Aberdeen Real Estate Operations Limited

Annual report and financial statements

Registered number SC169791

For the year ended 30 September 2016

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Strategic report

The Directors present their Strategic Report on Aberdeen Real Estate Operations Limited ("the Company") for the year ended 30 September 2016, in accordance with section 414A of the Companies Act 2006.

Business review and future developments

The Company provides specialist property fund and asset management services to clients investing directly in UK property and is a subsidiary of Aberdeen Asset Management PLC ("AAM PLC" or, together with its subsidiaries, the "Aberdeen Group"). There are no plans to change the principal activity of the Company.

On 23 June 2016 the people of the United Kingdom voted to leave the European Union. This does not give rise to any significant risk for the Company as its principal activities are conducted within the United Kingdom.

Key performance indicators

The Company uses a number of financial performance measures to monitor the performance of the business throughout the year. Key financial metrics are measured and reported to the Board on a quarterly basis including those shown below:

	2016	2015
Assets under management ("AuM")	**£11.7 bn**	£13.6 bn
Turnover	**22,420k**	26,063k
Operating profit	**2,669k**	2,873k
Operating margin	**12%**	11%
Net liabilities	**(645k)**	(2,788k)

AuM

AuM has decreased by £1.9bn (14%) as a result of net outflows during the year, partly offset by favourable market movements in the closing quarter.

Turnover

Turnover has decreased by £3,643k (14%) as a result of non-recurring transaction fees following property sales in the prior year, a decrease in performance fees and outflows across specific product ranges.

Operating profit

Operating profit has decreased by £204k (7%) as a result of the aforementioned decrease in turnover. This has been partly offset by a decrease in agent fees in relation to the aforementioned property sales and a decrease in the charge received from the Group company for centralised services.

Net liabilities

Net liabilities have decreased by £2,143k (77%) as a result of profits generated in the year.

In addition, a number of non-financial performance indicators are used by the Board to monitor the activities of the Company. These include:

- investment performance;
- key staff turnover

Group policies in relation to employees are detailed in the Directors' Report.

Strategic report (continued)

Principal risks and uncertainties

The Company is exposed to a range of risks and operates under the Aberdeen Group risk management framework. The oversight and implementation of risk strategy for the Company and the Group is managed at an executive level through the risk management committee, together with the risk, compliance, legal and internal audit departments. The board of the Company meets regularly and considers the risks facing the Company and controls required to manage these risks, as well as the output from the aforementioned governance committees held at an executive level.

The principal risks relating to the company are:

Investment process

There is the risk that portfolios will not meet their investment objectives or that there is a failure to deliver consistent and above average performance due to market movements or investment decisions. The interaction of investment process, the retention of key investment personnel and investment performance are important factors for the growth and retention of AuM. Poor investment performance could lead to the loss of clients and may cause AuM, revenue and earnings to decline. Additionally regulators are increasingly focused on the role played by asset managers with respect to liquidity which has implications for our portfolio management and risk management.

Each investment area is developed, ensuring each desk has a disciplined investment process, centred on team based decision making and original research. Investment decisions are based on the long term, which may occasionally lead to periods of underperformance. This is mitigated by ensuring clients and investment consultants fully understand investment philosophies and by openly discussing performance drivers, supported by relevant analysis of the performance components. The market risk team reviews and challenges investment risks across all asset classes, independently of fund managers. Where necessary, inflows may be moderated to some products to avoid any risk of dilution in the quality of the portfolios.

Pricing pressure

There is a risk of pressure on fees charged to clients for fund management services, as a result of growing competition within the industry; including the impact of (a) the growth of lower cost passive and ETF funds and (b) greater competition among active managers, which account for a smaller percentage of total global AuM due to the growth in allocation to passive managers. In addition regulation has and may continue to encourage the move towards lower cost products.

Management fees vary depending on the investment strategy selected and the Aberdeen Group has built up a good reputation and brand enabling pricing to remain robust.

Technology and digital innovation

There is a risk the Aberdeen Group fails to keep pace with software and infrastructure investment requirements and remain competitive in the market.

The design and development of the Aberdeen Group's operating model is performed in line with the existing business strategy. Analysing the role of information technology is essential to efforts to implement new business strategies and reduce costs. The Aberdeen Group is executing a strategy using platforms that allow for globalisation and scale and the creation of a digital division allows plans to be developed to use technology as a means of capturing a broader base of clients.

Business continuity

The Company has an obligation to ensure the business can operate at all times and there is a risk that potential impact and threats to the Company are not identified. Management continues to build the resilience and capability required to ensure an effective response that safeguards the interests of key stakeholders, reputation, brand and value creation.

Business continuity management policies and recovery plans have been established, which define the standards and requirements for business continuity, pandemic preparedness, crisis management and recovery. Plans are regularly tested. Off-site backup facilities are in place for the principal offices. The wide network of offices globally also provides resilience and security that key operations can be moved and/or managed from one location to another at short notice if necessary.

Strategic report (continued)

Principal risks and uncertainties *(continued)*

External service providers

The Company relies on a number of third party relationships and services to carry out business functions. The risk arises from the inability to effectively carry out robust evaluations of third parties prior to engaging in dealings, as well as having poor ongoing oversight.

The Company uses a small number of strategic suppliers. This ensures a degree of competition, whilst ensuring the Company has significant influence and leverage. However, it also exposes the Company to concentration risk and dependence on strategic providers. Operations teams oversee these third party administrators and monitor agreed service levels through a suite of key indicators, focusing on significant aspects such as service quality and risks. Contingency plans in the event of the withdrawal or failure of a strategic supplier are reviewed by the Board. The Aberdeen Group also regularly review the business recovery infrastructure and strategy of these suppliers. This includes visits by senior executives to strategic suppliers during the year and on-going monitoring and review by control oversight functions.

Loss of key investment personnel

Retaining, developing and investing in talent is fundamental to the Company's stability and long term success. The Company's reputation and client retention could be damaged through significant changes in investment personnel.

The Company does not have star fund managers; instead there are teams with complementary skillsets who discuss investment decisions and take collective responsibility. This team based approach seeks to avoid reliance on any one individual. There is a strong development programme for fund managers that seek to encourage performance and loyalty through appropriate remuneration and benefits packages, which include a significant deferred element. Appraisals and remuneration are designed to develop, attract, motivate and retain staff. Succession plans are in place to ensure there is cover for key roles, and these are formally reviewed and updated annually. This strategy is disseminated through all levels of the organisation, so each business area can engage with the Company's ambitions of growth.

Credit risk

The Company's exposure to credit risk arises primarily from counterparty exposure in the form of trade debtors, exposures to other group companies and deposits placed with banks.

The value of deposits held with counterparties is managed against limits set in the Aberdeen Group's treasury policy. The treasury function is supported by the front office credit team, as well as the market risk function that perform internal credit reviews. Exposures to other Aberdeen Group companies are monitored on a regular basis with regular settlements made between counterparties.

Liquidity Risk

The Company aims to have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's cash position, available facilities and forecast cash flows is monitored by the Aberdeen Group's treasury function and access to appropriate liquidity is made available where necessary.

By order of the Board

S E Massie
For Aberdeen Asset Management PLC
Secretaries
10 Queen's Terrace
Aberdeen
AB10 1YG
17 January 2017

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 30 September 2016.

Dividends

No final dividend has been recommended by the Directors (2015: £ nil).

Directors

The Directors who held office during the year and to the date of this report were as follows:

A Creighton
G Hardie
M Tibbits
S Moscow
R Annis (appointed 5/11/2015)
R Cass (appointed 5/11/2015)

All the Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Modern slavery act

For the Aberdeen Group, stewardship is a fundamental element of the investment approach across all asset classes and a thorough assessment of governance and risk management, including those risks which could be classified as environmental, social or governance, is conducted before any investment decision is made. This approach also applies to the way in which procurement decisions are made. Supplier due diligence questionnaires include questions on key issues such as: risk management; anti-financial crime; outsourcing; information security; data privacy; business continuity; labour policies and environmental management. This approach is a further development to mitigate risk exposure, work with suppliers who share the Aberdeen Group's business standards and encourage suppliers to operate in a responsible manner.

The Aberdeen Group supports and adheres to the UK Modern Slavery Act in all its operations. The Aberdeen Group is a Living Wage Foundation Employer, does not employ any individuals on zero hours contracts and continues to comply with the UK Government Prompt Payment Code, an initiative to promote best practice between companies and their suppliers.

Employees

The Company recognises that employee involvement is key to the future success of the business and looks to recruit, develop and retain talented and motivated employees who make clear thinking, diverse views and mutual support the basis for excellence. The practice of keeping employees informed on all matters affecting them (via email and the Company's intranet) and internally circulating all publicly announced documents to all employees continues. The Company is also committed to following good practice in employment matters, recognising the part this plays in attracting and retaining staff. The Company promotes the importance of high ethical standards to all employees and staff have the opportunity to voice any concerns they may have, either directly with management or on a confidential basis via the whistleblowing process.

Equal opportunities

AAM PLC is a global group with customers spanning a multitude of countries, cultures and professions, and we view diversity as a valuable business asset. By having a workforce that reflects the communities where we work, we gain an important competitive advantage. We do not tolerate harassment or bullying. Details of the Group's equal opportunities policy are available on the corporate responsibility ('CR') section of the website. The Company gives full and fair consideration to applications for employment from disabled persons. If employees become disabled, we provide continuing employment wherever possible and subject to local laws and regulations. For the purposes of training and career development, all employees are treated equally.

Directors' report (continued)

Health and safety

The Company has in place a health and safety policy which can be accessed by all staff via an internal database. The aim is to provide both staff and visitors with a safe and healthy working environment. The Company is committed to adhering to the high standards of health and safety set out by its policies and procedures and to provide training as necessary.

Disclosure of information to auditor

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

By order of the Board

S E Massie
For Aberdeen Asset Management PLC
Secretaries
10 Queen's Terrace
Aberdeen
AB10 1YG
17 January 2017

Independent auditors' report to the members of Aberdeen Real Estate Operations Limited

Report on the financial statements

Our opinion

In our opinion, Aberdeen Real Estate Operations Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the Balance sheet as at 30 September 2016;
- the Profit and loss account and statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities in respect of the strategic report, the Directors' report and the financial statement set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

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

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

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

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

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

Allan McGrath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
17 January 2017

Profit and loss account

For the year ended 30 September 2016

	Note	2016 £'000	2015 £'000
Turnover	5	**22,420**	26,063
Administrative expenses		**(19,751)**	(23,190)
Operating profit	6	**2,669**	2,873
Net finance income	8	**3**	3
Profit on ordinary activities before taxation		**2,672**	2,876
Tax on profit on ordinary activities	9	**(538)**	(439)
Profit for the financial year		**2,134**	2,437

Turnover and operating profit arise wholly from continuing operations.

The notes on pages 12 to 22 form part of these financial statements.

Statement of comprehensive income

For the year ended 30 September 2016

	2016	2015
	£'000	£'000
Profit for the financial year	**2,134**	2,437
Other comprehensive income:		
Items that may be reclassified to profit and loss		
Tax on share based compensation	**9**	(160)
Total recognised profit relating to the financial year	**2,143**	2,277

The notes on pages 12 to 22 form part of these financial statements.

Balance sheet
At 30 September 2016

	Note	2016 £'000	2015 £'000
Current assets			
Debtors	*10*	**3,055**	1,853
Deferred tax assets > 1 year	*11*	**490**	424
Cash and cash equivalents		**974**	3,329
		4,519	5,606
Creditors: amounts due within one year	*12*	**(4,932)**	(8,394)
Net current liabilities		**(413)**	(2,788)
Provisions for liabilities	*13*	**(232)**	-
Net liabilities		**(645)**	(2,788)
Capital and reserves			
Called up share capital	*14*	**-**	-
Share premium account		**800**	800
Other reserves		**654**	654
Profit and loss account		**(2,099)**	(4,242)
Shareholders' funds		**(645)**	(2,788)

The notes on pages 12 to 22 form part of these financial statements.

These financial statements were approved by the board of Directors on 17 January 2017 and were signed on its behalf by:

Andrew Creighton
Director

Statement of changes in equity

At 30 September 2016

	Share capital	Share premium	Profit and loss account	Capital redemption reserve	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 October 2014	-	800	(6,519)	654	(5,065)
Profit for the year	-	-	2,437	-	2,437
Share based compensation	-	-	(160)	-	(160)
Balance at 30 September 2015	-	800	(4,242)	654	(2,788)
Profit for the year	-	-	2,134	-	2,134
Share based compensation	-	-	9	-	9
Balance at 30 September 2016	**-**	**800**	**(2,099)**	**654**	**(645)**

The notes on pages 12 to 22 form part of these financial statements.

Notes to the financial statements

1. General information

The Company is a private company limited by share capital and incorporated and domiciled in the United Kingdom. The address of the registered office is:

10 Queen's Terrace
Aberdeen
AB10 1YG

The Company's business activities, together with expected future developments and key risks facing the Company are detailed in the Strategic Report.

These financial statements were authorised for issue by the board of Directors on 17 January 2017.

2. Transition to FRS 101

These financial statements, for the year ended 30 September 2016, are the first the Company has prepared in accordance with FRS 101 (as described in note 3). The date of transition to FRS 101 for the Company is 1 October 2014 and the comparative financial statements as at and for the year ended 30 September 2015 have been prepared in accordance with FRS 101. The Company historically prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP").

Accordingly, the Company has prepared financial statements which comply with FRS 101 and this note explains the exemptions taken and the adjustments made by the Company when restating its UK GAAP financial statements as at and for the year ended 30 September 2015.

First time adoption exemptions
The Company has applied the following exemptions on first time adoption to the retrospective application of specific International Financial Reporting Standards ("IFRSs"):

- Prospectively from 1 October 2014 the Company has applied the recognition requirements in IAS 39 for transactions occurring on or after the date of transition.
- The Company has not applied IFRS 2 Share based Payments to equity instruments that were granted on or before 7 November 2002.

Critical judgements and estimates
The accounting estimates and judgements used at 1 October 2014 and 30 September 2015 are consistent with those used under UK GAAP.

Financial statements
Presented beneath is the restated balance sheet as at 30 September 2015. Explanations of the reclassification and re-measurement differences included are detailed beneath the balance sheet.

Notes to the financial statements *(continued)*

2. Transition to FRS 101 *(continued)*

Balance Sheet
At 30 September 2015

	Local GAAP £'000	Re-classification £'000	Re-measurement £'000	As Restated £'000
Current assets				
Debtors	2,207	(354)	-	**1,853**
Deferred tax assets > 1 year	-	354	70	**424**
Cash and cash equivalents	3,329	-	-	**3,329**
	5,536	-	70	**5,606**
Creditors: amounts due within one year	(8,394)	-	-	**(8,394)**
Net current assets and total assets	(2,858)	-	70	**(2,788)**
Capital and reserves				
Called up share capital	-	-	-	**-**
Share premium account	800	-	-	**800**
Other reserves	654	-	-	**654**
Profit and loss account	(4,312)	-	70	**(4,242)**
Shareholders' funds	(2,858)	-	70	**(2,788)**

Transitional adjustments

- Deferred tax on deferred shares (Re-measurement) – Deferred tax is calculated based upon the fair value of the awards granted as opposed to being capped at the intrinsic value under UK GAAP. The adjustment to the existing deferred tax asset reflects the uplift in fair value relative to the intrinsic value, with the excess being taken to retained earnings.

- Deferred tax (Reclassification) – Deferred tax balances were previously disclosed as part of debtors, but are now disclosed as a separate category.

Notes to the financial statements *(continued)*

3. Accounting policies

The following accounting policies have been applied consistently to all years presented when dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The Company meets the definition of a qualifying entity under Application of Financial Reporting Requirements 100 as issued by the Financial Reporting Council. Accordingly, the financial statements for year ended 30 September 2016 have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure ("FRS 101") as issued by the Financial Reporting Council.

Application of FRS 101, in conjunction with the equivalent disclosures being available in the group accounts of AAM PLC, has allowed the Company to take advantage of various disclosure exemptions. These include presentation of a cash-flow statement, standards not yet effective, financial instruments, key management compensation and transactions with group companies.

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006.

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position, are set out in the Strategic Report.

The Company has made profits in the financial year and is forecast to make profits for the foreseeable future and has a strong cash position. The Board believes that the Company holds adequate resources to continue in business for the foreseeable future. The Company is expected to return to a net asset position in the next financial year. Accordingly, the financial statements have been prepared on a going concern basis.

Turnover

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

Fund and asset management fees are based on the value of the Company's assets under management and agreed fee rates per client agreements. The Company is entitled to earn performance fees from a number of clients where the actual performance of the clients' assets exceeds defined benchmarks or target returns over a set time period. Performance fees are recognised when the quantum of the fee can be reliably estimated and it is probable the fee will be received. Other income represents fees received following the sale of properties in the prior year.

Financial assets

Classification

- Loans and receivables – These instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These instruments are included in current assets and consist of trade debtors and amounts owed by group undertakings.

- Other financial assets - These instruments include cash and cash equivalents, other debtors and prepayments and accrued income.

Recognition and measurement

- Loans and receivables – These instruments are initially recognised at fair value, net of any transaction costs, and subsequently at amortised cost using the effective interest rate method.

- Other financial assets - These instruments are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method, with the exception of cash and cash equivalents.

Notes to the financial statements *(continued)*

3. Accounting policies *(continued)*

Financial liabilities

Classification

- Other financial liabilities - These instruments include amounts owed to group undertakings, accruals and deferred income.

Recognition and measurement

- Other financial liabilities - These instruments are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method.

Impairment of financial assets

The carrying amount of all financial assets are formally reviewed for impairment purposes at the end of each reporting period, or during the year where objective evidence exists that an impairment exists. Trade debtors are reviewed for impairment on an ongoing basis where any impairment is offset against the carrying amount of the balance.

Current and deferred income tax

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding basis used for tax purposes. Deferred tax is calculated at the tax rates enacted or substantively enacted that are expected to apply when the asset is realised or the liability settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Pension costs

The Company contributes to a Group personal pension plan operated by the ultimate parent company. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting year.

Other employee benefits

Share-based payments and deferred fund awards
The Company's parent company AAM PLC awards deferred shares and deferral into funds to employees as an element of annual bonus awards. These deferred shares are expensed on a straight-line basis over the service period to vesting, based on the Group's estimate of equity instruments that will eventually vest. Where AAM PLC makes awards under the deferred share schemes to employees of its subsidiaries, it recharges the cost of these awards to each subsidiary based on the cash value of the shares at the award date.

Provisions

A provision is recognised in the balance sheet when the Company 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.

Notes to the financial statements *(continued)*

3. Accounting policies *(continued)*

Critical accounting estimates

The preparation of the financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, contingent or otherwise, at the balance sheet date as well as affecting the reported profit or loss for the year. Although the estimates are based on management's best knowledge of current facts as at the balance sheet date, the actual outcome may differ from those estimates. Critical estimates and assumptions are detailed in note 4.

4. Critical accounting judgements and estimates

Critical estimates and assumptions are disclosed beneath:

- *Disclosure of interests in other entities* - The Company held interests in unconsolidated structured entities during the year and management's judgement has been exercised when applying the principles of IFRS 12 Disclosure of Interests in Other Entities. Details can be found in note 16.
- *Provisions* - Provisions require management judgements to be made regarding the likelihood of future liabilities to be settled by the Company. Details can be found in note 13.

5. Turnover

	2016	2015
	£'000	£'000
Management fees	**22,350**	24,577
Performance fees	**70**	260
Other income	**-**	1,226
	22,420	26,063

Other income has decreased by £1,226k (100%) as a result of non-recurring transaction fees on property sales.

6. Notes to the profit and loss account

	2016	2015
	£'000	£'000
Operating profit is stated after charging:		
Foreign exchange gains	**(2)**	-
Auditor remuneration :		
Statutory audit	**19**	13

Amounts receivable by the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, AAM PLC.

7. Employees and Directors

The average number of persons employed by the Company (including Directors), during the year, analysed by category, was as follows:

	2016	2015
	Number	Number
Fund management and administration	**86**	98

Notes to the financial statements *(continued)*

7. Employees and Directors *(continued)*

The aggregate payroll costs of these persons were as follows:

	2016 £'000	2015 £'000
Salaries and bonuses	**8,223**	9,335
Share based payments	**649**	581
Redundancy	**817**	-
Social security costs	**1,139**	1,194
Pension costs	**1,266**	1,373
	12,094	12,483

Directors' remuneration was as follows:

	2016 £'000	2015 £'000
Aggregate remuneration	**1,420**	813
Aggregate gains made by Directors on exercise of share options and deferred funds	**364**	373
Company contributions to personal pension plan	**194**	174
Compensation for loss of office	**-**	-
Sums paid to third parties	**-**	-
Other benefits	**12**	6
	1,990	1,366

The emoluments of those Directors who are paid by other Group companies are included in the financial statements of those companies. Those Directors who are also Directors of AAM PLC are separately disclosed in the remuneration report of that Company.

There is a total of 4 (2015: 3) Directors accruing retirement benefits from the Company under a personal pension plan.

Highest paid director:

The aggregate emoluments of the highest paid director during the year was £355k (2015:£317k), and Company pension contributions of £47k (2015:£78k) were made to a personal pension plan on their behalf. The highest paid director was awarded deferred shares under the ultimate parent company's deferred share scheme.

8. Net finance income

	2016 £'000	2015 £'000
Finance income		
Bank interest income	7	3
	7	3
Finance expense		
Bank interest payable	(4)	-
	(4)	-
Net finance income	3	3

Notes to the financial statements *(continued)*

9. Taxation

Analysis of tax charge in the year:

	2016 £'000	2015 £'000
UK corporation tax		
Current tax on profit for the year	**589**	427
Adjustments in respect of prior years	**6**	-
	595	427
Deferred tax		
Deferred tax on share based payments and deferred funds	**(65)**	4
Deferred tax on capital allowances	**8**	8
	(57)	12
Tax on profit on ordinary activities	**538**	439

Analysis of tax (credit)/charge in other comprehensive income in the year:

	2016 £'000	2015 £'000
Deferred tax impact	**(9)**	160

Reconciliation of the tax charge in the year

The tax assessed for the year is higher (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 20.5%). The differences are explained below:

	2016 £'000	2015 £'000
Current tax reconciliation		
Profit for the financial year	**2,672**	2,876
Current tax at 20% (2015: 20.5%)	**534**	590
Effects of:		
Expenses not subject to tax	**133**	128
Tax deductions not in profit and loss	**(80)**	(291)
Deferred tax recognised in profit and loss	**(57)**	12
Deferred tax arising on temporary differences	**2**	-
Adjustments in respect of previous periods	**6**	-
Total tax charge	**538**	439

Factors affecting the future tax charge

The UK tax rate for the year is 20% (2015: 20.5%). The tax rate was reduced from 21% to 20% effective from 1 April 2015.

Further reductions to 19% (effective from 1 April 2017) and to 17% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and 15 September 2016 respectively. This will reduce the company's future current tax charge accordingly and reduce the deferred tax asset at 30 September 2016 (which has been calculated based on a tax rate of 19%) (2015: 20%).

Notes to the financial statements *(continued)*

10. Debtors

	2016 £'000	2015 £'000
Trade debtors	**580**	3
Amounts owed by Aberdeen Group undertakings	**664**	-
Other debtors	**18**	27
Prepayments and accrued income	**1,793**	1,823
	3,055	1,853

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

11. Deferred tax

	2016 £'000	2015 £'000
At 1 October	**424**	579
Credit/(charge) to the profit and loss account	**57**	(12)
Credit/(charge) through other comprehensive income	**9**	(160)
Deferred tax acquisition	**-**	17
At 30 September	**490**	424

The deferred tax asset can be analysed as follows:

	2016 £'000	2015 £'000
Share based payments/Deferred funds	**460**	386
Capital allowances	**30**	38
	490	424

Deferred tax has been calculated based on the substantively enacted rate at the balance sheet date of 19% (2015: 20%). The future changes in tax rates per note 9 will also impact the deferred tax assets.

12. Creditors: amounts due within one year

	2016 £'000	2015 £'000
Amounts owed to Aberdeen Group undertakings	**2,253**	5,280
Taxes and social security	**941**	949
Accruals and deferred income	**1,738**	2,165
	4,932	8,394

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

13. Provisions for liabilities

	2016 £'000
At 1 October 2015	-
Increase in the provision	350
Amount utilised in the year	(118)
At 30 September 2016	**232**

Notes to the financial statements *(continued)*

13. Provisions for liabilities *(continued)*

The provision relates to the potential payment of liabilities where it is unclear what the exact amount and timing of payment will be. The provision is management's prudent estimate which will continue to be monitored.

14. Called up share capital

	2016 £	2015 £
Authorised, allotted, called up and fully paid:		
100 (2015: 100) ordinary shares of £1each	**100**	100

15. Share-based payments and deferred funds awards

Share-based payments
The Company's ultimate parent company AAM PLC operates share-based payment schemes in which employees of the parent and certain subsidiary companies participate. AAM PLC and employing subsidiaries are required to account for the fair value of the share options and long-term incentive at grant date over the vesting period. AAM PLC recharges each subsidiary with the specific cost of the schemes based on the cost incurred for each employee.

For awards exercised during the year, the weighted average share price at the point of exercise throughout the year was 303.58p. The number of outstanding options at the year end is summarised beneath.

Date of award	Outstanding options Number (000)	Earliest vesting date
1 December 2010	**95,264**	2011-2013
31 December 2011	**200,590**	2012-2014
31 December 2012	**61,250**	2013-2015
2 May 2013	**1,919**	2016
2 December 2013	**78,675**	2014-2016
1 April 2014	**1,111**	2016
1 December 2014	**89,211**	2015-2017
1 December 2015	**208,335**	2016-2018

Deferred awards – Equity settled
Awards made in 2010 to 2016 reach their earliest vesting dates in equal tranches over a three year period, subject to the continued employment of the participant. On reaching the earliest vesting date, participants may require immediate exercise or may choose to defer exercise until a later date; if deferred, participants may thereafter require exercise, without condition, at any time until the end of the exercise period.

Deferral awards – Cash settled
An element of variable pay awards will be settled in cash by reference to the share prices of certain Aberdeen managed funds. These are accounted for as cash settled awards and are revalued to market price at the end of each reporting period.

16. Unconsolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

The Company has assessed whether the funds it manages are structured entities, through review of the above factors, including the rights to remove the Aberdeen Group Companies as fund manager or other key management role. The Company considers Unit Trusts as structured entities.

Notes to the financial statements *(continued)*

16. Unconsolidated structured entities *(continued)*

The structured entities are generally financed by the purchase of units or shares by investors, although some funds are able to obtain external debt financing, and allow clients to invest in a portfolio of assets in order to provide a return through capital appreciation and/or investment income. Accordingly, they are susceptible to market price risk arising from uncertainties about future values of the assets they hold.

AuM within unconsolidated structured entities is shown below:

	2016 **£'000**
Unconsolidated structured entities	2,654,186

Turnover includes £6,895k of fees received from structured entities managed by the Company.

The table below summarises the carrying values in the balance sheet, representing the Company's interests in unconsolidated structured entities, as at 30 September 2016:

	2016 **£'000**
Debtors	-

Maximum exposure to loss
The Company does not have a direct exposure to the AuM it manages, with the associated risks and rewards residing with external investors. The Company's maximum exposure to loss is therefore limited to future fee income, where investors decide to withdraw funds, reducing the net asset value of the entities and the fair value of any investments in structured entities held by the Company at each reporting date.

Financial support
The Company has not provided financial support to any unconsolidated structured entity through guarantees over the repayment of borrowings, or otherwise, and has no contractual obligations or current intention of providing financial support in the future.

17. Contingent liabilities

The Company's bank balance is part of a Group working capital facility in support of which cross guarantees are provided by the parent company, the Company and certain fellow subsidiary undertakings. At 30 September 2016, the net amount guaranteed under this arrangement was £974k (2015: £3,329k).

18. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

The Company provides investment management services for a number of collective investment schemes where the Group directly sponsors or are investment advisors of underlying funds, which meet the criteria for related parties. In return the Company receives management fees for provision of these services.

These investment management fees and other income received by the Company is summarised below:

	2016 **£'000**	2015 £'000
Gross revenue	**15**	1,260
Outstanding at 30 September	-	-

Notes to the financial statements *(continued)*

19. Ultimate parent company

The Company's immediate parent entity is Aberdeen Real Estate Investors Operations (UK) Ltd and its ultimate parent company is AAM PLC, which is incorporated in the United Kingdom and registered in Scotland.

The results of the Company are consolidated in the Group accounts of AAM PLC, which is the largest and smallest group that these results are consolidated within, which are available to the public and may be obtained from 10 Queen's Terrace, Aberdeen, AB10 1YG. No other Group accounts include the results of the Company.