair value gains on assets at fair value through income	1,817	–	1,817
Revenue	241,922	60,202	302,124
Operating costs	(177,241)	(51,551)	(228,792)
Integration costs	(33,282)	–	(33,282)
Amortisation of intangible assets (excluding software)	(8,958)	–	(8,958)
Exceptional charge	(236)	–	(236)
Operating expenses	(219,717)	(51,551)	(271,268)
Exceptional gains on investments	18,381	–	18,381
Gains on investments and other income	6,429	1,496	7,925
Other operating income	24,810	1,496	26,306
Operating profit (before exceptional items and amortisation of intangibles)	71,110	10,147	81,257
Operating profit (after exceptional items and amortisation of intangibles)	47,015	10,147	57,162

4. Exceptional integration costs

On 30 September 2005 the Company completed the acquisition of certain fund management businesses of Deutsche Bank AG. These businesses consisted of the London fixed interest business, the OEIC business and the equities and multi-asset business. On 1 December 2005 the second and final stage of the acquisition was completed when the Philadelphia fixed income business was acquired. During the period since acquisition substantial integration costs have been incurred in combining these acquired businesses with the existing businesses of the Group. These integration costs comprise charges in respect of a transitional services agreement with the vendor to ensure that both people and systems are transferred in a controlled manner; set up costs in respect of the migration of the back office data and systems to the Group's third party administrator; and costs of retaining duplicate staffing for a transitional period to ensure a smooth migration of data.

	6 months to 31 Mar 2007 £'000	6 months to 31 Mar 2006 £'000	Year to 30 Sept 2006 £'000
Transitional service costs from vendor	**10,245**	8,427	11,190
Set-up costs in respect of back office data and systems	**2,401**	2,636	7,579
Duplicate staff costs, redundancy costs and third party integration costs	**6,290**	6,174	12,130
Staff retention costs	**–**	–	2,383
	18,936	17,237	33,282

5 Exceptional settlement costs

	6 months to 31 Mar 2007 £'000	6 months to 31 Mar 2006 £'000	Year to 30 Sept 2006 £'000
Recognised within operating profit			
Settlement of legal action initiated by Real Estate Opportunities	**57,500**	–	–
(Release of payment) payment made in relation to defence of proceedings by Real Estate Opportunities	**(7,500)**	–	7,500
Release of provision for Uplift Plan to eligible investors in Aberdeen progressive Unit Trust	**–**	–	(7,264)
	50,000	–	236

On 16 March 2007 the Company announced that it had reached agreement with Real Estate Opportunities Limited ('REO') to settle the Company's part in the legal action initiated in 2005 by REO against the Company and another party. The Company made no admission whatsoever of any liability or acceptance of the validity of REO's claim, but the Board recognised that it was in the interests of the Group and its shareholders to conclude this matter and to end the distraction it was causing to the Company. The net cost to the Group, including the Group's legal costs and after return of the defence payment of £7,500,000 made last year, was £50,000,000.

6 Other operating income

Other operating income for the six months to 31 March 2007 comprises an exceptional gain of £7.9 million following the receipt of contingent deferred consideration in respect of the sale, in January 2005, of the Group's investment in Lombard International Assurance SA. The gain includes the transfer of £7 million from the available for sale reserve. The balance of other operating income comprise gains on the disposal of private equity investments. Other operating income for the six months to 31 March 2006 principally consists of the gain realised on the disposal of the Group's investment in New Star Asset Management PLC which had been stated at a cost of £6 million. This shareholding was sold on 11 November 2005 following the listing of this company's shares on the Alternative Investment Market. The net proceeds from the sale were £14.6 million. Other operating income in prior periods represents gains on disposal of investments and subsidiaries.

7 Reconciliation of profit after tax to operating cash flow

	6 months to 31 Mar 2007 £'000	6 months to 31 Mar 2006 (as restated) £'000	Year to 30 Sept 2006 £'000
(Loss) profit after tax	**(13,723)**	15,333	43,872
Depreciation charge	**1,196**	1,134	2,294
Amortisation of intangible assets	**4,500**	5,462	8,958
Amortisation of intangible software assets	**358**	467	889
Fair value adjustment to investments	**(693)**	(175)	(1,817)
Gain on disposal of investments	**(3,482)**	(8,825)	(20,224)
Share based element of remuneration	**3,934**	3,177	6,163
Net finance costs	**2,915**	526	3,315
Income tax (credit) expense	**(8,207)**	6,201	9,975
	(13,202)	23,300	53,425
Decrease in provisions	**(1,852)**	(8,043)	(26,752)
(Increase) decrease in stock	**(415)**	112	2,110
(Increase) decrease in trade and other receivables	**(21,010)**	(17,043)	13,703
Increase (decrease) in trade and other payables	**20,904**	(7,830)	(32,037)
Net cash (outflow) inflow from operating activities	**(15,575)**	(9,504)	10,449
Net finance costs (paid) received	**(2,895)**	676	(334)
Corporation tax paid	**(5,253)**	(1,861)	(6,666)
Net cash (used in) from operating activities	**(23,723)**	(10,689)	3,449

8 Intangible assets

	31 Mar 2007 £'000	31 Mar 2006 (as restated) £'000	30 Sept 2006 £'000
Intangible assets	**147,307**	147,173	153,303
Goodwill	**399,861**	400,838	400,262
	547,168	548,011	553,565

9 Other investments

	31 Mar 2007 £'000	31 Mar 2006 (as restated) £'000	30 Sept 2006 £'000
Non-current assets			
Non-current investments held by group companies	**19,343**	15,561	13,818
Current assets			
Liquid investments of life and pensions subsidiary	**12,841**	19,951	22,761
Other short-term investments	**13,550**	7,620	10,780
	26,391	27,571	33,541

10 Stock of units and shares

	31 Mar 2007 £'000	31 Mar 2006 (as restated) £'000	30 Sept 2006 £'000
Units and shares in managed funds	**679**	2,262	264

11 Other financial investments / investment contract liabilities

These balances represent unit linked business carried out by the Group's life and pensions subsidiary. The assets represent investments held to meet contracted liabilities.

12 Statement of changes in equity

	6 months to 31 Mar 2007 £'000	6 months to 31 Mar 2006 (as restated) £'000	Year to 30 Sept 2006 £'000
(Loss) profit for the period	**(13,723)**	15,333	43,872
Other recognised income and expense	**(6,747)**	1,076	(3,028)
Dividends paid	**(14,979)**	(9,899)	(28,110)
Issue of ordinary share capital	**1,156**	684	27,325
Issue of LTIP shares	**–**	–	(26,452)
Share based payments	**3,934**	3,177	6,163
Fair value release on disposal	**–**	–	(5,995)
Purchase of own shares	**–**	–	(3,024)
Net (deductions from) additions to shareholders' funds	**(30,359)**	10,371	10,751
Opening shareholders' funds	**450,095**	435,056	439,344
Closing shareholders' funds	**419,736**	445,427	450,095

13 Interest bearing loans and borrowings

	31 Mar 2007 £'000	31 Mar 2006 (as restated) £'000	30 Sept 2006 £'000
Non-current liabilities			
Amount drawn under bank revolving credit facility	**34,600**	–	–
7.2% Subordinated notes 2016	**63,031**	–	66,172
4.5% Convertible bonds 2010	**24,305**	23,921	24,020
Unsecured guaranteed loan notes 2003 - 2008	**–**	591	–
	121,936	24,512	90,192
Current liabilities			
Amount drawn under bank revolving credit facility	**58,887**	–	25,000
Bank overdraft	**–**	–	2,377
5.875% Convertible bonds 2007	**–**	22,066	22,159
Unsecured guaranteed loan notes 2003 - 2008	**1,012**	801	1,015
	59,899	22,867	50,551

14 Earnings per share

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

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

Diluted earnings per share amounts are calculated by dividing the net profit for the period 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 net profit to exclude exceptional items and amortisation of intangible assets.

The purpose of providing the underlying earnings per share is to allow readers of the accounts to clearly consider trends without the impact of exceptional and non-cash items.

14 Earnings per share continued

	IAS 33			Underlying		
	6 months to 31 Mar 2007 £'000	6 months to 31 Mar 2006 £'000 (as restated)	Year to 30 Sept 2006 £'000	**6 months to 31 Mar 2007 £'000**	6 months to 31 Mar 2006 £'000 (as restated)	Year to 30 Sept 2006 £'000
Basic earnings per share						
(Loss) profit for the financial period	**(13,723)**	15,333	43,872	**(13,723)**	15,333	43,872
Dividends on redeemable preference shares	**(2,697)**	(2,700)	(5,397)	**(2,697)**	(2,700)	(5,397)
(Loss) profit for the financial period, attributable to ordinary shareholders	**(16,420)**	12,633	38,475	**(16,420)**	12,633	38,475
Amortisation of intangible assets				**4,500**	5,462	8,070
Exceptional gains on disposal of investments,						–
net of attributable taxation				**(7,892)**	(5,767)	(14,867)
Exceptional integration costs, net of attributable taxation				**14,482**	12,066	23,298
Exceptional settlement costs, net of attributable taxation				**38,241**	–	165
Non-recurring finance costs, net of attributable taxation				**–**	800	1,100
Profit for the financial period - underlying basis				**32,911**	25,194	56,241
Weighted average number of shares	**601,740**	599,722	600,085	**601,740**	599,722	600,085
Basic (loss) earnings per share	**(2.73p)**	2.11p	6.41p	**5.47p**	4.20p	9.37p
Diluted earnings per share						
(Loss) profit for calculation of basic earnings per share, as above	**(16,420)**	12,633	38,475	**32,911**	25,194	56,241
Add: interest on 2010 convertible bonds, net of					–	
attributable taxation	**N/A**	419	837	**419**	419	837
Add: dividend on convertible preference share units	**N/A**	N/A	N/A	**2,697**	–	5,397
(Loss) profit for calculation of diluted earnings per share	**(16,420)**	13,052	39,312	**36,027**	25,613	62,475
Weighted average number of shares						
For basic earnings per share	**601,740**	599,722	600,085	**601,740**	599,722	600,085
Dilutive effect of 2010 convertible bonds	**N/A**	24,737	24,737	**24,737**	24,737	24,737
Dilutive effect of convertible preference share units	**N/A**	N/A	N/A	**80,733**	-	80,733
Dilutive effect of exercisable share options	**N/A**	519	2,282	**3,762**	519	2,282
	601,740	624,978	627,104	**710,972**	624,978	707,837
Diluted (loss) earnings per share	**(2.73p)**	2.09p	6.27p	**5.07p**	4.10p	8.83p

15 Analysis of changes in net debt

	At 30 Sept 2006 £'000	Cash flow £'000	Other non cash changes £'000	Exchange movement £'000	**At 31 Mar 2007 £'000**
Cash at bank and in hand	50,497	6,601	–	(161)	**56,937**
Bank overdraft	(2,377)	2,377	–	–	**–**
	48,120	8,978	–	(161)	**56,937**
Debt due within one year	(26,015)	(33,884)	–	–	**(59,899)**
Convertible debt due within one year	(22,159)	24,997	(2,838)	–	**–**
Debt due after more than one year	(66,172)	(34,600)	–	–	**(100,772)**
Convertible debt due after more than one year	(24,020)	–	(330)	3,186	**(21,164)**
	(138,366)	(43,487)	(3,168)	3,186	**(181,835)**
Total	(90,246)	(34,509)	(3,168)	3,025	**(124,898)**
Net gearing					**29.8%**

16 Provisions

		Provision for Uplift Plan £'000	Long - term business provision £'000	Total £'000
At 1 October 2006	– non-current liabilities	–	500	500
	– current liabilities	2,109	–	2,109
		2,109	500	2,609
Utilised		(334)	–	(334)
At 31 March 2007		**1,775**	**500**	**2,275**
Non-current		**–**	**500**	**500**
Current		**1,775**	**–**	**1,775**
		1,775	**500**	**2,275**

The provision for Uplift Plan represents the provision made for eligible investors in Aberdeen Progressive Growth Unit Trust. The amount utilised represents the final payments made to investors in October 2006 under the provisions of the Uplift Plan. The balance of the provision at 31 March 2007 is being held to cover any further payments to investors in this fund.

17 Pension deficit

The Group's principal form of pension provision is by way of three defined contribution schemes operated world-wide. The Group also operates three legacy defined benefit schemes in the UK: the CGA Staff Pension Fund, the Murray Johnstone Limited Retirement Benefits Plan and the Edinburgh Fund Managers Group plc Retirement & Death Benefits Plan. All three defined benefit schemes are closed to new membership and to future service accrual.

The actuarial valuations of the defined benefit pension schemes referred to above were updated to 30 September 2006 by the respective independent actuaries using the projected unit method. Contributions to the schemes since 30 September 2006 have been set off against the scheme deficits.

	31 Mar 2007 £'000	31 Mar 2006 £'000	30 Sept 2006 £'000
Combined pension scheme deficits	**30,737**	28,437	32,255

18. Copies of this statement are being sent to all shareholders. Copies can be obtained from the Company's registered office, 10 Queen's Terrace, Aberdeen, AB10 1YG.

Independent review report to Aberdeen Asset Management PLC

Introduction
We have been instructed by the company to review the financial information for the six months ended 31 March 2007 which comprises the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated Balance Sheet, Consolidated Cash Flow Statement and Related Notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed
We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2007.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Aberdeen
1 May 2007

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