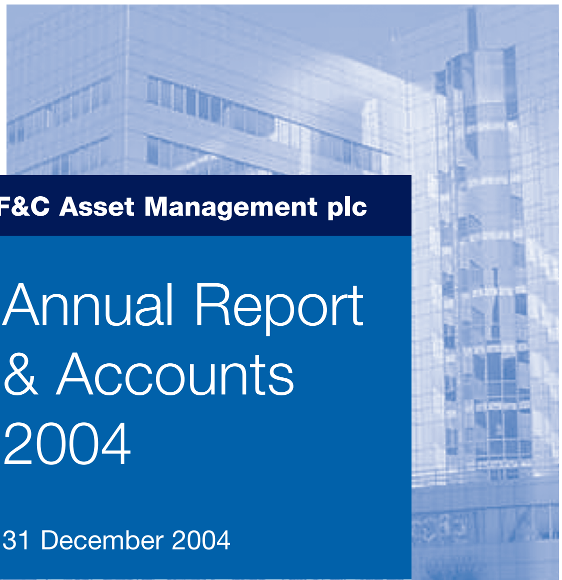


F&C Asset Management plc

# Annual Report & Accounts 2004

31 December 2004

# Contents

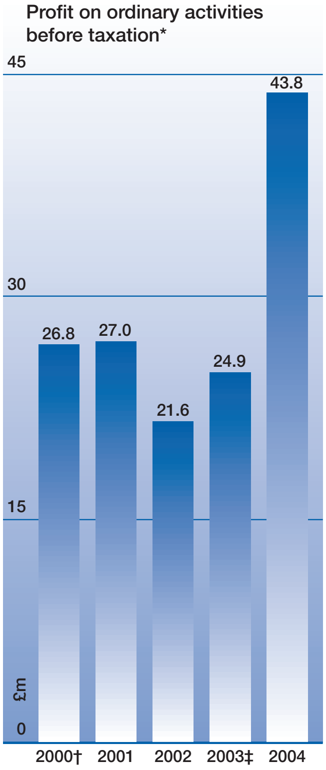


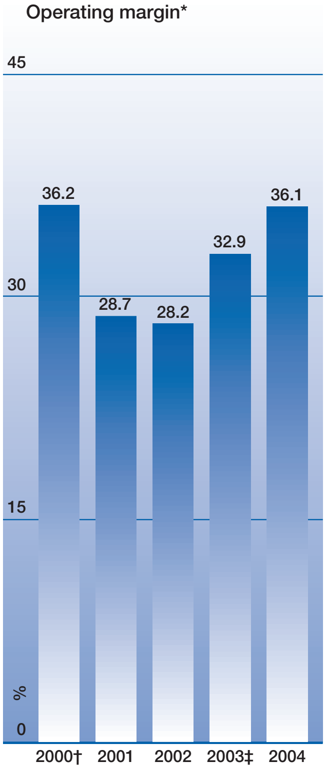
# Definitions

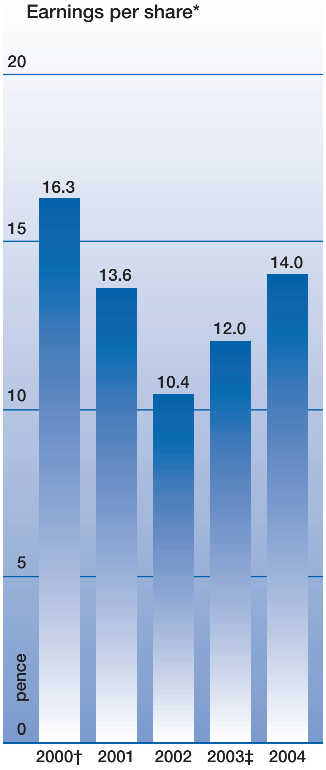
| | |
|---|---|
| "merger" | The combination of ISIS Asset Management plc and F&C Group (Holdings) Limited which completed on 11 October 2004 |
| "F&C, FCAM, group or Company" | F&C Asset Management plc and its subsidiaries |
| "F&CGH" | F&C Group (Holdings) Limited and its subsidiaries |
| "ISIS" | ISIS Asset Management plc, which changed its name on 11 October 2004 to F&C Asset Management plc |
| "FP" | Friends Provident plc, the Company's ultimate parent undertaking |
| "Eureko" | Eureko B.V., a company incorporated in the Netherlands, the owner of F&C Group (Holdings) Limited prior to the merger |
| "Achmea" | Achmea Holdings N.V., a Company incorporated in the Netherlands and a subsidiary of Eureko |
| "BCP" | Banco Comercial Português S.A., a company incorporated in Portugal and a minority shareholder in Eureko |
| "Pro forma" | Financial disclosure of the financial results of F&CGH and ISIS on the basis that they had merged on 1 January 2004 |

# Financial and Business Highlights

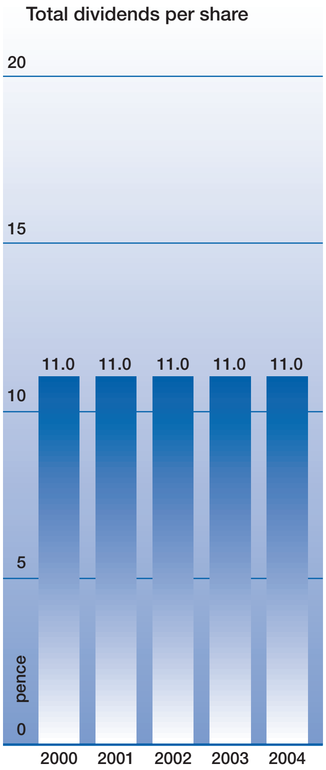
for the year to 31 December 2004



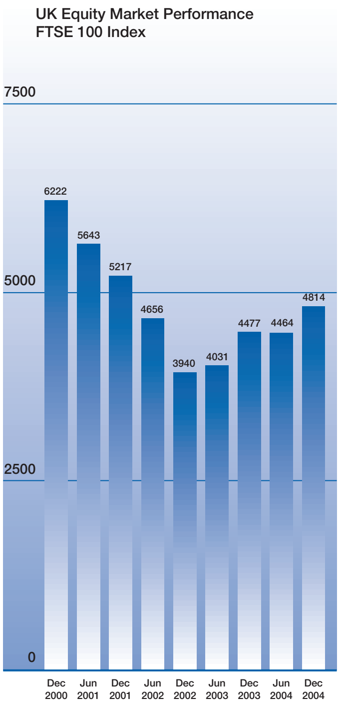



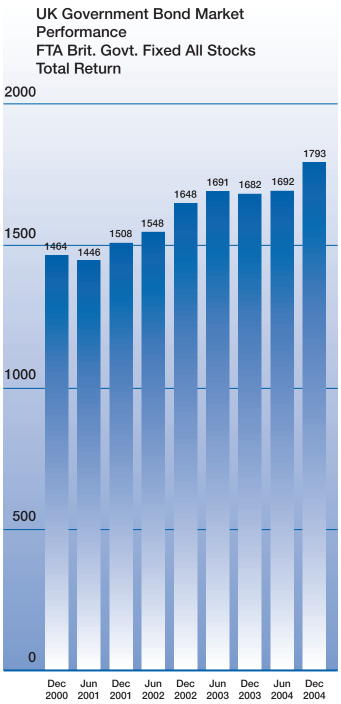

† as restated following the adoption of FRS17: Retirement Benefits
‡ as restated following the adoption of UITF38: Accounting for ESOP Trusts

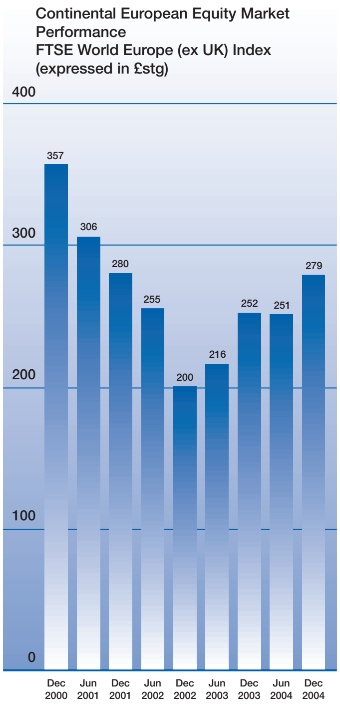


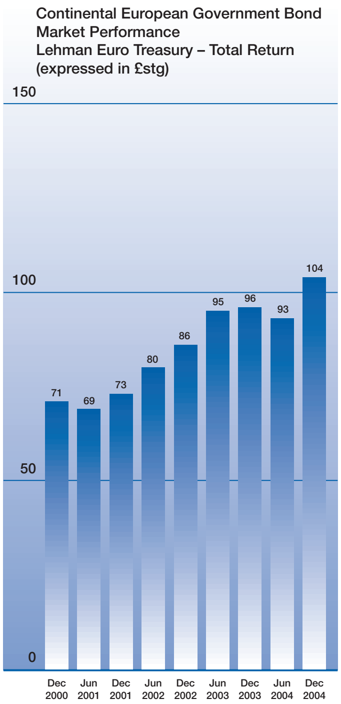

| | 31 December 2003 (as restated) | 31 December 2004 |
|---|---|---|
| Net revenue | £107.9m | £149.2m |
| Administrative expenses* | £73.5m | £96.1m |
| Profit on ordinary activities before taxation* | £24.9m | £43.8m |
| Group operating profit* | £35.5m | £53.8m |
| Operating margin* | 32.9% | 36.1% |
| Earnings per share* | 12.0p | 14.0p |
| Interim dividend | 4.0p | 4.0p |
| Proposed final dividend | 7.0p | 7.0p |
| Total dividends per ordinary share | 11.0p | 11.0p |
| Assets under management | £63.5bn | £124.8bn |

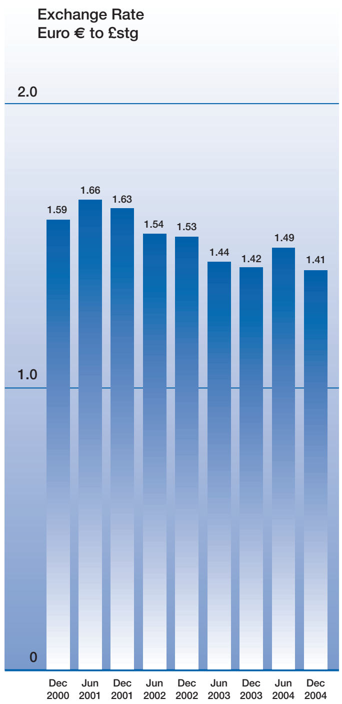
*before amortisation of goodwill, exceptional items and the cost of the Re-Investment Plan




## Assets under management by client category

| | 31 Dec 2003 £ billion* | 31 Dec 2003 € billion* | 30 Jun 2004 £ billion* | 30 Jun 2004 € billion* | 31 Dec 2004 £ billion | 31 Dec 2004 € billion |
|---|---|---|---|---|---|---|
| Insurance | 73.1 | 103.7 | 72.8 | 108.5 | 78.6 | 111.0 |
| Institutional Funds | 33.8 | 48.0 | 32.3 | 48.1 | 32.7 | 46.1 |
| Open Ended Products – Third Party | 2.0 | 2.8 | 2.2 | 3.3 | 2.3 | 3.3 |
| Investment Trusts | 5.0 | 7.1 | 5.2 | 7.8 | 5.3 | 7.5 |
| SICAV's/Mutual Funds | 0.8 | 1.1 | 0.7 | 1.0 | 0.8 | 1.2 |
| Sub-Advisory | 4.8 | 6.8 | 4.6 | 6.9 | 4.7 | 6.6 |
| Venture Capital Trust/ Limited Partnership | 0.4 | 0.6 | 0.4 | 0.6 | 0.4 | 0.5 |
| Total | 119.9 | 170.1 | 118.2 | 176.2 | 124.8 | 176.2 |

* pro-forma

"…the strategic goal for the business was to become a top five active UK asset manager by 2007...

## Our Vision:

To become Europe's partner of choice for investment solutions.

## Our Mission:

We seek to differentiate ourselves by:

- Building business partnerships with clients, intermediaries and consultants.
- Providing them with solutions that deliver superior performance and service.
- Combining the benefits of centres of excellence and expert local teams.

We aim to create value for clients, shareholders and staff.

The merger last October that created F&C Asset Management plc, has enabled us to achieve that goal two years ahead of target. This was the largest transaction in the global asset management industry in 2004[1] as well as the most significant in the UK for many years."

- "The merged businesses were a compelling strategic fit. The merger has created a profitable European-focused asset management group that not only has scale but is also considerably more diverse by skills, products, client type, geography and revenues than either of the two previous entities."
- Earnings per share before amortisation of goodwill, exceptional items and the cost of the Re-investment Plan increased by 16.2% to 14.0p.
- Final dividend of 7.0p giving an unchanged total of 11.0p for the year.
- As a result of the merger, revenue margin increased from 18 basis points to 21 basis points.
- Operating Margin before amortisation of goodwill, exceptional items and the cost of the Re-investment Plan increased from 32.9% to 36.1%.
- Funds under management at 31 December 2004 were £124.8bn.
- Integration of the merged businesses remains on track.
- Synergies of £33 million remain the target for delivery by H1 2006.

[1] Source: Cambridge International Partners, The Cambridge Commentary review of 2004.

# Chairman's Statement

2004 was truly transformational for your Company. Allow me therefore to offer a high level look at the year just past and the opportunities ahead.

## Transaction

On 2 July 2004, ISIS Asset Management plc ("ISIS") announced its acquisition of F&C Group (Holdings) Limited ("F&CGH"). On 11 October, the transaction officially "closed." The merger of ISIS and F&CGH creates a focused and formidable competitor in the consolidating world of asset management. Your Company is now a top five UK based investment house and a top ten manager of European pensions. We are a leading player in the UK, Dutch, Irish and Portuguese markets. We are expanding in Germany and France. We believe Europe to be the asset management industry opportunity of the decade. Your Company is well positioned in and fully focused on Europe.

## Integration

Our objective, however, is neither size nor market presence. Our objective is shareholder value. The merger made sense simply because the combined group will be more profitable and therefore more valuable than the sum of the parts. Value creation will come first from the elimination of unnecessary duplication and second from new opportunities available to the enlarged and better-resourced group. Operating margins at ISIS and F&CGH were very competitive before the merger. Margins are now set to improve further. As you will see from the Chief Executive's Report, management has targeted significant cost synergies and is making good progress towards their achievement. Equally heartening is the excitement within the group as cross-selling opportunities surface and are seized. Integration is not easy. It is not always fun. However, we believe the effort to be well worth it – for all stakeholders.

## Governance

Changes "below" have been complemented by changes "above." In October we restructured the Board. More than half the Directors are now independent. Member Directors of the key Audit & Compliance and Remuneration Committees are wholly independent. Meanwhile we introduced remuneration policies that place less emphasis on *fixed* pay and more weight on performance driven *variable* compensation. Details are covered in the following pages. Suffice it to say here that we believe that these changes will align further employee and shareholder interests and that, together with strong Board oversight, will contribute to capital value creation.

## Our Clients

We are in business to build shareholder value and it is right and proper that key employees share in the value they create. However, there will be no business to build (much less the employment it sustains) unless we deliver value to our clients. The greater resources of the enlarged group give us an opportunity to serve our clients better than ever before. Management has used the merger to broaden the product range and strengthen the investment proposition. The team is also drawing on the enlarged talent base to craft an investor solution approach to addressing key client needs.

A high margin, well run business, serving investor needs in the heart of a growth market – this is the opportunity and this is our aim.

I should like to take this opportunity to thank Sir David Kinloch for his wisdom and assistance. Sir David retired as Chairman of ISIS last October. During his tenure, he presided over a series of bold steps that ultimately transformed both Ivory & Sime plc and F&C Management Limited, two of the world's oldest money managers, into a leading European asset management business.

Finally, on behalf of the Board, allow me to express our sincere appreciation for the support shown by our employees and our clients as we enter a new, busy and exciting chapter in our Company's long history.

Robert Jenkins
*Chairman*
16 March 2005

# Chief Executive's Report

In my last Annual Report I stated that the strategic goal for the business was to become a top five active UK asset manager by 2007 and that "should the right opportunities present themselves" we would achieve this through acquisition as well as organic growth. The merger last October that created F&C Asset Management plc, has enabled us to achieve that goal two years ahead of target. This was the largest transaction in the global asset management industry in 2004[1] as well as the most significant in the UK for many years.

However, our goal has not been to become large for its own sake. Our rationale is to create a platform which is scaleable for future organic growth; to enhance investment performance through increased resources; to achieve cost synergies in an industry where there are many inefficiencies; and to further diversify the business and widen the range of products we offer to our clients. All of these will lead to greater profitability.

The merged businesses were a compelling strategic fit. The merger has created a profitable European-focused asset management group that not only has scale but is also considerably more diverse by skills, products, client type, geography and revenues than either of the two former entities.

In this, the first Annual Report and Accounts of F&C, we cover approximately 9 months trading by ISIS and 3 months of the combined entity. In my report I will provide an update on the integration, objectives for 2005 and beyond, a business overview with highlights and prospects by major activity, and a financial review.

## Integration Update

| Date | Key Milestone | Status |
|---|---|---|
| **2004** | | |
| July | *New* F&C Board and management committee agreed and announced | Completed |
| | Key management positions communicated | Completed |
| | Decision on brand agreed and announced | Completed |
| August | Second layer of key management (fund management desks) announced | Completed |
| September | Second layer of all other business areas key management announced | Completed |
| October | All staffing decisions made and communicated | Completed |
| | Formal integration work streams commence | |
| | Start relocation of staff to Exchange House | |
| | Decision made regarding outsourcing arrangements | |
| | Change corporate name to F&C Asset Management plc | |
| November | Agree timetable to remove transitional services | Completed |
| December | Vacate Wood Street | |
| | Commence implementing brand and any fund integration decisions | Completed |
| | Pre-close period update for shareholders, including update on integration | |
| **2005** | | |
| March | Annual Report to Shareholders | Completed |
| By June | All staff decisions implemented | |
| | Integration work packages concluded and all outstanding issues transferred to a single project team | |

Ahead of the transaction we issued an integration timetable to shareholders. I am pleased to report that all of the steps identified in the schedule covering the period to end December have now been completed, continuing the progress reported in the Integration Update we issued on 6 December. Of the items not covered in that Integration Report, I can confirm that all staff transferred from Wood Street to Exchange House before the end of December, with the exception of those who are part of the operational outsourcing arrangement with Mellon that we announced on 16 November. They are due to move to the Mellon offices later this year. As a result of this progress we are marketing the Wood Street offices to potential tenants and we are in the advanced stages of reaching an agreement for a significant part of the floor space. The other item to be updated is progress in implementing brand and fund integration decisions.

[1] Source: Cambridge International Partners, The Cambridge Commentary review of 2004.

# Chief Executive's Report

Following our decision to adopt the F&C corporate name a project was initiated during the latter part of 2004 to develop a brand proposition that would include a clear statement of our corporate vision, our mission and our values. This exercise involved both internal and external consultation. We have now finalised this work, which will provide the basis for future activities aimed at building the F&C reputation.

Our Vision:

To become Europe's partner of choice for investment solutions.

Our Mission:

We seek to differentiate ourselves by:

- Building business partnerships with clients, intermediaries and consultants.
- Providing them with solutions that deliver superior performance and service.
- Combining the benefits of centres of excellence and expert local teams.

We aim to create value for clients, shareholders and staff.

We have already made considerable progress in raising the profile of the F&C brand. At the end of January 2005 we launched a new advertising campaign focusing on our solutions-driven approach. Alongside this we have continued to raise the profile of the business through high levels of press activity. During 2004 the Company was mentioned in some 5,000 press articles, an increase of 47 per cent. on 2003.

In addition to the overall F&C brand, there are of course a number of specialist brands within the business that we are continuing to develop. These include our private equity operation ISIS Equity Partners; Baronsmead, our brand in the VCT market; Stewardship, the leading brand in the ethical funds market; and *reo*®, our shareholder engagement product.

Investment trust branding is of course a matter for the independent boards of each Trust.

A key milestone in the merger is the creation of an integrated F&C fund range. This began with the re-branding of the ISIS funds within weeks of the merger completing. We have now reviewed the combined fund range and issued rationalisation proposals that, subject to investor approval, are on target to complete by end of April 2005. Because ISIS had already concluded a major fund rationalisation exercise in August 2003, this current project has not required a programme of streamlining on the same scale. Nevertheless, the proposals will see a range of 53 funds reduced to 47, of which 9 will only be marketed to institutional clients. All of the OEIC funds will be registered under UCITS 3, enabling them to be marketed across Europe. A further aspect of the exercise is that by moving the range to a single administration platform, with International Financial Data Services, significant costs savings will be achieved.

During the remainder of 2005 the integration of Information Technology systems remains a key priority. Our past experience is that this usually takes around 12 months to complete. Initially work has focused on ensuring that our IT infrastructure is sufficiently robust both to meet the needs of the enlarged business and our growth ambitions. The next phase is to introduce business systems that enhance the ability of our fund managers and others to work to maximum effectiveness. Our approach is to select the best available system from each of the two merged entities.

The integration project has a dedicated team comprising staff from F&C and representatives from Ernst & Young, who assisted ISIS with the integration of Royal & SunAlliance Investments in 2002/2003. Currently there are 16 separate work streams that will realise their goals during 2005.

## Business Objectives

The key drivers of our long-term success will be the ability to generate organic growth in profitable lines of activity. A proposition with strong investment performance is central to our ability to deliver this. Allied with an efficient, scaleable operating model, these are the basic elements of a successful asset management business. We have created an efficient business structure that centralises most of our fund management activities and complements this with local client servicing and sales support. Where we do have local fund management, it is because of a particular requirement to maintain a centre of excellence in that region. It does not lead to duplication. This allows us to gain economies of scale, but still meet the needs of our clients in various European centres.

We provide a wide range of investment expertise across most asset classes. For example in equities we have separate teams that cover the whole spectrum from venture capital through to listed multinational companies. In all areas of activity we have a strong focus on high quality proprietary research.

**Investment Quality** is essential to our success. It can be defined in a number of ways, but at its most basic means offering products that meet both the needs and expectations of clients in terms of structures, returns and risk characteristics. Good investment performance is paramount. As a large asset manager with a diverse range of products across all the major asset classes, we will have some variability in performance. Post the merger, products that were performing well have continued to do so and there has been an improvement in some areas of weakness. However, a constant focus on improving investment quality is fundamental. As a result of the merger, we have been able to strengthen a number of our teams. This upgrading will continue where appropriate. In structuring our major investment departments, we have created distinct smaller teams within them to encourage product ownership and foster closer teamwork while leveraging off a large resource platform that includes research, strategy, dealing and risk analysis. For example, within our pan-European equities department, teams focus either on traditional core mandates or high alpha products. This marks an evolution from our previous separation of retail and institutional fund management. Similarly, within our fixed interest department we have teams covering traditional (government bonds and investment grade credit) and specialist (high yield and emerging market debt) products. We have also completed a review of our equity investment process so that we have a single philosophy which is predicated on understanding the interaction between long-run valuations and shorter-term dynamics and then challenging the consensus to identify fair value. We have also been at the forefront of developing open architecture products through fund of funds and we will extend our capabilities further by offering investment solutions to our clients that capture the investment talents of other managers where our own competencies can be complemented. The business highlights section below refers to some of our distinctive offerings.

**Net inflows.** The success of our organic growth strategy will be measured by our ability to win new clients and retain existing ones. In our shareholder presentations that accompanied the placing last October, we identified net flows across the combined business on a pro forma basis covering the first half of 2004 and previous years. In summary, there were net outflows although the pattern was improving. The nature of our client base – for example the high proportion of insurance assets, and the high level of redemptions from some of these in recent years, has been a factor. We have updated these flows for 2004 as a whole, later in my report. Data for Q4, 2004 which is the first quarter of business for F&C, are identified below and compared with pro forma figures in previous periods. It is encouraging to see broad balance between inflows and outflows in Q4, 2004 although it may be premature to expect to see a positive net balance for 2005 given the inevitable short term caution of investment consultants after mergers. By 2006, however, I am confident that we will be in a position to experience overall net inflows providing we continue to make progress with our investment propositions.

Net Flows £'bn

| | Gross inflows | Redemptions | Net |
|---|---|---|---|
| Calendar 2002 Pro forma | 3.6 | (10.9) | (7.3) |
| Calendar 2003 Pro forma | 5.0 | (11.7) | (6.7) |
| First 3 quarters 2004 Pro forma | 3.3 | (8.0) | (4.7) |
| Quarter 4 2004, Actual | 0.9 | (1.2) | (0.3) |

**Raising average fee rate.** As in many areas of activity, there is a tendency to commoditisation in our industry. This means that in the areas subject to these trends, fee rates are relatively low and under some downward pressure. The trend towards indexation is adding to this. However, in a world of lower investment returns, investors are increasingly willing to pay for the creation of 'alpha'. This is evident in both retail and institutional markets.

A movement into higher fee business lines will result in increased profitability providing it does not require a more than commensurate increase in costs. Given the historic client base of the business – with a high proportion of insurance assets – we have lower average fees than most of our competitors. However, there has been a focus on raising average fee rates and this will continue. It will come from a number of sources: we are introducing performance fees on a wider range of products; we are developing high fee activities such as alternatives (via private equity and hedge funds) and retail products; and in the institutional market we are offering high alpha products to meet the continuing trend towards specialist mandates. Indeed, insurance companies themselves are becoming more open to the adoption of high alpha strategies for part of their portfolios, offering us further opportunity to develop this part of our business. Some of these developments are covered in more detail below.

## Business Overview

### Funds Under Management

As explained above, we have continued to diversify the business. Below we provide a breakdown of funds under management at 31 December 2004 by client category, asset class and geographic area. These are compared to pro forma numbers for the two previous businesses as at the end of 2003.

#### By Client Category

| | At 31 December 2004 £bn | (%) | At 31 December 2003* £bn |
|---|---|---|---|
| Insurance Funds† | 78.6 | 63 | 73.1 |
| Institutions | 32.7 | 26 | 33.8 |
| Venture Capital Trusts/ Limited Partnerships | 0.4 | 0 | 0.4 |
| Investment Trusts | 5.3 | 4 | 5.0 |
| Unit Trust/OEICs – Third Party | 2.3 | 2 | 2.0 |
| SICAVs/Mutual Funds | 0.8 | 1 | 0.8 |
| Sub-Advisory | 4.7 | 4 | 4.8 |
| Total Retail | 13.5 | 11 | 13.0 |
| Total | 124.8 | 100% | 119.9 |

* Pro forma numbers.

† Includes Millennium BCP unit-linked products sub-advised by F&C.

While insurance funds still represent a significant percentage of our total funds under management, the merger has resulted in these assets being more diversified by client and geographic spread. As the table below shows, we now have six major insurance clients. No single insurance client represents more than 13 per cent. of our pro forma gross revenues, showing how far the business has developed since 31 December 2000 when over 60 per cent. of our revenues were derived from a single insurance client. This broadened client base underlines F&C's credentials as a third party manager of insurance assets. We are well positioned to build upon this franchise should further opportunities arise.

#### Insurance Clients

| | Country | Contractual Period |
|---|---|---|
| Friends Provident | UK | 5-10 years* |
| RSA | UK | 8 years |
| Resolution Life | UK | 8 years |
| Achmea | The Netherlands | 9 years |
| Friends First | Ireland | 11 years |
| BCP | Portugal | 10 years |

* 1 year contract reverting to 5-10 years if FP's ownership of FCAM drops below 50 per cent.

As the above table illustrates, with each of our insurance clients we have long-term contracts in place. These contracts generate a secure revenue base which covers most of our fixed costs. This provides us with a platform from which we can grow our presence in other market segments.

#### By Asset Class

| | At 31 December 2004 £bn | (%) | At 31 December 2003* £bn |
|---|---|---|---|
| Fixed Interest | 72.6 | 58 | 66.4 |
| UK Equities | 16.8 | 13 | 17.8 |
| Continental European Equities | 11.8 | 10 | 12.0 |
| Other Overseas Equities | 11.3 | 9 | 11.4 |
| Property | 6.0 | 5 | 6.1 |
| Private Equity | 0.5 | 0 | 0.4 |
| Other Alternative Investments | 0.9 | 1 | 0.9 |
| Liquidity | 4.9 | 4 | 4.9 |
| Total | 124.8 | 100% | 119.9 |

Fixed interest assets represent some 58 per cent. of total funds under management, reflecting the requirements of our client base, particularly our insurance clients. While fee rates on fixed interest mandates are lower than equity mandates, within this asset class we are seeking opportunities to grow our exposure to more specialist areas such as high yield and emerging debt, where margins are higher and performance fees are more common place.

It is important to understand that the basis points earned on areas such as private equity and alternatives, though small as a proportion of total funds under management, are significantly higher than those we earn on mandates in the mainstream asset classes.

### By Geographic Source

| | At 31 December 2004 £bn | At 31 December 2003* £bn |
|---|---|---|
| United Kingdom | 74.8 | 73.2 |
| The Netherlands | 30.4 | 28.3 |
| Portugal | 12.7 | 12.1 |
| Ireland | 2.8 | 2.8 |
| Germany | 1.7 | 1.5 |
| France | 0.7 | 0.3 |
| Other | 1.7 | 1.7 |
| Total | 124.8 | 119.9 |

With over 1,000 institutional clients and over a million retail customers, F&C has a diverse client base. We have offices in seven countries and a major presence in Ireland, The Netherlands, Portugal and the UK.

As a result of the merger we are actively seeking revenue synergies by cross-selling products and services across the combined client base. For example, we see significant potential to roll-out our Governance and Socially Responsible Investment (GSRI) product – *reo*® – to our enlarged European institutional client base.

### Fund Flows

Below we provide a picture of pro-forma business inflows and outflows during 2004. In reviewing these it is important to understand that movements in insurance assets can occur for both business and corporate reasons. Notable cash inflows from Europe include assets resulting from Eureko's acquisition of Levob. Furthermore, some of the insurance assets we manage are closed books of business and, as such, are in long-term run-off. These will by definition generate annual outflows, something that we anticipated when we acquired the business. Such funds are also typically heavily exposed to fixed interest where fees are lower than those on many other mandates.

### Pro-forma Funds Flow 2004

| | Inflows £bn | Outflows £bn | Net Movement £bn |
|---|---|---|---|
| Insurance | N/A | N/A | (1.2) |
| Institutions | 2.7 | (6.2) | (3.5) |
| Venture Capital Trusts/ Limited Partnerships | 0.1 | (0.1) | 0.0 |
| Investment Trusts | 0.2 | (0.3) | (0.1) |
| Unit Trust/OEICs Third Party | 0.3 | (0.2) | 0.1 |
| Sicav/Mutual Funds | 0.0 | (0.1) | (0.1) |
| Sub-Advisory | 0.9 | (1.1) | (0.2) |
| Total Retail | 1.5 | (1.8) | (0.3) |
| Total | N/A | N/A | (5.0) |

Institutional pension fund outflows related, broadly, to three factors: first, the industry wide trend of a move from balanced to specialist mandates and indexation; secondly, a switch from conventional assets to alternatives such as commodities; and thirdly, some instances of disappointing investment performance, notably in emerging market equities which had a difficult year. Outflows were in part offset by new mandates, both in the UK and Continental Europe particularly in a broad spectrum of specialist bond portfolios.

While the level of outflows for 2004 is high, they need to be reviewed in the context of the profile of new business gains and the trend established by the enlarged organisation in recent years. Good progress has been made in implementing a strategy of focusing on higher margin new business. Three such areas are investment trusts, private equity and alternatives, all of which grew their revenue and margins during the year.

## Business Highlights and Prospects

### UK Retail

Despite a healthy 14 per cent. return from the FTSE All Share Index during 2004, statistics published by the Investment Management Association (IMA) reflect a difficult year for UK retail fund sales. While industry-wide gross retail funds sales were 8 per cent. higher in 2004 than 2003, net sales were some 42 per cent. lower as existing investors redeemed their investments. The picture was particularly challenging for sales of Individual Savings Accounts (ISAs) where industry-wide gross sales were flat year on year and net sales went into negative territory for the first time since ISAs were introduced in 1999.

# Chief Executive's Report

I believe there are a number of factors contributing to this lack of confidence from retail investors. These include concerns about the housing market, high oil prices, events in Iraq and the breakdown of trust in the financial services industry – a topic that I touched upon in my last Annual Report. Against this difficult backdrop, survey work conducted for F&C suggests that ISA sales have also suffered from a perception that the Government has not been fully committed to this product because of the abolition of tax credits on equity dividends within ISAs.

During 2004 retail investors showed a strong preference for income generating products, including corporate bond funds, equity income funds and commercial property. There were relatively few fund launches in the UK, with the exception of property investments, which appealed to investors because of their yield characteristics.

Aside from launches of closed-end property funds, the investment trust sector suffered as a result of the cloud hanging over it in the form of the FSA investigation into split capital trusts. We welcome the settlement that the industry reached with the regulator in December and we contributed just under £2 million. The priority now must be for the industry, regulators, policy makers and consumer groups to work together to address the low savings ratio and rebuild confidence in the savings and investments industry.

Despite the tough climate described above, our pro-forma gross new business for collectives in the UK was 39 per cent. up on 2003 and net new business was some 138 per cent. ahead of 2003, reflecting an improvement in redemptions levels.

Significant retail activity took place in the first half of 2004 with a focus on the launch of two new multi-manager products in February. This is a fast growing segment of the market that is benefiting from moves by advisers to consolidate their clients' fund portfolios into managed products. With the distribution environment changing as a result of depolarisation and commercial pressures, advisers are revisiting their business models. Some are choosing to focus on financial planning rather than portfolio management and are therefore concluding that they should make greater use of multi-manager products. With our long-standing presence in the fund of funds segment, F&C is benefiting from this trend.

Corporate bonds were also a key retail product area for F&C in 2004, reflecting both investor interest in income generating products and the strength and depth of our proposition which has been built on scale and team work. Within our fixed income department our credit team has significantly expanded as a result of the merger, moving from 10 investment professionals to 25, making F&C one of the best resourced managers of corporate bonds operating in the UK. Our flagship retail bond product, F&C Strategic Bond Fund, recently won its category in the 2005 Lipper Fund Awards.

A notable highlight of 2004 has been the recognition we achieved for the excellent performance of the Stewardship range of ethical funds. The funds received significant attention during the year, aided by the 20th anniversary of the Stewardship Growth Fund and the appearance of the Stewardship Income Fund in the influential "White List Report" produced by Principal Investment Management. This rated the fund as one of the best equity income funds on a risk/return basis. The manager of the Stewardship Income Fund won the UK Equity Income category of the Lipper Citywire "2004 Fund Manager of the Year" Awards.

Another area of success has been the Venture Capital Trust (VCT) market where we operate under the Baronsmead brand. Favourable tax changes in the April 2004 Budget, which enable investors in VCT new issues to reclaim a 40 per cent. income tax rebate on their subscription, have provided a significant stimulus to VCT sales. In the 2003/4 tax year we achieved the largest market share of any VCT provider and, despite competition from over thirty new launches, we have continued to generate large market share in the 2004/5 tax year through two C-share issues and top-ups to existing shareholders.

Investment trusts have a central place in the heritage of both F&CGH and ISIS and continue to be a major aspect of the retail profile of the enlarged group. F&C has a dominant share of the investment trust regular savings scheme market and in 2004 celebrated the 20th anniversary of the F&C Private Investors Plan, the first such plan. Looking to the future, F&C will continue to be a pioneer of investment trust savings products and is the only asset management group to offer an investment trust Child Trust Fund (CTF), a new Government savings initiative. The group's position as the leading investment trust provider was confirmed in a number of awards including ''Best Investment Trust ISA Provider, 2004'' (What Investment), ''Best Investment Trust Group 2004'' (Personal Finance) and ''Best Investment Trust Group 2005'' (Professional Adviser).

We have combined our experience as a manager of closed-end investments with the strong performance of F&C Property Asset Management as an investor in commercial property. In May 2004 we successfully launched a £170 million listed property trust, ISIS Property Trust 2 Limited. Dealings in a third property trust, F&C Commercial Property Trust Limited, are expected to commence shortly. With assets in the region of £1 billion, provided largely by FP, this will be the largest launch of its kind in the UK.

As the distribution landscape changes we are working to identify opportunities in strategic partnerships with distributors, in some cases alongside our parent FP, leveraging on our experience in servicing such relationships as well as our ability to offer a diverse product set. We have already announced deals with Citisolutions, a subsidiary of Citibank, and Lighthouse Group plc, one of the UK's largest financial advisory firms.

The merger of F&CGH and ISIS has resulted in a business with a broad range of retail products and a deeper pool of investment expertise. As the range of pooled UK authorised funds is rationalised, this will enhance the competitiveness of our product range, create clarity around the core strengths of the business and generate significant savings and efficiencies. With the improved skill base we also see new opportunities in the UK retail market place for developing near-cash vehicles, structured products and investments linked to fund of hedge funds.

In addition to some product rationalisation, the retail open-ended funds business is being built around a single outsourced operational model. This will see the consolidation of fund accounting, trustee, depositary and third-party administration activities during the first half of 2005.

### European wholesale

The merger has provided us with exposure to the Continental European retail market, an area where ISIS had no presence but where we see attractive growth potential.

Whereas in the UK market Independent Financial Advisers (IFAs) have historically been the dominant distribution channel, in most Continental European countries retail investors purchase financial products primarily through banks and insurance companies. This requires a different approach to developing a retail presence, so our strategy is to work primarily through local distributors in a wholesaler capacity.

The three key markets for our European wholesale business are Portugal (where we sub-advise the mutual funds of Millennium BCP), The Netherlands (where we sub-advise Achmea's mutual funds and unit linked products) and Germany where we distribute our SICAV funds. Additionally, F&C also manages assets for Millennium BCP's unit-linked products as part of our contract to manage their insurance assets. Funds under management for these wholesale relationships grew marginally over 2004 from €8.3 billion to €8.4 billion. The Portugese unit-linked business grew from €3.7 billion to €4.3 billion over the same period.

In Portugal, our retail investors had a strong preference for low risk and unit linked products during 2004, with net outflows of €489 million on mutual funds set against net inflows of €347 million on unit-linked products. Mutual fund run-offs reflected in part a shift from money market funds to other low risk products as well as some migration to open-architecture in the High Net Worth segment. The key growth areas for us were unit-linked products, real estate funds and fettered fund of funds.

We are working with Millennium BCP on new product concepts for 2005. These include an unfettered fund of funds, which will enable us to capture a greater share of the open architecture product sector, and some innovative fixed income products. In the short-term we anticipate an ongoing trend of further money market run-offs.

Net sales of Achmea mutual funds and unit-linked products sub-advised by F&C were €255 million in 2004. A key development in 2004 was the establishment of a new partnership structure with Achmea. This provides for policy level management of the relationship on both sides and a commitment to joint sales support activities with their sales and agent networks. We expect this to benefit sales momentum in 2005. We are looking at developing low-risk products for the Dutch market, along similar lines to the Stiftungsfonds product which we offer to the German market.

Net sales in Germany totalled €26 million for the year. Most of these assets were invested in the F&C HVB Stiftungsfonds, an innovative low-risk product managed by F&C Alternative Investments utilising their expertise in structured products. Stiftungsfond is designed to deliver a combination of capital stability and predictable dividends. The product, which is co-branded and marketed with HVB has been particularly successful with Charitable Foundations and is beginning to sell through other partners in Germany as well as the HVB branch network. A sales slowdown in Q4, 2004 was due to tax considerations and volumes have picked up significantly in the first two months of 2005.

### Institutional

We now have leading positions in two key segments of the European institutional market place. The first is in managing assets for insurance companies; the second is in managing assets for pension funds. Both areas have expanded as a result of the merger.

While we have always had a significant exposure to insurance assets, as discussed earlier, the client base has become more diverse. Given our experience in this area, and expanded product range, I believe F&C is well positioned to benefit from any further moves by insurance companies to outsource asset management to third-party providers. As part of our long-term contracts with some of our insurance companies, F&C has contractual rights to manage assets resulting from any corporate activity by these clients.

While insurance funds are heavily weighted to lower margin fixed interest assets, there are indications that such funds are increasingly looking at areas such as private equity, alternatives and structured products. For F&C these areas generate higher fees. The merger has strengthened the range of services we can deliver to our insurance clients, which now includes hedge funds, fund of hedge funds, derivative based products and a strong asset-liability modelling capability.

In the UK, a key development in our insurance client base during 2004 was the addition of Resolution Life Group. This company was formed with the sole purpose of buying and managing UK life insurance companies that are closed to new business. In September 2004 they announced that they had acquired the life operations of Royal & SunAlliance Insurance Group plc (R&SA). The outsourcing agreement between R&SA Life and F&C, whereby F&C manages the assets, was transferred to Resolution Life.

F&C is also a top-ten manager of European pension funds with leading positions in the Dutch, Portuguese, Irish and UK markets. The well-documented pension short-fall problem in Europe combined with shifts in asset allocation towards areas where we can demonstrate strength and depth, will, I believe, offer good growth opportunities. Moreover, our partnerships with local insurance companies means we are well positioned to deliver fully integrated investment and pension administration services.

While it is common for consultants to put a company on hold during a merger, since completion we have undertaken a major programme of consultant meetings. Much of this activity has focused on high alpha equities and our fixed interest capability, which has been further strengthened as a result of the integration. Our fixed interest department now has 44 investment professionals including 25 focused on credit. The merger has also widened our skill-sets within fixed interest by incorporating dedicated emerging debt and high-yield teams.

There are several important trends in the UK pensions market that we are positioning the Company to exploit. First is the move from balanced to specialist mandates; secondly, a shift towards fixed interest as an asset class with a focus on the link between a plan's liability profile and its bond investments; thirdly, is a growing interest in high alpha equity mandates and alternative investments and; fourthly, is greater pressure on pension trustees to demonstrate they are engaging with companies on matters of governance and social responsibility.

While F&C is a large multi-asset manager, the Company is also a specialist in a number of areas. In particular, our strengths are in fixed interest, GSRI, high alpha UK equities, alternatives (hedge funds and private equity), and commercial property. Balanced pension fund mandates represent just 16.5 per cent. of our assets under management across Europe.

Overall, UK performance was good for our UK pooled pension funds. The Stewardship pension fund, an ethically screened product, ranked 1/95 in the CAPS UK Pooled Pension Fund sector and our UK Equity fund ranked 30/95. During 2004 we also launched a UK high alpha pooled pension fund.

In The Netherlands we have been transforming our revenue base from low fee balanced mandates to higher fee specialist mandates such as high yield bonds and hedge funds. An important development during the year was Achmea's acquisition of Levob. This transaction increased the assets managed by F&C by over £550 million.

We also see particular opportunities in The Netherlands to win new business for our GSRI product – *reo*®. The policy direction in The Netherlands is putting greater pressure on pension funds to engage with companies. In January 2004 Bedrijfstakpensioenfonds Metalektro (PME), one of the largest pension schemes in The Netherlands, appointed us to manage a share voting programme and a GSRI engagement overlay on its worldwide equity portfolios. We are also applying *reo*® to some of our Dutch pooled funds. The merger has created strong cross-selling opportunities for this market-leading GSRI product.

Germany is also a key market for the F&C institutional business. Since the fourth amendment of the German Investment Act in July 2002, more than 30 per cent. of externally managed assets have been reallocated from German Investment Companies (KAGs) to outside managers. F&C is well placed to take advantage of this trend due to the breadth of our product offering and our contractual relationships with all major KAGs. In 2004, assets managed for German institutions outgrew the market significantly (14 per cent. versus 2 per cent.). In the latest survey carried out by FERI, Germany's largest consultant, F&C ranked number 1 out of 13 UK asset management companies.

There were two key events for F&C in France during 2004. First was the development of our partnership with MAAF Assurances. Together with their subsidiary MAAF REIM, we launched a closed-ended investment vehicle investing in the French office market (FOSCA). Secondly we won a €480 million global index linked bond mandate from the Fonds de Reserve pour les Retraites (FRR).

In Portugal we manage institutional and insurance assets for Banco Comercial Português (BCP). 2004 saw an 8 per cent. increase in F&C's Portuguese insurance (excluding unit-linked) and pension assets. There was a 40 per cent. increase in property funds. Despite BCP's sale of its controlling stake in Seguros e Pensões to Fortis, we continue to develop the relationship with our Portuguese customers. With nominal rates remaining low, we expect clients' request for yield enhancing and non-correlated assets to become even more visible than in 2004. This will provide F&C with opportunities in both fixed interest and alternatives.

In Ireland, business inflows were strongest in property and fixed interest, where we won our first specialist corporate bond mandate at the start of the year. As larger schemes follow the trend of moving away from balanced mandates to specialists, we will focus on property and bonds. We will also see opportunities to market our GSRI products to the Irish charity market.

In the US, interest has typically focused on our emerging equities product, but this experienced a slowdown in 2004. The focus during 2005 will be to introduce the F&C GSRI proposition to the US.

### Alternative Investments

In my last Annual Report I highlighted the increased interest in alternative investments. In the broadest sense this includes both private equity and hedge funds and, under some definitions, commercial property. While ISIS had a strong private equity (and commercial property) presence, the business did not have any hedge fund capability. As a result of the merger we now have strength in each of these high margin product areas.

### ISIS Equity Partners

2004 was another successful year for our private equity operation, ISIS Equity Partners. The team won the Real Deals/British Venture Capital Association 2004 ''Private Equity House of the Year'' Award, were runner-up in the European Venture Capital Journal Awards and were also short-listed for the European Private Equity Awards.

# Chief Executive's Report

Performance was strong across all of the Limited Partnerships and each of the Baronsmead VCTs. Around £65 million was injected into 7 new investments with a total transaction value of £175 million. New investments included MORI and DVC Sales. 2004 also saw 9 exits/re-financings which repaid £35 million to investors. These included two flotations; Staffline (December) and Vectura (July).

The Baronsmead VCTs raised over £30 million of new funds in 2004, achieving a market share of over 15 per cent. As I mentioned earlier, fund raising has been particularly strong since the introduction of new tax reliefs in the 2004 Budget. As a consequence we are seeing a significant increase in new VCT funds.

### F&C Alternative Investments

Although 2004 was regarded as a relatively challenging year for the hedge fund industry, it was a good year for F&C Alternative Investments, our division responsible for single strategy hedge funds. The client base is both strengthening and becoming more diverse. Performance on our first two hedge funds was strong and our equity volatility trading fund, F&C Amethyst, won its category in the prestigious EuroHedge Awards in January 2005. A third single strategy hedge fund was launched in May 2004.

In addition to the single strategy hedge funds, F&C Alternative Investments also manage some retail mandates that utilise derivative-based investment strategies. These all met their performance objectives. New investments were particularly strong into F&C HVB Stiftungsfonds. We will consider further leveraging their expertise to develop other products with 'cash plus' performance objectives

### F&C Partners LLP

We have also established a firm foothold in the fund of hedge funds market with the creation of F&C Partners LLP in 2004. This partnership is majority owned and controlled by F&C and draws upon a team with considerable experience in this area. The team operates within an infrastructure that is highly automated, enabling it to participate in this high margin sector at competitive rates.

We have already launched an institutional fund of hedge funds and will look to develop further products during 2005.

### Cardinal Asset Management

In my last Annual Report I was able to announce that F&C had signed heads of agreement to acquire a 15 per cent. equity stake in Cardinal Capital Partners (trading as "Cardinal Asset Management"), a new business focused on alternative investment. At that time ISIS had no in-house hedge fund capability, so the investment in Cardinal was a way of achieving exposure to the segment without disrupting our existing business.

A consequence of the merger of ISIS and F&C is that the Company now has both an in-house alternatives proposition and a minority stake, and a preferential relationship, with an external provider. This provides us with a strong base for developing our proposition in a fast-growing market segment.

## Financial Review

When the merger was first announced on 2 July 2004, shares in ISIS were suspended at 199 pence. They re-listed on 10 September, trading at 222 pence, or a premium of 11.5 per cent. to the suspension price. Subsequent to re-listing 75.7 million shares were placed by Eureko at a price of 230 pence allowing completion to take place and the re-named company, F&C Asset Management plc, to meet the necessary free float obligations required under the listing rules. This transaction has had a major impact on the business and the results for the year as detailed below.

## Accounting Implications of the Merger

Due to the timing and size of the merger, the accounts for the year to 31 December 2004 are not directly comparable with those of 2003. Accordingly, we have in certain sections of the report disclosed pro forma numbers (being the position as if the two groups had combined on 1 January 2004).

Revenues and administrative expenses for the year to 31 December 2004 represent some 9 months of ISIS and the results of the combined entity for the period from 11 October 2004 to 31 December 2004. Where relevant, further detail or explanation is given to provide clarity of understanding and transparency. The significant items to highlight within the profit and loss account are performance fees, bonus and long-term incentives, all of which are addressed in more detail under the relevant headings.

The merger has also produced a more diverse shareholder base. On conclusion of the merger – 11 October 2004 – we issued 331,396,724 shares, the mechanics of which resulted in 75,726,031 shares being placed into the market at a price of 230 pence; 11,021,961 being placed into an employee benefit trust for the F&C employee shareholders who reinvested 50 per cent. of their vested entitlements into new F&C shares; 99,283,053 shares being allotted to Eureko and 145,365,679 shares being allotted to Friends Provident, who paid Eureko £380 million for those shares in order to maintain a majority holding in the Company. While the process was complex, the end result is set out below.

| Non Free Float Shares | Pre deal Shares (m) | % | Post deal* Shares (m) | % |
|---|---|---|---|---|
| Friends Provident | 100.8 | 67 | 247.1 | 51 |
| Eureko | – | – | 101.3 | 21 |
| Other | 9.4 | 6 | – | – |
| Directors and Staff Schemes | 1.2 | 1 | 12.7 | 3 |
| Sub Total | 111.4 | 74 | 361.1 | 75 |
| Free Float Shares | 38.9 | 26 | 121.1 | 25 |
| Total | 150.3 | 100 | 482.2 | 100 |

* Represents position at 31.12.04.

With such a large number of shares issued so close to the year-end, disclosed earnings for the year do not cover the dividends paid and declared to shareholders. The dividends would have been fully covered by pro forma earnings before goodwill amortisation and exceptional items.

The balance sheet has also changed significantly with an additional £685 million of goodwill arising (before amortisation) as a result of the merger. While the introduction of International Financial Reporting Standards will result in a change in the treatment of goodwill for 2005 financial reporting, an important issue for investors is whether there has been any impairment of goodwill or, indeed, what is the fair value of goodwill. The acquisition of F&CGH was undertaken as a nil premium merger and, as such, no additional value or premium was paid for the synergies that will be delivered as part of the integration.

## Results

Net revenues for the year were £149.2 million (2003: £107.9 million). Administrative Expenses excluding goodwill amortisation were £100.7 million which includes £4.6 million in relation to the Re-Investment Plan. Administrative Expenses excluding goodwill amortisation for 2003 were £73.5 million. Integration costs were £18.3 million. All of the above numbers reflect the transaction and are not directly comparable – as such further explanation is provided below.

Earnings per share (EPS) on a clean basis (before exceptional items, amortisation of goodwill and the cost of the Re-investment Plan) were 14.0 pence (2003: 12.0 pence). As earnings per share is calculated on a time weighted basis the numbers should be comparable. It is however relevant that performance fees are typically recognised in the final quarter. With such a large number of shares issued so close to the year-end and the impact of performance fees there is a degree of EPS sensitivity. Accordingly, our clean EPS should not be used as a guide to future earnings.

## Revenues

Pro forma revenues for the enlarged group after selling expenses were approximately £257.6 million which, after adjusting for performance fees and any other non-recurring revenues, gave an average revenue margin of 21 basis points. This is higher than ISIS was for 2003 – 18 basis points and lower than F&CGH was for 2003 – 25 basis points. We will continue to focus on generating net new business in higher margin areas.

| Revenue Margin (basis points) | 2004 | 2003 | 2002 |
|---|---|---|---|
| FCAM | 21 | 21* | N/A |
| ISIS | N/A | 18 | 17 |
| F&CGH | N/A | 25 | 23 |

* Pro forma number

The revenues at £149.2 million for the year included £7.9 million of performance fees. We anticipate future growth in the level of performance fees.

Going forward we will seek to create a greater degree of transparency between net business flows and the impact on net revenues. As I stated earlier, while the outflows during the year were material, a significant portion of them represented insurance outflows, some of which were anticipated. Indeed, actuarial reviews of insurance funds make it clear that we will continue to experience outflows from this segment. Insurance funds earn a revenue margin of between 10 and 12 basis points whereas other mandates, particularly alternatives and private equity, can provide a revenue margin in excess of 10 times these levels.

## Administrative Expenses

As with revenues, administrative expenses represent those of ISIS for just over 9 months and the combined entities for the period from 11 October to 31 December 2004. While pro forma revenue numbers are relevant as they reflect the revenues earned over the last 12 months, pro forma costs are less helpful since they do not represent the real run rate expenditure of the business. With a reduction in headcount and the termination of a number of services in the fourth quarter, the actual expenditure numbers do not give clear guidance as to current normalised or future expenditure. As such, the best reference point is the expenditure level shown in the Listing Particulars adjusted for synergies, changes in accounting for share schemes and, where appropriate, inflation.

The completion accounts, being the accounts of F&CGH from 1 January to 10 October 2004, contain a number of items that are relevant to the group accounts. In particular these are the long-term share incentive schemes and accrued bonus payments to F&CGH staff for the period prior to the completion of the merger. The £14 million accrued bonus payments, which are funded by the seller (Eureko) under the Sale & Purchase Agreement, will be added to those shown within the accounts and will be paid to permanent and transitional staff in employment at 31 December 2004.

While operating margin provides a guide as to how efficiently the business is managed, and is a clear focus of management, this is not to the detriment of our other key priorities of generating net new business and rising revenue margin. The operating margin for the year to 31 December 2004, was 36.1 per cent. This compares with 32.9 per cent. for both ISIS and F&CGH in respect of the year to 31 December 2003. In 2005 we expect the operating margin to increase from current levels.

| Operating Margin % | 2004 | 2003 | 2002 |
|---|---|---|---|
| FCAM | 36.1% | 32.9%* | N/A |
| ISIS | N/A | 32.9% | 28.2% |
| F&CGH | N/A | 32.9% | 29.9% |

* Pro forma number

## Integration Expenditure and Synergies

We stated in our Listing Particulars that we would seek to deliver £33 million of cost synergies by the first half of 2006. These will be realised through reduction in headcount, reduced premises costs, integration of IT and outsourcing platforms and other general overheads. These cost reductions will be relative to the combined cost base of the two businesses if they had remained as separate companies. Our budgetary process for 2005 indicates that about two-thirds of the synergies will be delivered in 2005 representing a cost reduction of just over £20 million. We continue to forecast that £33 million of cost synergies will be achieved.

In the Listing Particulars we also indicated that we believed we would incur some £50 million in one-off costs to deliver the integration and achieve the estimated synergies. This remains our forecast with the major areas of cost being headcount reduction, IT integration, a move to a single outsourcing provider for institutional and retail business and the move into a single London property. While decisions have been made regarding all of the above and all our London staff are located in Exchange House, the major part of expenditure relating to IT and outsourcing will occur over the next 12 months as we move towards integrated solutions.

## Headcount

ISIS did not have offices outside the UK so headcount reduction has been restricted to the UK offices. Below we provide a breakdown of headcount as between the UK and non-UK offices.

| | 31 December 2003 F&CGH | ISIS | Total | 31 December 2004 |
|---|---|---|---|---|
| UK | 311* | 521* | 832 | 700 |
| Non-UK | 146* | — | 146 | 140 |
| | 457 | 521 | 978 | 840 |

* Represents headcount numbers reflected in budgets including vacancies.
All numbers represent permanent full-time equivalents.

### United Kingdom

| | |
|---|---|
| Headcount (at 31 December 2004) | 700 |
| Transitional Resources (Note 1) | (40) |
| Outsourcing (Note 2) | (60) |
| Adjusted Headcount | 600 |

Note 1: A number of staff have been notified that their employment will terminate during 2005 once the integration tasks have been completed.

Note 2: A number of staff will transfer to Mellon on conclusion of the outsourcing negotiations.

Despite these synergies we have continued to recruit selectively in certain areas where we have identified enhanced revenue opportunities – for example, hedge funds and private equity.

## Share Schemes

### Long Term Share Incentive Plans

The Company has a number of share incentive schemes in place which are fully explained in the Remuneration Report. The purpose of these schemes is to align the interests of shareholders and employees and to attract and retain key staff. Like other forms of compensation the cost of these schemes requires to be charged to the profit and loss account. Here we explain how the arrangements put in place as part of the acquisition of F&C impact the profit and loss account.

### The Re-investment Shares

As explained in the Listing Particulars, certain F&C Management staff participated in a shadow equity scheme. At the time of announcement of the merger they were invited to reinvest 50 per cent. of their vested entitlement into shares of new F&C. These shares, which were funded by Eureko, were placed in an Employee Benefit Trust (''EBT''). To receive their entitlement in full, employees must remain with the Company for 24 months. To encourage employees to make this financial commitment, matching shares were made available which are subject to performance criteria (growth in EPS) and the individual being with the Company for the longer period of 36 months. Given the need to retain key and senior staff, this is considered to be a transaction related cost. Accounting convention requires that the Re-Investment Shares are charged to reserves and amortised to the P&L account over the term of the schemes.

| Category | Number | 2004 P&L Charge* £000 | 2005 P&L Charge* £000 | 2006 P&L Charge* £000 |
|---|---|---|---|---|
| Re-investment Shares | 10,773,634 | 2,764 | 12,390 | 9,625 |
| Matching Shares | 9,426,930 | 1,613 | 7,227 | 7,227 |
| | 20,200,564 | 4,377 | 19,617 | 16,852 |

* Excluding Employer's National Insurance Contributions.

Should any of these employees leave the Company as a ''bad leaver'' prior to the end of the 24-month lock-in period then the re-investment and matching shares will revert to the benefit of the Company. To the extent that employees leave or the performance criteria are not met, then the number of matching shares that require to be issued will reduce proportionately.

## Long Term Remuneration Plan

As part of the shareholder approval for the transaction a new long-term incentive arrangement was established (the Long Term Remuneration Plan) allowing annual grants of deferred shares.

These shares only vest if certain performance criteria are met and the level of vesting is directly related to the performance of the Company.

During 2004, 6,375,904 deferred shares were awarded to individual employees at a price of £2.40 per share. In accounting for these shares, which are an operating cost of the business, we have used a 25 per cent. discount reflecting that eligibility and performance criteria may not be met.

| Category | Number (000) | 2004 P&L Charge £000 | 2005 P&L Charge £000 | 2006 P&L Charge £000 |
|---|---|---|---|---|
| Deferred Shares | 6,376 | 479 | 3,830 | 3,830 |

While the previous ISIS share option scheme and share save schemes also have an impact on the P&L account, the above describes the material issues. Both sets of numbers are calculated under UK GAAP and while we will report 2005 results under IFRS, it is not anticipated that this change will have a material financial impact.

## Dividend

In last year's Annual Report we set out our dividend policy. This was confirmed in the Circular to shareholders dated 9 September 2004.

### Our policy is:

- to maintain and, if appropriate, grow the dividend;
- to target over the medium term 1.5 times dividend cover based on cash earnings before amortisation of goodwill and exceptional items; and
- to review cover in light of future business and regulatory requirements and distributable reserves.

In this context there are a number of factors that merit further comment. The Board has declared an unchanged final dividend of 7.0 pence per ordinary share for the year. This, when taken with the interim dividend of 4.0 pence per ordinary share, results in an unchanged dividend for the year to 31 December 2004.

Part of our policy on dividends is to review the cover in light of the business requirements for working capital, regulatory capital and revenue reserves. As part of the acquisition of F&C we took two distinct actions to protect/enhance our future dividend paying capability.

- We sought and received both shareholder and Court approval to increase the distributable reserves of the Company by £100 million by way of a capital reduction.
- We received commitments from Eureko and Friends Provident by way of a Regulatory Capital Letter to make amounts of regulatory capital available at completion to the F&C Group. In total this amounted to some £50 million.

These actions were taken in case short-term pressure on revenue reserves and regulatory capital resulted from the transaction. The short-term pressure on regulatory capital has been further relaxed because of the stance taken by European legislators in the latest draft of the Capital Requirements Directive regarding the treatment of goodwill in calculating consolidated capital requirements. This is an issue we highlighted as a concern in last year's report and hence it is pleasing to note that progress has been made.

The FSA has also recognised that pension fund deficits should be time apportioned and this will also marginally benefit our regulatory capital position, albeit our pension deficit is not material in the context of our business.

## Foreign Currency

An impact of the merger is that we now earn about one quarter of our revenues in Euros rather than Sterling. While we do have Euro denominated costs, the net impact is that less than 20 per cent. of our "net Euro revenues" (overseas revenues less overseas costs) are exposed to exchange rate fluctuations.

Further detail regarding our policies on foreign currency and our year-end exposures are covered in note 31 to the accounts, Treasury Management and Financial Instruments. The Board has decided that it will not seek to hedge our revenue account exposure to fluctuations in currency and in particular the Euro/Sterling exchange rate. We will, however, as a matter of course, seek to repatriate surplus overseas currency into Sterling. Surplus currency balances are defined as being that level of cash which exceeds our regulatory capital requirements in the respective countries plus the necessary working capital to finance short term expenditure requirements and other business initiatives. This policy will allow us to efficiently manage our regulatory capital requirements while also incurring the minimum level of risk to exchange rate fluctuations impacting our surplus regulatory capital.

In adopting this stance, the Board recognised that:

(1) A 10 per cent. move in the Euro/Sterling exchange rate currently has an impact of less than 5 per cent. on our earnings.

(2) Our earnings have a greater exposure to the level of stock markets than to movements in currency.

(3) Our borrowings are in Sterling and our dividend is paid in Sterling with a medium term cover target of 1.5 times.

We believe this approach is low risk, transparent and while it may have a marginal effect on earnings (both positive and negative) it will have no detrimental impact on our ability to pursue a progressive dividend policy.

## Regulatory Capital

The burden of rules and regulations applying to our industry continues to increase. While we support the need for good regulation, the cost of it is ultimately borne by clients and other stakeholders. The approach now being taken to consolidated supervision – the level of regulatory capital required by fund management groups which are neither banks nor insurance companies – is an example of common sense prevailing. However, the fact that draft rules and regulations were proposed without understanding the industry or, indeed, considering the consequences, is very concerning, particularly for a dynamic industry that contributes to the standing of the UK as a major financial centre.

## International Financial Reporting Standards (IFRS)

1 January 2005 saw the mandatory change to International Financial Reporting Standards for all UK and European listed companies. This will require us to report to shareholders under IFRS for the first time in respect of our results for the period to 30 June 2005. UK GAAP and IFRS have been converging for some time and two of the biggest issues for companies – accounting for pensions and share schemes – will have very little impact as our 2004 results fully reflect both under UK GAAP. Other issues that will have more of an impact on disclosure rather than our actual results are revenue recognition, basis of consolidation, financial instruments and consolidation of private equity investee companies. While there are numerous other standards that impact F&C, our assessment to date is that they will have no material impact on our results. One area that we are currently assessing is business combination/intangible assets, particularly the quantum of intangible assets recognised as part of the F&C transaction. While this will impact balance sheet disclosure, the impact on clean EPS (before amortisation of goodwill/ intangibles and exceptional items) should be negligible. We will provide detailed notes at the half-year to enable shareholders to understand the conversion to IFRS. We see the change as positive in terms of disclosure and consistency across European markets and believe that over time it will improve the quality of financial information once all users of financial statements have become familiar with the new regime.

The Company estimates that the cost to 31 December 2004 of preparing for the move to IFRS has been in excess of £500,000.

## Balance Sheet

As part of the acquisition we contractually agreed with Eureko that the acquired companies would have a minimum "net asset value" of £65.9 million and surplus regulatory capital of at least £25.0 million. These provisions were built into the Sale & Purchase Agreement to create clarity and certainty and to ensure that the level of working and regulatory capital is sufficient for the future requirements of the business. As mentioned earlier, we also sought to create additional distributable reserves by means of a Court Scheme. The interaction between working capital, regulatory capital and distributable reserves is fundamentally important to a fund management business and, consequently, we seek to monitor and manage our balance sheet to ensure that appropriate levels exist.

The provisional goodwill arising on acquisition is detailed in note 16(c) to the accounts. As in previous acquisitions, we have provided a provisional number until the completion accounts process is finalised.

The continued application of FRS17 shows a pension deficit of £12.3 million for the enlarged group. All UK final salary pension schemes are now closed and the current level of the deficit is not considered material in the context of the enlarged group.

While the size of the balance sheet has increased with the merger, the buy out and rollover of part of the old F&C share schemes has impacted the balance sheet in two distinct ways. Firstly, we now hold some 11 million shares in an EBT and these are set off against our shareholders' funds together with some 1 million shares held to meet our share save schemes under revised accounting treatment. The dividend entitlement on both these shareholdings has been waived. The cost of the F&CGH shadow equity plan (which crystallised as part of the transaction) created a deferred tax asset that is also now carried on our balance sheet. This will reverse over time.

Finally, our £180 million loan, which was drawn down from FP in 2002 to fund the acquisition of Royal & SunAlliance Investments, is due for repayment at the end of 2006. While we will make a decision nearer the time as to how this is refinanced, it is important to understand that we believe that the utilisation of debt can enhance shareholder returns. Our debt ratios are well covered.

## Conclusion

The merger has not only delivered our strategic goal ahead of target, it has transformed the business into a major player in the European asset management industry. We have significant scale and much greater diversity in terms of assets, skills, clients, revenue and geographic spread. The business model is a strong one which is able to generate an operating margin ahead of most of our competitors. Our focus is now the delivery of good investment performance and innovative product solutions to our clients so that we can achieve significant organic growth, particularly in the higher margin areas. This means investing in our capabilities while maintaining our track record for efficient business management. I am confident that 2005 will be a year when we make significant further progress in developing our business.

Howard Carter
*Chief Executive Officer*
16 March 2005

# Corporate and Social Responsibility ("CSR") Report

## CSR Strategy & Vision

In recent years there has been growing recognition and acceptance that the behaviour of businesses is an important factor in influencing a wide range of social, environmental, community and ethical issues. There is also evidence that a company's governance not only protects shareholder value, but also over time, we believe enhances its share rating and hence reduces its cost of capital.

The Board is committed to operating the highest standards of governance and corporate citizenship. We recognise that in addition to our responsibilities to clients and shareholders we also have responsibilities to employees, suppliers, the environment, the companies in which we invest and the wider community in which we operate.

## 2004 CSR Highlights:

- Placed 28th out of 100 in Business in the Communities "Companies that Count" Corporate Responsibility Index.
- Winner of the 2003 CSR Scottish plc of the year award.
- Winner of the Scottish Award for Quality and Planning 2003.
- Winner of the Liveable City Awards for 2003.

## F&C's CSR Principles

The Board of F&C has adopted a statement of principles in relation to all governance, and corporate social responsibility matters ("CSR").

## Areas of Influence

F&C operates within a highly regulated industry with offices in the UK, Ireland, The Netherlands, Portugal, France, Germany and the US. F&C recognises the requirement to ensure it has in place strong internal procedures and good housekeeping practices to promote best practice governance and CSR activities within the F&C Group. F&C also acknowledges that our "direct impacts" on our local environment and communities are inevitably much less than our "indirect impacts". The enlarged group is committed to governance and social responsibility in its investment philosophy.

As discussed in the Chief Executive's Report, the merger involved significant re-structuring and relocation of staff together with the acquisition of overseas offices, which presented challenges in implementing a group-wide approach to CSR. It has not been possible to implement our CSR objectives throughout the Company during the latter part of 2004, nevertheless, F&C is committed to conducting a full review of current CSR practices and developing group-wide targets in 2005. We have already introduced CSR governance structures for the enlarged group, including the establishment of a Corporate Governance Committee, CSR Committee and a Charities Committee.

Immediately following the launch of the new F&C, Chief Investment Officer Tony Broccardo wrote to the group's top eighteen brokers to inform them that a percentage of F&C's commission pool would be set aside to reward research that specifically addressed governance, social and environmental factors.

## Ethically screened funds

F&C offers a range of ethically screened funds including the top performing Stewardship Funds, which was named as the top performing UK Equity Pooled Pension Fund.

## Engagement on governance, social, environmental and ethical issues

As a major asset management company investing over £124.8 billion* on behalf of our clients, our most significant contribution continues to be through our ability to influence the behaviour of companies in which we invest on our clients' behalf. This ability – and the associated responsibilities – are greatest in respect of the £20.1 billion (2003 – £22.4 billion) of equity shares we manage on behalf of our clients under our responsible engagement overlay ("*reo*®") service. The *reo*® service is also extended to certain clients where we do not manage the underlying investments. In these cases, the service extends to either engagement or engagement and voting on clients' behalf. At 31 December 2004 these services extended to a further £7.2 billion of assets. We continue to be a leading force for influencing the way the companies in which we invest are run and their approach to longer-term issues such as human rights and climate change.

* Further analysis of the group's assets under management by asset class and by client category is set out in the Financial and Business Highlights and the Chief Executive's Report.

# Corporate and Social Responsibility ("CSR") Report

Since the merger our Governance and Socially Responsible Investment ("GSRI") team has not only been meeting with representatives of our overseas offices but has also undertaken presentations to a number of overseas clients who have an interest and need for the services provided by the GSRI team. We believe that this is an exciting area of opportunity for the business and one where we have a leading edge product which is now becoming recognised on a pan European basis.

At 31 December 2004 the GSRI team comprised 13 staff. During 2004, the GSRI team engaged globally with 944 companies and achieved 93 milestones representing significant change by companies, as a result of F&C's intervention.

## Governance Structure, Risk and Management Systems

The Board is ultimately responsible for corporate governance and CSR within the Company. Development of F&C's policies on CSR and their implementation throughout the F&C group are co-ordinated by a CSR Committee chaired by Ian Paterson Brown, an Executive Director of the Company. The Chief Investment Officer, chairs the Corporate Governance Committee, which reviews standards of corporate governance we expect from the companies in which we invest.

F&C operates an effective system of management of all risks, including reputational and other Social Environmental and Ethical risks, through quarterly "Turnbull" management reporting. CSR and governance policies are reviewed at least annually and, where appropriate, revised to meet improving standards and to help embed them further within the organisation. All individuals responsible for managing aspects of CSR have, within their role profiles, references to reflect CSR responsibilities. This facilitates the management of CSR targets and, where relevant, is taken into account in determining performance related bonuses.

F&C also continues to work closely with its majority shareholder, Friends Provident plc, on CSR policies and practices throughout the wider Friends Provident group.

F&C has in place a CSR management system which complements the database currently in place for the management and reporting of F&C's indirect impacts relating to engagement and governance of the companies in which it invests. At each meeting of the CSR Committee, progress against the annual targets and objectives set by the Board is reviewed with reference to key performance indicators derived from the CSR management system. Further detail of the CSR targets and objectives are contained in the CSR report published on the Company's website.

## Stakeholder Engagement

F&C identifies its key stakeholders as shareholders, clients, employees, suppliers, non-government organisations, the wider community, other asset management companies and companies in which we invest. We engage widely with stakeholder groups through regular dialogue which is tailored to meet the requirements of each stakeholder group.

## CSR Performance Indicators

F&C has established key performance indicators (KPI's) for Economic, Environmental and Social performance in relation to our indirect and direct impacts. A full report on performance against the KPI's can be found in our Annual CSR Report published on the Company's website.

## Financial & Economic Contributions

Included within the Directors' Remuneration Report on pages 43 to 60 is further analysis on F&C's employee remuneration packages (salaries, pensions and other benefits). The Company's payment policy and practice to suppliers is set out on page 26. Information on shareholder returns and other financial information is set out in the notes to the financial statements on pages 75 to 119.

## Environment

*Indirect Impacts*

F&C engages investee companies particularly on matters of climate change, environmental management and biodiversity. In 2004, the GSRI team published research reports on biodiversity and climate change, identifying the companies and sectors with greatest exposure to those issues and recommendations for how to manage them effectively.

*Direct Impacts*

F&C also recognises that it has some direct impacts on the environment and subscribes to the government's environmental strategy as outlined in its Making a Corporate Commitment Campaign ("MACC 2"). F&C has set and adhered to targets on recycling, carbon dioxide emissions and waste disposal.

## Workplace

*Labour practices and Human Rights.*

*Indirect Impacts*

F&C engages with investee companies in relation to labour standards, HIV/Aids and human rights.

*Direct Impacts*

F&C is committed to training and development programmes for all staff and during 2003 introduced a number of web based and open learning development programmes.

F&C has an Equal Opportunities policy covering gender, race, sexual orientation etc. and has provided diversity training to managers responsible for recruiting staff across the business. This training will be delivered to all remaining managers who have joined the Company as a result of the merger and repeated for all managers on a regular basis.

F&C has policies on Health & Safety practices and provides training to appropriate staff.

F&C undertakes an annual employee opinion survey. Owing to the merger, the scheduled 2004 survey has been delayed until the summer of 2005.

Details of the remuneration policies applied to all staff are contained within the Directors' Remuneration Report on pages 43 to 60.

## Marketplace

F&C adopts a responsible approach to all external marketing and advertising. All literature issued by F&C is reviewed and approved by the Audit, Risk & Compliance department prior to release. All staff within F&C receive training and once in every two year period are required to pass a test to ensure their understanding of the importance of general regulatory compliance and Money Laundering.

F&C's Charities Committee, a sub-committee of the CSR Committee, is responsible for considering and approving any donations to charity under four key criteria: Education and Young People; Health and Healthcare; Sustainability and Environment; and Community. In addition, the Company provides the facility for all staff to make contributions under the Give As You Earn ("GAYE") arrangements and, within certain restrictions, will match staff led fundraising or contributions. During 2004 approximately 14 per cent. of staff participated in GAYE.

## Assurance

This section of the Annual Report, when read in conjunction with the CSR report published on the Company's website, is in accordance with the 2002 GRI Guidelines.

F&C has been a constituent of FTSE4GOOD since the inception of the index in 2001.

Our ethically screened funds and *reo*® process are subject to external review by an Independent Committee of Reference.

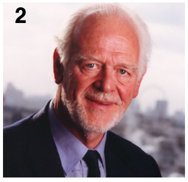
During 2004 the Company's CSR activities, including the 2003 CSR Report, were internally audited by representatives from the Audit, Risk & Compliance department.

All statements made in the CSR Report together with further details on all CSR policies can be found within the CSR section on the Company's website, www.fandc.com.

Howard Carter
16 March 2005

Ian Paterson Brown
16 March 2005

# Non-Executive Directors




## 1. Robert Jenkins[‡], BA, MA

Age 54 *Chairman*

Mr Jenkins joined the Board on completion of the merger in October 2004. Prior to his appointment Mr Jenkins was Chief Executive of the acquired F&CGH. Prior to joining F&CGH Mr Jenkins spent over five years with Credit Suisse Asset Management ("CSAM") and 16 years with Citibank. At Citibank Mr Jenkins held senior assignments in Dubai, Bahrain, Zurich, New York and Tokyo. From 1992 until 1995 he was Chief Investment Officer and Head of Asset Management for CSAM in Japan. In 1995 he transferred to London where he was Chief Operating Officer for CSAM in the UK and Central and Eastern Europe. Mr Jenkins joined F&CGH in 1997 and served as Chief Executive from January 1998 to October 2004.

## 2. Christopher Jemmett[†]

Age 68 *Deputy Chairman and Senior Independent Director*

Mr Jemmett joined the Board in February 1998. Mr Jemmett was appointed as an independent, Non-Executive Director of Friends Provident plc in June 2001 having been an independent, Non-Executive Director of Friends' Provident Life Office from 1997 until 2001. He was formerly a Director and member of the Executive Committee of Unilever plc and Unilever NV, a member of the Council of The Crown Agents Foundation and a member of The Council of Royal Warrant Holders Associations.
Mr Jemmett was appointed Deputy Chairman of F&C in May 1998.

## 3. Keith Bedell-Pearce[*†], LLB, MSc

Age 58 *Independent Director*

Mr Bedell-Pearce, a solicitor, joined the Board in December 2002. Until December 2001, Mr Bedell-Pearce was an Executive Director of Prudential plc with over thirty years experience in the financial services industry. He is currently Non-Executive Chairman of Norwich & Peterborough Building Society and Executive Chairman of The Student Loans Company Limited (a part-time public appointment).

## 4. Dick de Beus[‡]

Age 58 *Independent Director*

Mr de Beus joined the Board on completion of the merger in October 2004. Mr de Beus has worked for over 30 years in the pension fund industry. He joined PGGM, the Dutch pension fund for the healthcare and welfare industry, in 1979, from which he recently retired as Chairman. Mr de Beus is a member of the Supervisory Board of Kas Bank (European custodian services, Amsterdam). Mr de Beus served as a Non-Executive Director of F&CGH since his appointment in February 2004.

## 5. David Gray[†‡], CA

Age 53 *Independent Director*

Mr Gray joined the Board in May 1999. Until November 1999, he was Business Development Director of Scottish and Southern Energy plc, having previously been Finance Director of Scottish Hydro-Electric plc. He is a Director of DTZ Holdings plc and Romag Holdings plc, Chairman of DTZ Pieda Consulting Ltd and a board member of Scottish Water.

## 6. John Heywood[*†], LLB

Age 67 *Independent Director*

Mr Heywood joined the Board on completion of the merger in October 2004. Mr Heywood worked for 20 years at Jardine Matheson & Co Ltd where he served as Managing Director. He was Chairman of Clayhithe PLC from 1993 – 1998. Mr Heywood is a Non-Executive Director of Lavendon plc. Mr Heywood served as a Non-Executive Director of F&CGH since his appointment in January 1998.

## 7. Kenneth Inglis[*], FFA

Age 61 *Independent Director*

Mr Inglis, an actuary, joined the Board in May 1999, having previously served as Chairman of Fleming Investment Management Limited. He is a Director of The Law Debenture Corporation plc. Mr Inglis has announced his intention to retire from the Board on conclusion of the Annual General Meeting on 26th April 2005.

## 8. Brian Larcombe[*],

Age 51 *Independent Director*

Mr Larcombe joined the Board in January 2005. Prior to his appointment, Mr Larcombe was Chief Executive of 3i Group plc and is currently a Non-Executive director of Smith & Nephew plc.

## 9. Karen McPherson[*‡], MA

Age 53 *Independent Director*

Ms McPherson joined the Board on completion of the merger in October 2004. Ms McPherson has had a long term international career in human resources management with Royal Dutch Shell Group, Edward Lumley Limited, Towers Perrin, Chemical Bank and JP Morgan. In 2000 Ms McPherson founded Potential Unlimited, a strategic change management and executive coaching consultancy.
Ms McPherson served as a Non-Executive Director of F&CGH since her appointment in September 1998, having previously spent over a year as an executive.

* Member of the Remuneration Committee

† Member of the Audit & Compliance Committee

‡ Member of the Nomination Committee

# Non-Executive Directors

### 10. Jeff Medlock, B.Sc(Econ), F.I.A.

Age 64

Mr Medlock joined the Board on completion of the merger in October 2004. Mr Medlock, an actuary, was Chief Executive Officer of Eureko from its formation in 1992 until 1999 when he became Chief Financial Officer at Achmea. Mr Medlock returned to the board of Eureko in 2002 shortly after its merger with Achmea and Seguros e Pensoes as Chief Financial Officer. Mr Medlock retired from Eureko in March 2004 but remains a member of the board of several of the group's insurance subsidiaries, and is an adviser to the board of Eureko. Mr Medlock previously spent 20 years with Equity & Law and 8 years on the board of Royal Life Holdings.

### 11. Philip Moore, TD, MA, F.I.A.

Age 45

Mr Moore joined the Board in January 2005. Mr Moore joined Friends Provident plc on 1 July 2003 and was appointed Group Financial Director of Friends Provident plc on 1 September 2003. Mr Moore was previously at AMP (UK) where he was Corporate Director of Finance and Head of Mergers and Acquisitions, having been Finance Director and actuary of NPI on its acquisition by AMP. Prior to joining NPI in 1998 he spent 9 years at PricewaterhouseCoopers, initially in London and then based in Hong Kong as the partner responsible for the firm's East Asia Insurance Consultancy Practice. Mr Moore is a Non-Executive Director of Lombard International Assurance SA, a Luxembourg registered insurance company wholly-owned by Friends Provident plc.

### 12. Keith Satchell‡, BSc, F.I.A.

Age 54

Mr Satchell, an actuary, joined the Board in February 1998. Mr Satchell was appointed Group Chief Executive and an executive director of Friends Provident plc in June 2001, having been an Executive Director of Friends' Provident Life Office since 1992 and its Chief Executive since 1997. He is also a member of the senior board of Banco Commercial Portugues SA (incorporated in Portugal) and a board member of Swiss Mobiliar Cooperative Company (incorporated in Switzerland) and European Alliance Partners AG (which is incorporated in the Netherlands).

# Executive Directors

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### 13. Howard Carter, BA, MA

Age 53, *Chief Executive*

Mr Carter joined the Friends Provident Group in 1988 from Prudential-Bache Capital Funding Limited, where he was a director. He served as the Company's Chief Investment Officer from February 1998 until his appointment as Chief Executive in September 2000. Mr Carter was appointed a Non-Executive Director of Friends Provident plc on 5 June 2001.

### 14. Alain Grisay, LLM, MA

Age 50, Deputy Chief Executive

Mr Grisay, joined the Board on completion of the merger in October 2004 having previously been Deputy Chief Executive of F&CGH and head of the institutional business. Prior to joining F&C in April 2001, Mr Grisay was at JP Morgan for 20 years, serving as Managing Director responsible for the investment bank's market client business in Europe.

### 15. Ian Paterson Brown, CA, MSI, ACIS

Age 51, *Chief Financial Officer*

A chartered accountant, Mr Paterson Brown joined the Board following the acquisition of Royal & SunAlliance Investments in July 2002. Prior to his appointment to the Board, Mr Paterson Brown was Group Company Secretary of Friends Ivory & Sime plc. He joined the company in 1982.

# Report of the Directors

The Directors submit the Report and Accounts of the Company and of the group for the year ended 31 December 2004. The Report and Accounts for the year ended 31 December 2004 reflect the twelve months consolidated results of the ISIS Asset Management plc group and the consolidated results of F&C Group (Holdings) Limited and its subsidiaries from completion of the merger on 11 October 2004 until 31 December 2004. This report together with the Directors' Reports on Corporate Governance and Remuneration and the financial statements that follow will be laid before the Annual General Meeting on Tuesday, 26 April 2005.

## Results, business review and dividend

The group's results for the year ended 31 December 2004 are shown in the group profit and loss account on page 64. A business review of the year ended 31 December 2004 and future developments are covered in the Chairman's Statement and Chief Executive's Report on pages 2 and 3 respectively.

The group loss for the year, after taxation, amounted to £19,411,000.

The Directors recommend a final ordinary dividend of 7.0 pence per share, amounting to £32,914,000, making totals of 11.0 pence and £38,907,000 for the year respectively. Preference dividends of £32,000 were also appropriated during the year.

The final ordinary dividend, if approved, will be paid on 6 May 2005 to ordinary shareholders whose names are on the register on 1 April 2005.

| | £000 |
|---|---|
| **Loss on ordinary activities after taxation** | (19,411) |
| Dividends for the period from 1 January 2004 to 31 December 2004 on the variable rate cumulative preference shares appropriated during the year | (32) |
| **Loss attributable to ordinary shareholders** | (19,443) |
| Interim ordinary dividend of 4.0 pence per share on the ordinary shares paid on 3 September 2004 | (5,993) |
| Proposed final ordinary dividend of 7.0 pence per share on the ordinary shares payable to ordinary shareholders whose names are on the register on 1 April 2005. | (32,914) |
| Adjustment to 2003 Final Dividend | (2) |
| **Retained loss for the year transferred from reserves** | (58,352) |

## Principal activity and status

The Company is registered as a Public Limited Company in terms of the Companies Act 1985 and is currently a constituent of the FTSE 250 Index.

The group's business is investment management. Details of the progress of the business during the year and of future prospects are contained in the Chairman's Statement and the Chief Executive's Report.

## Fixed assets

Details of changes in fixed assets are disclosed in the notes to the financial statements.

## Share capital and directors' interests

During the year the Company issued 546,732 ordinary shares in respect of options granted under the 1995 Share Option Scheme and 2002 Share Option Scheme.

Details of shares under option at 31 December 2004 are shown on pages 58 and 59 of the Directors' Remuneration Report. Details of all shares issued during the year ended 31 December 2004, are given in note 24.

The Directors who held office at the year end and their interests in the share capital of the Company are shown below:

| | | 31 December 2004 Ordinary Shares | 31 December 2003 or date of appointment if later Ordinary Shares |
|---|---|---|---|
| Robert Jenkins | Beneficial | **100,000** | 100,000 |
| | Non Beneficial* | **969,700** | 969,700 |
| Christopher Jemmett | Beneficial | **23,065** | 14,414 |
| Howard Carter | Beneficial | **43,364** | 42,850 |
| Dick de Beus | Beneficial | **Nil** | Nil |
| Keith Bedell-Pearce | Beneficial | **51,285** | 29,655 |
| David Gray | Beneficial | **5,000** | 5,000 |
| Alain Grisay | Beneficial‡ | **1,195,637** | 1,195,637 |
| John Heywood | Beneficial | **4,326** | 4,326 |
| Kenneth Inglis | Beneficial | **10,000** | 10,000 |
| | Non Beneficial** | **Nil** | 469,700 |
| Karen McPherson | Beneficial | **Nil** | Nil |
| | Non Beneficial* | **969,700** | 969,700 |
| Jeff Medlock | Beneficial | **10,000** | 10,000 |
| Ian Paterson Brown | Beneficial | **195,021** | 194,560 |
| | Non Beneficial† | **158,382** | 247,795 |
| Keith Satchell | Beneficial | **14,326** | 10,000 |
| Brian Sweetland | Beneficial | **13,651** | 5,000 |

* Robert Jenkins and Karen McPherson are Directors of the F&C Group ESOP Trustee Limited, a company incorporated in 1995 as a discretionary employee benefit trust to encourage and facilitate the acquisition and holding of shares in the Company by employees.

** Mr Inglis resigned as a Director of the F&C Group ESOP Trustee Limited on 11 October 2004.

† Mr I J Paterson Brown is a trustee of the Friends Ivory & Sime Staff Share Ownership Scheme.

‡ These shares represent the extent of Mr Grisay's participation in the re-investment plan approved by shareholders on 4 October 2004. Further details of this plan are set out in the Remuneration Report on page 50.

Since 31 December 2004, Messrs Carter and Paterson Brown have each acquired a total of 153 shares through monthly subscriptions into the Company's Share Incentive Plan. No other changes to Directors' interests have occurred.

In addition, Sir David Kinloch, Peter Arthur, Kenneth Back, Nick Criticos and Robert Talbut served as Directors of the Company until their resignations on 11 October 2004.

The Directors who held office at the year end and their interests in the share capital of the ultimate parent undertaking, Friends Provident plc, are shown below:

| | | 31 December 2004 Ordinary Shares | 31 December 2003 Ordinary Shares |
|---|---|---|---|
| Howard Carter | Beneficial | **24,560** | 24,560 |
| Christopher Jemmett | Beneficial | **2,655** | 2,655 |
| Keith Satchell | Beneficial | **62,668** | 61,602 |

# Report of the Directors

## Bonus issue and reduction of capital

On 4 October 2004, shareholders approved a special resolution to create 100,000,000 fully paid Deferred Shares through the capitalisation of £100,000,000 of the Company's merger reserve. The creation of Deferred Shares increased the Company's share capital and share premium account. Shareholders also approved on 4 October 2004, subject to the confirmation of the Court of Session, a reduction of capital through the cancellation of the Deferred Shares and a reduction of the Company's share premium account by the amount credited to that account by reason of the issue of the Deferred Shares. On 29 November 2004, the Court of Session approved the cancellation of all the Deferred Shares and the reduction in the share premium account of the Company. The order from the Court of Session was lodged with the Registrar of Companies on 29 November 2004 at which time the reduction took effect and as a result, the sum of £100,000,000 was converted into a distributable reserve of the Company.

## Directors' and officers' insurance

The Company maintains insurance cover in respect of directors' and officers' liability.

## Charitable and political contributions

During the year the group made contributions to charity of £85,000 (2003 – £58,000). No political donations were made during the year (2003 – £nil). Further details on the criteria for charitable giving is contained on page 21 of the Corporate and Social Responsibility Report.

## Payment policy and practice

It is the Company's payment policy to ensure settlement of suppliers' accounts in accordance with the stated terms. In certain circumstances, settlement terms are agreed prior to any business taking place. It is our policy to abide by those terms.

At 31 December 2004, trade creditors represented the equivalent of 20 days (2003 – 10 days) of the annual purchases invoiced by the suppliers to the group.

## Substantial interests in share capital

The Company has been informed of the following substantial interests as at 16 March 2005. No other person has notified an interest in the ordinary shares of the Company required to be disclosed to the Company in accordance with sections 198 to 208 of the Companies Act 1985.

| | Ordinary Shares | Percentage |
|---|---|---|
| Friends Provident plc | 247,359,528 | 51.2 |
| Eureko B.V. | 99,283,053 | 20.6 |

## International Financial Reporting Standards (''IFRS'')

The Company is currently undertaking its IFRS project with the assistance of KPMG. The project, under the sponsorship of the Chief Financial Officer, has been broken down into three phases – impact, preparation and implementation. The impact assessment within ISIS was completed during 2004 and the results were presented to the Audit & Compliance Committee, the Board and the Company's auditors during the year. Following the merger, the impact assessment was extended to review the enlarged group's reporting requirements. The Company is now in the preparation phase and, in a number of areas, has commenced the implementation phase of the project. IFRS became effective on 1 January 2005 and the Board will be applying IFRS to the interim results of the group during 2005. The Board remains committed to keeping the market informed of any material issues arising out of the work to implement IFRS.

## Capital Adequacy Directive (''CAD'')

In October 2003 the Financial Services Authority issued a policy statement ''Amendments to the Interim Prudential Sourcebook for Investment Businesses chapter 5 rules on consolidated supervision''. In this policy statement the FSA set out the requirements that need to be met and the procedure that needs to be followed to obtain a ''CAD waiver''. Since the introduction of the policy statement the group has issued annual notifications to the FSA under rule 5.7.1(4) advising that it was seeking to forego consolidated supervision and would comply with the FSA requirements which include disclosing in the audited financial statements that it is not subject to regulatory consolidated capital requirements.

## Employees

At 1 February 2005 there were 815 full-time employees and 48 part-time employees within the group, (40 of the full-time employees represent ''transitional roles'' involved in integration activities, the majority of whom will leave the group during 2005). (1 February 2004 – 468 full-time employees and 28 part-time employees). On 2 July 2004, the date on which the Company announced its intention to merge with F&C Group (Holdings) Limited, the combined entities had 907 full time employees and 66 part-time employees.

## Disabled employees

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever possible.

## Employee involvement

During the year, the policy of providing employees with information about the group has been continued through internal presentations by the Management Committee and the internal publication of relevant information. Wherever relevant, employees are consulted to ensure that their views are taken into account before decisions are taken which are likely to affect their interests. Since completion of the merger in October 2004, a monthly Chief Executive update containing relevant information and progress reports on the integration activities has been issued to all staff.

## Equal opportunities

The Company aims to provide equal opportunities for all, without discrimination on the grounds of race, religion, marital status, age, sex, sexual orientation or disability. We recruit and promote those best suited for the job. The Company respects the dignity of individuals and their beliefs. The Company does not tolerate any sexual, racial, physical or mental harassment of staff in the work place.

## Share incentive schemes

During the year employees participated directly in the business through a number of Employee Share Schemes, details of which are included within the Directors' Remuneration Report on pages 43 to 60.

## Annual General Meeting

The Company will hold its Annual General Meeting on Tuesday, 26 April 2005 at Butchers Hall, 87 Bartholomew Close, London EC1. The meeting will start at 12 noon. Details of all resolutions being put to shareholders are set out in the Notice of Annual General Meeting on page 121.

# Report of the Directors

## Voting Online

On 4 October 2004, shareholders approved amendments to the Company's Articles of Association to allow electronic voting. In accordance with good governance practice the Company is therefore for the first time offering shareholders use of an online voting service, ''sharevote'', offered by the Company's registrar, Lloyds TSB Registrars at www.sharevote.co.uk. Shareholders can use this service to vote or appoint a proxy online. The same voting deadline (12 noon on 24 April 2005) applies as if you were using your Personalised Voting Form to vote or appoint a proxy by post to vote for you. You will need to use the unique personal identification details (Reference Number, Card ID and Account Number) that are printed on your Personalised Voting Form.

## CREST members

Registered shareholders who are CREST members and who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 26 April 2005, or any adjournment of it, by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST Sponsored Members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a ''CREST Proxy Instruction'') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent, Lloyds TSB Registrars (ID 7RA01), by 12 noon on 24 April 2005. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

## Relationship agreement

On 4 October 2004, shareholders approved the adoption of a new relationship agreement with Friends Provident plc. The revised relationship agreement formalises the ongoing relationship between the Company and its parent, Friends Provident plc, and Friends Provident plc's subsidiaries. The relationship agreement contains provisions which permit the Friends Provident group to participate in future issues of equity shares by the Company not made to existing shareholders in proportion to their existing holdings in order to maintain its percentage shareholding in the Company. Under the UKLA's Listing Rules, such participation must be authorised by the Company in general meeting and such authority must terminate within 12 months of the relevant general meeting unless renewed by shareholders. Your Directors are recommending that the relationship agreement be re-approved and the authority be renewed at this year's Annual General Meeting pursuant to resolution 15 in accordance with the UKLA's Listing Rules. Members of the Friends Provident group will abstain from voting on such ordinary resolution.

## Authority to allot ordinary shares and disapplication of pre-emption rights

Ordinary resolution 16 will be put to the Annual General Meeting of the Company to renew the present authority of the Directors to exercise their powers to allot authorised but unissued ordinary shares. Such authority will cover a maximum of 156,901,708 unissued ordinary shares, being up to an aggregate maximum nominal amount of £156,901.708. This maximum nominal amount represents 33.33 per cent. of the Company's total ordinary share capital currently in issue (calculated exclusive of treasury shares) and meets institutional guidelines. The Company holds 11,991,661 ordinary shares in treasury at the date of this report. This amount represents 2.5 per cent. of the Company's total ordinary share capital currently in issue (calculated exclusive of treasury shares). The authority conferred by this resolution will expire on 25 April 2010.

Special resolution 17 will be put to the Annual General Meeting of the Company to renew the present power to allot unissued ordinary share capital and to sell ordinary shares held in treasury for cash without first being required to offer such shares to existing shareholders. Such power will cover a maximum of £156,901.708 of unissued ordinary share capital and, if renewed, will apply to any ordinary shares allotted and treasury shares sold in accordance with the relationship agreement referred to above (conditional upon the passing of the ordinary resolution 15 referred to above), any ordinary shares allotted or treasury shares sold pursuant to the terms of any share scheme for employees approved by the Company in general meeting and any shares acquired or held by the Company in treasury transferred in satisfaction of the exercise of options or awards under any of the Company's share incentive schemes, any ordinary shares allotted and treasury shares sold pursuant to a rights issue or other pre-emptive offering (where legal or regulatory or other difficulties prevent the issue of shares wholly on a pre-emptive basis) and otherwise to ordinary shares representing 5 per cent. of the Company's issued ordinary share capital as at the date of this report. The Directors consider that the authority proposed to be granted by Resolution 16 and the power proposed to be granted by resolution 17 are necessary in order to take advantage of opportunities as they arise and to retain flexibility although the Directors do not have any intention of exercising such authority or power at the present time.

As mentioned to shareholders as part of the circular dated 9 September 2004, The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (as amended) (''Treasury Shares Regulations'') came into force on 1 December 2003 and, by virtue of such regulations companies which buy-back their own shares are now permitted to hold up to 10 per cent. in nominal value of the issued share capital in treasury rather than cancelling them as previously required. The Company may now hold such shares ''in treasury'' and then sell them at a later date for cash provided that, pursuant to the Treasury Shares Regulations, such sale is on a pre-emptive basis to existing shareholders unless shareholders agree by special resolution to disapply such pre-emption rights. Accordingly, in addition to giving the Directors power to allot unissued ordinary share capital on a non pre-emptive basis, special resolution 17 will also give the Directors power to sell ordinary shares held in treasury on a non pre-emptive basis, subject always in both cases to the limitations noted above. (Treasury shares are explained in more detail under the heading ''Purchase of own shares'' below).

## Purchase of own shares

Special resolution 18 will be put to the Annual General Meeting to renew the present power to make market purchases of the Company's own ordinary shares. Pursuant to special resolution 18 the maximum aggregate number of ordinary shares which may be purchased pursuant to the authority shall be 10 per cent. of the issued ordinary share capital (excluding treasury shares) of the Company as at the date of the passing of the resolution (being approximately 47.1 million ordinary shares as at 16 March 2005). The minimum price which may be paid for an ordinary share shall be 0.1 pence (exclusive of expenses). The maximum price for an ordinary share (again exclusive of expenses) shall be an amount equal to 105 per cent. of the average of the middle market quotations for the Company's ordinary shares for the five business days immediately preceding the date of purchase. As at 16 March 2005, the Company had 26,143,325 options to subscribe for ordinary shares outstanding (representing 5.5 per cent. of the issued ordinary share capital of the Company (excluding treasury shares) as at 16 March 2005). If the outstanding amount of the existing buy-back authority is utilised in full prior to the 2005 AGM and if the buy-back authority is renewed at the 2005 AGM and is then utilised in full, the options outstanding at 16 March 2005 would represent 6.4 per cent. of the issued ordinary share capital of the Company (excluding treasury shares).

With the coming into force of the Treasury Shares Regulations on 1 December 2003, the Company may do any of the following things in respect of its own ordinary shares which it buys back and does not immediately cancel but, instead, holds ''in treasury'':

(a) sell such shares (or any of them) for cash (or its equivalent under the Treasury Shares Regulations);

(b) transfer the shares (or any of them) for the purposes of or pursuant to an employees' share scheme; or

(c) cancel the shares (or any of them).

# Report of the Directors

The Directors may use the Treasury Shares Regulations in any one or more of the ways noted above and intend to take advantage of this flexibility as they deem appropriate. While any shares are held in treasury, voting rights are suspended and currently no dividends (or any other distribution) are paid (or made) on such shares.

While the Directors recognise that, due to the free float requirements, the scope for buy-backs may currently be limited, they consider it appropriate to have in place the facility to acquire shares in circumstances where they believe that future shareholder returns can be enhanced by taking such action. This authority, if renewed, will only be exercised if to do so would result in an increase in earnings per ordinary share and if it is considered to be in the best interests of shareholders generally.

During the year to 31 December 2004 share buy-backs totalling 500,000 pursuant to this authority were undertaken by the Company.

## Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment and for the Directors to determine their fees will be submitted at the Annual General Meeting.

Details of the auditors' remuneration is provided in note 4 to the financial statements and further detail on how the Board ensures the independence of the auditors is detailed on page 41 within the Directors' Report on Corporate Governance.

By order of the Board,

W Marrack Tonkin, FCCA
*Secretary*

80 George Street
Edinburgh EH2 3BU
16 March 2005

The Company believes in and is committed to practising the highest practicable standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance set out in section one of the Combined Code issued in 2003 (''the Code'') have been applied.

## Statement of Compliance

The Directors consider that, save as next mentioned, the Company has throughout the year ended 31 December 2004 and up to the date hereof, applied the principles and met the requirements of the Code.

As disclosed in the Listing Particulars and shareholder circular issued in September 2004 in relation to the merger, the appointment of Robert Jenkins as Non-Executive Chairman on 11 October 2004 following his role as Chief Executive of the acquired F&CGH meant that, on appointment, Mr Jenkins did not meet the definition of independence under the Code. The Directors believe that Mr Jenkins' experience as the Chief Executive of F&CGH prior to the merger provides stability and continuity to ex F&CGH clients and staff and is in the best interests of the enlarged group.

In light of the number of changes to the Board in October 2004, and the limited time since completion of the merger, the Board concluded that it was not appropriate to undertake an evaluation of the performance of the Board, the performance of any of the Board committees or indeed the effectiveness of individual Directors in respect of the year ended 31 December 2004. The Board intends to conduct a full evaluation in respect of the year ended 31 December 2005 in advance of publication of the 2005 annual report.

Until 11 October 2004, the composition of the Board did not meet the requirements of the Code, in that at least one half of the Board excluding the Chairman did not comprise Non-Executive Directors determined by the Board to be independent. The membership of the Nomination Committee, Remuneration Committee and Audit & Compliance Committee also did not meet the requirements of the Code as the majority of members (Nomination Committee), or all members (Remuneration Committee and Audit & Compliance Committee) were not independent Non-Executive Directors. The changes to the composition of the Board and Board committees following the merger on 11 October 2004 now mean that these requirements have been met and the Board expect to comply fully with these provisions of the Code throughout 2005.

The Chairmen of the Audit & Compliance, Remuneration and Nomination committees will be available to answer questions at this year's Annual General Meeting to be held on Tuesday, 26 April 2005.

## Going concern

The Code requires Directors to report, under the terms set out in the relevant guidelines to the Code, on the appropriateness of adopting the going concern basis in preparing financial statements.

The Directors consider that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors consider that the business is a going concern and continue to adopt the going concern basis in preparing the financial statements.

## The Board

The Board of Directors currently comprises the Chairman, three Executive Directors and eleven Non-Executive Directors, eight of whom the Board has identified as Independent Directors. Christopher Jemmett is the Deputy Chairman and Senior Independent Director. The biographies of the Directors appear on pages 22 and 23. These demonstrate a range of experience, skills and personal standing sufficient to bring independent judgement on issues of strategy, performance, resources and standards of conduct which are vital to the success of the group. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board meets formally on a regular basis and is responsible for approving the group's objectives and policies. The Board focuses mainly on strategy, investment and financial performance, the group's control environment and executive management and board succession. To enable the Board to discharge its duties, all Directors receive appropriate and timely information ensuring that they are properly briefed on issues for consideration in advance of meetings. In addition, all Directors have access to senior management and can request, either during meetings or at other appropriate times, further explanation or written papers on matters as they see fit.

The Board has a detailed list of matters specifically reserved to it – the ''Board Reserved List''. This is contained in ''The Directors' Guide'', a training and reference document issued to all Directors on appointment and updated as appropriate. The Board Reserved List is reviewed annually and clearly sets out that authority is delegated from the Board to Board Committees and to management. This ensures that matters of significance are overseen and reviewed by the Board prior to implementation. Examples of matters reserved for the Board as set out on the Board Reserved List are the approval of: the group strategy; the annual budget; the composition and terms of reference of any of the Board Committees; the high level organisational structure and the review of the effectiveness of the group's system of internal control.

## Board composition

F&C Asset Management plc is a quoted subsidiary of Friends Provident plc (''FP''), which owns 51.2 per cent. of the Company. There are, in addition to a formal agreement to manage funds on behalf of FP, various other arrangements in place between the Company and FP, all of which are governed by independent agreements, the terms of which are approved by the minority shareholders as appropriate. New business created by FP has a direct benefit to the Company and the Company's investment performance has a direct impact on FP and its ability to develop its business. Because of this relationship, close co-operation and understanding of each other's businesses and strategies is very important. To facilitate this, Keith Satchell (FP Group Chief Executive) and Philip Moore (FP Group Finance Director), two of FP's Executive Directors are Non-Executive Directors of the Company and Howard Carter, the Company's Chief Executive, is a Non-Executive Director of FP. Howard Carter receives no remuneration or benefits from FP. In addition, Christopher Jemmett is an independent Non-Executive Director of both FP and the Company. The Board considers Mr Jemmett to be independent in character and judgement and that this independence is demonstrated in the integrity, objectivity and professionalism displayed by Mr Jemmett's contributions to Board and Audit & Compliance Committee discussions and debates. The Board acknowledges and respects that some parties may hold a different view of Mr Jemmett's independence as a consequence of his being an independent Non-Executive Director of FP.

The other Non-Executive Directors of the Company are the Chairman (Robert Jenkins), Keith Bedell-Pearce, Dick de Beus, David Gray, John Heywood, Kenneth Inglis, Brian Larcombe, Karen McPherson and Jeff Medlock. With the exception of Jeff Medlock, who recently retired as Chief Financial Officer of Eureko, a 20.6 per cent. shareholder in the Company, all of the Non-Executive Directors listed above, other than the Chairman, meet the criteria of independence as set out in the accepted guidance.

The composition of the Board is reviewed annually.

## The Board Committees

The Board has established a number of standing committees to facilitate the smooth transaction of business within the group. The terms of reference of each Board Committee outlining the authority and duties of each Committee are reviewed and approved annually by the Board and are published on the Company's website and are available on written request from the Company Secretary. The terms of reference of each of the Board Committees provide the authority to take independent professional advice, if necessary, at the Company's expense.

*(a) The Nomination Committee*

## Statement of the Nomination Committee

### Purpose and Terms of Reference

The Committee leads the process, and makes recommendations to the Board, for all new Board appointments and the appointment of Non-Executive Directors to any Board Committee. It is responsible for evaluating the balance of skills, knowledge and experience on the Board and ensuring that a formal, rigorous and transparent procedure exists in the appointment process to ensure that all appointments are appropriate to the needs of the group and complement the balance of the Board.

The terms of reference of the Committee, which explain the purpose, delegated authority and duties of the Committee are published on the Company's website and can be obtained on written request from the Company Secretary.

### Membership and Attendance

Following completion of the merger, Sir David Kinloch the Company's former Chairman and Chairman of the Nomination Committee retired from the Board and stood down as a member of the Nomination Committee. Robert Jenkins was appointed Chairman of the Committee on 11 October 2004 and Dick de Beus and Karen McPherson joined the Committee on that date. The Committee now comprises the Chairman and four Non-Executive Directors, three of whom are Independent Non-Executive Directors.

Throughout 2004 the Committee met formally on two occasions. However, none of the many meetings when the Committee, and other members of the Board interviewed prospective candidates for board membership referred to below, was regarded as a formal meeting of the Committee.

Members of the Nomination Committee: Robert Jenkins (Chairman), Dick de Beus, David Gray, Karen McPherson and Keith Satchell

### Activities and Work of the Committee

In September 2004, Kenneth Inglis, an independent Non-Executive announced his intention to stand down from the Board on conclusion of the Annual General Meeting of the Company to be held on Tuesday, 26 April 2005. During the year, assisted by external independent search consultants, the Committee completed the search for an independent Non-Executive Director to succeed Mr Inglis. The result of this search was reported earlier this year when Brian Larcombe joined the Board on 24 January 2005. In addition, Brian Sweetland a Non-Executive Director and an Executive Director of Friends Provident plc announced his retirement from the Board on 24 January 2005 and Philip Moore, an Executive Director of Friends Provident plc, joined the Board as a Non Executive Director on the same day. The Committee believes that the appointments completed the balance of skills, knowledge and experience being sought by the Board at that time.

On an annual basis the Committee reviews the terms and conditions of appointment of Non-Executive Directors set out in the standard letter of appointment to ensure that they continue to meet the requirements of the Code. This standard letter of appointment can be inspected during normal working hours at the Company's registered office by contacting the Company Secretary. The Committee considers on an annual basis the time required of Non-Executive Directors for the fullfilment of their duties and assess the contribution of the Directors, their independence and their suitability for re-election prior to an appropriate resolution being put to shareholders. All Directors are subject to election by shareholders at the first opportunity after their appointment and to re-election at least every three years.

For the Board
Robert Jenkins
*Chairman, Nomination Committee*
16 March 2005

*(b) The Audit & Compliance Committee*

## Statement of the Audit & Compliance Committee

## Purpose and Terms of Reference

The Committee vouchsafes the processes and controls surrounding the production of the group's financial statements and provides the Board with assurance that the processes and controls exist to facilitate reporting on the group's risk management activities, including those related to Social, Ethical and Environmental (''SEE'') matters, internal control and adherence to policies and procedures.

The terms of reference of the Committee, which explain the purpose, delegated authority and duties of the Committee are published on the Company's website and can be obtained on written request from the Company Secretary.

## Membership and Attendance

The Committee is chaired by Christopher Jemmett. Following completion of the merger on 11 October 2004, Sir David Kinloch the Company's former Chairman retired from the Board and stood down as a member of the Audit & Compliance Committee. Keith Bedell-Pearce and John Heywood joined the Committee on 11 October 2004. The Committee now comprises solely independent Non-Executive Directors.

The Committee usually meets at least four times a year to review the integrity of the Interim Report and Accounts and the Annual Report and Accounts and other matters as set out in the terms of reference. Senior management and a representative from Friends Provident plc, given the enlarged group's governance requirements, attend as required. These meetings are also attended by senior members of the group's auditors, Ernst & Young LLP.

During the year the Committee met formally on three occasions and informally on a number of occasions to discuss and consider business matters including the award of non-audit related consultancy work. On two occasions the Committee met members of the external auditors without management present and on two occasions the Committee met with the head of the internal Audit & Compliance department without any other members of management present.

Members of the Audit & Compliance Committee: Christopher Jemmett (Chairman), Keith Bedell-Pearce, David Gray and John Heywood. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience, a position that should continue throughout 2005.

## Activities and Work of the Committee

As highlighted earlier, the Committee normally discharges its responsibilities, as allocated by its terms of reference, within a schedule of four meetings. Two meetings are held early in the year, one to deal with matters of governance (for example, compliance with the Code, the Financial Services Act, the effectiveness of internal controls and risk management systems, monitoring and reviewing the Internal Audit, Risk & Compliance department and monitoring and reviewing the independence, objectivity and effectiveness of the external audit process) and the other to consider the integrity of the year end financial statements and any formal announcements relating to the Company's financial performance including any significant financial reporting judgements contained in them. A similar process is adopted at the interim reporting stage. The Committee also considers and reviews other risk management or control documentation including the Company's policy on whistleblowing, the results of internal and external audit and compliance reports or management letters and oversees the award of any non-audit related consultancy work. On an annual basis the Committee considers and makes a recommendation to the Board as to the appointment, re-appointment or removal of the external auditors and approves their remuneration and terms of engagement. Other meetings of the Committee are called at the request of the Chairman to consider *ad hoc* control issues that may emerge during the year as well as other matters that the Board has asked the Committee to consider or investigate.

For the Board

Christopher Jemmett

*Chairman, Audit & Compliance Committee*

16 March 2005

*(c) The Remuneration Committee*

## Purpose and Terms of Reference

Full details of the purpose and terms of reference, activities and work of the Committee are set out in the Directors' Remuneration Report.

## Membership

Members of the Remuneration Committee: Karen McPherson (Chairman), Keith Bedell-Pearce, John Heywood, Kenneth Inglis and Brian Larcombe.

Following completion of the merger, Karen McPherson replaced Kenneth Inglis as Chairman of the Remuneration Committee. On the same date Sir David Kinloch, the Company's former Chairman and a member of the Remuneration Committee retired from the Board and stood down as a member of the Remuneration Committee. John Heywood joined the Committee on 11 October 2004 and Brian Larcombe joined the Committee on his appointment to the Board on 24 January 2005. The Committee now comprises four Non-Executive Directors, all of whom are independent Non-Executive Directors.

## Activities and Work of the Committee

The Committee is responsible for reviewing the group's remuneration policy (as set out in the Directors' Remuneration Report on pages 43 to 60). Within that policy, the Committee is responsible for determining the remuneration packages of the Executive Directors and making recommendations and monitoring the specific remuneration packages of senior management below board level. It is also responsible for the Company's incentive schemes for employees, including the bonus scheme and the grant of awards under the long term incentive schemes. Further details of the objectives of the Committee are contained in the Directors' Remuneration Report on page 43.

For the Board
Karen McPherson
*Chairman, Remuneration Committee*
16 March 2005

## Attendance at meetings

The following table identifies the number of Board and formal Committee Meetings held in 2004 and the attendance record of the individual Directors as members of committees of the Board. The Board of F&C Asset Management plc and the Remuneration Committee of F&C Asset Management plc met on one occasion since completion of the merger. The Nomination Committee of F&C Asset Management plc met immediately prior to completion of the merger. All other meetings represent meetings of ISIS Asset Management plc held prior to completion of the merger. In addition to the meetings detailed below a number of sub-committees of ISIS Asset Management plc, including a private meeting of the independent Directors, met to discharge specific items relating to the merger.

| Director | Board Meeting | Non-Executive Director meetings without management present | Remuneration Committee | Audit & Compliance Committee | Nomination Committee |
|---|---|---|---|---|---|
| Number of meetings held in 2004(2003) | 7(7) | 2(2) | 4(7) | 3(4) | 2(2) |
| Robert Jenkins[(1)] | 1 | – | – | – | 1 |
| Sir David Kinloch[(2)] | 6 | 2 | 3 | 3 | 1 |
| Christopher Jemmett | 7 | 2 | – | 3 | – |
| Howard Carter | 7 | – | – | – | – |
| Peter Arthur[(2)] | 6 | – | – | – | – |
| Kenneth Back[(2)] | 6 | – | – | – | – |
| Keith Bedell-Pearce | 7 | 2 | 4 | – | – |
| Dick de Beus[(1)] | 1 | – | – | – | 1 |
| Nick Criticos[(2)] | 6 | – | – | – | – |
| David Gray | 7 | 2 | – | 3 | 2 |
| Alain Grisay[(1)] | 1 | – | – | – | – |
| John Heywood[(1)] | 1 | – | 0 | – | – |
| Kenneth Inglis | 7 | 2 | 4 | – | – |
| Karen McPherson[(1)] | 1 | – | 1 | – | 1 |
| Jeff Medlock[(1)] | 1 | – | – | – | – |
| Ian Paterson Brown | 7 | – | – | – | – |
| Keith Satchell | 7 | 2 | – | – | 2 |
| Brian Sweetland | 6 | 2 | – | – | – |
| Robert Talbut[(2)] | 6 | – | – | – | – |

(1) Appointed as a member of the Board and relevant Board Committee on completion of the merger on 11 October 2004.

(2) Resigned as a member of the Board and relevant Board Committee on completion of the merger on 11 October 2004.

## Board roles

### *Chairman*

The Chairman of the Company is Robert Jenkins. As Chairman, Robert Jenkins is responsible for leadership of the Board and ensuring the effective running and management of the Board. The role profile of the Chairman outlines the specific responsibilities of the Chairman including the following:

- Ensuring that the Board agenda for each meeting takes account of the issues and concerns of each Board member and that members of the Board receive accurate, timely and clear information on the Company and related matters to enable them to monitor the Company's performance and take sound decisions.
- Ensuring effective communication with shareholders and ensuring that the Board develops an understanding of the views of major investors.
- Ensuring that, in conjunction with the Company Secretary, a formal induction and development process including any relevant internal and external training exists for all Directors and the Board as a whole with a view to enhancing the Board's effectiveness.
- Ensuring constructive relations between executive and Non-Executive Directors and effective contribution from all Directors.

Mr Jenkins' biography is set out on page 22. Mr Jenkins has no other significant commitments.

*Chief Executive*

The Chief Executive of the Company is Howard Carter. As Chief Executive, Howard Carter is responsible for overseeing the implementation of the strategy as set by the Board, providing strategic vision and executive leadership of the business to all the group's business activities and ensuring the effective running of the business and management of the Management Committee.

*Non-Executive Directors*

Messrs Bedell-Pearce, de Beus, Gray, Heywood, Inglis, Jemmett, Larcombe, Medlock, Moore, Satchell and Ms McPherson are the Company's Non-Executive Directors. As Non-Executive Directors they are responsible for: providing entrepreneurial leadership and promoting the highest standards of governance within a framework of prudent and effective controls; constructively challenging and helping develop strategic proposals; ensuring that the Company has in place the necessary resources to meet its strategic objectives; reviewing management performance; determining appropriate levels of Executive Director Remuneration (Remuneration Committee members) and taking a prime role in appointing and where necessary removing Executive Directors; setting the Company's values and standards to ensure its obligations to its stakeholders are understood and met and reviewing communication with shareholders.

*Executive Directors and the Company's Management Committee*

Messrs Carter, Grisay and Paterson Brown are the Executive Directors of the Company. They, together with Messrs Broccardo, Cole, Criticos, Johns, Llewellyn, Ribeiro and Ms Williamson form the Company's Management Committee. The Management Committee is accountable and responsible for implementing Board strategy, proposing development or new elements of strategy and for the day-to-day running of the business. The Management Committee, in addition to overseeing the implementation of the strategy, regularly reviews business issues and matters not reserved for the Board as a whole. This Committee has a reserved list to assist it in carrying out its functions. Examples of matters reserved for the Management Committee as delegated authorities from the Board are: the approval of day to day business issues linked to the strategy or the annual budget and include, the launch of new products, approval of contractual commitments, approval of expenditure, and any issue that could have a potential legal or reputational impact on the group.

## Board evaluation and professional development

In the first quarter of 2004, the Company Secretary, in consultation with the Chairman and the Nomination Committee, undertook an evaluation of the effectiveness of the performance of the Board as a whole for the year ended 31 December 2003. This evaluation was performed by issuing detailed performance questionnaires which included self evaluation, Committee evaluation and evaluation of the Board as a whole to each Director and analysing and discussing the responses with each Board member. A succinct report was then prepared, discussed with the Chairman and presented to the Nomination Committee and the Board. The Board identified certain actions to enhance their effectiveness and these were acted upon during 2004.

Following completion of the merger and the resultant Board changes detailed earlier in this report, the Board has deemed it inappropriate to conduct an evaluation exercise in respect of the year ended 31 December 2004. The Board took that decision based on the fact that in the year ended 31 December 2004, they collectively had met formally only once since completion of the merger. The Board expects to conduct a full evaluation for the year ended 31 December 2005 and will continue to review the evaluation approach adopted on an annual basis.

The Company has a full and formal induction process for all new appointments to the Board. The Chairman, in consultation with the Company Secretary and individual Directors, is responsible for assessing the professional development needs of each Director. The induction process and ongoing professional development is facilitated by the Company Secretary who, in consultation with the individual Director, identifies the most appropriate method of ensuring professional development. The Company Secretary also assists in organising attendance at internal or external courses of professional development to develop familiarity with the Company's area of business operation.

# Directors' Report on Corporate Governance

## Directors and Directors re-election

The Directors at any time during the year ended 31 December 2004 are as shown in the Directors' Remuneration Report on page 55. Details of the Executive Directors' service contracts and Non-Executive Directors' letters of appointment can be found on page 54.

Robert Jenkins, the Company's Chairman, was appointed to the Board during the year. As such he retires at the Annual General Meeting and, being eligible, offers himself for election.

Dick de Beus, John Heywood and Karen McPherson, all of whom are independent Non-Executive Directors, were appointed to the Board during the year. As such all retire at the Annual General Meeting and, being eligible, offer themselves for election.

Brian Larcombe, an independent Non-Executive Director, was appointed to the Board on 24 January 2005. As such he retires at the Annual General Meeting and, being eligible, offers himself for election.

Jeff Medlock, a Non-Executive Director, was appointed to the Board during the year. As such he retires at the Annual General Meeting and, being eligible, offers himself for election.

Philip Moore, a Non-Executive Director, was appointed to the Board on 24 January 2005. As such he retires at the Annual General meeting and, being eligible, offers himself for election.

Mr Grisay, an Executive Director, was appointed to the Board during the year. As such he retires at the Annual General Meeting and, being eligible, offers himself for election.

In September 2004, Kenneth Inglis declared his intention to retire from the Board on conclusion of the Annual General Meeting on 26 April 2005, accordingly, Mr Inglis has not been considered for re-election.

Keith Bedell-Pearce, an Independent Non-Executive Director and Ian Paterson Brown, an Executive Director, retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

The Nomination Committee has reviewed the structure, size and composition of the Board, and confirm that all Directors offering themselves for election or re-election at the Annual General Meeting demonstrate commitment to their role. The Nomination Committee has also confirmed that all Directors submitting themselves for election or re-election devote sufficient time to perform their roles as members of the Board and any board committee and that the Chairman and all Non-Executives display the qualities expected of a Chairman and of an effective Non-Executive Director as set out on pages 36 and 37. The Nomination Committee believes that all Directors submitting themselves for election or re-election should be elected or re-elected.

Details of the Directors offering themselves for election or re-election can be found on pages 22 and 23.

## Relations with shareholders

The Board as a whole acknowledge its responsibility for ensuring satisfactory dialogue with shareholders and communications are given high priority. The Company welcomes the views of shareholders and, where practicable, enters into dialogue with institutional shareholders based on the need for mutual understanding of objectives. The Company's Chief Executive and other Executive Directors regularly meet the largest institutional shareholders and Company analysts following the announcement of the year end and interim results; the Senior Independent Director and all other Non-Executive Directors have the opportunity to attend these meetings. The Annual General Meeting of the Company provides a forum, both formal and informal, for investors to meet and discuss issues with Directors and senior management of the Company. Details of resolutions to be proposed at the Annual General Meeting on Tuesday, 26 April 2005 can be found in the notice of the meeting on pages 121 to 123.

At its Annual General Meeting, the Company complies with the provision of the Code relating to the disclosure of proxy votes, the separation of resolutions and the attendance of the Committee Chairmen. The timing of the despatch of the formal notice of the Annual General Meeting complies with the Code. The results of the votes cast at the Annual General Meeting are posted on the Company's website.

The Non-Executive Directors meet twice a year without management present. At these meetings representatives from the Company's significant shareholders have the opportunity to express their views about the Company and consideration is given to any other relevant views expressed by other shareholders. Unattributable shareholder feedback on the Company, facilitated by the Company's brokers, is also presented to the Board following management's year end results presentations. During the year this unattributable feedback was extended to the presentations made by Messrs Carter, Grisay, Jenkins and Paterson Brown as part of the share placing relating to the merger.

In addition the Company's registrar offers a Shareview service.

Information on Shareview provided by Lloyds TSB :

The Shareview service gives you more control over your shares and other investments:

- direct access to data held for you on the share register including recent share movements and dividend details;
- the ability to change your address or dividend payment instructions on-line.

It's easy to sign up for Shareview – you just need the "shareholder reference" printed on your proxy form or dividend stationery – and there's no charge to register.

When you register on the site, you can tell us your preferred format (post or e-mail) for shareholder communications. If you select "e-mail" as your mailing preference, you will be sent shareholder communications, such as proxy forms and notice of company results by e-mail instead of post, as long as this option is available. If you choose "post" as your preference, you will be sent paper documents as usual.

Visit the site for more details: www.shareview.co.uk. Details of software and equipment requirements are given on the website.

## Investee company corporate governance and voting policy

F&C has established a Corporate Governance Committee to address, among other things, issues and policies in respect of investee companies. The Company aims, where practicable, to implement these policies on a global basis, subject to client agreement. The policies are implemented as part of the investment discipline and are carried through into the execution of the voting policy. Corporate governance principles, which are available to investee companies, are applied in a pragmatic and sensible manner that recognises that businesses are dynamic organisations. The Company is therefore seeking to understand the "governance culture" rather than merely to confirm compliance with rules and regulations which in some cases may be neither applicable nor appropriate.

Details of proxy votes cast on the retail funds managed by F&C, together with the Company's corporate governance policies applied to investee companies, are published on the Company's website.

## Internal control

The Board has overall responsibility for the group's system of internal control and for reviewing its effectiveness on a regular basis. Management's role is to implement and operate the Board policies on risk and risk management. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

The Company, as required by the FSA Listing Rules, complied with the Code provisions on internal control for the year ended 31 December 2004.

The procedures that the Directors have established are designed to provide effective control within the group and accord with the Internal Control Guidance for Directors on the Code issued by the Institute of Chartered Accountants in England and Wales "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull Guidance"). Such procedures have been in place throughout the year and up to 16 March 2005, the date of approval of the Annual Report and Accounts. A high-level overview of the ongoing process for identifying, evaluating and managing significant risks including social, environmental and ethical issues is detailed below. This process is regularly reviewed by the Board to ensure it complies with the Turnbull Guidance.

## Control environment

The group is committed to the highest standards of business conduct and seeks to maintain these standards across all areas of the business. The group has in place appropriate procedures for the reporting and resolution of activities that do not meet the required standards of business conduct.

The group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve group objectives. The structure is designed to provide clear responsibilities and a control framework for key areas of the group's business.

Operational responsibility rests with the Chief Executive and is devolved through a documented executive structure with clearly delegated and appropriate levels of authority. Members of group management are, therefore, accountable for the operation of the systems of internal controls within the group's business.

## Business risks

The identification of major business risks is carried out by the Board in conjunction with management, and procedures to control these risks, where possible, are reviewed and agreed.

Quarterly reports are prepared by each of the business units, across all locations including the group's overseas locations in The Netherlands, Portugal, Germany, Ireland, France and the U.S. The quarterly reports include issues of material business risk. These reports are discussed in detail by the Management Committee that includes all Executive Directors. All significant items are identified and reported to the Board on a regular basis.

In addition to the ''normal risks'' facing the business, relating to market, clients and regulation, following the merger, the group faces a number of short-term operational risks relating to integration activities including the merger of IT systems, the outsourcing of certain back office operations, business continuity and disaster recovery and the rationalisation of funds. The Board through its risk management reporting processes have identified these risks and in all cases have assigned appropriate members of management to ensure adequate processes and controls exist to manage these risks.

## Monitoring and corrective action

There is a formal compliance function, which is integrated with the internal audit function and, following the merger, the operational risk function, to form an Audit, Risk & Compliance department. The Audit, Risk & Compliance department conducts regular monitoring of various business areas and control procedures in line with a plan agreed annually with the Audit & Compliance Committee. The Audit & Compliance Committee and members of the Management Committee receive a formal monthly report from the Audit, Risk & Compliance department providing an update of the monitoring activity and other relevant regulatory or control matters. Any issues of significance are brought to the attention of the Board by the Audit, Risk & Compliance department and through the regular reporting process. Planned corrective actions are independently monitored for timely completion and reviewed by the Audit & Compliance Committee.

The Audit & Compliance Committee reviews the effectiveness of the operation of this framework at least twice each year.

## Independence of the auditors

The Board has in place rigorous systems for ensuring the independence, objectivity and effectiveness of the group's auditors and has satisfied itself that during the year no aspect of their work was impaired on these grounds. In maintaining a clear perception of independence and balancing that with the best interests of the Company, the Board has a clear policy that it follows when considering awarding non-audit work to the group's auditors.

The Company does not impose an automatic ban on the group's auditor undertaking non-audit work. The group's aim is always to have any non-audit work involving accountancy firms carried out in a manner that affords value for money while taking into account relevant ethical guidance. The firm must not be in a position of conflict in respect of the work in question and must have the skill, competence and integrity to carry out the work in the best interests of the group.

Any award of work to the auditors, irrespective of value, requires the prior approval of the Audit & Compliance Committee. The Committee, in addition to considering the costs of any award, considers whether the work is:

- so closely related to the statutory audit – for example, related assurance work, which would include FRAG 21 work, regulatory reports and tax compliance work; or
- such that a detailed understanding of the group is necessary – for example, due diligence and tax advisory work and work preparatory to a shareholder circular;

that, in the absence of any conflict of interest, it is considered in the best interests of the group to have the work carried out by the auditors.

It is also recognised that audit firms have an internal control process that aims to eliminate conflict and ensure independence and objectivity in dealing with clients. The auditors are specifically excluded from undertaking any assignment or work that would involve them in either auditing or reviewing their own work or in providing services that would require them to function as part of the management of the business.

The award of any other type of non-audit work will be the subject of a short list of appropriate providers if in excess of £30,000 and the subject of a formal tender process wherever appropriate. Irrespective of the value of the contract, such work will always be awarded to the firm which has the necessary skill, competence and integrity and offers the best value for money in the best interests of the group.

The performance, independence, competence and cost of auditors are reviewed annually by the Audit & Compliance Committee. When the committee considers it appropriate, the provision of audit services will be formally market-tested through a tender process involving those audit firms judged competent to meet the needs of the group. The frequency of this market-testing will depend on the views of the Audit & Compliance Committee, on the needs of the group and prevailing leading practice.

During the year, Deloitte & Touche, KPMG, and PricewaterhouseCoopers, who are independent of the external auditors, provided non-audit related services to the group. Details of fees paid to accounting firms during 2004 are disclosed in note 4 on pages 76 and 77 of the notes to the financial statements.

## Future developments

The Board believes that the controls in place during 2004 have been appropriate to the needs of the group. Nevertheless, it is committed to the highest standards of governance and business conduct and will ensure that those controls continue to develop in line with the requirements of the Financial Services Authority ("FSA") and leading practice.

By order of the Board

W Marrack Tonkin, FCCA
*Secretary*

80 George Street
Edinburgh EH2 3BU
16 March 2005

In designing the total compensation arrangements for the Company and in preparing this report, the Board and the Remuneration Committee have complied with the provisions of the Combined Code issued by the Financial Reporting Council in July 2003 ("the Code"), Schedule 7A to the Companies Act 1985 and the FSA Listing Rules. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

Legislation requires the group's auditors to audit certain disclosures within this report. Where disclosures have been audited they are indicated as such.

## Corporate developments

As detailed earlier within both the Chairman's Statement and Chief Executive's Report, the merger that created F&C Asset Management plc has had a significant impact on the business. The over-arching compensation policy of the enlarged group, together with specific details of the share incentive schemes now operating within F&C Asset Management plc, was set out in the Listing Particulars issued in relation to the merger in September 2004.

During 2004 the intended members of the Remuneration Committee of F&C Asset Management plc met on a number of occasions to agree the appropriate policies for the enlarged group and wherever appropriate to agree transitional arrangements to cover both the salary and bonus reviews in respect of the year ended 31 December 2004.

The following policies represent the policies now adopted by F&C Asset Management plc for the forthcoming year and subsequent financial years, together with, where appropriate, details of transitional arrangements applied in relation to the year ended 31 December 2004.

## Introduction and objectives

The Remuneration Committee is a Standing Committee of the Board, chaired by Karen McPherson, an independent Non-Executive Director. Its other members are Keith Bedell-Pearce, John Heywood, Kenneth Inglis and Brian Larcombe, all of whom are independent Non-Executive Directors. Kenneth Inglis chaired the Committee until completion of the merger and Sir David Kinloch served as a member of the Committee until his retirement from the Board on 11 October 2004.

The Committee, which has detailed written terms of reference that are reviewed annually and published on the Company's website and are available on request from the Company Secretary, has been established by the Board to:

(a) recommend to the Board the Company's policy on Directors' remuneration;

(b) ensure that the Company's Executive Directors and senior employees are fairly rewarded and that a significant proportion of Executive Directors' remuneration is linked to the group's corporate, and their individual, performance;

(c) demonstrate to shareholders that the remuneration of Executive Directors and senior employees of the Company is determined by a Committee of Board members who have no personal interest in the level of remuneration of the Company's Executive Directors or senior employees and who will pay due regard to the interests of shareholders and to the financial and commercial health of the Company; and

(d) ensure that full consideration has been given to Section 1B of the Code's best practice provisions as annexed to the Listing Rules.

## Advice

During the year the Remuneration Committee sought and received independent remuneration research undertaken by Mclagan & Partners, Towers Perrin, DLAMCG Consulting and Mercer Human Resource Consulting, leading firms of executive remuneration consultants appointed by the Committee to assess comparability of the Company's remuneration policies to the marketplace and in particular the remuneration policies of the Company's competitors. The Committee approves all work undertaken by these specialist consultants and the Board is satisfied that its advisers in respect of remuneration matters are independent.

During 2004 the Remuneration Committee also received advice from PricewaterhouseCoopers (''PwC'') relating to the creation of the new incentive plans approved by shareholders in October 2004. PwC also provided advice in relation to the application of the rules and the operation of these plans.

## Statement of the Company's policy on Directors' remuneration

The Company's compensation policy detailed below is based upon the following key principles:

- a single compensation policy applying across the business;
- a focus on market competitive total compensation;
- differentiation by merit and performance;
- an emphasis on variable, performance-driven remuneration;
- alignment with shareholders' interests through equity ownership; and
- clarity, transparency, and fairness of process

A total compensation approach is central to the operation of the Company's compensation philosophy, with a strong focus on variable compensation. The Board believes that shareholders interests are best served by containing fixed costs and increasing the proportion of total compensation that is directly performance related and thus aligned with shareholders interests.

The total cash component of compensation will be benchmarked to market median for solid performers and to upper quartile for industry leaders. A range of benchmark data is used, based on comparable asset management businesses, with appropriate data being used for each geographic location.

The following policies enable the Company to recruit, retain and motivate high-calibre individuals who, in turn, will facilitate the Company's pursuit of its corporate goals. The policies are designed to ensure that individual rewards and incentives are aligned with the performance of the Company and reflect the Company's financial and fiduciary responsibilities to its clients, shareholders, employees and other stakeholders.

In framing the policies, the Board takes full account of the various codes and guidelines outlining leading practice, the industry environment in which the Company operates and the Company's requirements in terms of its operating plan, longer term strategic goals and its position within its industry peer group.

In designing schemes of performance-related remuneration and in preparing this report the Board and the Remuneration Committee has complied with the provisions of the Code and the FSA Listing Rules.

Within these policies, and with the aid of independent research, the Remuneration Committee determines on behalf of the Board the remuneration of Executive Directors and certain senior employees to ensure that they are fairly rewarded in terms of total compensation for their contribution to overall performance. Such remuneration will comprise basic salary, pension provision, annual bonus, any awards under the long term share incentive schemes and all employee share plans.

## Policies on the individual elements of remuneration and employment:

### *(a) Salaries*

The salaries of all employees, including Executive Directors, are reviewed annually and are determined by reference to external market research. The Company has an active policy of reducing the emphasis on base salary.

### *(b) Bonus*

In the Listing Particulars issued in relation to the merger, the Board declared their aim to determine the size of the bonus pool as a fixed percentage of profits, believing that this provides greater transparency and certainty to both the shareholder and employee, and helps to ensure that bonuses are affordable and linked to the financial performance of the enlarged group. Following the merger and the integration of the two businesses, the percentage of profits previously required to pay market competitive bonuses is expected to be lower than those previously applied within either entity. It is not possible to set an appropriate target during the transition phase of integrating the two businesses and as such the following policy has applied in respect of the bonus year ended 31 December 2004 and will apply for the year ending 31 December 2005.

The size and distribution of the bonus pool is recommended by the Remuneration Committee to the Board for consideration and approval. In considering the size and in determining the distribution of the bonus pool, the Committee considers the performance of the business, the need to recruit, motivate and retain high-calibre individuals, the arrangements operated by the Company's competitors and the need to maintain an appropriate balance between salary and performance-related remuneration that ensures the achievement of objectives is rewarded.

During 2003 a revised discretionary bonus scheme for investment professionals was put in place within ISIS. The purpose of this scheme is to reward investment professionals with superior fund performance relative to peer group benchmarks and indices, and their contribution to the broader business and strategic objectives of the Company. Individual awards under this scheme are set according to the degree of outperformance of the fund against benchmarks but are not contractual and are still ultimately subject to the size of the bonus pool approved annually by the Board. The amount of any payments exceeding £100,000, or 100 per cent. of base salary, whichever is the greater, is deferred for a period of 12 months. F&C Asset Management plc has applied these criteria in calculating bonus awards to ex ISIS investment professionals in respect of their performance in 2004 but will replace this scheme with the total compensation approach to remuneration, applicable to all employees, for the bonus year commencing 1 January 2005.

Bonus awards to all non-investment professionals and the Executive Directors are made under the discretionary bonus scheme. The purpose of this scheme is to reward non-investment professionals and the Executive Directors for superior performance relative to agreed targets.

On 4 October 2004 shareholders approved the adoption of a Purchased Equity Plan. The Purchased Equity Plan operates in conjunction with the discretionary bonus scheme and is intended to encourage shareholding by management and employees of the group by providing for:

- The compulsory purchase of shares using annual bonus above a threshold level; and
- Voluntary purchase of shares using annual bonus, with associated matching shares.

Under the terms of the Purchased Equity Plan, participation can arise in one of two ways:

- On an annual basis eligible employees who are awarded in a financial year an aggregate bonus in excess of a threshold level of £75,000 will be required to defer one third of that aggregate gross bonus into shares (''Compulsory Purchased Equity'') for three years; and
- As and when determined by the Board, eligible employees may be invited to elect to defer into shares any remaining proportion of their gross cash bonus not subject to deferral on a compulsory basis for three years (subject to a minimum deferral of £1,500) (''Voluntary Purchased Equity'').

To encourage participants to defer their bonus on a voluntary basis, a matching award will be made for Voluntary Purchased Equity. The matching award will provide for at most one share for each two shares received as Voluntary Purchased Equity. Vesting of any matching award is dependent on the satisfaction of performance conditions and continued service. The performance conditions will relate to real earnings per share growth measured over a three year period as set out below.

| Growth in the group's earnings per share* over three year performance period | Matching Purchased Equity award for each Voluntary Purchased Equity share purchased |
|---|---|
| Below PI + 9% | 1 for 5 |
| PI + 9% | 1 for 5 |
| PI + 24% or higher | 1 for 2 |

* Earnings per share (EPS) is calculated by reference to fully diluted earnings of the shares of the Company and will exclude amortisation of goodwill, gains or losses on the disposal of fixed assets, and also any extraordinary or exceptional items at the discretion of the Remuneration Committee.

(where PI stands for an appropriate index of price inflation – the Retail Price Index (RPI))

For levels of EPS performance between those shown in the table, the Matching Purchased Equity award will vary on a straight line basis between the minimum and maximum levels shown.

The Compulsory Purchased Equity will not benefit from any form of matching award and is subject to forfeiture in the event that the employee leaves the group for any reason (other than as a "good leaver") in the three year retention period.

In the year ended 31 December 2004, only the Compulsory Purchased Equity element of the Purchased Equity Plan will apply. Employees previously employed by F&CGH prior to the merger (given that similar arrangements previously existed) will participate in Compulsory Purchased Equity in relation to any bonus awards payable in respect of their performance in 2004. All eligible employees, excluding those employees within the Private Equity business who operate within separate remuneration arrangements, will participate in Compulsory Purchased Equity in relation to the bonus year commencing on 1 January 2005.

Invitations to participate in the Voluntary Purchased Equity element of the plan are at the discretion of the Board and will only be offered when the Board considers it appropriate to do so.

### *(c) Deferred bonus*

As at 16 March 2005 the following deferred bonus arrangements are in place for Executive Directors in respect of the financial year ended 31 December 2004. Payments under these arrangements, as previously outlined in the 2002 and 2003 Annual Report of ISIS Asset Management plc, are conditional upon the Director being employed by F&C Asset Management plc on 30 April 2005 and not under notice of termination of contract where such notice has been given by the Director at the due date of payment being 30 April 2005.

| Executive Director | Deferred bonus for 2004 £000 |
|---|---|
| Howard Carter | 200 |
| Ian Paterson Brown | 100 |

### *(d) Savings-related share schemes*

To foster a culture of share ownership throughout the enlarged F&C Asset Management plc group, the Board intends to extend the existing Share Save Scheme and Share Incentive Plan to include all eligible employees. Both schemes, which historically operated within ISIS Asset Management plc, are "all employee share schemes" and all employees including Executive Directors who meet certain criteria and are eligible to participate. Invitations to all employees to participate in these schemes will be issued following the announcement of the 2004 year end results in March 2005. Details of all "options" held by Directors under the Share Save Scheme are contained on page 58.

During the year 319 employees participated in the Share Save Scheme and 121 employees participated in the Share Incentive Plan. At 31 December 2004 a total of 810,170 shares were under option within the Share Save Scheme at an exercise price of 114 pence (March 2003 participation) and 543,927 shares were under option at an exercise price of 181 pence (March 2004 participation). 344,520 shares are under a three year option commencing in March 2003, 465,650 shares are under a five year option commencing in March 2003, 313,917 shares are under a three year option commencing in March 2004 and 230,010 shares are under a five year option commencing in March 2004. 65,763 shares were held in trust for employees within the Share Incentive Plan. Both "all employee share schemes" seek to buy shares in the market to remove any possible impact of dilution.

In addition to the Employee Share Schemes, at 31 December 2004 The Staff Share Ownership Scheme (an approved profit sharing scheme closed to new members on 31 December 2002) owned 153,832 Ordinary shares (31 December 2003 – 247,795 ordinary shares). At 31 December 2004 81 employees (31 December 2003 – 110 employees) owned shares in the Company through the Staff Share Ownership Scheme. Approved profit sharing schemes were phased out by the Inland Revenue following the introduction of share incentive plans within the Finance Act 2000.

### *(e) Share incentive schemes*

The Board believes that the share incentive schemes increase the potential for greater importance to be placed upon the performance related element of total remuneration.

In any 10 year period the aggregate number of ordinary shares which will be placed under award under any share incentive scheme, shall not, when aggregated with the number of ordinary shares placed under option or issued in that period under any other employees' share scheme operated by the Company, exceed 10 per cent. of the Company's issued ordinary share capital at that time. For the purposes of measurement against this limit the following will be disregarded: any ordinary shares that have been, or will be purchased, rather than allotted; and any awards or grants that have lapsed or become incapable of vesting.

In order to ensure that the assessment of performance conditions in relation to the share incentive schemes detailed on pages 48 to 50 is independent, PricewaterhouseCoopers LLP will report to the Remuneration Committee as to whether the performance criteria under all schemes have been met.

### *Ongoing schemes*

On 4 October 2004 shareholders approved the adoption of the F&C Asset Management plc Long Term Remuneration Plan ("LTRP"), a discretionary contingent share award scheme unapproved by the Inland Revenue. The LTRP was designed to support the business objectives of the enlarged group following the merger. Under the LTRP, contingent awards of shares are made, usually annually, and will vest after three years subject to the achievement of performance conditions. The performance conditions are based 50 per cent. on total shareholder return against the FTSE 250 and 50 per cent. on growth in real earnings per share.

### *Long Term Remuneration Plan (LTRP)*

The LTRP is the primary long term incentive arrangement of F&C Asset Management plc and replaces the existing long term incentive arrangements previously operating within ISIS Asset Management plc and F&CGH prior to the merger.

Vesting of the ordinary shares that are the subject of an award under the LTRP will be dependent upon the specified performance conditions and conditions of continued service. The performance conditions applied to the LTRP are determined by the Board and are measured over a three year performance period. 50 per cent. of any award relates to total shareholder return ("TSR") and 50 per cent. of the award relates to real earnings per share growth as set out below.

| TSR target (applying to 50 per cent. of any award) The group's TSR relative to FTSE 250 | % of Award Vesting |
|---|---|
| Below Median | Nil |
| Median | 35 |
| Upper Quartile | 100 |

| EPS target (applying to 50 per cent. of any award) Growth in group's EPS over three year performance period | % of Award Vesting |
|---|---|
| Below PI + 9% | Nil |
| PI + 9% | 50 |
| PI + 24% or higher | 100 |

(Where PI stands for an appropriate index of price inflation – the Retail Price Index (RPI))

The TSR target is dependent upon the total shareholder return (''TSR'') of the Company compared to the TSR of the other companies who formed the FTSE 250 Index at the start of each performance period (the ''comparator companies'') over a three year performance period commencing on the first day of the accounting period in which the award was made. In order to determine how much of an award will vest, the Remuneration Committee compares the TSR of the Company with that of the companies that constituted the FTSE 250 Index published by the London Stock Exchange plc immediately before the date of the award. At the end of the performance period, the Company and each of the comparator companies (the ''comparator list'') are listed and ranked in accordance with their TSR over the performance period. The number of ordinary shares which vest would depend upon the ranking of the Company in the comparator list in accordance with the vesting table above, described as follows. For below median TSR performance no awards would vest; for TSR performance between the median and upper quartile (125th and 63rd position in the index) awards vest on a straight-line basis between 35 per cent. for median and 100 per cent. for upper quartile. The TSR measure reflects the movement in the value of shares plus any dividends declared during the relevant period. It was therefore, chosen as the performance measure for the LTRP as it is directly related to movements in shareholder value.

For levels of both TSR and EPS performance between those shown in the tables above, any award that vests under the LTRP will vary on a straight line basis between the minimum and maximum levels shown.

During the year a total of 6,375,904 LTRP awards were made to 215 staff under the Long Term Remuneration Plan.

During 2004 the growth in the Company's EPS exceeded the growth in the RPI by 13.2 percentage points (2003: 12.5 percentage points). The Company's TSR ranked 20th out of the 250 companies representing the FTSE 250 Index in the period from 2 July 2004 (the date of the announcement of the proposed merger, the suspension date of ISIS Asset Management plc shares, and the date determined by the Board as the TSR performance period start date for awards made under the LTRP in November 2004) to 31 December 2004.

*Old Schemes*

During the year, and prior to the merger, senior executives in ISIS Asset Management plc were eligible to participate in the ISIS Asset Management plc 2002 Executive Share Option Scheme (the ''2002 Executive Scheme'') and a share award scheme, the ISIS Asset Management plc Long Term Incentive Plan (''LTIP''). In both cases participation was entirely at the discretion of the Board based on an assessment of individual contribution to the group during the year. Since its creation in December 2002, no awards have been made in the LTIP and following the adoption of the LTRP no future awards will be made in either the 2002 Executive Scheme or the LTIP.

*2002 Executive Scheme*

The exercise of options granted under the 2002 Executive Scheme is dependent on the achievement by the Company of specified thresholds of earnings per share before amortisation of goodwill, exceptional items and the cost of the Re-Investment Plan (''EPS''), and growth in excess of the growth in the Retail Price Index (''RPI'') over a three year performance period commencing on the first day of the accounting period in which the grant was made.

An option will not become exercisable unless the growth in the EPS of the Company over the period exceeds the growth in the RPI over the same period by 9 per cent. Where that 9 per cent. target is achieved, one half of the number of ordinary shares forming the option will become exercisable.

For an option to become exercisable in full, the growth in the EPS of the Company over the period must exceed the growth in the RPI over the same period by a minimum of 24 per cent. The number of ordinary shares under option which will become exercisable will increase on a sliding scale if the growth in the EPS exceeds the growth in the RPI by between 9 per cent. and 24 per cent. over the performance period. The EPS measure is chosen because it is designed to enable the 2002 Executive Scheme to reward sustained improvement in the group's underlying financial performance.

During the year a total of 1,826,705 options were awarded to 83 staff under the 2002 Executive Scheme at an exercise price of 240.83 pence pence per option.

During 2004 the growth in the Company's EPS exceeded the growth in the RPI by 13.2 percentage points (2003: 12.5 percentage points.)

*Long Term Incentive Plan*

Since its creation in December 2002, no awards have been made under the Long Term Incentive Plan (''LTIP'') and following the introduction of the Long Term Remuneration Plan in October 2004, no future awards will be made under the LTIP. The following information has therefore been provided for information purposes only as the scheme was available during the year ended 31 December 2004.

Vesting of the ordinary shares that are the subject of an award under the LTIP would be dependent upon the total shareholder return (''TSR'') of the Company compared to the TSR of the other companies who formed the FTSE 250 Index at the start of each performance period (the ''comparator companies'') over a three year performance period commencing on the first day of the accounting period in which the award was made, in accordance with the table below.

**Long Term Incentive Plan – vesting table**

| **Position of company in Order of Ranking** | **Per cent. of number of Shares subject to an Award which vest** |
|---|---|
| Below Median | 0 per cent. |
| Median | 35 per cent. |
| Between Median and Twenty-fourth Centile | Pro-rata between 35 per cent. and 100 per cent. on a straight line basis |
| Twenty-fourth Centile and above | 100 per cent. |

# Directors' Remuneration Report

*Schemes relating to the merger*

Prior to the merger, senior executives within the F&CGH Limited group participated in the F&CGH Shadow Equity Plan (''SEP''). Under the SEP, F&CGH employees participated in the value created in the F&C business through a percentage holding in the notional value of F&CGH. Entitlements under the SEP crystallised in full on completion of the merger, giving participants an immediate vested entitlement to the full value of their SEP holding in cash. As a result of this automatic crystallisation of a cash entitlement and in order to assist in the retention of certain employees, a one-off plan linked to the merger, the Re-Investment Plan, was approved by shareholders in October 2004. This plan enabled former F&CGH employees to re-invest fifty per cent. of their SEP cash proceeds in shares or rights to receive shares in F&C Asset Management plc.

*The Re-Investment Plan*

The Re-Investment Plan was a plan established to allow employees previously employed by F&CGH prior to the merger to voluntarily re-invest one half of their entitlement under the SEP into ordinary shares in F&C Asset Management plc or rights to receive ordinary shares in F&C Asset Management plc. The purpose of the Re-Investment Plan, which was a one off plan linked to the merger, was to encourage key former F&CGH individuals to re-invest one half of their proceeds of their vested Shadow Equity Plan entitlement into ''Investment shares'' which will be forfeitable for a period of up to 2 years should the participant voluntarily resign or be dismissed for gross misconduct within 24 months of completion of the merger on 11 October 2004.

**Forfeiture table in relation to ''Investment Shares''.**

| Time between 11 October 2004 and Voluntary resignation or Dismissal | Percentage of shares held in the Re-Investment Plan forfeited |
|---|---|
| Less than 12 months | 100 |
| Between 12 months and 24 months | 50 |
| More than 24 months | 0 |

On the 11 October 2004 11,021,961 Investment shares were awarded to 119 employees.

To encourage reinvestment, and in recognition of the fact that the Investment Shares carry forfeiture provisions, after three years participants will receive up to one ''Matching share'' for each Investment Share (subject to continued employment and achievement of performance conditions).

During the period ended 31 December 2004 248,327 Investment Shares held in the Re-Investment Plan were forfeited.

The performance condition, described below, is based on growth in earnings per share (''EPS'') in the group. This measure was chosen by the Board for its transparency to participants and to incentivise executives to deliver the benefits of the merger.

| EPS Growth 2003 – 2006 | Number of Matching Shares for each Investment Share |
|---|---|
| PI + 9% or less over three years | 1 for 3 |
| PI + 24% or more over three years | 1 for 1 |

(where PI stands for an appropriate index of price inflation – the Retail Price Index (RPI))

For levels of EPS performance between those shown in the table above, the number of matching shares awarded will vary on a straight line basis between the minimum and maximum levels shown.

During 2004 the growth in the company's EPS exceeded the growth in the RPI by 13.2 percentage points (2003: 12.5 percentage points).

*Policy on grants and awards under the share incentive schemes*

*Ongoing schemes*

The Company's policy for the granting of awards under the Long Term Remuneration Plan is that awards and grants are based on an assessment of individual contribution to the business and independent advice obtained on current remuneration practices. Each year the Remuneration Committee will recommend to the Board the individuals to whom LTRPs should be awarded. Award levels will be determined by the Remuneration Committee with reference to Company performance, market competitiveness (assessed on a total compensation basis using independent market total compensation data), and individual performance. Because of the active policy of reducing the emphasis on base salary, the Company will not link or limit any awards under the LTRP explicitly to a multiple of base salary, believing that making such a linkage provides an incentive to increase base salaries, and therefore fixed costs, which is contrary to shareholders' interests.

*Old schemes*

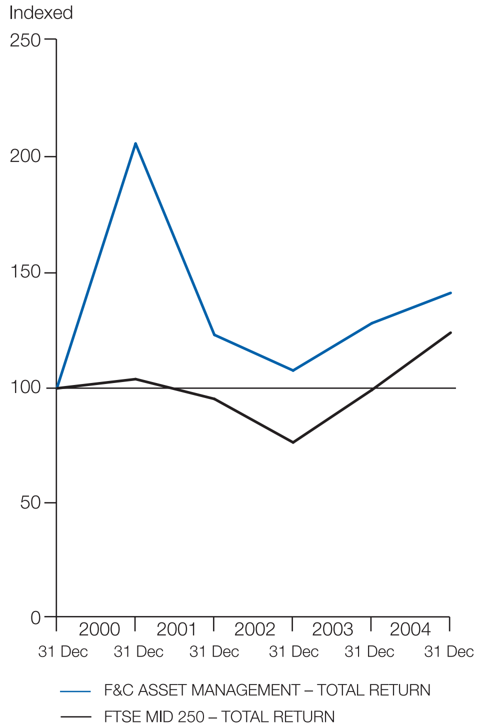
Following the introduction of the Long Term Remuneration Plan in October 2004 and the adoption of the new compensation policy for F&C Asset Management plc, no future awards will be made under either the 2002 Executive Option Scheme or the Long Term Incentive Plan.

Participation under the 2002 Executive Scheme and Long Term Incentive Plan was limited to the extent that the market value of shares over which a participant may be granted options or awarded LTIPs on an annual basis did not exceed an amount equal to 2.5 times and 2 times respectively the participant's base salary at the relevant grant or award date. The intention was, however, that following any initial grant or award (such as for the purposes of his or her recruitment), the Board would only make annual grants or awards up to, in aggregate, a maximum of one times the participant's base salary. In the event that exceptional circumstances exist that require the Board to exceed the annual grant or award of one times annual base salary any excess would be subject to more challenging performance conditions.

No awards or grants will be or have been made at a discount and no re-testing will be performed under any of the schemes.

## Performance Graph for the Share Incentive Schemes

The graph below compares the performance of the Company for the five financial periods ending 31 December 2004 based on the TSR for each period (assuming all dividends are reinvested) to ordinary shareholders compared with the TSR for each period on a notional investment made up of shares of the group of companies from which the FTSE 250 Index of companies is calculated. The FTSE 250 Index has been chosen as the comparator index as it is the index that includes the Company and is considered an appropriate benchmark as there are very few comparable listed asset management businesses. It is therefore the group against which 50 per cent. of the LTRP is measured.




Source: Datastream

*(f) Policy on other benefits*

The Company provides all staff with life assurance cover. The Company's policy in relation to cars is to provide cars only to employees where the use of a car is essential to the fulfilment of their role and to provide a car cash allowance in all other instances. During 2003, the Board resolved, in a three stage process, to consolidate car allowance payments into base salary.

*(g) Policy on pension*

The Company's policy on pension provision is to provide a means whereby each employee either receives a pension at retirement age or funding to operate a money purchase pension plan. New UK employees are provided with funding to enable them to operate a money purchase pension plan. The funding rate varies according to the age of the employee.

Pension payments are based on basic salary and no other cash payments or benefits are pensionable.

### *(h) Policy on contracts of employment*

The Company's policy regarding contracts of employment is that all senior employees, including Executive Directors, should be offered rolling contracts of no longer than twelve months. Where it is commercially appropriate to protect the Company, a longer-term initial contract with any employee, including an Executive Director may be entered into. On completion of the initial contract, the Company's standard terms will be applied. The Remuneration Committee, in considering contracts, has regard to compensation commitments in respect of termination and believes that these are best addressed by restricting the term of the contract. In the event of a termination, the Remuneration Committee would consider all the relevant factors and seek a just solution.

### *(i) Policy on Non-Executive Directors' remuneration*

Non-Executive Directors' fees for the year to 31 December 2004 are set out on page 55. None of the Non-Executive Directors has service contracts. Letters of appointment provide for an initial period of three years, subject to review. Non-Executive Directors must submit to re-election at least every three years and are not eligible for bonuses or participation in savings related share schemes or share incentive schemes. Non-Executive Directors are not eligible to join any of the Company's pension schemes. No pension contributions are made on their behalf and no Non-Executive Director receives a salary from the Company. The remuneration of Non-Executive Directors is determined by the Board as a whole within the limits stipulated in the Company's Articles of Association.

Apart from the Chairman and Deputy Chairman, Non-Executive Directors are paid a basic fee, currently £30,000 per annum for their role on the Board and are separately remunerated for services on Board Committees. All fees are reviewed annually. Fees were reviewed following the merger and the current fees became effective 1 January 2005. The Chairman and Deputy Chairman of the Board, who chair the Nomination Committee and Audit & Compliance Committee respectively, receive an annual all inclusive fee only, currently £100,000 and £55,000 respectively. The Remuneration Committee sets the Chairman's annual remuneration. The Board as a whole determine the fees for Non-Executive Directors. Members and Chairmen of Board Committees are currently remunerated as follows:

| **Committee** | **Member's Fee (£)** | **Chairman's Fee (payable in addition to the member's fee) (£)** |
|---|---|---|
| Audit & Compliance | 10,000 | 5,000* |
| Remuneration | 7,500 | 5,000 |
| Nomination | 5,000 | 5,000* |

* Currently included within the all inclusive fees payable to Robert Jenkins and Christopher Jemmett.

## Statement on Executive Directors' service contracts and Non-Executive Directors' letters of appointment

Messrs Carter, Grisay and Paterson Brown have current service contracts with the Company that are for a rolling period of one year, details of which are summarised below.

| Executive Directors | Date of Contract | Notice Period | Unexpired term | Provision for compensation payable by the Company on early termination £000 |
|---|---|---|---|---|
| Howard Carter | 1 Oct 2000 | Twelve months | rolling twelve months | 365 |
| Alain Grisay | 11 Oct 2004 | Twelve months | rolling twelve months | 209 |
| Ian Paterson Brown | 1 Feb 1995 | Twelve months | rolling twelve months | 169 |
| Peter Arthur (resigned on 11 October 2004) | 1 Dec 2000 | Twelve months | N/A | –* |
| Kenneth Back (resigned on 11 October 2004) | 1 Dec 2000 | Twelve months | N/A | –* |
| Nick Criticos (resigned on 11 October 2004) | 1 Jul 2002 | Twelve months | N/A | 227 |
| Robert Talbut (resigned on 11 October 2004) | 1 Jul 2002 | Twelve months | N/A | –* |

* Full details of the compensation paid to Messrs Arthur, Back and Talbut following their resignation from the Board is set out on page 55.

| Chairman and Non-Executive Directors | Date of Contract | Notice Period | Unexpired term | Provision for compensation payable by the Company on early termination £000 |
|---|---|---|---|---|
| Robert Jenkins | 11 Oct 2004 | None | Thirty one months | Nil |
| Keith Bedell-Pearce | 25 Apr 2003 | None | Thirteen months | Nil |
| Dick de-Beus | 11 Oct 2004 | None | Thirty one months | Nil |
| David Gray | 30 Apr 2004 | None | Twenty five months | Nil |
| John Heywood | 11 Oct 2004 | None | Thirty one months | Nil |
| Kenneth Inglis | 30 Apr 2004 | None | Twenty five months | Nil |
| Christopher Jemmett | 30 Apr 2004 | None | Twenty five months | Nil |
| Brian Larcombe | 24 Jan 2005 | None | Thirty four months | Nil |
| Karen McPherson | 11 Oct 2004 | None | Thirty one months | Nil |
| Jeff Medlock | 11 Oct 2004 | None | Thirty one months | Nil |
| Philip Moore | 24 Jan 2005 | None | Thirty four months | Nil |
| Keith Satchell | 25 Apr 2003 | None | Thirteen months | Nil |
| Sir David Kinloch (retired on 11 October 2004) | 25 Apr 2003 | None | N/A | Nil |
| Brian Sweetland (retired on 24 January 2005) | 30 Apr 2004 | None | N/A | Nil |

No employee of the group has a service contract that cannot be brought to an end within one year.

No additional liabilities are payable by the Company to any Director on early termination other than any payments falling due under the deferred bonus arrangements set out on page 46 and benefit entitlement for Ian Paterson Brown and Howard Carter under the ISIS Asset Management plc pension fund.

## Directors retiring and seeking election/re-election

The names of those Directors proposed for election or re-election are contained in the Directors' Report on Corporate Governance on page 38.

## Statement on Directors' remuneration (audited)

The remuneration of the Chairman and the other Directors who held office during the year ended 31 December 2004 is set out below:

| | Salary and fees 2004 £000 | Bonus 2004† £000 | Benefits and allowances 2004 £000 | Compen-sation for loss of office £000 | Total 2004 (excluding pension contribution) £000 | Total 2003 (excluding pension contribution) £000 | Pension Contributions 2004 £000 | Total 2004 £000 | Total 2003 £000 |
|---|---|---|---|---|---|---|---|---|---|
| Executive Directors | | | | | | | | | |
| Howard Carter* | **282** | **950** | **8** | **–** | **1,240** | 732 | **75** | **1,315** | 797 |
| Peter Arthur[(2)] | **144** | **–** | **5** | **528** | **677** | 416 | **22** | **699** | 440 |
| Kenneth Back[(2)] | **138** | **–** | **8** | **446** | **592** | 359 | **21** | **613** | 383 |
| Nick Criticos[(2)Ø] | **146** | **156** | **11** | **–** | **313** | 444 | **22** | **335** | 466 |
| Alain Grisay[(1)**] | **38** | **133** | **1** | **–** | **172** | – | **–** | **172** | – |
| Ian Paterson Brown | **164** | **425** | **5** | **–** | **594** | 381 | **–** | **594** | 381 |
| Robert Talbut[(2)] | **160** | **–** | **5** | **705** | **870** | 483 | **19** | **889** | 507 |
| Chairman and Non-Executive Directors | | | | | | | | | |
| Robert Jenkins (Chairman)[(1)‡] | **23** | **–** | **–** | **–** | **23** | – | **–** | **23** | – |
| Sir David Kinloch (former Chairman)[(2)] | **68** | **–** | **–** | **–** | **68** | 68 | **–** | **68** | 68 |
| Christopher Jemmett | **32** | **–** | **–** | **–** | **32** | 32 | **–** | **32** | 32 |
| Dick de Beus[(1)] | **6** | **–** | **–** | **–** | **6** | – | **–** | **6** | – |
| Keith Bedell-Pearce | **30** | **–** | **–** | **–** | **30** | 30 | **–** | **30** | 30 |
| David Gray | **31** | **–** | **–** | **–** | **31** | 31 | **–** | **31** | 31 |
| John Heywood[(1)] | **8** | **–** | **–** | **–** | **8** | – | **–** | **8** | – |
| Kenneth Inglis | **30** | **–** | **–** | **–** | **30** | 30 | **–** | **30** | 30 |
| Karen McPherson[(1)] | **7** | **–** | **–** | **–** | **7** | – | **–** | **7** | – |
| Jeffrey Medlock[(1)] | **6** | **–** | **–** | **–** | **6** | – | **–** | **6** | – |
| Keith Satchell | **26** | **–** | **–** | **–** | **26** | 26 | **–** | **26** | 26 |
| Brian Sweetland | **26** | **–** | **–** | **–** | **26** | 31 | **–** | **26** | 31 |
| Total | **1,365** | **1,664** | **43** | **1,679** | **4,751** | 3,063 | **159** | **4,910** | 3,222 |

* Howard Carter's pension contributions represent a contribution to a Funded Unapproved Retirement Benefit Scheme in relation to the element of his salary above the earnings cap. Howard Carter is a member of the ISIS Asset Management plc Pension Fund set out on page 56 which provides pension benefits on his salary below the earning cap.

† Includes the deferred bonus for 2004 for Messrs Carter, Criticos and Paterson Brown, details of which are shown on page 46.

‡ Robert Jenkins received a bonus of £1,250,000 for his services as an Executive Director of F&CGH for the period 1 January 2004 to completion of the merger on 11 October 2004. As disclosed in the Listing Particulars issued in relation to the merger, on completion of the merger, Mr Jenkins received £13,054,210 in respect of his entitlement under the F&CGH Shadow Equity Plan.

** In addition, Alain Grisay received a bonus of £467,000 for his services as an Executive Director of F&CGH for the period 1 January 2004 to completion of the merger on 11 October 2004. An additional £300,000 has been deferred for three years in Compulsory Purchased Equity under the terms of the Purchased Equity Plan details of which are shown on page 45.

Ø In addition, a contribution of £154,000 will be paid into Mr Criticos's International Pension Plan.

(1) Appointed a Director on 11 October 2004.

(2) Resigned as a Director on 11 October 2004.

No sums were paid to third parties in respect of any Executive Director's services.

The Company received £Nil (2003 – £Nil) in fees payable to Executive Directors in respect of any external directorships held. No Executive Director receives any fees in respect of external appointments.

The Non-Executive Directors' fees of Brian Sweetland and Keith Satchell were paid to Friends Provident plc. During the period January 2004 to October 2004 the Non-Executive Director's fees of Sir David Kinloch were paid to Caledonia Investments plc.

## Statement on Directors' pensions (audited)

The number of Directors who held office during the year and to whom retirement benefits are accruing is set out below:

| | 2004 Number | 2003 Number |
|---|---|---|
| Members of money purchase pension scheme | **5** | 4 |
| Members of defined benefit scheme | **2** | 2 |

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Company contributions paid to money purchase pension schemes | | |
| – Peter Arthur (until resignation from the Board on 11 October 2004) | **22** | 24 |
| – Kenneth Back (until resignation from the Board on 11 October 2004) | **21** | 24 |
| – Nick Criticos (until resignation from the Board on 11 October 2004) | **22** | 22 |
| – Alain Grisay (from appointment on 11 October 2004)* | **Nil** | Nil |
| – Robert Talbut (until resignation from the Board on 11 October 2004) | **19** | 24 |

* As disclosed in the Listing Particulars issued in relation to the merger, a pension contribution of £2,986,000, equivalent to 50 per cent. of Mr Grisay's waived entitlement under the F&CGH Shadow Equity Plan was made. This contribution was provided prior to completion and forms part of the completion accounts.

During the year, the Company paid a widow's pension of £82,000 (2003 – £79,000) in respect of the pension benefits which had accrued to a former chairman.

The pension entitlements of the Directors who are members of ISIS Asset Management plc Pension Fund as detailed in note 28, are set out below.

The following Directors were members of defined benefit schemes provided by the Company during the year. Pension entitlements and corresponding transfer values increased as follows during the year.

| | (1) Gross increase in accrued pension | (2) Increase in accrued pension net of inflation | (3) Total accrued pension at 31/12/2004 | (4) Transfer value of net increase in accrual over period | (5) Total change in value during period | (6) Value of accrued pension at 31/12/2004 | (7) Value of accrued pension at 31/12/2003 |
|---|---|---|---|---|---|---|---|
| Howard Carter | £2,100 | £1,700 | **£14,200** | £20,500 | £46,700 | **£190,600** | £141,600 |
| Ian Paterson Brown | £7,700 | £5,600 | **£73,400** | £62,600 | £176,600 | **£937,400** | £755,400 |

Notes

(a) Pension accruals shown are the amounts which would be paid annually on retirement at normal pension age based on service to the end of the year.

(b) Transfer values have been calculated in accordance with version 9.1 of guidance note GN11 issued by the actuarial profession.

(c) The value of net increase (4) represents the incremental value to the Director of his service during the year, calculated on the assumption service terminated at the year-end. It is based on the accrued pension increase (2) and is net of Director contributions for the period and therefore represents the notional Company "cost".

(d) The change in transfer value (5) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stockmarket movements. These factors can influence the transfer value quoted significantly. The resulting disclosed change in value may therefore be subject to a large degree of volatility and could even be negative. It is calculated net of Director contributions.

(e) Scheme members paid monthly contributions to the Scheme from 1 April 2004.

(f) Voluntary contributions paid by Directors and resulting benefits are not shown.

(g) Pensionable Salary for I Paterson Brown is not subject to the Earnings Cap. Pensionable Salary for H Carter is subject to the Earnings Cap.

Mr Jenkins has an entitlement from F&C to an unfunded pension benefit of £100,000 per annum from age 60, index linked with attaching spouse's benefits.

| | (1) Gross increase in accrued pension | (2) Increase in accrued pension net of inflation | (3) Total accrued pension at 31/12/2004 | (4) Transfer value of net increase in accrual over period | (5) Total change in value during period | (6) Value of accrued pension at 31/12/2004 | (7) Value of accrued pension at 31/12/2003 |
|---|---|---|---|---|---|---|---|
| Robert Jenkins | £100,000 | £100,000 | **£100,000** | £1,530,000 | £1,530,000 | **£1,530,000** | £0 |

Notes

(a) Pension accruals shown are the amounts which would be paid annually on retirement at age 60. The pension will be indexed before and after retirement in line with the Retail Prices Index on 1 January each year.

(b) Mr Jenkins became entitled to the benefit on 11 October 2004 following the completion of the merger.

(c) Transfer values have been calculated in accordance with version 9.1 of guidance note GN11 issued by the actuarial profession.

(d) The transfer values represent the actuarial value of a liability to the Company, and are not a sum paid to Mr Jenkins.

## Statement on Directors' share incentive schemes (audited)

The Executive Directors who held office during the year and their awards under any of the group's share incentive schemes at 31 December 2004 are shown below.

Non-Executive Directors do not participate in any of the group's long term incentive plans.

### Long Term Remuneration Plan awards

Details of the Long Term Remuneration Plan are set out on pages 47 and 48.

During the year the following awards were made to Executive Directors under the Long Term Remuneration Plan.

| Date of Grant | Howard Carter | Alain Grisay | Ian Paterson Brown | Share price on award date |
|---|---|---|---|---|
| 15 November 2004 | 416,667 | 208,333 | 143,750 | 240.25 pence |

| | 31 December 2004 | 31 December 2003 |
|---|---|---|
| Howard Carter | **416,667** | N/A |
| Alain Grisay | **208,333** | N/A |
| Ian Paterson Brown | **143,750** | N/A |

### Re-Investment Plan

Details of the Re-Investment plan are set out on page 50.

During the year the following Executive Directors participated in the Re-Investment Plan.

| Investment shares | 31 December 2004 | 31 December 2003 |
|---|---|---|
| Alain Grisay | **1,195,637** | N/A |

## Share Options

Details of the Share Option schemes are set out on pages 49 and 59.

| | 31 December 2004 | 31 December 2003 | 31 December 2004 Share Save* | 31 December 2003 Share Save* |
|---|---|---|---|---|
| Howard Carter | **525,423** | 525,423 | **6,915** | 6,915 |
| Peter Arthur[(1)] | **234,112†** | 413,608 | **6,915** | 6,915 |
| Kenneth Back | **386,205†** | 386,205 | **6,915** | 6,915 |
| Nick Criticos[(2)] | **323,740** | 323,740 | **3,978** | 3,978 |
| Alain Grisay | **Nil** | Nil | **Nil** | Nil |
| Ian Paterson Brown | **322,170** | 322,170 | **6,915** | 6,915 |
| Robert Talbut[(3)] | **109,711†** | 359,711 | **6,915** | 6,915 |

* Options held at an exercise price of 114 pence by saving up to £120 per month in the F&C Asset Management plc Share Save Scheme for either three years (3,978) or five years (6,915).
Messrs Arthur, Back, Talbut's monthly contributions to the Share Save Scheme ceased following their resignations from the Board on 11 October 2004.

† Messrs Arthur, Back, and Talbut retained their entitlement to options following their resignation from the Board on 11 October 2004, as all were deemed to be "good leavers".

(1) Following his resignation from the Board, and in the year ended 31 December 2004, Mr Arthur has exercised a total of 50,000 Options at a price of 214.0 pence per option and 129,496 Options at a price of 139.0 pence per option.

(2) Mr Criticos resigned from the Board on 11 October 2004, but has remained an employee of the Company. Mr Criticos has therefore retained his entitlement to share options and continues to participate in the all employee share save scheme.

(3) Following his resignation from the Board, and in the year ended 31 December 2004, Mr Talbut has exercised a total of 250,000 options at a price of 139.0 pence per option.

Options granted under the 1995 & 2002 Executive Share Option Schemes:

| Date of Grant | Peter Arthur[1] | Kenneth Back | Howard Carter | Nick Criticos† | Ian Paterson Brown* | Robert Talbut†[2] | Option price |
|---|---|---|---|---|---|---|---|
| **1995 Executive Share Option Scheme** | | | | | | | |
| 13 October 1995 | – | – | – | – | 25,000 | – | 230.7p |
| 9 June 1998 | – | – | 194,036 | – | 55,331 | – | 203.8p |
| 16 July 1999 | – | 150,538 | 48,437 | – | 83,095 | – | 232.5p |
| 28 April 2000 | 284,112 | 120,560 | 76,580 | – | 47,830 | – | 214.0p |
| 1 March 2001 | – | – | 44,500 | – | 3,000 | – | 455.8p |
| Options exercised during the year | (50,000) | – | – | – | – | – | |
| Options remaining at 31 December 2004 | 234,112 | 271,098 | 363,553 | – | 214,256 | – | |
| **2002 Executive Scheme** | | | | | | | |
| 19 March 2003 | 129,496 | 115,107 | 161,870 | 323,740 | 107,914 | 359,711 | 139.0p |
| Options exercised during the year | (129,496) | – | – | – | – | (250,000) | |
| Options remaining at 31 December 2004 | – | 115,107 | 161,870 | 323,740 | 107,914 | 109,711 | |

* All of Ian Paterson Brown's options granted under the 1995 Executive Option Scheme were awarded prior to his appointment as a Director on 1 July 2002. Accordingly at 31 December 2004 and 16 March 2005 Ian Paterson Brown had received 107,914 options for "qualifying services" as a Director.

† The options granted to Messrs Criticos and Talbut in 2003 represent initial grants under the 2002 Executive Share Option Scheme.

1 During the year Mr Arthur exercised a total of 50,000 options held under 1995 Executive Share Option Scheme and 129,496 options held under the 2002 Executive Share Option Scheme. The aggregate gain made by Mr Arthur on the exercise of options was £157,000. The share price on the dates of exercise ranged from 229 pence to 235.75 pence.

2 During the year Mr Talbut exercised a total of 250,000 options held under the 2002 Executive Share Option Scheme. The aggregate gain made by Mr Talbut on the exercise of options was £279,000. The share price on the dates of exercise ranged from 235 pence to 242 pence.

The earliest date on which all options can be exercised, assuming the performance criteria have been satisfied, is three years after the date of grant. All options expire on the tenth anniversary of the date of grant or, in respect of the 2002 scheme, after three years if the performance criteria have not been achieved.

Since 31 December 2004, Mr Arthur has exercised a further 34,112 Options at 214.00 pence per option realising a gain of £11,000, the share price on the date of exercise being 245.00 pence. Mr Talbut has exercised a further 109,711 Options at 139.00 pence per option realising a gain of £117,000, the share price on the date of exercise being 245.50 pence. There have been no further changes to Directors' or former Directors' options between 31 December 2004 and 16 March 2005.

No options were granted to Directors or former Directors during 2004 and no options granted to Directors or former Directors lapsed during 2004.

## 1995 Executive Share Option Scheme

Options granted under the 1995 Executive Share Option Scheme have a ten year life and cannot be exercised until both (a) a period of three years has elapsed from the date of grant; and (b) the performance goal of growth in earnings per share at a rate of 2 per cent. above the rate of inflation in respect of each year cumulatively has been met. Once both these criteria have been achieved, up to one-third can be exercised, up to two-thirds after a period of six years from the date of grant and the total or any outstanding amount after a period of eight years.

Following the introduction of the 2002 Executive Share Option Scheme no further grants were made under the 1995 Executive Share Option Scheme. During the year no options were granted under the 1995 Executive Share Option Scheme. During the year 82,886 options were exercised at prices of between 203.83 pence and 214.00 pence. 367,125 options expired in the year which had been granted under the 1995 Scheme.

At 31 December 2004 the following options granted under the 1995 Executive Share Option Scheme to acquire Ordinary Shares were outstanding:

| No. of Ordinary Shares | Exercisable before | Exercise Price(p) |
|---|---|---|
| 80,000* | 13 October 2005 | 230.67 |
| 811,863 | 9 June 2008 | 203.83 |
| 1,021,362 | 16 July 2009 | 232.50 |
| 1,048,086 | 28 April 2010 | 214.00 |
| 18,740 | 20 October 2010 | 320.17 |
| 583,000 | 1 March 2011 | 455.83 |
| 19,051 | 13 December 2011 | 249.33 |

* The outstanding options granted in October 1995 have not and will not meet the three year cumulative performance criteria before they expire in October 2005 and as such are only exercisable if the option holder is deemed a "good leaver" by the company.

All outstanding options granted under the 1995 Executive Share Option Scheme have yet to meet the three year cumulative performance criteria and as such the earliest exercise date is following the announcement of the 2005 year end results.

## 2002 Executive Share Option Scheme

Details of the 2002 Executive Share Option Scheme can be found on page 49.

Following the introduction of the Long Term Remuneration Plan no further grants will be made under the 2002 Executive Share Option Scheme. Under the 2002 Executive Share Option Scheme the Board holds at its discretion the power to grant options over Ordinary Shares (up to a maximum of 10 per cent. of the then outstanding issued share capital) to Executive Directors and other executives. During the year 1,826,705 options were granted under the 2002 Executive Share Option Scheme, 463,846 options were exercised at a price of 139.00 pence and 896,018 options expired in the year which had been granted under the 2002 Scheme.

At 31 December 2004 the following options granted under the 2002 Executive Share Option Scheme to acquire Ordinary Shares were outstanding:

| No. of Ordinary Shares | Earliest Exercise Date (assuming performance criteria satisfied) | Exercisable before | Exercise Price(p) |
|---|---|---|---|
| 3,906,629 | 19 March 2006 | 19 March 2013 | 139.00 |
| 1,505,056 | 9 March 2007 | 9 March 2014 | 240.83 |

The share price at 31 December 2004 was 246.00 pence. During the year the highest price was 247.25 pence per share and the lowest price was 173.00 pence.

## Other senior executives

There are a number of senior executives who make a significant contribution to the group. These senior executives directly support the Company's Executive Directors. The Remuneration Committee has regard to the remuneration of members of this group whose total remuneration including salary, bonus and benefits but excluding pension contributions and share scheme participation is summarised below. These numbers have been prepared on a comparable basis with the figures shown in the column headed "Total 2004 (excluding pension contributions)" within the Statement on Directors' Remuneration on page 55.

The table below covers the total remuneration of all senior executives who served at any time during the year.

| **Total Remuneration £000** | **Number of senior executives (excluding executive directors) 2004†** | **Number of senior executives (excluding executive directors) 2003*** |
|---|---|---|
| 100-125 | **34** | 35 |
| 126-150 | **18** | 21 |
| 151-175 | **12** | 16 |
| 176-200 | **11** | 6 |
| 201-225 | **8** | 1 |
| 226-250 | **6** | 1 |
| 251-300 | **8** | 3 |
| 301-400 | **6** | 8 |
| 401-500 | **2** | 1 |

* Statistics relating to ISIS Asset Management plc only.

† Statistics include the remuneration of F&CGH employees for the period 11 October 2004 to 31 December 2004.

By order of the Board,

W Marrack Tonkin, FCCA
*Secretary*

80 George Street
Edinburgh EH2 3BU
16 March 2005

# Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' Report set out on pages 62 to 63, is made with a view to distinguishing for members the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the group as at the end of the financial year and of the profit or loss of the group for the financial year.

The Directors consider that in preparing the financial statements on pages 64 to 119, the Company and the group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed (subject to any material departures disclosed and explained in the notes to the financial statements).

The Directors have responsibility for ensuring that the Company and the group keep accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the group and to prevent and detect fraud and other irregularities.

# Independent Auditors' Report to the Members of F&C Asset Management plc

We have audited the group's financial statements for the year ended 31 December 2004 which comprise the Group Profit and Loss Account, Balance Sheets, Group Cash Flow Statement, Notes to the Group Cash Flow Statement, Group Statement of Total Recognised Gains and Losses, Reconciliation of Group Shareholders' Funds, Accounting Policies and the related Notes to the Financial Statements 1 to 37. These financial statements have been prepared on the basis of 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 auditors' 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 are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

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, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if 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 or the Listing Rules regarding Directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Financial and Business Highlights, Key Highlights of 2004, Chairman's Statement, Chief Executive's Report, Corporate and Social Responsibility Report, Non-Executive Directors, Executive Directors, Report of the Directors, Directors' Report on Corporate Governance, unaudited part of the Directors' Remuneration Report, Five Year Record, Notice of Annual General Meeting and Corporate Information. 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 United Kingdom Auditing Standards 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 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 financial statements give a true and fair view of the state of affairs of the Company and of the group as at 31 December 2004 and of loss of the group for the year then ended; and
- 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.

Ernst & Young LLP

ERNST & YOUNG LLP
Registered Auditor
Edinburgh

16 March 2005

# Group Profit and Loss Account

for the year ended 31 December 2004

| | Notes | Acquisitions 2004 £000 | Continuing Operations 2004 £000 | 2004 £000 | 2003 (as restated) £000 |
|---|---|---|---|---|---|
| **Group turnover – continuing operations** | 1 | 33,933 | 119,306 | 153,239 | 110,629 |
| Selling expenses | 2 | (857) | (3,209) | (4,066) | (2,735) |
| **Net revenue** | | 33,076 | 116,097 | 149,173 | 107,894 |
| **Administrative expenses:** | | | | | |
| – Expenses, excluding amortisation of goodwill and Re-Investment Plan costs | | (24,230) | (71,845) | (96,075) | (73,513) |
| – Amortisation of goodwill | 14 | (11,170) | (22,569) | (33,739) | (22,153) |
| – Re-Investment Plan costs | 5 | (4,583) | – | (4,583) | – |
| Total administrative expenses | | (39,983) | (94,414) | (134,397) | (95,666) |
| Other operating income | 3 | – | 699 | 699 | 1,081 |
| Group operating profit – continuing operations | 4 | (6,907) | 22,382 | 15,475 | 13,309 |
| Share of operating loss in joint venture | | | | – | (15) |
| Total operating profit: group and share of joint venture | | | | 15,475 | 13,294 |
| **Exceptional items – continuing operations** | | | | | |
| – Reorganisation costs post acquisition of F&CGH Group | 6(a) | | | (18,332) | – |
| – Reorganisation costs post acquisition of Royal & SunAlliance Investments | 6(b) | | | – | (11,621) |
| – Restructuring: Operations outsourcing | 6(c) | | | (932) | (713) |
| – Gain on disposal of subsidiary undertaking | 7 | | | – | 1,000 |
| Other finance expenditure | 28(iv) | | | (10) | (174) |
| Interest and investment income receivable | 8 | | | 2,223 | 1,006 |
| Interest payable | 9 | | | (12,222) | (11,359) |
| **Loss on ordinary activities before taxation** | | | | (13,798) | (8,567) |
| Tax on loss on ordinary activities | 10 | | | (5,613) | (3,154) |
| **Loss on ordinary activities after taxation** | | | | (19,411) | (11,721) |
| Dividend on Cumulative Preference Shares | 11 | | | (32) | (19) |
| **Loss attributable to ordinary shareholders** | | | | (19,443) | (11,740) |
| Interim dividend 2004 | 11 | | | (5,993) | (5,994) |
| Proposed final dividend 2004 | 11 | | | (32,914) | (10,485) |
| Adjustment to 2003 final dividend | 11 | | | (2) | – |
| **Retained loss for the year transferred from reserves** | 27 | | | (58,352) | (28,219) |
| **Earnings per Ordinary Share before amortisation of goodwill, exceptional items and cost of the Re-Investment Plan** | 12 | | | 13.99p | 12.04p |
| **Basic loss per Ordinary Share** | 12 | | | (8.78)p | (7.83)p |
| **Diluted loss per Ordinary Share** | 12 | | | (8.77)p | (7.83)p |
| Interim dividend per Ordinary Share | 11 | | | 4.00p | 4.00p |
| Proposed final dividend per Ordinary Share | 11 | | | 7.00p | 7.00p |
| | | | | 11.00p | 11.00p |

The accounting policies on pages 70 to 74, together with the notes on pages 75 to 119, form part of these financial statements.

# Balance Sheets

at 31 December 2004

| | Notes | Group 31 December 2004 £000 | Group 31 December 2003 (as restated) £000 | Company 31 December 2004 £000 | Company 31 December 2003 (as restated) £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible fixed assets | 14 | **955,593** | 303,898 | **–** | – |
| Tangible fixed assets | 15 | **11,417** | 8,585 | **3,565** | 4,293 |
| Other investments | 16 | **6,814** | 7 | **1,066,999** | 295,327 |
| Insurance assets attributable to unit-linked policyholders | 17 | **811,957** | 848,905 | **–** | – |
| | | **1,785,781** | 1,161,395 | **1,070,564** | 299,620 |
| **Current assets** | | | | | |
| Stock of units and shares | | **556** | 495 | **–** | – |
| Debtors – amounts falling due: | | | | | |
| Within one year | 18 | **61,794** | 43,132 | **51,039** | 33,662 |
| After more than one year | 18 | **29,213** | 3,255 | **9,076** | 900 |
| Cash in bank and in hand | 31(i) | **137,171** | 25,770 | **1,485** | 8,523 |
| | | **228,734** | 72,652 | **61,600** | 43,085 |
| **Creditors (amounts falling due within one year)** | | | | | |
| Current tax | | **(7,390)** | (588) | **–** | – |
| Proposed ordinary dividend | | **(32,914)** | (10,485) | **(32,914)** | (10,485) |
| Other creditors | 19 | **(104,461)** | (55,602) | **(28,182)** | (17,442) |
| | | **(144,765)** | (66,675) | **(61,096)** | (27,927) |
| **Net current assets** | | **83,969** | 5,977 | **504** | 15,158 |
| **Total assets less current liabilities** | | **1,869,750** | 1,167,372 | **1,071,068** | 314,778 |
| **Creditors (amounts falling due outwith one year)** | 19 | **(214,003)** | (180,002) | **(50,000)** | (2,234) |
| **Provisions for liabilities and charges** | 20 | **(9,346)** | (3,918) | **(1,639)** | (2,319) |
| **Deferred income** | 21 | **(3,452)** | – | **–** | – |
| **Insurance liabilities attributable to unit-linked policyholders** | 17 | **(811,957)** | (848,905) | **–** | – |
| **Net assets excluding pension deficit** | | **830,992** | 134,547 | **1,019,429** | 310,225 |
| **Pension deficit** | 28(ii) | **(12,333)** | (5,459) | **(6,498)** | (5,459) |
| **Net assets including pension deficit** | | **818,659** | 129,088 | **1,012,931** | 304,766 |
| **Capital and reserves** | | | | | |
| Called up Preference Share capital | 24 | **800** | 390 | **800** | 390 |
| Called up Ordinary Share capital | 24 | **482** | 150 | **482** | 150 |
| Share premium account | 25 | **28,956** | 2,795 | **28,956** | 2,795 |
| Other reserves | 26 | **806,326** | 125,922 | **981,793** | 284,160 |
| Profit and loss account | 27 | **(17,905)** | (169) | **900** | 17,271 |
| Shareholders' funds | | | | | |
| Equity | | **817,859** | 128,698 | **1,012,131** | 304,376 |
| Non-equity | | **800** | 390 | **800** | 390 |
| **Total Shareholders' Funds** | | **818,659** | 129,088 | **1,012,931** | 304,766 |

Robert Jenkins
*Chairman*
16 March 2004

The accounting policies on pages 70 to 74, together with the notes on pages 75 to 119, form part of these financial statements.

# Group Cash Flow Statement

for the year ended 31 December 2004

| | Notes | Cash flows relating to acquisitions 2004 £000 | 2004 £000 | 2003 (as restated) £000 |
|---|---|---|---|---|
| Net cash (outflow)/inflow from operating activities | a | **(34,984)** | **14,308** | 11,467 |
| Returns on investments and servicing of finance | b | **223** | **(10,011)** | (10,314) |
| Taxation | | **(4,624)** | **(6,608)** | (2,797) |
| Capital expenditure and financial investment | c | **(2,083)** | **(9,151)** | (3,584) |
| Acquisitions and disposals | d | **–** | **124,686** | 958 |
| Equity dividends paid | | **–** | **(16,480)** | (16,488) |
| **Cash (outflow)/inflow before use of liquid resources and financing** | | **(41,468)** | **96,744** | (20,758) |
| Management of liquid resources | e | **–** | **–** | 6,829 |
| Financing | f | **–** | **14,657** | 9,457 |
| **(Decrease)/increase in cash in the year** | g | **(41,468)** | **111,401** | (4,472) |
| **Reconciliation of net cash flow to movement in net debt** | | | | |
| Increase/(decrease) in cash in the year | | | **111,401** | (4,472) |
| Cash inflow from increase in debt | g | | **(15,000)** | (9,750) |
| Cash inflow from sale of current asset investments | | | **–** | (6,829) |
| | | | **96,401** | (21,051) |
| Net debt on acquisition of subsidiaries | g | | **(9,000)** | – |
| Other non-cash changes | | | **–** | 115 |
| **Movement in net debt in the year** | | | **87,401** | (20,936) |
| **Net debt at 1 January** | g | | **(169,230)** | (148,294) |
| **Net debt at 31 December** | g | | **(81,829)** | (169,230) |

The accounting policies on pages 70 to 74, together with the notes on pages 75 to 119, form part of these financial statements.

# Notes to the Group Cash Flow Statement

for the year ended 31 December 2004

| | Notes | 2004 £000 | 2003 (as restated) £000 |
|---|---|---|---|
| **(a) Reconciliation of group operating profit to operating cash flows** | | | |
| Group operating profit | | **15,475** | 13,309 |
| Amortisation of goodwill | 14 | **33,739** | 22,153 |
| Depreciation charge | 15 | **4,978** | 3,103 |
| Loss/(gain) on disposal of tangible fixed assets | | **40** | (180) |
| (Gain) on sale of investments | | **–** | (29) |
| Decrease/(increase) in debtors | | **34,014** | (6,756) |
| Decrease in creditors | | **(69,445)** | (8,389) |
| (Increase)/decrease in stock of units and shares | | **(42)** | 245 |
| Deferred income released | 21 | **(178)** | – |
| Pension contributions paid less pension operating profit charge | | **(181)** | (154) |
| Increase in provision for liabilities and charges (excluding exceptional costs) | | **116** | 313 |
| Share Based Payment charges | | **4,949** | 46 |
| Cash outflow related to exceptional costs* | | **(9,157)** | (12,194) |
| **Net cash inflow from operating activities** | | **14,308** | 11,467 |
| **(b) Returns on investments and servicing of finance** | | | |
| Interest and dividends received | | **2,190** | 1,006 |
| Interest paid | | **(879)** | (118) |
| Interest paid on Friends Provident loans | | **(11,299)** | (11,179) |
| Interest paid on loans with Eureko group | | **–** | – |
| Preference dividends paid | | **(23)** | (23) |
| **Net cash outflow from returns on investments and servicing of finance** | | **(10,011)** | (10,314) |
| **(c) Capital expenditure and financial investment** | | | |
| Payments to acquire tangible fixed assets | | **(4,066)** | (3,883) |
| Receipts from sale of tangible fixed assets | | **–** | 300 |
| Payment for purchase of fixed asset investments | | **(5,101)** | (1) |
| Receipt of repayment of fixed asset investments | | **16** | – |
| **Net cash outflow from capital expenditure and financial investment** | | **(9,151)** | (3,584) |
| **(d) Acquisition and disposals** | | | |
| Payments for expenses of acquisition | | **(11,998)** | (42) |
| Rebate on Consideration re RSAI transaction | | **3,893** | – |
| Receipts from sale of subsidiary undertaking | | **–** | 1,000 |
| Net cash acquired with subsidiary undertakings | | **132,791** | – |
| **Net cash inflow from acquisitions and disposals** | | **124,686** | 958 |

*The cash outflow in respect of exceptional costs relates to:

| | Notes | 2004 £000 | 2003 £000 |
|---|---|---|---|
| Fundamental restructuring of the group following acquisition of the F&CGH Group | 6a | **7,629** | – |
| Fundamental restructuring of the group following acquisition of Royal & SunAlliance Investments | 6b | **262** | 11,815 |
| Restructuring: Operations outsourcing | 6c | **1,266** | 379 |
| | | **9,157** | 12,194 |

# Notes to the Group Cash Flow Statement

for the year ended 31 December 2004

| | Notes | 2004 £000 | 2003 £000 |
|---|---|---|---|
| **(e) Management of liquid resources** | | | |
| Receipt from sale of current asset investments | | – | 6,829 |
| **Net cash inflow from management of liquid resources** | | – | 6,829 |
| **(f) Financing** | | | |
| Issue of ordinary share capital | | 822 | 735 |
| Repayment of subordinated loan to Friends Provident group | | – | (250) |
| Receipt of subordinated loan from Friends Provident group | | 25,000 | – |
| Drawdown under the revolving credit facility from Friends Provident group | | 5,000 | 10,000 |
| Repayment of revolving credit facility to Friends Provident group | | (15,000) | – |
| Purchase of own shares for ESOP | | (1,165) | (1,028) |
| **Net cash inflow from financing** | | 14,657 | 9,457 |

**(g) Analysis of net debt**

| | As at 31 December 2003 £000 | Cash flow £000 | Net debt on acquisition £000 | As at 31 December 2004 £000 |
|---|---|---|---|---|
| Cash at bank and in hand | 25,770 | 111,401 | – | 137,171 |
| Loans within 1 year | (15,000) | 10,000 | – | (5,000) |
| Loans outwith 1 year | (180,000) | (25,000) | (9,000) | (214,000) |
| **Total** | (169,230) | 96,401 | (9,000) | (81,829) |

## Non-cash transactions

The acquisition of F&CGH Group was financed by the issue of 320,374,763 Ordinary Shares. Details of the transaction are shown in note 16(c).

The accounting policies on pages 70 to 74, together with the notes on pages 75 to 119, form part of these financial statements.

# Group Statement of Total Recognised Gains and Losses ("STRGL")

for the year ended 31 December 2004

| | Notes | 2004<br>£000 | 2003<br>(as restated)<br>£000 |
|---|---|---|---|
| Loss on ordinary activities after taxation | | **(19,411)** | (11,721) |
| Exchange gain/(loss) arising on consolidation | 27 | **1,271** | (476) |
| Actuarial (loss)/gain relating to the defined benefit pension schemes | 28(v) | **(2,862)** | 753 |
| Deferred tax effect on actuarial (loss)/gain for year | | **859** | (226) |
| Actuarial (loss)/gain recognised in statement of total recognised gains and losses | | **(2,003)** | 527 |
| **Total recognised gains and losses relating to the year** | | **(20,143)** | (11,670) |
| Prior year adjustment: | | | |
| Adjustment for adoption of UITF38 "Accounting for ESOP Trusts" | | **100** | – |
| **Total recognised gains and losses since the last annual report** | | **(20,043)** | (11,670) |

The balance sheet adjustment to reserves in respect of the prior year adjustment is £882,000 (see note 13).

# Reconciliation of Group Shareholders' Funds

| | 2004<br>£000 | 2003<br>(as restated)<br>£000 |
|---|---|---|
| Shareholders' funds at 1 January | **129,088** | 157,503 |
| Loss on ordinary activities after taxation | **(19,411)** | (11,721) |
| Dividends and other appropriations | **(38,941)** | (16,498) |
| | **70,736** | 129,284 |
| Share capital allotted on exercise of options | **822** | 735 |
| Share capital allotted on issue of shares to Abacus Trust | **25,351** | – |
| Share capital allotted on issue of shares as consideration | **736,862** | – |
| Preference share capital allotted to Friends Provident | **410** | – |
| Other recognised gains and losses in the year | **1,271** | (476) |
| Actuarial (loss)/gain recognised in the statement of total recognised gains and losses | **(2,003)** | 527 |
| Purchase of ESOP shares | **(1,165)** | (1,028) |
| Other movements through own share reserve | **(13,625)** | 46 |
| **Shareholders' funds at 31 December** | **818,659** | 129,088 |

The accounting policies on pages 70 to 74, together with the notes on pages 75 to 119, form part of these financial statements.

# Accounting Policies

## Basis of preparation

The financial statements are prepared under the historical cost convention, modified to include the revaluation of insurance assets attributable to unit-linked policyholders, and in accordance with applicable accounting standards in the United Kingdom. The financial statements comply with Schedule 4 to the Companies Act 1985, with the exception of the treatment of Limited Partnerships. The Directors have invoked the true and fair override provisions of the Companies Act 1985, as described in 'Basis of consolidation' below and note 34.

The adoption of UITF 38 – Accounting for Employee Share Ownership (ESOP) Trusts – has resulted in a prior year restatement to the financial statements for the year ended 31 December 2003. The financial impacts of these adjustments are shown in note 13.

## Basis of consolidation

The group balance sheet includes the financial statements of subsidiary undertakings and the group profit and loss account includes the results of subsidiary undertakings, except for private equity limited partnerships in which the group is a general partner (see note 34).

In accordance with Section 230 of the Companies Act 1985 a separate profit and loss account for the company is not shown.

## Turnover

Turnover represents income from investment management services and the net profit derived from selling or buying open-ended investment products.

Performance fees are recognised once they have been earned and are measurable with reasonable certainty, which is usually at the end of the performance period.

## Business development costs

Costs incurred to develop additional sources of revenue and to secure continuing revenues from existing clients are charged as incurred and included in selling expenses.

## Goodwill

Goodwill arising on acquisitions made after 17 February 1998 is capitalised and amortised over its useful economic life up to a maximum of 20 years. Goodwill arising on acquisitions prior to 17 February 1998 has been written off against reserves in the accounting period in which it arose. Goodwill is reviewed at the end of the first full financial year following an acquisition and if events or changes in circumstances indicate that impairment may have occurred. Any impairment arising from such a review would be charged to profit and loss in the period in which it arose. Where goodwill previously written off to reserves has been permanently impaired, an appropriate amount is charged to profit and loss in the period in which the impairment is recognised. In the event of the subsequent disposal of the business to which it related, goodwill would be charged or credited to the profit and loss account.

## Tangible fixed assets

All tangible fixed assets are shown at cost less aggregate depreciation. Depreciation is calculated to write off assets over their expected useful lives by equal annual instalments, as follows:

| | | |
|---|---|---|
| Leasehold improvements | – | over 10 years |
| Motor vehicles | – | over 3 years |
| Office furniture & equipment | – | over 3-5 years |
| Computer equipment | – | over 3 years |

The carrying value of tangible fixed assets is reviewed where it is believed that impairment may have occurred. Any impairment arising from such a review would be charged as depreciation in the period in which it arose.

## Investments

Listed investments are carried at the lower of cost and market value. Unlisted investments are carried at the lower of cost and Directors' valuation. The insurance assets attributable to unit-linked policyholders are valued at market value.

Investments in venture capital partnerships are classified as fixed asset investments and are recorded in the balance sheet at cost less provision for any permanent diminution in value less the proportion of cost from capital distributions. Adjustments for diminution in value are taken to the profit and loss account.

Capital distributions, including carried interest, from venture capital investments, are credited against the cost of the relevant investment when received and any excess over cost is included in investment income.

## Minority interests

Shares issued by subsidiaries to persons outside the F&C group are accounted for as minority interest.

## Stock of units and shares

The stock of units and shares held is valued at the lower of cost and net realisable value.

## Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay less or receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a commitment to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when the replacement assets are sold.
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

## Insurance activities

The "insurance assets attributable to unit-linked policyholders" are held to meet the liabilities to policyholders invested in unit-linked insurance products. Other assets and liabilities attributable to the insurance business are consolidated on a line by line basis within the balance sheet.

The results attributable to this insurance activity are accounted for as "other operating income".

## Operating leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Lease incentives are recognised by the group as a reduction of the rental expense, allocated on a straight line basis, over the shorter of the lease term and a period ending on a date from which it is expected the prevailing market rental will be payable.

## Accounting for Employee Share Ownership (ESOP) Trusts and the cost of share awards

The Company recognises the following profit & loss costs of its Share Based Payment Schemes:

i) *Employee Share Option Schemes*

Where options are issued by the group, any profit & loss account charge is measured with reference to the fair value of the shares at the date of grant of rights thereto. The fair value of the shares is determined by the market value of shares at that time. The profit & loss account charge is measured as the difference between:

(i) the fair value of the shares at the date the award is made to participants in the scheme: and

(ii) the amount of the consideration the participants are required to pay for the shares.

The effect of uncertainty as to whether any performance criteria should be met is dealt with by estimating the number of shares that may in due course be issued. The initial amount will be revised to reflect any changes in the estimate of the number of shares to be issued through either:

(i) changes in the probability of performance criteria being met; or

(ii) conditional awards lapsing when participants leave the Company.

The profit & loss account charge is spread over the period to which the performance criteria relates (known as the vesting period).

ii) *Share Incentive Plan*

There is no cost to the Company as shares are bought monthly on behalf of employees at market prevailing prices and financed by monthly deductions from employee salaries. The rights to the purchased shares are transferred unconditionally to the employee at the date of purchase.

iii) *Share Save Scheme*

Employees are offered the opportunity to save over a period of time. The savings will entitle the employees to buy shares at an option price determined before the savings period begins.

The cost to the Company of the Share Save Scheme is determined by the following criteria:

(i) the fair value of the shares at the date the award is made to participants in the scheme: and

(ii) the amount of the consideration the participants are required to pay for the shares.

The cost of the award recognised in the profit & loss account is spread evenly over the savings period. The cost of the award is only revised to reflect subsequent changes in the number of the shares to which the participants become entitled.

## Accounting for Employee Share Ownership (ESOP) Trusts and the cost of share awards (cont'd)

Shares in the Company are held by the group's ESOP trusts to enable the Company to satisfy future exercises of Share Based Payment Schemes. These shares are included in the financial statements of the Company as a deduction from shareholders' funds.

Shares held by the ESOP trusts are excluded from the calculation of earnings per share. The Trustees of the ESOP trusts have waived their right to the dividend entitlement on these shares.

## Onerous lease provisions

Where the F&C group has liabilities under property leases and where the space has ceased to be used for the purposes of the business, full provision is made for future net outstanding liabilities under such leases after taking into account the effect of any expected sub-letting arrangements.

## Pension costs

The group operates pension schemes providing benefits on final pensionable salary. The pension schemes' assets are measured using market value. Pension schemes' liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Past service costs arise when F&C makes a commitment to provide a higher level of benefit than previously promised. Past service costs are recognised in the profit and loss account on a straight-line basis over the period in which the increases in benefit vest.

The surplus/(deficit) in a defined benefit scheme is the excess/(shortfall) of the value of the assets in the scheme compared against the present value of the scheme liabilities and is recognised as an asset/(liability) of the Company and or group.

Any scheme asset reflects the amount that can be recovered through reduced contributions in the future, being the present value of the liability expected to arise from future service by current scheme members less the present value of future employee contributions. The present value of the reduction in future contributions is determined using the discount rate applied to measure the defined benefit liability. The deferred tax relating to the defined benefit asset or liability is offset against the defined benefit asset or liability and not included with other deferred tax assets or liabilities.

The increase in the present value of the liabilities of the Company or the group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected returns on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in other finance income or expenditure. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

## Pension costs (cont'd)

The final salary pension schemes in respect of employees of UK and Irish companies are closed to new entrants and group personal pension plans have been established. These defined contribution schemes provide greater certainty in relation to future cost to the group. Contributions made to these schemes are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Pension schemes for employees of overseas operations, where the F&C group is unable to identify its share of the assets and liabilities, are accounted for as multi-employer pension schemes under FRS17 in the same way as for defined contribution schemes.

## Related parties

Financial Reporting Standard 8, ''Related Party Disclosures'' (''FRS 8''), requires disclosure of the details of material transactions between the reporting entity and related parties. The F&C group has taken advantage of the exemption under FRS 8 not to disclose transactions between F&C group companies which eliminate on consolidation.

## Foreign currencies

Transactions of group subsidiaries denominated in currencies other than the entity's functional currency are translated at the exchange rate ruling at the date of the transaction. Exchange differences on monetary items are taken to the profit and loss account.

The net assets of subsidiary undertakings drawn up in currencies other than sterling are translated at rates of exchange ruling at the balance sheet date. Exchange differences on the translation of results of these entities which arise from the difference between the actual exchange rate ruling at the date of transactions used in the profit & loss account and the closing rate used in the balance sheet, and exchange differences arising from the retranslation of their capital and reserves at the beginning of the year, are taken directly to reserves and reported in the statement of total recognised gains and losses.

| **Rates of exchange to sterling** | **31 December 2004** | 31 December 2003 |
|---|---|---|
| US Dollars | **1.92** | 1.79 |
| Japanese Yen | **196.73** | 191.85 |
| Hong Kong Dollars | **14.92** | 13.90 |
| Euro | **1.41** | 1.42 |
| Australian Dollars | **2.45** | 2.38 |

## 1. Turnover and segmental analysis

In the opinion of the Directors, the group has one segment, asset management.

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Investment management fees | **143,522** | 109,747 |
| Performance related management fees | **7,890** | 350 |
| Net profit from OEIC and unit trust trading | **1,827** | 532 |
| | **153,239** | 110,629 |

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Turnover was earned from clients in: | | |
| United Kingdom | **128,447** | 108,393 |
| The Netherlands | **12,352** | 1,065 |
| Germany | **4,232** | 7 |
| Portugal | **3,965** | – |
| Ireland | **877** | – |
| France | **69** | – |
| Rest of Europe | **1,901** | 937 |
| Other | **1,396** | 227 |
| Group turnover | **153,239** | 110,629 |

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Turnover was earned by operations in: | | |
| United Kingdom | **140,767** | 110,629 |
| The Netherlands | **10,394** | – |
| Portugal | **1,201** | – |
| Ireland | **877** | – |
| Group turnover | **153,239** | 110,629 |

## 2. Selling expenses

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Expenditure incurred relates to: | | |
| Development of additional sources of revenue | **–** | 170 |
| Continuing revenues from existing clients | **4,066** | 2,565 |
| | **4,066** | 2,735 |

Included in continuing revenues from existing clients is £3,056,000 (2003: £1,488,000) relating to renewal commission on the open-ended investment products.

All selling expenses relate to continuing operations.

## 3. Other operating income

Other operating income reflects the surplus on the Technical Account of the insurance business (F&C Managed Pension Funds, formerly ISIS Managed Pension Funds). Details of the assets and liabilities of this business are given in note 17.

The major components of the surplus are:

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Revenue arising from policy and fund charges | **2,743** | 3,337 |
| Investment and management expenses | **(1,812)** | (1,964) |
| Net investment surplus for the year | **145** | 147 |
| Other movements | **16** | (11) |
| Tax on trading profit | **(393)** | (428) |
| | **699** | 1,081 |

## 4. Group operating profit

| | 2004 £000 | 2003 (as restated) £000 |
|---|---|---|
| This is stated after charging/(crediting): | | |
| Depreciation of owned fixed assets | **2,990** | 3,103 |
| Auditors' remuneration – audit services – UK | **467** | 190 |
| Auditors' remuneration – audit services – overseas | **43** | – |
| Auditors' remuneration – non-audit services – UK | **403** | 457 |
| Operating lease rentals – land and buildings | **7,004** | 5,272 |
| Operating lease rentals – vehicles | **345** | 301 |
| Operating lease rentals – other | **33** | – |
| Rentals receivable – operating leases | **(975)** | (111) |
| Loss/(gain) on disposals of tangible fixed assets | **40** | (180) |
| (Gain) on sales of investments | **–** | (29) |
| Loss/(gain) on exchange | **454** | (508) |

Further depreciation of £1,988,000 was also charged in respect of fixed asset write-downs as described in note 6(a).

Auditors' remuneration – audit services, reflects the fees paid or payable for companies in the enlarged group in respect of the year to 31 December 2004.

During the year to 31 December 2004 non-audit fees of £650,000 (year ended 31 December 2003 – £nil) were paid to the auditors for services relating to acquisitions. These fees have been capitalised and are included within expenses of acquisition (see note 16(c)). In addition non-audit fees of £711,000 (2003 – £281,000) were paid to the auditors relating to the fundamental reorganisation of the business, and are included within non-operating exceptional costs (see note 6).

During the year to 31 December 2004 the Company paid £30,000 in respect of audit fees (year ended 31 December 2003 – £25,000). This is included within Auditors' remuneration for the group, as recorded above.

The total fees payable to the group's auditors, Ernst & Young LLP, are summarised as follows:

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Statutory audit services* | **575** | 235 |
| Further assurance services | **821** | 158 |
| Tax advisory services | **351** | 86 |
| Other non-audit services | **527** | 449 |
| Total non-audit fees | **1,699** | 693 |
| Total Ernst & Young LLP fees | **2,274** | 928 |
| *Statutory audit services can be split as follows: | | |
| Annual audit fees | **510** | 190 |
| Audit of regulatory returns | **65** | 45 |
| | **575** | 235 |

## 4. Group operating profit (cont'd)

The group policy on the award of non-audit services to accountancy firms is outlined in the Directors' Report on Corporate Governance.

During the year the fees paid by F&C to other accountancy firms for non-audit services were as follows:

| | 2004 £000 | 2003 £000 |
|---|---|---|
| PricewaterhouseCoopers | **291** | 222 |
| KPMG | **562** | 81 |
| Deloitte & Touche | **16** | 25 |

In addition to the above, during the year the following fees were paid by OEICs and unit trusts, for which group companies are the Authorised Corporate Director or Manager, for services provided directly to them:

| | 2004 £000 | 2003 £000 |
|---|---|---|
| PricewaterhouseCoopers | **246** | 414 |
| Deloitte & Touche | **–** | 5 |
| | **246** | 419 |

## 5. Staff costs

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Salaries | **41,393** | 32,767 |
| Bonus | **13,095** | 8,245 |
| Wages and salaries | **54,488** | 41,012 |
| Social Security costs | **6,128** | 4,246 |
| Pension costs | **5,965** | 3,102 |
| | **66,581** | 48,360 |

In addition to the above the group incurred costs for share incentive schemes:

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Share incentive costs comprise: | | |
| Cost of Share Save Scheme | **94** | 46 |
| Cost of Re-Investment Plan – investment shares* | **2,764** | – |
| Cost of Re-Investment Plan – matching shares (including NIC) | **1,819** | – |
| Cost of the Long-Term Remuneration Plan (including NIC) | **541** | – |
| | **5,218** | 46 |

* Under the terms of the Sale and Purchase Agreement in connection with the Merger, the NIC costs associated with the investment shares will be borne by Eureko B.V.

Included within the above staff costs is £8,975,000 (2003 – £4,596,000) related to exceptional items as disclosed within note 6.

## 5. Staff costs (cont'd)

The cost of the Re-Investment Plan, as noted below, has been excluded from the calculation of earnings per share:

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Cost of Re-Investment Plan – investment shares | **2,764** | – |
| Cost of Re-Investment Plan – matching shares (including NIC) | **1,819** | – |
| | **4,583** | – |
| Taxation credit in respect of costs of the Reinvestment Plan | **(1,375)** | – |
| Cost of the Re-Investment Plan, net of tax | **3,208** | – |

The monthly average number of employees for the group was 604 (2003 – 519).

The Company's monthly average number of employees (including executive directors) during the year was nil (2003 – 30). During 2003 the Company's employment contracts were transferred to F&C Asset Management Services Limited, one of the group's employee companies.

The above table includes remuneration of the Directors.

Details of Directors' remuneration are as follows:

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Aggregate emoluments | **3,072** | 3,063 |
| Aggregate compensation paid to Directors for loss of office | **1,679** | – |
| Company contributions paid to money purchase pension scheme | **84** | 94 |
| Aggregate value of gains made by directors on exercise of share options | **436** | – |

| | 2004 Number | 2003 Number |
|---|---|---|
| Members of money purchase pension scheme | **5** | 4 |
| Members of defined benefit pension scheme | **2** | 2 |

## 6. Exceptional costs

**(a) Integration, rationalisation and reorganisation of the business after acquisition of F&C Group (Holdings) Limited**

The Board undertook a substantial integration, rationalisation and reorganisation of the business after the acquisition of F&C Group (Holdings) Limited ("F&CGH Group") on 11 October 2004. The acquisition of the F&CGH Group asset management business was transformational for the group, in terms of giving the group a pan-European focus. The Board initiated a fundamental restructuring of the group in order to achieve integration of the two former businesses. The restructuring started in October 2004 and will continue during 2005.

## 6. Exceptional costs (cont'd)

The Directors consider it appropriate to disclose the following integration, reorganisation and restructuring costs as non-operating exceptional expenditure relating to continuing operations due to the fundamental impact on the management and operational structure of the enlarged group:

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Redundancy and other related staff costs | **8,975** | – |
| Premises costs | **4,730** | – |
| Information technology and related costs | **640** | – |
| Re-branding, administration and client servicing | **364** | – |
| Consultancy and other costs supporting the restructuring process | **1,635** | - |
| Write-down of fixed assets | **1,988** | – |
| Exceptional costs | **18,332** | – |
| Taxation credit in respect of exceptional costs | **(5,500)** | – |
| Net effect of exceptional costs | **12,832** | – |

**(b) Integration, rationalisation and reorganisation of the business on acquisition of Royal & SunAlliance Investments**

Following the acquisition of Royal & SunAlliance Investments on 1 July 2002 the Board undertook a substantial integration, rationalisation and reorganisation of the business. This fundamental restructuring was started in 2002 and was completed in 2003.

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Redundancy and other related staff costs | – | 4,753 |
| Premises costs | – | 1,996 |
| Information technology and related costs | – | 892 |
| Re-branding, administration and client servicing | – | 2,680 |
| Consultancy and other costs supporting the restructuring process | – | 1,300 |
| Exceptional costs | – | 11,621 |
| Taxation credit in respect of exceptional costs | – | (3,486) |
| Net effect of exceptional costs | – | 8,135 |

**(c) Operations outsourcing project**

The Board started a project in 2003 to outsource the group's operations function. Following the acquisition of F&CGH Group on 11 October 2004, Mellon, who are the existing outsource provider for the F&CGH Group, were chosen as the preferred outsource provider for the entire group. As the project will fundamentally change the operating structure of the business, the Directors consider that the restructuring costs should be disclosed as non-operating exceptional expenditure relating to continuing operations. This project will continue in 2005.

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Consultancy and other costs supporting the restructuring process | **932** | 713 |
| Taxation credit in respect of exceptional costs | **(280)** | (214) |
| Net effect of exceptional costs | **652** | 499 |

## 7. Gain on disposal of subsidiary undertaking

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Deferred consideration on sale of Ivory & Sime Asset Management plc | – | 1,000 |

The performance criteria having been satisfied, F&C received further consideration from Aberdeen Asset Management plc for the sale of Ivory & Sime Asset Management plc in 2001.

## 8. Interest and investment income receivable

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Bank interest receivable | **2,140** | 852 |
| Income from investments | **9** | 116 |
| Other interest | **74** | 38 |
| | **2,223** | 1,006 |

## 9. Interest payable

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Bank interest | **456** | 118 |
| Interest payable to Friends Provident plc group – £180m term loan | **10,612** | 10,619 |
| Interest payable to Friends Provident plc – £50m revolving credit facility | **571** | 621 |
| Interest payable to Friends Provident plc group – subordinated loan | **–** | 1 |
| Interest payable to Friends Provident plc group – £25m subordinated loan | **336** | – |
| Interest payable to Eureko B.V. – £9m subordinated loan | **121** | – |
| Other interest | **126** | – |
| | **12,222** | 11,359 |

## 10. Tax on loss on ordinary activities

| | Note | 2004 £000 | 2003 (as restated) £000 |
|---|---|---|---|
| **Current Tax** | | | |
| UK Corporation Tax on taxable profits for the year | | **5,407** | 3,663 |
| Overseas current tax on the taxable profits for the year | | **853** | – |
| Adjustments in respect of previous periods | | **312** | (443) |
| **Total current tax charge for the year** | | **6,572** | 3,220 |
| **Deferred tax** | | | |
| Originating on reversal of timing differences | | **(959)** | (99) |
| Changes in estimation amounts of deferred tax | | **–** | 33 |
| Total deferred tax credit for the year | 23 | **(959)** | (66) |
| **Total tax charge for the year** | | **5,613** | 3,154 |

### Factors affecting the tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK.

The differences are explained below.

| | 2004 £000 | 2003 (as restated) £000 |
|---|---|---|
| Loss on ordinary activities before tax | **(13,798)** | (8,567) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.00% (2003 – 30.00%) | **(4,139)** | (2,570) |
| Amortisation of goodwill | **10,122** | 6,646 |
| Disallowed expenses | **971** | 487 |
| Non-taxable income | **(875)** | (689) |
| Decelerated/(accelerated) capital allowances | **93** | (261) |
| Short-term timing differences | **4,934** | 19 |
| Adjustments in respect of previous periods | **312** | (443) |
| Tax losses (utilised)/unrelieved | **(4,786)** | 31 |
| Differences in tax rates on losses carried back | **3** | – |
| Overseas tax not at 30% | **(63)** | – |
| Current tax charge for the year | **6,572** | 3,220 |

### Factors that may affect future tax charges

There is an unrecognised deferred tax asset at 31 December 2004 arising from tax losses carried forward of £3,588,000 (31 December 2003 – £1,392,000) within the group. The unrecognised deferred tax asset will be recovered if the companies which have the tax losses generate sufficient taxable profits in the future.

## 11. Dividends

| | 2004 £000 | 2003 £000 |
|---|---|---|
| **Equity dividends on ordinary shares** | | |
| Interim paid – 4.00p (2003: 4.00p) | **5,993** | 5,994 |
| Final proposed – 7.00p (2003: 7.00p) | **32,914** | 10,485 |
| Adjustment to 2003 final dividend | **2** | – |
| | **38,909** | 16,479 |

The group ESOP has waived its entitlement to receive dividends on its holding of F&C shares (469,700 shares at 30 June 2004, 969,700 shares at 31 December 2004). This has resulted in £19,000 (2003 – £3,000) of the interim dividend and £68,000 (2003 – £33,000) of the final proposed dividend being waived.

The trustees of Abacus Trust have waived the entitlement in respect of the dividend on the Re-Investment Shares of 11,021,961 held by the Trust at 31 December 2004. This has resulted in £772,000 of the final proposed dividend being waived.

| | 2004 £000 | 2003 £000 |
|---|---|---|
| **Non-equity dividends on Cumulative Preference Shares** | | |
| Accrued at 1 January | **(11)** | (15) |
| 31 December paid | **12** | 12 |
| 30 June paid | **11** | 11 |
| Accrued at 31 December | **20** | 11 |
| | **32** | 19 |

## 12. Earnings per Ordinary Share

**Reconciliation of Earnings per Ordinary Share**

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | **Basic** | **Diluted** | **Basic (as restated)** | **Diluted (as restated)** |
| Loss per Ordinary Share | **(8.78)p** | **(8.77)p** | (7.83)p | (7.83)p |
| Amortisation of goodwill | **15.23p** | | 14.78p | |
| Cost of Re-Investment Plan | **1.45p** | | – | |
| Exceptional items net of tax | | | | |
| – Reorganisation post acquisition of F&C Group | **5.79p** | | – | |
| – Reorganisation post acquisition of RSAI | **–** | | 5.43p | |
| – Restructuring: Operations outsourcing | **0.30p** | | 0.33p | |
| – Gain on disposal of subsidiary | **–** | | (0.67)p | |
| Profit per Ordinary Share before amortisation of goodwill, exceptional items and the cost of the Re-Investment Plan | **13.99p** | | 12.04p | |

In the opinion of the Directors the profit before amortisation of goodwill, exceptional items and the cost of the Re-Investment Plan more accurately reflects the earnings performance of the group for the year ended 31 December 2004.

The earnings and share capital used in the calculation of the Earnings per Ordinary Share above are as follows:

**Earnings**

| | Notes | 2004 £000 | 2003 (as restated) £000 |
|---|---|---|---|
| Loss attributable to ordinary shareholders | | **(19,443)** | (11,740) |
| Amortisation of goodwill | | **33,739** | 22,153 |
| Cost of Re-Investment Plan, net of tax | 5 | **3,208** | – |
| Exceptional items net of tax | | | |
| - Reorganisation post acquisition of F&C Group | 6(a) | **12,832** | – |
| - Reorganisation post acquisition of RSAI | 6(b) | **–** | 8,135 |
| - Restructuring: Operations outsourcing | 6(c) | **652** | 499 |
| - Gain on disposal of subsidiary | 7 | **–** | (1,000) |
| Profit before amortisation of goodwill, exceptional items and the cost of the Re-Investment Plan | | **30,988** | 18,047 |

**Share capital**

| | 31 December 2004 Number | 31 December 2003 Number |
|---|---|---|
| Basic weighted average number of Ordinary Shares | **221,546,388** | 149,849,196 |
| Dilutive potential Ordinary Shares: | | |
| Weighted average number of 1984 Executive Share Options exercisable | **–** | 2,882 |
| Weighted average number of 1995 Executive Share Options exercisable | **4,252** | – |
| Weighted average number of 2002 Executive Share Options exercisable | **63,625** | 8 |
| | **221,614,265** | 149,852,086 |

Shares held by the ESOP Trust and Abacus Trust are excluded from the calculations of earnings per share as their dividend entitlement has been waived.

The 1984 Executive Share Options have been treated as dilutive until they lapsed because the option prices were below the average share price for the year, the effect of which is shown above.

Certain employees, who have left the group, are entitled to exercise their 1995 or 2002 Executive Share Options for a defined period in accordance with Scheme rules. These options have, where the option prices are below the average share price for the year, been treated as dilutive. The remaining 1995 and 2002 Executive Share Options have not been treated as dilutive because the performance criteria have not yet been achieved to enable the options to be exercised.

## 13. Prior Year Adjustment

The adoption of UITF 38 – Accounting for Employee Share Ownership (ESOP) Trusts – has resulted in a prior year restatement to the financial statements for the year ended 31 December 2003. The financial impacts of these adjustments are shown below.

UITF 38 is applicable for accounting periods ending on or after 22 June 2004. It supersedes UITF 13 ''Accounting for ESOP Trusts'' and UITF 17 ''Employee share schemes'' as previously issued.

The primary difference with adoption of UITF 38 concerns the treatment of an interest in an entity's own shares arising through an ESOP trust. Under UITF 13 such own shares were recognised as a fixed asset investment. UITF 38 requires that own shares be deducted in arriving at shareholders' funds rather than be included as assets. Other assets and liabilities of the ESOP trust continue to be recognised as assets and liabilities of the sponsoring company.

With the adoption of UITF 38 the cost of the Share Save Scheme awards is calculated as the difference between:

i) the fair value of the shares at the date the award is made to participants in the scheme; and

ii) the amount of the consideration the participants are required to pay for the shares.

The cost of the award recognised in the profit and loss account is spread evenly over the savings period. The cost of the award is only revised to reflect subsequent changes in the number of the shares to which the participants become entitled.

Previous accounting treatment determined the cost to the Company to be:

i) Where shares have been bought by the ESOP for the purpose of satisfying Share Save Scheme options:

The purchase price of the shares bought to satisfy options less the exercise price. The resulting cost will be amortised on a straight-line basis over the savings period.

ii) Where shares have not been bought by the ESOP:

The market value of shares at any balance sheet date less the exercise price. The resulting charge will be spread over the savings period.

The effect of the change in accounting policy on the current and previous year's group results for the Share Save Scheme is shown below. Note that only categories which have changed are shown.

| | 31 December 2004 £000 | 31 December 2003 £000 |
|---|---|---|
| **Profit & loss account impact:** | | |
| **Administrative expenses** | | |
| Cost of Share Save Scheme | **(144)** | (143) |
| **Tax on loss on ordinary activities** | | |
| Tax impact of above | **43** | 43 |
| **Net credit to profit & loss** | **(101)** | (100) |
| **Balance sheet impact:** | | |
| **Fixed Assets** | | |
| Investment in own shares | **(1,915)** | (925) |
| **Creditors** | | |
| UK Corporation Tax creditor | **(86)** | (43) |
| **Provisions for liabilities and charges** | | |
| Provision for Share Save Scheme | **150** | 86 |
| | **(1,851)** | (882) |
| **Capital and reserves** | | |
| Profit & loss account (including own share reserve) | **(1,851)** | (882) |

## 14. Intangible fixed assets – goodwill

| | Note | Group 2004 £000 | Group 2003 £000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January | | **352,446** | 362,327 |
| Adjustment to goodwill on RSAI acquisition | | **–** | (9,881) |
| Acquisition of subsidiary undertakings | 16(c) | **685,434** | – |
| **At 31 December** | | **1,037,880** | 352,446 |
| **Amortisation:** | | | |
| At 1 January | | **48,548** | 26,395 |
| Adjustment in respect of 2002 amortisation | | **–** | (417) |
| Provided during the year | | **33,739** | 22,570 |
| Total amortisation charge for the year | | **33,739** | 22,153 |
| **At 31 December** | | **82,287** | 48,548 |
| **Net book value at 31 December** | | **955,593** | 303,898 |

Goodwill arising on the following acquisitions is being amortised on a straight-line basis as follows:

| | Directors' estimate of useful economic life |
|---|---|
| Friends Ivory & Sime Portfolio Management Limited | 20 years |
| London and Manchester Property Asset Management Limited | 20 years |
| Friends' Provident Unit Trust Managers Limited | 20 years |
| F&C Managed Pension Funds Limited | 20 years |
| Royal & SunAlliance Investments | |
| – retail business | 20 years |
| – insurance business | 10 years |
| F&CGH Group | |
| - long-term contracts with fixed position | 10 years |
| - contracts with no fixed contractual position | 20 years |

The goodwill associated with the management of the insurance business of Royal & SunAlliance Insurance Group plc is being amortised over 10 years, in line with the period of the underlying Investment Management Agreements.

The goodwill associated with the long-term contracts, which have a fixed position and which were acquired with the F&CGH Group, is being amortised over the contracts' average contractual lifespan of 10 years.

The total cost of goodwill at 31 December can be split as follows:

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Amortised over 10 years | **407,882** | 98,951 |
| Amortised over 20 years | **629,998** | 253,495 |
| | **1,037,880** | 352,446 |

## 15. Tangible fixed assets

| (a) Group | Leasehold improvements £000 | Motor vehicles £000 | Office furniture and equipment £000 | Computer equipment £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 31 December 2003 | 6,538 | 41 | 2,925 | 12,964 | 22,468 |
| Fair value of additions on acquisition | 1,383 | 117 | 1,127 | 984 | 3,611 |
| Additions | 3,066 | – | 309 | 864 | 4,239 |
| Disposals | – | (57) | – | (54) | (111) |
| **At 31 December 2004** | **10,987** | **101** | **4,361** | **14,758** | **30,207** |
| **Depreciation:** | | | | | |
| At 31 December 2003 | 1,393 | 41 | 1,856 | 10,593 | 13,883 |
| Provided during the year | 2,618 | 11 | 567 | 1,782 | 4,978 |
| Disposals | – | (17) | – | (54) | (71) |
| **At 31 December 2004** | **4,011** | **35** | **2,423** | **12,321** | **18,790** |
| **Net book amounts:** | | | | | |
| **At 31 December 2004** | **6,976** | **66** | **1,938** | **2,437** | **11,417** |
| At 31 December 2003 | 5,145 | – | 1,069 | 2,371 | 8,585 |

The depreciation provided during the year in respect of leasehold improvements includes £1,988,000 (2003: £nil) relating to leasehold improvements which have been written off in respect of the group's former head office at Wood Street, London (see note 6(a)).

| (b) Company | Leasehold improvements £000 | Office furniture and equipment £000 | Computer equipment £000 | Total £000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 31 December 2003 | 2,883 | 466 | 3,740 | 7,089 |
| Additions | 89 | 2 | 442 | 533 |
| Disposals | – | – | (11) | (11) |
| **At 31 December 2004** | **2,972** | **468** | **4,171** | **7,611** |
| **Depreciation:** | | | | |
| At 31 December 2003 | 269 | 183 | 2,344 | 2,796 |
| Provided during the year | 314 | 78 | 869 | 1,261 |
| Disposals | – | – | (11) | (11) |
| **At 31 December 2004** | **583** | **261** | **3,202** | **4,046** |
| **Net book amounts:** | | | | |
| **At 31 December 2004** | **2,389** | **207** | **969** | **3,565** |
| At 31 December 2003 | 2,614 | 283 | 1,396 | 4,293 |

## 16. Investments

(a) Other Investments – Group

| | Participating interests £000 | Other investments £000 | Total £000 |
|---|---|---|---|
| **Cost:** | | | |
| At 31 December 2003 (as restated) | 5 | 2 | 7 |
| Acquired on acquisition | – | 1,424 | 1,424 |
| Repayment of loan capital | – | (16) | (16) |
| Additions | – | 5,101 | 5,101 |
| Exchange adjustments | – | 298 | 298 |
| **At 31 December 2004** | **5** | **6,809** | **6,814** |
| **Amounts written off:** | | | |
| **At 31 December 2003 (as restated) and at 31 December 2004** | – | – | – |
| **Net book amounts:** | | | |
| **At 31 December 2004** | **5** | **6,809** | **6,814** |
| At 31 December 2003 (as restated) | 5 | 2 | 7 |

The cost of listed investments as at 31 December 2004 was £29,000 (31 December 2003 (as restated) – £2,000).

The valuation of listed investments as at 31 December 2004 was £29,000 (31 December 2003 (as restated) – £2,000).

(b) Other Investments – Company

| | Other investments - quoted £000 | Other investments - unquoted £000 | Subsidiary undertakings £000 | Total £000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 31 December 2003 (as restated) | 2 | – | 297,687 | 297,689 |
| Additions | – | 5,101 | 766,274 | 771,375 |
| Exchange adjustments | – | 297 | – | 297 |
| **At 31 December 2004** | **2** | **5,398** | **1,063,961** | **1,069,361** |
| **Amounts written off:** | | | | |
| **At 31 December 2003 (as restated) and at 31 December 2004** | **–** | **–** | **(2,362)** | **(2,362)** |
| **Net book amounts:** | | | | |
| **At 31 December 2004** | **2** | **5,398** | **1,061,599** | **1,066,999** |
| At 31 December 2003 (as restated) | 2 | – | 295,325 | 295,327 |

Details of subsidiary undertakings are set out in note 33.

The cost of listed investments as at 31 December 2004 was £2,000 (31 December 2003 as restated – £2,000).

The valuation of listed investments as at 31 December 2004 was £2,000 (31 December 2003 as restated – £2,000).

## 16. Investments (cont'd)

(c) 2004 – Acquisition of F&C Group (Holdings) Limited

The Company, ISIS Asset Management plc, acquired and gained control of F&C Group (Holdings) Limited and its subsidiaries ("F&CGH Group") on 11 October 2004. The F&C Group is predominantly a pan European asset management business. The business combination is being accounted for as an acquisition.

ISIS Asset Management plc was re-named F&C Asset Management plc on Completion.

F&C Asset Management plc acquired the share capital of the following companies on acquisition:

| **Company** | **Percentage of issued share capital acquired** |
|---|---|
| F&C Group (Holdings) Limited | 100% |
| F&C Portugal Gestao, de Patrimonios SA | 100% |
| F&C Netherlands BV | 100% |
| F&C Ireland Limited | 100% |
| Lackingdon Limited | 100% |
| AF – Investimentos Internacional SA | 100% |
| F&C Alternative Investments (Holdings) Limited (formerly F&C MMP Holdings Limited) | 100% |
| F&C Partners LLP | 60% |
| F&C Group Management Limited (formerly Primrose Street Holdings Limited) | 100% |
| F&C Retail Limited | 100% |
| F&C Holdings Limited | 100% |
| ESN PMG (Services) Limted | 100% |
| F&C Investment Services Limited | 100% |
| F&C (CI) Limited | 100% |
| F&C Private Equity Nominees Limited | 100% |
| F&C Property Investment Management Limited | 100% |
| F&C Property Investment (Services) Limited | 100% |
| F&C Management Limited | 100% |
| F&C Nominees Limited | 100% |
| F&C Investment Management Limited | 100% |
| F&C Overseas Limited | 100% |
| Cerebys Limited | 100% |
| F&C Channel Islands Limited | 100% |
| F&C Unit Management Limited | 100% |
| F&C Management (Jersey) Limited | 100% |
| FCEM Holdings (UK) Limited | 100% |
| F&C Emerging Markets Limited | 100% |
| Latin American Securities Limited | 100% |
| F&C Emerging Markets (India) Limited | 100% |

The F&CGH Group was acquired from Eureko B.V. for an initial consideration of 320,374,763 ordinary shares. The fair value of the share price on 11 October 2004 was £2.30 and the fair value of the initial consideration was £736,862,000.

## 16. Investments (cont'd)

The new ordinary shares issued by F&C Asset Management plc upon Completion were allocated as follows:

(i) 145,365,679 shares were issued to Friends Provident at a price of £2.30 to ensure that Friends Provident maintained a 51% holding in ordinary shares on Completion. In return for the new shares Friends Provident paid Eureko Holdings £250,000,000 in cash and issued 92,433,278 new Friends Provident shares to Eureko Holdings.

(ii) 99,283,053 shares were issued to Eureko Holdings at a price of £2.30 on Completion. This issue resulted in Eureko holding just over 20% of the share capital of the Company on Completion.

(iii) 75,726,031 shares were issued to Eureko Holdings at a price of £2.30, which Eureko immediately placed in the market on Completion. This placing ensured that over 25% of ordinary shares of the Company were held in public hands on Completion.

In addition,11,021,961 shares were issued to the Employee Benefit Trust at a price of £2.30. From an accounting perspective, this issue was not considered part of the Consideration price, but satisfied the F&C executives and staff rights under the Re-Investment Plan.

Prior to Completion, Friends Provident subscribed for £410,000 of New Preference Shares, allowing Friends Provident to maintain its existing proportionate holding of the nominal share capital of the Company following Completion (see note 24).

Under the terms of the Sale and Purchase Agreement (SPA), F&C Asset Management plc is entitled to receive net assets of £65,900,000 (''Net Asset Value Target''). Following agreement of the Completion Accounts, a £ for £ adjustment will be made to the initial consideration, to the extent that the Net Asset Value Target exceeds or falls short by in excess of £1 million, to reflect the agreed net asset position at Completion (11 October 2004).

An estimated further consideration of £16,212,000 is outstanding on the acquisition as the net assets per the Completion Accounts were greater than £65,900,000. This additional consideration is due to be settled in cash and has been accrued at 31 December 2004. The final consideration settlement will be paid following agreement of the Completion Accounts.

All inter-company balances between the F&C group and the Eureko B.V. group at Completion Date were settled in cash outwith the transaction.

The estimated acquisition expenses associated with the transaction, including stamp duty, are £13,200,000 (£1,202,000 accrued at 31 December 2004).

The purchase of all the companies in the F&CGH Group was all part of the same transaction with Eureko B.V. As a result the fair value table has been produced for the entirety of the arrangement as this most accurately reflects the nature of the transaction.

The provisional goodwill arising on the acquisition has been capitalised and is being amortised over 10 and 20 years, in accordance with its estimated useful life. Note 14 details the amount of goodwill amortised over each period.

## 16. Investments (cont'd)

The analysis of the transaction is as follows:

| | Book value on acquisition £000 | Adjustments: Re-classi-fication adjustments £000 | Adjustments: Fair value adjustments £000 | Provisional fair value to the group at acquisition £000 |
|---|---|---|---|---|
| **Net assets of the subsidiaries acquired can be summarised as follows:** | | | | |
| Tangible fixed assets | 3,611 | – | – | 3,611 |
| Investments | 1,424 | – | – | 1,424 |
| Debtors: due within one year | 59,708 | – | (3,172) | 56,536 |
| Deferred tax asset | 15,578 | 1,772 | 843 | 18,193 |
| Current asset investments | 19 | – | – | 19 |
| Cash and short-term deposits | 133,371 | – | (580) | 132,791 |
| Creditors: amounts falling due within one year | (112,139) | 1,600 | (1,341) | (111,880) |
| Creditors: amounts falling due after one year | (9,000) | – | – | (9,000) |
| Provision for liabilities and charges | (2,231) | – | – | (2,231) |
| Deferred income (outwith one year) | (3,631) | – | – | (3,631) |
| Pension deficit | (348) | (3,372) | (1,272) | (4,992) |
| Estimated Net Assets of acquired companies | 86,362 | – | (5,522) | 80,840 |
| Goodwill arising on acquisition (note 14) | | | | 685,434 |
| | | | | 766,274 |
| **Discharged by:** | | | | |
| Initial consideration – fair value of shares issued | | | | 736,862 |
| Estimated further consideration | | | | 16,212 |
| Estimated expenses of acquisition (of which £1,202,000 is accrued) | | | | 13,200 |
| | | | | 766,274 |

There are no provisions for reorganisation and restructuring costs that are included in the liabilities of the acquired entities.

The Directors consider the fair values of the net assets to be provisional until the F&CGH Group Completion Accounts review process has been finalised. In the meantime the adjustments reflect the Directors' best estimates of fair value adjustments to the Net Assets of the acquired companies.

The following specific adjustments have been made to reflect the fair value of assets acquired on acquisition:

(a) The defined benefit pension assets of the F&CGH Group have been adjusted to reflect their market value at Completion.

(b) The fair values of the defined benefit pension liabilities have been amended to reflect the FRS 17 assumptions adopted by the group.

(c) Cash balances have been adjusted to reflect the exchange rate at Completion and debtors balances have been reduced to their estimated realisable value.

(d) The increase in creditors reflects obligations of the acquired entities which are considered to exist as at 11 October 2004, but which are not reflected in the Completion Accounts.

(e) Taxation adjustments have been made to the balances on acquisition to reflect the taxation effect of the non-taxation fair value adjustments.

Since the date of acquisition, exceptional costs of £18,332,000 (see note 6(a)) have been incurred in integrating, reorganising and restructuring the business. The Directors consider the exceptional costs, which relate to a fundamental reorganisation of the business, to be non-operating in nature. The exceptional costs include an onerous contract provision of £4,229,000 in respect of group premises.

## 16. Investments (cont'd)

The summarised profit and loss account of the acquired companies for the period 1 January 2004 to 10 October 2004 can be summarised as follows:

| | | Period 1 Jan 2004 to 10 October 2004 £000 |
|---|---|---|
| Revenue | | 115,860 |
| Selling expenses | | (8,452) |
| **Net revenue** | | **107,408** |
| Administrative expenses: | | |
| – Administrative expenses excluding long-term incentive costs and operating exceptional items | 79,882 | |
| – Long-term incentive costs | 7,443 | |
| – Operating exceptional items | 18,285 | |
| | | **(105,610)** |
| **Operating profit** | | **1,798** |
| Interest and investment income receivable | | 5,189 |
| Interest payable and similar charges | | (529) |
| **Profit on ordinary activities before taxation** | | **6,458** |
| Tax credit on profit on ordinary activities | | (551) |
| **Profit on ordinary activities after taxation** | | **5,907** |

As the acquired companies did not constitute a statutory group at 31 December 2003, no consolidated accounts were available and, therefore, no Statement of Total Recognised Gains and Losses has been presented for the period to 10 October 2004.

The profit on ordinary activities after taxation for the F&CGH Group, as disclosed in the Listing Particulars, for the year-ended 31 December 2003, was £25,777,000.

(d) Current Asset Investments

| | Group | |
|---|---|---|
| | **2004 £000** | **2003 £000** |
| At 1 January | – | 6,714 |
| Additions in the year | – | 86 |
| Disposals in the year | – | (6,800) |
| **At 31 December** | – | – |

## 17. Insurance assets and liabilities attributable to unit-linked policyholders

The assets of the long-term insurance business are held to meet liabilities to unit-linked policyholders. The market value of these assets is summarised as follows:

| | Group | |
|---|---|---|
| | 31 December 2004 £000 | 31 December 2003 £000 |
| Equity shares – quoted | 604,603 | 657,721 |
| UK government securities | 81,555 | 84,367 |
| Other fixed interest securities | 61,718 | 62,578 |
| Short-term deposits | 41,265 | 22,934 |
| Index linked gilts | 15,279 | 13,574 |
| OEICs | 724 | 1,797 |
| Other net current assets | 6,813 | 5,934 |
| | 811,957 | 848,905 |
| The Technical provisions for linked liabilities at 31 December were: | | |
| Insurance liabilities attributable to unit-linked policyholders | 811,957 | 848,905 |

Analysis of the long-term insurance business fund for the year ended 31 December:

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Premium income | 66,284 | 86,447 |
| Investment income and investment gains | 89,574 | 138,304 |
| Surrenders | (190,344) | (325,924) |
| Investment expenses and charges, taxation and administration expenses | (2,462) | (2,800) |
| Decrease in fund | (36,948) | (103,973) |
| Fund at 1 January | 848,905 | 952,878 |
| Fund at 31 December | 811,957 | 848,905 |

## 18. Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2004 £000 | 31 December 2003 £000 | 31 December 2004 £000 | 31 December 2003 £000 |
| **Amounts due within one year** | | | | |
| Trade debtors | 6,420 | 5,403 | 275 | 741 |
| Accrued income | 28,976 | 15,272 | 2,479 | 1,553 |
| Amounts owed by fellow subsidiary undertakings | – | – | 26,318 | 22,385 |
| Loans to subsidiary undertakings | – | – | 16,555 | 5,600 |
| Prepayments | 9,306 | 2,783 | 598 | 1,191 |
| VAT | – | – | 663 | 328 |
| Group relief receivable | – | – | 3,104 | 1,520 |
| Other debtors | 17,092 | 19,674 | 1,047 | 344 |
| | 61,794 | 43,132 | 51,039 | 33,662 |
| **Amounts due outwith one year** | | | | |
| Deferred tax (note 23) | 29,213 | 3,255 | 9,076 | 900 |
| | 91,007 | 46,387 | 60,115 | 34,562 |

## 19. Other creditors

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 31 December 2004 | 31 December 2003 (as restated) | 31 December 2004 | 31 December 2003 (as restated) |
| | Notes | £000 | £000 | £000 | £000 |
| **Amounts due within one year** | | | | | |
| Trade creditors | | **2,671** | 1,191 | **1,179** | 371 |
| Accruals | | **62,192** | 22,613 | **5,055** | 2,016 |
| Amounts owed to Eureko | | **316** | – | **–** | – |
| Amounts owed to parent undertaking | | **2,405** | 2,194 | **336** | – |
| Amounts owed to fellow subsidiary undertakings | | **–** | – | **1,782** | 4,086 |
| Loans from subsidiary undertakings | | **–** | – | **500** | 9,275 |
| VAT | | **767** | 639 | **–** | – |
| Social Security and PAYE | | **1,989** | 998 | **–** | – |
| Other creditors | | **28,406** | 12,967 | **17,247** | 1,694 |
| Deferred income | 21 | **715** | – | **–** | – |
| Loans | 22 | **5,000** | 15,000 | **2,083** | – |
| | | **104,461** | 55,602 | **28,182** | 17,442 |
| **Amounts due outwith one year** | | | | | |
| Loans | 22 | **214,000** | 180,000 | **50,000** | 2,234 |
| Other creditors | | **3** | 2 | **–** | – |
| | | **214,003** | 180,002 | **50,000** | 2,234 |

## 20. Provision for liabilities and charges

| (a) Group | Deferred Tax £000 | Provision for Guaranteed Product £000 | Provision for NIC on Share Schemes £000 | Premises – onerous contracts £000 | Total £000 |
|---|---|---|---|---|---|
| Balance at 31 December 2003 (as restated) | 292 | – | 56 | 3,570 | 3,918 |
| Additions on acquisition | – | – | – | 2,231 | 2,231 |
| Provided during the year | 30 | 457 | 274 | 4,684 | 5,445 |
| Provision utilised during the year | – | – | – | (2,248) | (2,248) |
| Balance at 31 December 2004 | **322** | **457** | **330** | **8,237** | **9,346** |

| (b) Company | Provision for NIC on Share Schemes £000 | Premises – onerous contracts £000 | Total £000 |
|---|---|---|---|
| Balance at 31 December 2003 | 56 | 2,263 | 2,319 |
| Provided during the year | 274 | 454 | 728 |
| Provision utilised during the year | – | (1,408) | (1,408) |
| Balance at 31 December 2004 | **330** | **1,309** | **1,639** |

The deferred tax provision relates to short-term timing differences, which have originated but not reversed at the balance sheet date. The provision is subject to uncertainties in respect of the timing of the reversal of the timing differences.

The provision for guaranteed product represents the actuarially assessed cost of meeting potential obligations under certain investment products which have a guaranteed payout in the event of death. This provision is subject to uncertainties in respect of movements in market levels and the death of underlying investors. The underlying investment plan was closed to new investors during 2004.

## 20. Provision for liabilities and charges (cont'd)

The provision for National Insurance Contributions ("NIC") on share schemes represents the potential NIC liability of FCAM in respect of a number of the share based payment schemes operated by the Company. The provision is subject to uncertainties in respect of movements in the Company's share price and the extent to which options lapse.

A provision for onerous premises contracts has been made in relation to the surplus leased accommodation. The provision represents the estimated shortfall of any expected rental income receivable under sub-lease arrangements compared with rental obligations under head-lease arrangements (as disclosed in note 29). The provision is subject to uncertainties over time including market rent reviews and break-options within the lease arrangements.

## 21. Deferred income

| | | Group | |
|---|---|---|---|
| | Note | 2004 £000 | 2003 £000 |
| Balance at 1 January | | – | – |
| Additions on acquisition | | 4,345 | – |
| Released in the year | | (178) | – |
| **Balance at 31 December** | | 4,167 | – |
| Split between: | | | |
| Deferred income within one year | 19 | 715 | – |
| Deferred income outwith one year | | 3,452 | – |
| | | 4,167 | – |

## 22. Loans

| | Group | |
|---|---|---|
| | 2004 £000 | 2003 £000 |
| **Wholly repayable within five years:** | | |
| £180,000,000 Term Loan at a Fixed Rate of 5.9125%; wholly repayable on 1 November 2006 | 180,000 | 180,000 |
| £50,000,000 Revolving Credit Facility (£5,000,000 drawn down), at 3 month Sterling LIBOR + 0.6%; 3 month terms ending 30 May 2007 | 5,000 | 15,000 |
| £25,000,000 Subordinated Loan, at 6 month Sterling LIBOR + 1.05%; wholly repayable on 11 October 2009 | 25,000 | – |
| £9,000,000 Subordinated Loan, at 6 month Sterling LIBOR + 1.05%; wholly repayable on 11 October 2009 | 9,000 | – |
| | 219,000 | 195,000 |

The £180,000,000 Term Loan and the £25,000,000 Subordinated Loan are both with Friends Provident Life and Pensions Limited, a subsidiary of Friends Provident plc.

The £50,000,000 Revolving Credit Facility is with Friends Provident plc, the parent undertaking. Any drawdown under this facility is repayable within 3 months but can be rolled over by the borrower into a subsequent drawdown. This option remains until 30 May 2007.

The £9,000,000 Subordinated Loan is with Eureko B.V.

## 22. Loans (cont'd)

| | Group | |
|---|---|---|
| | 2004 | 2003 |
| | £000 | £000 |
| **Amounts repayable:** | | |
| In one year or less, or on demand | 5,000 | 15,000 |
| In more than one year but not more than two years | 180,000 | – |
| In more than two years but not more than five years | 34,000 | 180,000 |
| In more than five years | – | – |
| | 219,000 | 195,000 |

| | Company | |
|---|---|---|
| | 2004 | 2003 |
| | £000 | £000 |
| **Wholly repayable within five years:** | | |
| $4,000,000 Loan at mid-term Applicable Federal Rate; wholly repayable on 5 October 2005 | 2,083 | 2,234 |
| £10,000,000 Subordinated Loan, at 6 month Sterling LIBOR +1%; wholly repayable on 4 June 2006 | 10,000 | – |
| £15,000,000 Subordinated Loan, at 6 month Sterling LIBOR +1.05%; wholly repayable on 31 December 2009 | 15,000 | – |
| £25,000,000 Subordinated Loan, at 6 month Sterling LIBOR +1.05%; wholly repayable on 11 October 2009 | 25,000 | - |
| | 52,083 | 2,234 |

The $4,000,000 Loan is due to Friends Ivory & Sime North America, Inc, an overseas subsidiary. The Loan may be repaid by F&C Asset Management plc by giving ten banking days' notice in writing to Friends Ivory & Sime North America Inc.

The £25,000,000 Subordinated Loan is with Friends Provident Life and Pensions Limited, a subsidiary of Friends Provident plc.

The £15,000,000 and £10,000,000 Subordinated Loans are both with F&C Treasury Limited, a subsidiary undertaking.

| | Company | |
|---|---|---|
| | 2004 | 2003 |
| | £000 | £000 |
| **Amounts repayable:** | | |
| In one year or less, or on demand | 2,083 | – |
| In more than one year but not more than two years | 10,000 | 2,234 |
| In more than two years but not more than five years | 40,000 | – |
| In more than five years | – | – |
| | 52,083 | 2,234 |

## 23. Deferred taxation

| | Group £000 | Company £000 |
|---|---|---|
| Balance at 31 December 2003 | 2,963 | 900 |
| Fair value of additions on acquisition | 18,193 | – |
| Deferred tax on investment shares | 7,605 | 7,605 |
| Release of deferred tax on investment shares | (829) | (829) |
| Adjustments in respect of previous periods | – | (102) |
| Provided during the year* (note 10) | 959 | 1,502 |
| **Balance at 31 December 2004** | 28,891 | 9,076 |

* including deferred tax asset of £829,000 recognised in respect of investment shares.

| | Notes | Group 31 December 2004 £000 | Group 31 December 2003 £000 | Company 31 December 2004 £000 | Company 31 December 2003 £000 |
|---|---|---|---|---|---|
| Deferred taxation provided in the accounts is as follows: | | | | | |
| Share based payments | | 7,605 | – | 7,605 | – |
| Short-term timing differences | | 19,103 | 1,712 | 1,304 | 878 |
| Depreciation in advance of capital allowances | | 2,183 | 1,251 | 167 | 22 |
| | | 28,891 | 2,963 | 9,076 | 900 |
| Disclosed in the accounts as follows: | | | | | |
| Debtors | 18 | 29,213 | 3,255 | 9,076 | 900 |
| Provision for liabilities and charges | 20 | (322) | (292) | – | – |
| | | 28,891 | 2,963 | 9,076 | 900 |
| Non-discounted net deferred tax asset | | 28,891 | 2,963 | 9,076 | 900 |

The Directors believe it is appropriate to recognise a deferred tax asset because it is considered that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

## 24. Share capital

| **Group and Company** | 31 December 2004 Number of shares | 31 December 2004 £000 | 31 December 2003 Number of shares | 31 December 2003 £000 |
|---|---|---|---|---|
| **Authorised:** | | | | |
| **Equity interests** | | | | |
| Ordinary Shares of 0.1p | 800,000,000 | 800 | 180,000,000 | 180 |
| Deferred Shares of 0.1p | 100,000,000 | 100 | – | – |
| **Non-equity interests** | | | | |
| Cumulative Preference Shares of £1 | 800,000 | 800 | 390,000 | 390 |
| | | 1,700 | | 570 |
| **Allotted, issued and fully paid:** | | | | |
| **Equity interests** | | | | |
| Ordinary Shares of 0.1p | 482,200,131 | 482 | 150,256,675 | 150 |
| **Non-equity interests** | | | | |
| Cumulative Preference Shares of £1 | 800,000 | 800 | 390,000 | 390 |
| | | 1,282 | | 540 |

## 24. Share capital (cont'd)

At the Extraordinary General Meeting of the company on 4 October 2004, a resolution was passed approving an increase to the authorised share capital of the Company as follows:

i) an additional 620,000,000 Ordinary Shares;

ii) an additional 410,000 Preference Shares; and

iii) the creation of 100,000,000 Deferred Shares, being a new class of share.

The Group held the following shares in ESOP trusts. These are categorised as own shares, as a deduction from shareholders' funds.

| | 31 December 2004 No | 31 December 2003 No |
|---|---|---|
| F&C Group ESOP Trustee Limited | **969,700*** | 469,700 |
| Abacus Trust | **11,021,961** | – |
| | **11,991,661** | 469,700 |

* These shares are under option to employees. Details of the shares held in the Abacus Trust are given in the Directors' Remuneration Report.

The aggregate nominal value of own shares held by ESOPs at 31 December 2004 was £12,000 (31 December 2003 – £1,000). The market value of these shares at 31 December 2004 was £29,499,000 (31 December 2003 – £1,174,000).

(1) Ordinary Shares

During the year the following Share Options were exercised, in line with the rules of the appropriate scheme, and ordinary shares allotted:

| Exercise Date | Executive Share Option Scheme | No. of Ordinary Shares | Exercise Price (p) |
|---|---|---|---|
| 8 Mar 2004 | 1995 | 27,886 | 214.00 |
| 22 Oct 2004 | 2002 | 129,496 | 139.00 |
| 1 Nov 2004 | 2002 | 125,000 | 139.00 |
| 25 Nov 2004 | 2002 | 35,970 | 139.00 |
| 25 Nov 2004 | 2002 | 125,000 | 139.00 |
| 2 Dec 2004 | 1995 | 50,000 | 214.00 |
| 2 Dec 2004 | 2002 | 31,294 | 139.00 |
| 2 Dec 2004 | 1995 | 5,000 | 203.83 |
| 2 Dec 2004 | 2002 | 17,086 | 139.00 |
| | | **546,732** | |
| In addition, the following shares were issued in respect of the acquisition of F&CGH Group (see note 16(c)): | | | |
| Shares issued by way of consideration | | **320,374,763** | |
| Shares issued to Abacus Trust | | **11,021,961** | |
| Total shares issued in the year | | **331,943,456** | |

Details of the 1995 and 2002 Executive Share Option Schemes and the Long Term Remuneration Plan are contained on page 59 of the Directors' Remuneration Report.

## 24. Share capital (cont'd)

(2) Deferred Shares

| | Notes | £000 |
|---|---|---|
| Balance at 31 December 2003 | | – |
| Allotment of deferred shares on acquisition | 26 | 100 |
| Cancellation of deferred shares | 26 | (100) |
| **Balance at 31 December 2004** | | – |

Deferred shares of 0.1p were issued on 11 October 2004 and cancelled on 29 November 2004 following Court approval.

(3) Cumulative Preference Shares

| | £000 |
|---|---|
| Balance at 31 December 2003 | 390 |
| Preference shares issued during the year | 410 |
| **Balance at 31 December 2004** | **800** |

410,000 £1 cumulative preference shares were issued at par to Friends Provident plc on 4 October 2004.

Dividends on the Cumulative Preference Shares are paid in priority to any payment of dividend on any other class of shares. On a return of assets on liquidation, the assets of the Company available for distribution shall be applied first in repaying the holders of the Cumulative Preference Shares the amounts paid up or credited as paid up on such shares, together with any arrears of the fixed dividend. Holders of Cumulative Preference Shares are entitled to one vote in instances where the fixed dividend is six months in arrears or in the event that a resolution put to the meeting varies or impacts the rights and privileges attached to these shares.

The terms of the Cumulative Preference Shares confer the right to receive a variable rate dividend on the amount paid up or credited as paid up on the Cumulative Preference Shares at the rate of 2% per annum above the London Inter-Bank Offer Rate (LIBOR) expressed as a rate per annum at the commencement of each half-yearly dividend payment period.

## 25. Share premium account

| **Group and Company** | Notes | £000 |
|---|---|---|
| Balance at 31 December 2002 | | 17,060 |
| Reduction of share premium account | | (15,000) |
| Share premium on issue of 347,838 Ordinary Shares on exercise of options | | 735 |
| Balance at 31 December 2003 | | 2,795 |
| Share premium on issue of 546,732 Ordinary Shares on exercise of options | 24 | 821 |
| Share premium on issue of 11,021,961 Ordinary Shares in respect of the Abacus Trust | | 25,340 |
| Share premium on creation of Deferred Shares | 26 | 99,900 |
| Reduction of share premium | 26 | (99,900) |
| **Balance at 31 December 2004** | | **28,956** |

## 26. Other reserves

| | Notes | Special Distributable Reserve £000 | Merger Reserve £000 | Total Other Reserves £000 |
|---|---|---|---|---|
| **Group** | | | | |
| Balance at 31 December 2003 | | 8,028 | 117,894 | 125,922 |
| Premium arising from issue of shares for acquisition consideration | | – | 736,542 | 736,542 |
| Realised element of merger reserve to offset goodwill amortisation | 27 | – | (17,229) | (17,229) |
| Capitalisation of merger reserve account | 24,25 | – | (100,000) | (100,000) |
| Cancellation of Deferred Shares | 24 | 100 | – | 100 |
| Reduction in share premium account | 25 | 99,900 | – | 99,900 |
| Transferred to profit and loss account | 27 | (38,909) | – | (38,909) |
| **Balance at 31 December 2004** | | **69,119** | **737,207** | **806,326** |
| **Company** | | | | |
| Balance at 31 December 2003 | | 8,028 | 276,132 | 284,160 |
| Premium arising from issue of shares for acquisition consideration | | – | 736,542 | 736,542 |
| Capitalisation of merger reserve account | 24,25 | – | (100,000) | (100,000) |
| Cancellation of Deferred Shares | 24 | 100 | – | 100 |
| Reduction in share premium account | 25 | 99,900 | – | 99,900 |
| Transferred to profit and loss account | 27 | (38,909) | – | (38,909) |
| **Balance at 31 December 2004** | | **69,119** | **912,674** | **981,793** |

Following shareholder approval, 100,000,000 Deferred Shares were created through the capitalisation of £100,000,000 of the Company's merger reserve. Shareholder approval was also received for the subsequent reduction of capital through the cancellation of the Deferred Shares and the associated reduction in the share premium account of the Company. Following Court approval for this reduction, £100,000,000 was converted into distributable reserves by the transfer to the Special Distributable Reserve.

The Special Distributable Reserve may be used by the Company for the purchase of its own shares or to fund future dividend payments. Accordingly an amount of £38,909,000 (2003: £16,478,000) has been transferred to the profit and loss account in relation to the interim and proposed final dividends for 2004.

The cumulative amount of goodwill written off against the merger reserve in the group accounts at 31 December 2004 was £133,287,000 (31 December 2003: £133,287,000).

Merger Relief has been taken under s131 of the Companies Act, to recognise the premium arising on the issue of shares in respect of the F&CGH Group acquisition in the Company's merger reserve.

## 27. Profit and loss account

| | Notes | Group 31 December 2004 £000 | Company 31 December 2004 £000 |
|---|---|---|---|
| Profit and loss reserve excluding pension liability and own share reserve | | 10,200 | 23,170 |
| Own share reserve | | (15,772) | (15,772) |
| Pension reserve | 28(ii) | (12,333) | (6,498) |
| Profit and loss reserve | | (17,905) | 900 |

| | Notes | 2004 £000 | 2004 £000 |
|---|---|---|---|
| Balance at 1 January (as previously reported) | | 713 | 18,257 |
| Prior year adjustment | | (882) | (986) |
| Balance at 1 January (as restated) | | (169) | 17,271 |
| Retained loss for the year | | (58,352) | (39,317) |
| Actuarial loss recognised in the STRGL | | (2,003) | (1,173) |
| Purchase of ESOP shares | | (1,165) | (1,165) |
| Other movements through own share reserve | | (13,625) | (13,625) |
| Transfer from Special Distributable Reserve in relation to the dividends | 26 | 38,909 | 38,909 |
| Realised element of merger reserve to offset amortisation of goodwill | 26 | 17,229 | – |
| Exchange gain on consolidation | | 1,271 | – |
| **Balance at 31 December** | | (17,905) | 900 |

The cumulative amount of goodwill written off to the profit and loss account at 31 December 2004 was £6,558,000 (31 December 2003 – £6,558,000).

The Company's loss for the year before ordinary dividends was £408,000 (2003 (as restated) – profit of £7,214,000).

## 28. Pension commitments

Following the merger, the group operates two core defined benefit pension schemes in the United Kingdom. Both of these schemes are closed to new entrants. All new UK employees are eligible to benefit from defined contribution arrangements, which provide greater clarity in relation to the cost to the group.

Employees in The Netherlands, Portugal and Ireland participate in multi-employer pension arrangements and, with the exception of Ireland, these schemes are open to new employees. Plans are currently being initiated to set up separate defined benefit pension schemes in respect of employees in The Netherlands and Ireland. These new arrangements will maintain the existing benefits of current employees and will be funded by the transfer of assets from the current multi-employer schemes. Where the Group is unable to separately identify its share of assets and liabilities of overseas multi-employer defined benefit schemes, then these schemes are accounted for as defined contribution arrangements.

### Summarised Group Position on Defined Benefit Obligations

The following section provides summary analysis of all defined benefit schemes which have been accounted for under FRS 17. Subsequent sections of this note provide the same level of analysis for each scheme.

The major assumptions used on all the schemes by the Actuaries for the purposes of FRS 17 were:

| | As at 31 December 2004 | As at 31 December 2003 | As at 31 December 2002 |
|---|---|---|---|
| Rate of increase in salaries | 4.00% | 4.00% | 4.00% |
| Rate of increase of pensions in payment (range) | 2.75%-5.00% | 3.50% | 3.50% |
| Discount rate | 5.30% | 5.40% | 5.50% |
| Inflation assumption | 2.75% | 2.50% | 2.25% |

The rate of increase of pensions in payment is contractually dependent on the terms of each individual defined benefit arrangement.

## 28. Pension commitments (cont'd)

The assets in the schemes and the expected rates of return used on the schemes were:

### (i) Expected long-term rates of return

| | As at 31 December 2004 | As at 31 December 2003 | As at 31 December 2002 |
|---|---|---|---|
| Equities | **7.00%** | 7.00% | 7.00% |
| Gilts | **5.00%** | 5.00% | 5.00% |
| Corporate Bonds | **5.30%** | 5.40% | 5.50% |
| Cash | **4.00%** | 4.00% | 4.00% |

### (ii) Value of assets in the schemes

| | As at 31 December 2004 | As at 31 December 2003 | As at 31 December 2002 |
|---|---|---|---|
| Equities | **72,932** | 23,201 | 19,748 |
| Gilts | **14,738** | 3,172 | 2,180 |
| Corporate/Overseas Bonds | **5,071** | 3,053 | 2,850 |
| Cash | **2,752** | 229 | 55 |
| Total market value of assets | **95,493** | 29,655 | 24,833 |
| Actuarial value of schemes liabilities | **(113,112)** | (37,453) | (33,364) |
| Deficit in the schemes | **(17,619)** | (7,798) | (8,531) |
| Deferred tax asset on deficit | **5,286** | 2,339 | 2,559 |
| Net pension deficit | **(12,333)** | (5,459) | (5,972) |

### (iii) Analysis of the amount charged to operating profit

| | Group | |
|---|---|---|
| | 2004 £000 | 2003 £000 |
| Current service cost | **1,469** | 1,046 |
| Total operating charge | **1,469** | 1,046 |

### (iv) Analysis of net interest cost on pension scheme

| | Group | |
|---|---|---|
| | 2004 £000 | 2003 £000 |
| Expected return on pension schemes assets | **2,848** | 1,684 |
| Interest on pension liabilities | **(2,858)** | (1,858) |
| Net interest cost on pension schemes | **(10)** | (174) |

### (v) Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")

| | Group | |
|---|---|---|
| | 2004 £000 | 2003 £000 |
| Actual return less expected return on assets | **1,729** | 2,168 |
| Experience gains and losses on liabilities | **499** | 22 |
| Changes in assumptions | **(5,090)** | (1,437) |
| Actuarial (loss)/gain recognised in STRGL | **(2,862)** | 753 |

## 28. Pension commitments (cont'd)

### (vi) Movement in deficit during the year

| | Notes | Group 2004 £000 | 2003 £000 |
|---|---|---|---|
| Deficit in schemes at 1 January | | **(7,798)** | (8,531) |
| Movements in year: | | | |
| Fair value of deficits on acquisition | | **(7,130)** | – |
| Current service costs | 28(iii) | **(1,469)** | (1,046) |
| Contributions | | **1,650** | 1,200 |
| Net interest cost on pension scheme | 28(iv) | **(10)** | (174) |
| Actuarial (loss)/gain | 28(v) | **(2,862)** | 753 |
| Deficit in schemes at 31 December | | **(17,619)** | (7,798) |

### (vii) History of experience gains and losses

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Difference between the expected and actual return on schemes assets:** | | | | | |
| amount (£000) | **1,729** | 2,168 | (9,116) | (5,879) | (1,311) |
| percentage of schemes assets | **2%** | 7% | (37%) | (18%) | (5%) |
| **Experience gains and losses on schemes liabilities:** | | | | | |
| amount (£000) | **499** | 22 | 1,265 | (600) | (768) |
| percentage of the present value of the schemes liabilities | **–%** | –% | 4% | (2%) | (4%) |
| **Total amount recognised in statement of total recognised gains and losses:** | | | | | |
| amount (£000) | **(2,862)** | 753 | (8,012) | (4,904) | (1,716) |
| percentage of the present value of the schemes liabilities | **(3%)** | 2% | (24%) | (16%) | 9% |

## Individual Defined Benefit Obligations

The individual defined benefit arrangements which are included within the group comprise:

**a) The ISIS Asset Management plc Pension Fund (Company and Group)**

The Company continues to operate a defined benefits scheme ("The ISIS Asset Management plc Pension Fund") in the UK which provides benefits based on final pensionable salary. This scheme was closed to new entrants from 31 December 1995. The assets of the scheme are held separately from those of the Company but are managed by the Company. The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the attained age method since the scheme is now closed to new members. The most recent triennial valuation was at 31 March 2002.

The results of the full actuarial valuation carried out at 31 March 2002 was updated to 31 December 2004 by a qualified independent actuary for the purposes of FRS17: Retirement Benefits.

| | |
|---|---|
| Date of last actuarial valuation | 31 March 2002 |
| Scheme Actuary | Mercer Human Resource Consulting Limited |
| Method of valuation | Projected Unit |
| Market value of assets at last valuation date | £31,900,000 |
| Level of funding | 112% |

A contribution schedule was agreed by the Company and trustees in March 2004. The Company has paid contributions of £100,000 per month during 2004. The Company has agreed to pay monthly contributions of at least one-twelfth of the annual amount of 25% of basic salaries until April 2008. These contributions are subject to review at future actuarial valuations, the next one of which is due no later than 31 March 2005.

As the ISIS Asset Management plc Pension Fund is a closed scheme, under the projected unit method the current service cost will tend to increase as a percentage of pensionable salaries as the average age of members increases.

## 28. Pension commitments (cont'd)

The major assumptions used on the scheme by the Actuaries for the purposes of FRS 17 were:

| | As at 31 December 2004 | As at 31 December 2003 | As at 31 December 2002 |
|---|---|---|---|
| Rate of increase in salaries | **4.00%** | 4.00% | 4.00% |
| Rate of increase of pensions in payment (range) | **2.75%-3.50%** | 3.50% | 3.50% |
| Discount rate | **5.30%** | 5.40% | 5.50% |
| Inflation assumption | **2.75%** | 2.50% | 2.25% |

The assets in the scheme and the expected rates of return used on the scheme were:

### a(i) Expected long-term rates of return

| | As at 31 December 2004 | As at 31 December 2003 | As at 31 December 2002 |
|---|---|---|---|
| Equities | **7.00%** | 7.00% | 7.00% |
| Gilts | **5.00%** | 5.00% | 5.00% |
| Corporate Bonds | **5.30%** | 5.40% | 5.50% |
| Cash | **4.00%** | 4.00% | 4.00% |

### a(ii) Value of assets in the scheme

| | As at 31 December 2004 | As at 31 December 2003 | As at 31 December 2002 |
|---|---|---|---|
| Equities | **25,776** | 23,201 | 19,748 |
| Gilts | **4,477** | 3,172 | 2,180 |
| Corporate Bonds | **2,337** | 3,053 | 2,850 |
| Cash | **370** | 229 | 55 |
| Total market value of assets | **32,960** | 29,655 | 24,833 |
| Actuarial value of scheme liabilities | **(42,243)** | (37,453) | (33,364) |
| Deficit in the scheme | **(9,283)** | (7,798) | (8,531) |
| Deferred tax asset on deficit | **2,785** | 2,339 | 2,559 |
| Net pension deficit | **(6,498)** | (5,459) | (5,972) |

### a(iii) Analysis of the amount charged to operating profit

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Current service cost | **958** | 1,046 |
| Total operating charge | **958** | 1,046 |

### a(iv) Analysis of net interest cost on pension scheme

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Expected return on pension scheme assets | **1,992** | 1,684 |
| Interest on pension liabilities | **(2,044)** | (1,858) |
| Net interest cost on pension scheme | **(52)** | (174) |

## 28. Pension commitments (cont'd)

### a(v) Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Actual return less expected return on assets | **260** | 2,168 |
| Experience gains and losses on liabilities | **231** | 22 |
| Changes in assumptions | **(2,166)** | (1,437) |
| Actuarial (loss)/gain recognised in STRGL | **(1,675)** | 753 |

### a(vi) Movement in deficit during the year

| | Notes | 2004 £000 | 2003 £000 |
|---|---|---|---|
| Deficit in scheme at 1 January | | **(7,798)** | (8,531) |
| Movements in year: | | | |
| Current service costs | 28a(iii) | **(958)** | (1,046) |
| Contributions | | **1,200** | 1,200 |
| Net interest cost on pension scheme | 28a(iv) | **(52)** | (174) |
| Actuarial (loss)/gain | 28a(v) | **(1,675)** | 753 |
| Deficit in scheme at 31 December | | **(9,283)** | (7,798) |

### a(vii) History of experience gains and losses

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Difference between the expected and actual return on scheme assets:** | | | | | |
| amount (£000) | **260** | 2,168 | (9,116) | (5,879) | (1,311) |
| percentage of scheme assets | **1%** | 7% | (37%) | (18%) | (5%) |
| **Experience gains and losses on scheme liabilities:** | | | | | |
| amount (£000) | **231** | 22 | 1,265 | (600) | (768) |
| percentage of the present value of the scheme liabilities | **(1%)** | –% | 4% | (2%) | (4%) |
| **Total amount recognised in statement of total recognised gains and losses:** | | | | | |
| amount (£000) | **(1,675)** | 753 | (8,012) | (4,904) | (1,716) |
| percentage of the present value of the scheme liabilities | **(4%)** | 2% | (24%) | (16%) | (9%) |

## 28. Pension commitments (cont'd)

**b) The F&C Pension Plan (Group)**

F&C Management Limited operates a defined benefits scheme ("The F&C Pension Plan") in the UK which provides benefits based on final pensionable salary. This scheme was closed to new entrants from 1 March 2002. The assets of the scheme are held separately from those of the group but are managed by the group. The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the attained age method since the scheme is now closed to new members. The most recent triennial valuation was at 31 March 2003.

| | |
|---|---|
| Date of last actuarial valuation | 31 March 2003 |
| Scheme Actuary | Hewitt, Bacon & Woodrow |
| Method of valuation | Projected Unit |
| Market value of assets at last valuation date | £37,300,000 |
| Level of funding | 63% |

A contribution schedule was agreed by the participating company and trustees in December 2003. The Company has agreed to contribute 22.8% of pensionable salary to the pension fund until June 2007, when a revised schedule of contributions will be agreed.

As the F&C Pension Plan is a closed scheme, under the projected unit method the current service cost will tend to increase as a percentage of pensionable salaries as the average age of members increases.

The major assumptions used on the scheme by the Actuaries for the purposes of FRS 17 were:

| | As at 31 December 2004 | As at 11 October 2004 |
|---|---|---|
| Rate of increase in salaries | **4.00%** | 4.00% |
| Rate of increase of pensions in payment (range) | **2.75%-5.00%** | 2.75%-5.00% |
| Discount rate | **5.30%** | 5.50% |
| Inflation assumption | **2.75%** | 2.75% |

The assets in the scheme and the expected rates of return used on the scheme were:

**b(i) Expected long-term rates of return**

| | As at 31 December 2004 | As at 11 October 2004 |
|---|---|---|
| Equities | **7.00%** | 7.00% |
| Gilts | **5.00%** | 5.00% |
| Corporate/Overseas Bonds | **5.30%** | 5.50% |
| Cash | **4.00%** | 4.00% |

**b(ii) Value of assets in the scheme**

| | As at 31 December 2004 | As at 11 October 2004 |
|---|---|---|
| Equities | **47,156** | 45,710 |
| Gilts | **10,261** | 8,817 |
| Corporate/Overseas Bonds | **2,734** | 2,691 |
| Cash | **2,382** | 2,959 |
| Total market value of assets | **62,533** | 60,177 |
| Actuarial value of scheme liabilities | **(69,104)** | (65,628) |
| Deficit in the scheme | **(6,571)** | (5,451) |
| Deferred tax asset on deficit | **1,971** | 1,635 |
| Net pension deficit | **(4,600)** | (3,816) |

## 28. Pension commitments (cont'd)

**b(iii) Analysis of the amount charged to operating profit**

| | Period 11 October – 31 December 2004 £000 |
|---|---|
| Current service cost | 511 |
| Total operating charge | 511 |

**b(iv) Analysis of net interest return on pension scheme**

| | Period 11 October – 31 December 2004 £000 |
|---|---|
| Expected return on pension scheme assets | 856 |
| Interest on pension liabilities | (791) |
| Net return on pension scheme | 65 |

**b(v) Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")**

| | Period 11 October – 31 December 2004 £000 |
|---|---|
| Actual return less expected return on assets | 1,469 |
| Experience gains and losses on liabilities | 268 |
| Changes in assumptions | (2,861) |
| Actuarial loss recognised in STRGL | (1,124) |

**b(vi) Movement in deficit during the year**

| | Notes | Period 11 October – 31 December 2004 £000 |
|---|---|---|
| Fair value of deficit in scheme at 11 October | | (5,451) |
| Movements in period: | | |
| Current service costs | 28b(iii) | (511) |
| Contributions | | 450 |
| Net return on pension scheme | 28b(iv) | 65 |
| Actuarial loss | 28b(v) | (1,124) |
| Deficit in scheme at 31 December | | (6,571) |

## 28. Pension commitments (cont'd)

### b(vii) History of experience gains and losses

| | Period 11 October – 31 December 2004 |
|---|---|
| **Difference between the expected and actual return on scheme assets:** | |
| amount (£000) | **1,469** |
| percentage of scheme assets | **2%** |
| **Experience gains and losses on scheme liabilities:** | |
| amount (£000) | **268** |
| percentage of the present value of the scheme liabilities | **-%** |
| **Total amount recognised in statement of total recognised gains and losses:** | |
| amount (£000) | **(1,124)** |
| percentage of the present value of the scheme liabilities | **(2%)** |

### c) Mr R W Jenkins unfunded pension liability (Group)

The Chairman of the group, Mr R W Jenkins, was awarded pension benefits by F&C Management Limited prior to completion of the merger in respect of his past service to the F&C Group. The cost of this pension was provided by Eureko through recognition of the pension defict at 11 October 2004 in the Completion Accounts. Mr Jenkins has been awarded a pension of £100,000 per annum, commencing on his 60th birthday. The pension will be indexed in line with the Retail Price index on 1 January each year from the date of completion of the merger. The group has not earmarked any assets to date with respect to this liability.

The actuarial information on the unfunded pension liability at 31 December 2004 has been supplied by Mercer Human Resource Consulting Limited, a qualified independent actuary.

The major assumptions used on the liability by the Actuaries for the purposes of FRS 17 were:

| | As at 31 December 2004 | As at 11 October 2004 |
|---|---|---|
| Rate of increase in salaries | **n/a** | n/a |
| Rate of increase of pensions in payment | **2.75%** | 2.75% |
| Discount rate | **5.30%** | 5.50% |
| Inflation assumption | **2.75%** | 2.75% |

The liability is unfunded and therefore there are no assets in relation to this obligation at 31 December 2004.

### c(ii) Value of liabilities

| | As at 31 December 2004 £000 | As at 11 October 2004 £000 |
|---|---|---|
| Actuarial value of scheme liabilities | **(1,765)** | (1,679) |
| Deficit in the scheme | **(1,765)** | (1,679) |
| Deferred tax asset on deficit | **530** | 504 |
| Net pension deficit | **(1,235)** | (1,175) |

## 28. Pension commitments (cont'd)

### c(iii) Analysis of the amount charged to operating profit

| | Period 11 October – 31 December 2004 £000 |
|---|---|
| Current service cost | – |
| Total operating charge | – |

### c(iv) Analysis of net interest cost on pension scheme

| | Period 11 October – 31 December 2004 £000 |
|---|---|
| Expected return on pension scheme assets | – |
| Interest on pension liabilities | (23) |
| Net interest cost on pension scheme | (23) |

### c(v) Analysis of amount recognised in statement of total recognised gains and losses (''STRGL'')

| | Period 11 October – 31 December 2004 £000 |
|---|---|
| Actual return less expected return on assets | – |
| Experience gains and losses on liabilities | – |
| Changes in assumptions | (63) |
| Actuarial loss recognised in STRGL | (63) |

### c(vi) Movement in deficit during the year

| | Notes | Period 11 October – 31 December 2004 £000 |
|---|---|---|
| Fair value of deficit in scheme at 11 October | | (1,679) |
| Movements in period: | | |
| Net interest cost on pension scheme | 28c(iv) | (23) |
| Actuarial loss | 28c(v) | (63) |
| Deficit in scheme at 31 December | | (1,765) |

## 28. Pension commitments (cont'd)

### c(vii) History of experience gains and losses

| | Period 11 October – 31 December 2004 |
|---|---|
| **Difference between the expected and actual return on scheme assets:** | |
| amount (£000) | – |
| percentage of scheme assets | – |
| **Experience gains and losses on scheme liabilities:** | |
| amount (£000) | – |
| percentage of the present value of the scheme liabilities | – |
| **Total amount recognised in statement of total recognised gains and losses:** | |
| amount (£000) | (63) |
| percentage of the present value of the scheme liabilities | (4%) |

### Multi-employer defined benefit schemes

The group participates in several multi-employer defined benefit schemes in Europe. The following schemes are all defined benefit schemes but the employers are unable to identify their share of the underlying assets and liabilities. The employers are accounting for the contributions to the scheme as if they were defined contribution schemes:

i) F&C Netherlands BV

Employees in The Netherlands participate in the Achmea Pension Plan. At 31 December 2004 the plan had a deficit of £247,030,000 (€349,000,000). The Company contributed £220,000 (€315,000) to the scheme for the period 11 October 2004 to 31 December 2004.

ii) F&C Ireland Limited

Certain staff in Ireland participate in the Friends First Retirement and Death Benefits Plan. At 31 December 2004 the plan had a deficit of £3,469,000 (€4,900,000). The Company contributed £17,000 (€25,000) to the scheme for the period 11 October 2004 to 31 December 2004.

iii) F&C Portugal SA

Certain staff in Portugal participate in the Fundo de Pensões do Grupo Banco Comercial Português/Atlântico pension scheme. At 31 December 2004 the plan had a deficit of £979,000 (€1,383,000). The Company contributed £43,000 (€62,000) to the scheme for the period 11 October 2004 to 31 December 2004.

As a result of the merger of ISIS and F&C, F&C employees in The Netherlands and Ireland will no longer be able to continue to participate in the existing multi-employer plans. It is expected that new pension arrangements will be set up in Ireland and The Netherlands during 2005. When these new schemes are set up there will be a greater certainty in respect of the surpluses or deficits in these schemes attributable to the F&C group. Under the terms of the SPA the group has a contractual protection such that the maximum pension deficit it could inherit upon the set-up of the above plans is €500,000.

## 28. Pension commitments (cont'd)

### Summary of group pension schemes on profit & loss charge

| **Defined benefit pension arrangements** | **2004 £000** | **2003 £000** |
|---|---|---|
| ISIS Asset Management plc Pension Fund: | | |
| Operating charge | **958** | 1,046 |
| Net interest cost on pension scheme | **52** | 174 |
| | **1,010** | 1,220 |
| F&C Pension Plan: | | |
| Operating charge | **511** | – |
| Net interest return on pension scheme | **(65)** | – |
| | **446** | – |
| Mr R W Jenkins pension liability: | | |
| Operating charge | **–** | – |
| Net interest cost on pension scheme | **23** | – |
| | **23** | – |
| **Total profit & loss charge for defined benefit arrangements** | **1,479** | 1,220 |
| **Defined contribution schemes** | | |
| Group personal pension plans | **3,973** | 1,962 |
| Exceptional costs* | **523** | 94 |
| **Total charged to profit & loss account** | **5,975** | 3,276 |

The group had £44,000 pension contributions outstanding as at 31 December 2004 (2003 – £nil).

* The exceptional costs in respect of pensions represent one-off contributions towards enhanced pension costs arising as a result of the redundancy of certain ex-RSA Investments employees, together with payments made in respect of contractual notice periods.

## 29. Financial commitments

The group and Company had at 31 December 2004 the following annual commitments in respect of non-cancellable operating leases and other contracts:

| | **Premises** | | **Other** | |
|---|---|---|---|---|
| | **31 December 2004 £000** | **31 December 2003 £000** | **31 December 2004 £000** | **31 December 2003 £000** |
| **Group** | | | | |
| Commitments expiring within one year | **1,284** | 392 | **13** | – |
| Commitments expiring within two to five years | **232** | – | **341** | 178 |
| Commitments expiring outwith five years | **10,059** | 5,523 | **–** | – |
| | **11,575** | 5,915 | **354** | 178 |
| **Company** | | | | |
| Commitments expiring within one year | **–** | 370 | **–** | – |
| Commitments expiring within two to five years | **–** | – | **27** | – |
| Commitments expiring outwith five years | **1,296** | 3,296 | **–** | – |
| | **1,296** | 3,666 | **27** | – |

The premises financial commitments disclosed above do not include any sub-leasing arrangements which F&C may have in place. The amounts shown reflect gross commitments at the balance sheet dates.

## 30. Capital commitments

The amounts contracted for in terms of capital expenditure, but not provided for in the accounts at 31 December 2004, amount to £1,216,000 (31 December 2003 – £568,000).

## 31. Treasury management and financial instruments

F&C, as a fund management group, requires to have sufficient regulatory capital to meet the capital adequacy requirement of its regulators. F&C, therefore, adopts a low-risk approach to treasury management and financial instruments, endeavouring to ensure that its regulatory capital is managed and preserved appropriately and other financial exposures, to the extent they exist, are managed or hedged where appropriate.

As a result of the merger the group now earns about one quarter of its revenues in Euros. While we do have Euro denominated costs, the net impact is that less than 20 per cent. of our ''net Euro revenues'' (overseas revenues less overseas costs) are exposed to exchange rate fluctuations.

The Board has decided that it will not seek to hedge our revenue account exposure to fluctuations in currency and in particular the Euro/Sterling exchange rate. The group will, however, as a matter of course, seek to repatriate surplus overseas currency back into Sterling. Surplus currency balances are defined as being that level of cash which exceeds our regulatory capital requirements in the respective countries plus the necessary working capital to finance short term expenditure requirements and other business initiatives. This policy will allow the group to efficiently manage our regulatory capital requirements while also incurring the minimum level of risk to exchange rate fluctuations impacting our surplus regulatory capital.

Group treasury operations are managed by the finance function within parameters defined by the Board. The regulatory capital and treasury position of the group is regularly reported to the Board.

The policy is designed to manage risk and recognises that treasury management operations are specifically not treated as a profit centre. The key aspects of this policy and its implementation are detailed below:

The Board Reserved List prohibits the establishment of borrowing facilities without the prior approval of the Board.

Placing of funds on deposit will be short term (maximum term 90 days) to ensure such balances are eligible for inclusion as regulatory capital.

Deposits may only be placed with counterparties approved by the F&C Credit Committee and the Board set the appropriate limit of exposure to any one counterparty.

The Board Reserved List prohibits the use of derivatives including futures, options and forward contracts, in respect of own funds, without prior board approval.

The group has three loans with the Friends Provident group at 31 December 2004. The most significant loan for £180,000,000 is a fixed-rate term loan, which ensures no downside exposure from increases in interest rates, but would result in the group being unable to benefit from decreases in interest rates. This loan was used to fund the RSAI acquisition in 2002. The £50,000,000 floating-rate revolving credit facility is used where necessary to fund the exceptional costs to support integration activities. This facility allows F&C flexibility in its debt capacity. On completion of the F&C acquisition, Friends Provident provided a £25,000,000 subordinated loan. This loan qualifies as regulatory capital and was drawn down to ensure adequate regulatory capital exists during the period in which integration costs are being incurred. A similar £9,000,000 subordinated loan from Eureko was acquired on acquisition in order for Eureko to meet its obligations under the SPA. The ongoing interest costs of servicing these loans requires to be charged to the profit and loss account in each financial year.

## 31. Treasury management and financial instruments (cont'd)

### (i) Interest Rate Risk

**Financial Liabilities:**

(a) Loans

| | 31 December 2004 £000 | 31 December 2003 £000 |
|---|---|---|
| Sterling fixed term loan | **180,000** | 180,000 |
| Sterling revolving credit facility drawn down | **5,000** | 15,000 |
| Sterling subordinated loans | **34,000** | – |
| | **219,000** | 195,000 |

Details of the above loans are shown in note 22.

(b) The interest rate risk profile of non-equity shares is dealt with in note 24.

**Financial Assets:**

The group held the following financial assets at 31 December:

| | 31 December 2004 £000 | 31 December 2003 (as restated) £000 |
|---|---|---|
| **Non-Interest bearing:** | | |
| Fixed asset investments – Sterling | **1,390** | 7 |
| Fixed asset investments – Euros | **5,424** | – |
| Stock of units and shares – Sterling | **556** | 495 |
| | **7,370** | 502 |
| **Interest bearing:** | | |
| Sterling cash and deposits | **90,471** | 25,471 |
| US Dollar cash and deposits | **2,680** | 295 |
| Euro cash and deposits | **44,020** | 4 |
| | **137,171** | 25,770 |
| Total financial assets | **144,541** | 26,272 |

Cash and deposits are placed on short-term maturities up to a maximum of 90 days at the appropriate market rates for the maturity concerned.

### (ii) Currency Risk

The group's objective is to minimise the impact of exchange rate movement by repatriation of excess funds to sterling, subject to ensuring sufficient cash is held in overseas jurisdictions to satisfy our regulatory and other operational requirements.

The following monetary assets and liabilities of the group were exposed to currency movement at 31 December.

| | Net foreign currency monetary assets/(liabilities) | | | | |
|---|---|---|---|---|---|
| **Function currency of Group operations** | **US Dollar £000** | **Euro £000** | **Yen £000** | **Hong Kong Dollar £000** | **Total £000** |
| **2004 Sterling** | 2,946 | 60,623 | 44 | – | 63,613 |
| 2003 Sterling | 353 | 473 | 79 | 74 | 979 |

## 31. Treasury management and financial instruments (cont'd)

### (iii) Maturity of Financial Liabilities

The profile of the group's financial liabilities (loans) at 31 December was as follows:

| | 31 December 2004 £000 | 31 December 2003 £000 |
|---|---|---|
| In one year or less, or on demand | **5,000** | 15,000 |
| In more than one, but not more than two years | **180,000** | – |
| In more than two, but not more than five years | **34,000** | 180,000 |
| In more than five years | **–** | – |
| | **219,000** | 195,000 |

Details of the loans are shown in note 22.

### (iv) Borrowing Facilities

The group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December in each year in respect of which all conditions precedent had been met at that date are as follows:

| | 31 December 2004 £000 | 31 December 2003 £000 |
|---|---|---|
| Expiring in one year or less: | | |
| Revolving credit facility with Friends Provident | **45,000** | 35,000 |
| Bank overdraft facilities | **6,100** | 1,100 |
| | **51,100** | 36,100 |

### (v) Fair Values

Set out below is a comparison by category of book values and fair values of all the group's financial assets, financial liabilities and non-equity shares as at 31 December:

| | 31 December 2004 | | 31 December 2003 | |
|---|---|---|---|---|
| | Book Value £000 | Fair Value £000 | Book Value £000 | Fair Value £000 |
| Fixed asset investments | **6,814** | **14,925** | 7 | 637 |
| Stock of units and shares | **556** | **556** | 495 | 495 |
| Cash and short-term deposits | **137,171** | **137,171** | 25,770 | 25,770 |
| Subordinated loans | **(34,000)** | **(34,000)** | – | – |
| Revolving credit facility | **(5,000)** | **(5,000)** | (15,000) | (14,250) |
| Term loan | **(180,000)** | **(181,500)** | (180,000) | (171,000) |
| Provision for onerous leases | **(8,237)** | **(8,237)** | (3,570) | (3,570) |
| Provision for NIC on Share Options | **(330)** | **(330)** | (56) | (56) |
| Provision for guaranteed products | **(457)** | **(457)** | – | – |
| Non-equity shares | **(800)** | **(800)** | (390) | (312) |
| | **(84,283)** | **(77,672)** | (172,744) | (162,286) |

The fair value of listed investments are included at quoted market values.

The fair value of unlisted fixed asset investments have been valued in accordance with British Venture Capital Association Guidelines and in accordance with the underlying Limited Partnership agreements.

Stock of units and shares is valued at the lower of cost and net realisable value.

The provision for guaranteed products has been actuarially calculated using the deterministic valuation model.

## 31. Treasury management and financial instruments (cont'd)

Non-equity shares, loans and revolving credit facilities have been valued at directors' estimates, having regard to the lack of liquidity of the assets and liabilities and considering the extent, or otherwise, of similar issues available in the market.

All other assets and liabilities have been valued at book value on the basis that the book value and fair value are not materially different.

Short-term debtors and creditors have been excluded from the disclosures in this note with the exception of 31(ii) Currency Risk which is required by FRS13 Derivatives and other Financial Instruments: Disclosures.

## 32. Related party transactions

During the year, the group had the following transactions with related parties.

**Caledonia Investments plc**

Sir David Kinloch's fees as Chairman of the Company were paid to Caledonia Investments plc.

| | 2004 £000 | 2003 £000 |
|---|---|---|
| Fees | 57 | 68 |

**Friends Provident plc Shared Services Agreement**

Companies within the Friends Provident group provide, under the Shared Services Agreement, services in respect of accounting, investment accounting and other professional services. These services are paid for at an hourly rate equal to 125% of 150% of the relevant prevailing annual direct staff costs divided by 1,750.

Friends Provident is also providing services reasonably required by the Company at cost. Fees are paid monthly in arrears. The Shared Services Agreement is terminable on six months' written notice by either party.

| | Total invoiced and accrued during the year ended 31 December 2004 £000 | Outstanding at 31 December 2004 £000 | Total invoiced and accrued during the year ended 31 December 2003 £000 | Outstanding at 31 December 2003 £000 |
|---|---|---|---|---|
| **Shared services and administration services** | | | | |
| Shared service invoices billed and accrued by Friends Provident during the year | 841 | 58 | 689 | 6 |
| Administration service invoices billed and accrued by Friends Provident during the year | 1,296 | 381 | 3,023 | 493 |
| The total amount outstanding at 31 December 2004 is included within accruals. | | | | |
| **Management Fees** | | | | |
| Management fees invoiced to Friends Provident during the year | 35,430 | 534 | 30,248 | 4,197 |
| The amount outstanding at 31 December 2004 is included within trade debtors and accrued income. | | | | |
| **Other Recharges** | | | | |
| Other Recharges to Friends Provident during the year | 205 | (339) | 1,182 | 117 |
| The amount outstanding at 31 December 2004 is included within trade debtors. | | | | |
| Other Recharges from Friends Provident during the year. | 58 | – | 1,478 | – |
| The amount outstanding at 31 December 2004 is included within accruals. | | | | |
| Other recharges includes charges made to or from Friends Provident group for premises, staff costs and other related expenditure. | | | | |

## 32. Related party transactions (cont'd)

### Non-Executive directors' fees

The Non-Executive Directors' fees of K Satchell and B W Sweetland are paid to Friends Provident.

| | 2004 £000 | 2003 £000 |
|---|---|---|
| K Satchell | **26** | 26 |
| B W Sweetland | **26** | 31 |
| | **52** | 57 |

### Inter-company balances with Friends Provident group

At 31 December 2004, the group owed £2,405,000 (2003 – £2,194,000) to Friends Provident and its subsidiaries.

### Loans due to Friends Provident

The following loans were due to the Friends Provident group at 31 December (note 22):

| | 31 December 2004 £000 | 31 December 2003 £000 |
|---|---|---|
| Friends Provident Life and Pensions Limited | **205,000** | 180,000 |
| Friends Provident plc | **5,000** | 15,000 |
| | **210,000** | 195,000 |

Interest on these loans is shown in note 9.

### Related party transactions with Eureko B.V.

Following the acquisition of F&C Group (Holdings) Limited, Eureko holds in excess of 20% of the ordinary shares of the enlarged group and is entitled to Board representation. Consequently, transactions between the group and Eureko and its subsidiary companies are considered to be related party transactions for the period from 10 October 2004.

| | Total invoiced and accrued during the period ended 31 December 2004 £000 | Outstanding at 31 December 2004 £000 |
|---|---|---|
| **Shared services and administrative services received from:** | | |
| Friends First | **18** | 83 |
| BCP | **51** | 14 |
| Achmea Group | **–** | 141 |
| The amount outstanding at the year-end is included within trade creditors and accruals | | |
| **Management Fees** | | |
| Management fees invoiced and accrued by the group during the period | | |
| Achmea Group | **13,227** | 6,586 |
| Friends First | **563** | 829 |
| BCP | **7,462** | 2,663 |
| Imperio | **207** | 123 |
| Interamerican | **107** | 30 |
| The amount outstanding at the year-end is included within trade debtors and accrued income | | |

### Subordinated loan due to Eureko B.V.

At the year-end, the group had a subordinated loan of £9,000,000 with Eureko B.V. (note 22). Interest on this loan is shown in note 9 and the amount outstanding at the year-end is included within accruals.

### Amounts owed to Eureko

At 31 December 2004, the group owed £316,000 (2003 – £nil) to Eureko B.V. and its subsidiaries.

## 33. Subsidiary undertakings

| | Percentage interest and voting rights | Country of registration or incorporation | Nature of business |
|---|---|---|---|
| **(i) United Kingdom** | | | |
| FP Asset Management Holdings Limited(1) | 100 | England | Holding company |
| F&C Asset Managers Limited (formerly ISIS Asset Managers Limited)(3) | 100 | England | Investment management |
| FP Fund Managers Limited(3) | 100 | England | Investment management |
| F&C Property Asset Management plc (formerly ISIS Property Asset Management plc)(3) | 100 | England | Property investment management |
| ISIS Investment Manager plc(1) | 100 | England | Investment management |
| ISIS Equity Partners Holdings Limited(1) | 100 | England | Holding company |
| ISIS Equity Partners plc(2) | 100 | England | Private Equity investment management |
| ISIS Equity Partners GP Limited(6) | 100 | England | Private Equity general partner |
| ISIS Equity Partners Founder Partner Limited(6) | 100 | England | Private Equity founder partner |
| ISIS Investment Trusts Business Limited (formerly Ivory & Sime TrustLink Limited)(1) | 100 | Scotland | Investment Trust management |
| F&C Property Services Limited (formerly Friends Ivory & Sime Portfolio Management Limited)(1) | 100 | England | Investment management |
| London and Manchester Property Asset Management Limited(1) | 100 | England | Property investment management |
| Friends' Provident Unit Trust Managers Limited(1) | 100 | England | OEIC investment management |
| F&C Managed Pension Funds Limited (formerly ISIS Managed Pension Funds Limited)(1) | 100 | England | Insurance management |
| F&C Asset Management Services Limited (formerly ISIS Asset Management Services Limited)(1) | 100 | England | Employee service company |
| F&C Treasury Limited (formerly ISIS Treasury Limited)(1) | 100 | England | Treasury management company |
| WAM Holdings Limited(4) | 100 | England | Holding company |
| ISIS Investment Management Limited(5) | 100 | England | Investment management |
| F&C Property Investments Limited (formerly ISIS Property Investments Limited)(5) | 100 | England | Property investment management |
| F&C Fund Management Limited (formerly ISIS Fund Management Limited)(5) | 100 | England | OEIC investment management |
| F&C Group ESOP Trustee Limited (formerly ISIS Group ESOP Trustee Limited)(1) | 100 | Scotland | ESOP Trustee |
| F&C AIM VCT Fund Management Limited (formerly ISIS Aim VCT Fund Management Limited)(1) | 100 | England | Investment management |
| Baronsmead Fund Management Limited(6)(a) | 100 | England | Investment management |
| Baronsmead Fund Management 2 Limited(6)(b) | 100 | England | Investment management |
| F&C Group (Holdings) Limited(1) | 100 | England | Holding company |
| F&C Alternative Investments (Holdings) Limited(7) | 100 | England | Holding company |
| F&C Partners LLP(8) | 60 | England | Hedge investment management |
| F&C Group Management Limited (formerly Primrose Street Holdings Limited)(7) | 100 | England | Holding company |
| F&C Holdings Limited(9) | 100 | England | Holding company |
| F&C (CI) Limited(10) | 100 | England | Investment company |
| F&C Private Equity Nominees Limited(11) | 100 | England | Investment company |
| F&C Investment Services Limited(10) | 100 | England | Investment management |
| F&C Management Limited(10) | 100 | England | Investment management |
| Cerebys Limited(12) | 100 | England | Derivative investment management |
| F&C Unit Management Limited(12) | 100 | England | OEIC investment management |
| FCEM Holdings (UK) Limited(12) | 100 | England | Holding company |
| F&C Emerging Markets Limited(13) | 100 | England | Investment management |
| F&C Property Investment Management Limited(10) | 100 | England | Property Investment management |

## 33. Subsidiary undertakings (cont'd)

| | Percentage interest and voting rights | Country of registration or incorporation | Nature of business |
|---|---|---|---|
| **(ii) Overseas** | | | |
| Friends Ivory & Sime North America, Inc.[(3)] | 100 | USA | Holding company |
| Ivory & Sime (Bermuda) Limited[(1)] | 100 | Bermuda | Investment management |
| Ivory & Sime (Japan) KK[(1)] | 100 | Japan | Investment management |
| F&C Ireland Limited[(7)] | 100 | Ireland | Investment management |
| F&C Netherlands B.V.[(7)] | 100 | Netherlands | Investment management |
| AF – Investimentos Internacional S.A.[(7)] | 100 | Luxembourg | Investment management |
| F&C Portugal Gestao de Patrimonios S.A.[(7)] | 100 | Portugal | Investment management |
| F&C Channel Islands Limited[(12)] | 100 | Jersey | Employee services company |
| F&C Management (Jersey) Limited[(12)] | 100 | Jersey | Investment management |
| F&C Emerging Markets (India) Limited[(14)] | 100 | Mauritius | Investment management |

(1) Owned by F&C Asset Management plc

(2) Owned by ISIS Equity Partners Holdings Limited

(3) Owned by FP Asset Management Holdings Limited

(4) Owned by F&C Treasury Limited

(5) Owned by WAM Holdings Limited

(6) Owned by ISIS Equity Partners plc

(7) Owned by F&C Group (Holdings) Limited

(8) Owned by F&C Alternative Investments (Holdings) Limited

(9) Owned by F&C Group Management Limited

(10) Owned by F&C Holdings Limited

(11) Owned by F&C (CI) Limited

(12) Owned by F&C Management Limited

(13) Owned by FCEM Holdings (UK) Limited

(14) Owned by F&C Emerging Markets Limited

The above information has been supplied only for undertakings principally affecting the results or assets of the group.

(a) This subsidiary has an accounting date of 30 September, necessitated by alignment to the underlying client's year-end.

(b) This subsidiary has an accounting date of 31 March, necessitated by alignment to the underlying client's year-end.

## 34. Limited Partnerships

The group operated eight Private Equity Limited Partnerships during the year. The group manages these investments and is a general partner in these Partnerships. The Partnerships are deemed to be subsidiaries of the general partner by virtue of control; however, the Directors do not consider it appropriate to consolidate the results of the Limited Partnerships in the group accounts of F&C Asset Management plc as the group's rights are held in a fiduciary capacity. This treatment does not comply with FRS 2: Accounting for Subsidiary Undertakings or the Companies Act 1985. The Directors believe that the substance of the general partner's capacity makes it appropriate to invoke this true and fair override.

Had these partnerships been consolidated the effect on the group balance sheet would have been as follows:

| | 31 December 2004 £000 | 31 December 2003 £000 |
|---|---|---|
| Investments | **(5)** | (5) |
| Net Assets | **85,393** | 52,795 |
| Minority Interest | **(85,388)** | (52,790) |

At 31 December 2004 the F&C group owed the Limited Partnerships £290,000 (2003 – £234,000). At 31 December 2004 the Limited Partnerships owed the F&C group £1,017,000 (2003 – £1,045,000).

Group companies have invested or made commitments to Limited Partnerships. These investments represented the following proportions of the total commitments of all investors in the Partnerships:

| Partnership | Proportion of total commitments |
|---|---|
| ISIS II 1999 L.P. | less than 0.01% |
| ISIS II 2000 L.P. | less than 0.01% |
| ISIS II 2001 L.P. | less than 0.01% |
| ISIS II 2002 L.P. | less than 0.01% |
| ISIS Equity Partners III L.P. | less than 0.01% |
| ISIS II 2001 GMBH & Co. KG | less than 0.01% |
| ISIS II 2002 GMBH & Co. KG | less than 0.01% |
| ISIS Equity Partners III GMBH & Co. BETEILIGUNGS KG | less than 0.01% |

During the year the group received a profit share of £3,685,000 (2003 – £4,023,000) from these activities.

## 35. Contingent Liabilities

### (a) Shareholding in Primrose Street Holdings Limited

In December 2000, when Eureko agreed to acquire 90 per cent. of the issued share capital of F&C Group (Holdings) Limited from Hypo Vereins-Bank, approximately 73 per cent. of the ordinary issued shares of F&C Group Management Limited (formerly Primrose Street Holdings Limited), a subsidiary company, were held in the form of two bearer share warrants which could not be located prior to the completion of the sale (the ''old Share Warrants''). Eureko was indemnified by F&C Group (Holdings) Limited against any losses suffered as a result of the loss of the old Share Warrants or the issue of replacement share warrants.

Since a bearer share warrant issued by a company entitles the bearer to the shares specified in the share warrant, there is a risk that a third party holding the old Share Warrants may claim that it is entitled to the specified shares in F&C Group Management Limited. If a third party were successful in establishing a claim in relation to the old Share Warrants, F&C Group (Holdings) Limited could be liable to indemnify F&C Group Management Limited under the original indemnity arrangements, which could, as set out below, have a material adverse effect on the F&C Asset Management Group's business, results of operations and/or financial condition.

## 35. Contingent Liabilities (cont'd)

Although there is a possibility that a third party may seek to establish that it is entitled to the shares specified in the old Share Warrants, the Directors have been informed that Eureko has been advised that the prospect of a third party succeeding in such a claim is remote.

Under the terms of the SPA, Eureko Holdings has given a specific indemnity (guaranteed by Eureko) to F&C Asset Management plc in respect of losses arising in relation to the lost share warrants to bearer in F&C Group Management Limited (including in respect of the indemnity granted by F&C Group (Holdings) Limited to F&C Group Management Limited) which is capped at approximately £432 million.

**(b) UK VAT Tribunal case**

In a current UK VAT Tribunal appeal, a UK investment trust is seeking to establish that management services to UK investment trusts should be a VAT exempt supply, rather than a taxable supply in accordance with current UK VAT law. If this appeal were successful at the higher UK or European courts, a number of group companies, in common with other relevant fund managers in the UK, would face claims from those investment trusts to which they have supplied services for repayment of the VAT they have charged to them. The AITC (a party to the above litigation) has indicated that it believes claims dating back as far as 1990 may be lodged with fund managers by investment trusts. Companies in the F&C group can submit repayment claims to Customs and Excise, but only dating back as far as 2001. The group has begun to receive protective claims from a number of its investment trust clients and has lodged protective claims with Customs and Excise. At present, the Directors are not able to judge the likelihood that the VAT Tribunal appeal will be successful, nor are they able to quantify the claims that may be received or the extent to which such claims could be mitigated and therefore, are not able to quantify the potential liability.

## 36. Capital Adequacy Directive

As discussed in detail on page 27 of the Report of the Directors, the group is not subject to regulatory consolidated capital requirements.

## 37. Parent undertaking and controlling party

In the opinion of the Directors, the Company's ultimate parent undertaking and controlling party is Friends Provident plc. Friends Provident plc is incorporated in England and Wales. Copies of the Group Report and Accounts can be obtained from the Company Secretary, Pixham End, Dorking, Surrey RH4 1QA.

# Five Year Record

| Group profit and loss accounts | Year-ended 31 December 2000* £000 | Year-ended 31 December 2001* £000 | Year-ended 31 December 2002 £000 | Year-ended 31 December 2003† £000 | Year-ended 31 December 2004 £000 |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| Group and share of joint venture | 75,308 | 87,151 | 90,041 | 110,629 | **153,239** |
| Share of joint venture | (800) | (941) | (721) | – | **–** |
| Group turnover | 74,508 | 86,210 | 89,320 | 110,629 | **153,239** |
| Selling expenses | (3,167) | (2,695) | (1,744) | (2,735) | **(4,066)** |
| **Net revenue** | 71,341 | 83,515 | 87,576 | 107,894 | **149,173** |
| Administrative expenses | | | | | |
| Expenses, excluding amortisation of goodwill and Reinvestment Plan costs | (45,505) | (61,236) | (64,101) | (73,513) | **(96,075)** |
| Reinvestment Plan costs | – | – | – | – | **(4,583)** |
| Amortisation of goodwill | (1,985) | (7,145) | (15,280) | (22,153) | **(33,739)** |
| Total administrative expenses | (47,490) | (68,381) | (79,381) | (95,666) | **(134,397)** |
| Other operating income | – | 1,665 | 1,241 | 1,081 | **699** |
| **Group operating profit** | 23,851 | 16,799 | 9,436 | 13,309 | **15,475** |
| Share of operating loss in joint venture | (280) | (212) | (33) | (15) | **–** |
| Total operating profits of the group and share of joint venture | 23,571 | 16,587 | 9,403 | 13,294 | **15,475** |
| Exceptional costs | – | (2,268) | (19,169) | (12,334) | **(19,264)** |
| (Loss)/gain on disposal of subsidiary undertaking | – | (170) | – | 1,000 | **–** |
| Other finance income/(expenditure) | 724 | 510 | 351 | (174) | **(10)** |
| Interest and investment income receivable | 2,045 | 3,179 | 2,473 | 1,006 | **2,223** |
| Interest payable | (1,490) | (260) | (5,924) | (11,359) | **(12,222)** |
| **Profit/(loss) on ordinary activities before taxation** | 24,850 | 17,578 | (12,866) | (8,567) | **(13,798)** |
| Tax on profit/(loss) on ordinary activities | (7,774) | (7,015) | (286) | (3,154) | **(5,613)** |
| **Profit/(loss) on ordinary activities after taxation** | 17,076 | 10,563 | (13,152) | (11,721) | **(19,411)** |
| Dividend on Cumulative Preference Shares | (33) | (30) | (26) | (19) | **(32)** |
| **Profit/(loss) attributable to ordinary shareholders** | 17,043 | 10,533 | (13,178) | (11,740) | **(19,443)** |
| Interim dividend | (4,687) | (5,980) | (5,996) | (5,994) | **(5,993)** |
| Final dividend | (8,210) | (10,470) | (10,494) | (10,485) | **(32,916)** |
| Transferred to/(from) reserves | 4,146 | (5,917) | (29,668) | (28,219) | **(58,352)** |
| Earnings per Ordinary Share before amortisation of goodwill, gain on disposal of subsidiary undertaking and exceptional costs | 16.25p | 13.57p | 10.36p | 12.04p | **13.99p** |
| Earnings/(loss) per Ordinary Share | 14.55p | 7.30p | (8.80)p | (7.83)p | **(8.78)p** |
| Diluted earnings/(loss) per Ordinary Share | 14.54p | 7.30p | (8.80)p | (7.83)p | **(8.77)p** |
| **Dividend** | | | | | |
| Interim dividend per Ordinary Share | 4.00p | 4.00p | 4.00p | 4.00p | **4.00p** |
| Final dividend per Ordinary Share | 7.00p | 7.00p | 7.00p | 7.00p | **7.00p** |
| | 11.00p | 11.00p | 11.00p | 11.00p | **11.00p** |
| **Dividend cover** | 1.32 | 0.64 | (0.80) | (0.71) | **(0.50)** |
| Dividend cover before amortisation of goodwill, gain on disposal of subsidiary undertaking and exceptional costs | 1.48 | 1.19 | 0.94 | 1.10 | **0.80** |

* The accounts for the years ended 31 December 1999 and 31 December 2000 were restated in 2001 to comply with FRS17: Retirement Benefits.

† The accounts for the year ended 31 December 2003 have been restated in order to comply with UITF 38 ''Accounting for ESOP Trusts''.

# Notice of Annual General Meeting

Notice is hereby given that the twenty-fifth Annual General Meeting of F&C Asset Management plc will be held at Butchers Hall, 87 Bartholomew Close, London EC1 on Tuesday 26 April 2005 at 12 noon for the following purposes:

## Ordinary Business

To be proposed as ordinary resolutions:

1. To receive the Accounts and the Reports of the Directors and the Independent Auditors for the year ended 31 December 2004.
2. To declare a final dividend of 7.0 pence per share on the ordinary shares of the Company.
3. Elect Robert Jenkins, who retires at the first Annual General Meeting following his appointment, as a Director.
4. Elect Dick de Beus, who retires at the first Annual General Meeting following his appointment, as a Director.
5. Elect Alain Grisay, who retires at the first Annual General Meeting following his appointment, as a Director.
6. Elect John Heywood, who retires at the first Annual General Meeting following his appointment, as a Director.
7. Elect Brian Larcombe, who retires at the first Annual General Meeting following his appointment, as a Director.
8. Elect Karen McPherson, who retires at the first Annual General Meeting following her appointment, as a Director.
9. Elect Jeff Medlock, who retires at the first Annual General Meeting following his appointment, as a Director.
10. Elect Philip Moore, who retires at the first Annual General Meeting following his appointment, as a Director.
11. Re-elect Keith Bedell-Pearce, who retires by rotation, as a Director.
12. Re-elect Ian Paterson Brown, who retires by rotation, as a Director.
13. To approve the Directors' Remuneration Report for the year ended 31 December 2004.
14. Re-appoint Ernst & Young LLP as auditors to the Company to hold office until the conclusion of the next General Meeting at which accounts are laid before the Company and to authorise the Directors to determine their remuneration.

## Special Business

To be proposed as an ordinary resolution:

15. Re-approve and renew the authorisation of the terms of the Relationship Agreement between the Company and Friends Provident plc dated 4 October 2004, such approval and renewal to expire on 25 April 2006 subject to future renewal, pursuant to the terms of paragraph 9.21 of the Listing Rules of the UK Listing Authority.

To be proposed as an ordinary resolution:

16. THAT, in substitution for any existing authority under section 80 of the Companies Act 1985 (the "Act"), but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and they are hereby generally and unconditionally authorised, pursuant to section 80 of the Act, to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £156,901.708, such authority to expire on 25 April 2010, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors of the Company may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.

To be proposed as a special resolution:

17. THAT, in substitution for any existing power under section 95 of the Companies Act 1985 (the ''Act''), but without prejudice to the exercise of any such existing power prior to the date hereof, the Directors of the Company be and are hereby empowered, pursuant to section 95(1) of the Act, (a) to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority under section 80 of the Act conferred on the Directors of the company and contained in resolution 16 as set out in the notice convening the Annual General Meeting of the Company at which this resolution is proposed and (b) sell relevant shares (as defined in section 94(5) of the Act) in the Company if immediately before the sale, such shares are held by the Company as treasury shares (as defined in section 162A(3) of the Act) (''treasury shares'') for cash (as defined in section 162D(2) of the Act), in each case as if section 89(1) of the Act did not apply to any such allotment or sale, up to an aggregate nominal amount of £156,901.708, such power to expire on 25 July 2006 or the conclusion of the next Annual General Meeting of the Company to be held in 2006 whichever is the earlier, unless previously revoked, varied or extended by the Company in general meeting, provided that such power shall be limited to the allotment of equity securities and the sale of treasury shares:

    (i) in accordance with the terms of the Relationship Agreement between the Company and Friends Provident plc dated 4 October 2004, provided that resolution 15 relating to the re-approval and renewal of such Relationship Agreement as set out in the notice convening the Annual General Meeting of the Company at which this resolution is proposed is passed;

    (ii) pursuant to the terms of any share scheme for employees approved by the members in general meeting and any shares acquired or held by the Company in treasury which may be transferred in satisfaction of the exercise of options or awards under any of the Company's share incentive schemes;

    (iii) in connection with an offer of equity securities open for acceptance for a period fixed by the Directors of the Company to the holders of ordinary shares in the share capital of the Company on a fixed record date in proportion (as nearly as practicable) to their respective holdings of such ordinary shares (but subject to such exclusions or other arrangements as the Directors of the Company may consider necessary or expedient to deal with legal problems under or resulting from the application or apparent application of the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever); and

    (iv) other than pursuant to sub-paragraphs (i), (ii) and (iii) of this resolution, up to an aggregate nominal amount of £24,134.839;

    save that the Company may, at any time prior to the expiry of such power, make an offer or enter into an agreement which would or might require equity securities to be allotted or treasury shares to be sold after the expiry of such power and the Directors of the Company may allot equity securities or sell treasury shares in pursuance of such an offer or agreement as if such power had not expired.

To be proposed as a special resolution:

18. THAT, in substitution for any existing power under section 166 of the Companies Act 1985 (the ''Act''), but without prejudice to the exercise of any such power prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 166 of the Act, to make market purchases (within the meaning of section 163(3) of the Act) of fully paid ordinary shares of 0.1 pence each in the capital of the Company (''ordinary shares''), provided that:

(i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 10 per cent. of the issued ordinary share capital of the Company (excluding treasury shares as defined in section 162A(3) of the Act) as at the date of the passing of this resolution;

(ii) the minimum price which may be paid for an ordinary share is 0.1 pence (exclusive of expenses); and

(iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share is an amount equal to 105 per cent. of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the ordinary shares for the five business days immediately preceding the date of purchase;

such authority to expire on the earlier of 25 October 2006 or at the conclusion of the Annual General Meeting of the Company to be held in 2006, unless previously revoked, varied or renewed by the Company in general meeting, save that the Company may at any time prior to the expiry of such authority enter into a contract or contracts to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By order of the Board

W Marrack Tonkin, FCCA
*Secretary*

80 George Street
Edinburgh EH2 3BU
16 March 2005

Notes

(i) A member who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.

(ii) A Form of Proxy for use by Ordinary Shareholders in connection with the meeting is enclosed with these Accounts. To be valid, the Form of Proxy should be completed and sent, together with any power of attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or authority, so as to reach the Company's registrars, at the address stated thereon, not later than 12 noon on 24 April 2005.

(iii) The Company has made provision for shareholders who would like to lodge their proxy electronically, details of how to lodge a proxy electronically are set out on page 28.

(iv) Completing and returning a Form of Proxy will not prevent an Ordinary Shareholder from attending in person at the meeting referred to above and voting should he or she wish to do so.

(v) The Register of the Directors' and their families' interests in the Company's shares and a copy of the contract of service of each of the Directors of the Company will be available for inspection at the registered office of the Company during normal business hours on any week day (Bank Holidays excepted) from the date of this Notice until the date of the meeting, and at the place of the meeting from 15 minutes prior to and during the continuance of the meeting.

(vi) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Ordinary Shareholders entered on the Register of Members of the Company as at 6.00 pm on 24 April 2005 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to the entries on the Register of Members after 6.00 pm on 24 April 2005 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.

# Corporate Information

## Directors

Robert Jenkins, Chairman‡
Christopher Jemmett, Deputy Chairman and
Senior Independent Non-Executive†
Howard Carter, Chief Executive
Dick de Beus, Non-Executive‡
Keith Bedell-Pearce, Non-Executive*†
David Gray, Non-Executive†‡
Alain Grisay, Executive
John Heywood, Non-Executive*†
Kenneth Inglis, Non-Executive*
Brian Larcombe, Non-Executive*
Karen McPherson, Non-Executive*‡
Jeff Medlock, Non-Executive
Philip Moore, Non-Executive
Ian Paterson Brown, Executive
Keith Satchell, Non-Executive‡

* Member of Remuneration Committee
† Member of Audit & Compliance Committee
‡ Member of Nomination Committee

## Head Office

Exchange House
Primrose Street
London
EC2A 2NY

| | |
|---|---|
| Telephone | 020 7628 8000 |
| Facsimile | 020 7628 8188 |

Email: enquiries@fandc.com

## Secretary and Registered Office

W Marrack Tonkin, FCCA
80 George Street
Edinburgh
EH2 3BU

| | |
|---|---|
| Telephone | 0131 465 1000 |
| Facsimile | 0131 225 2375 |

## Solicitors

Shepherd+ Wedderburn
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2ET

## Principal Bankers

The Royal Bank of Scotland plc
142-144 Princes Street
Edinburgh
EH2 4EQ

## Stockbrokers

Cazenove & Co
20 Moorgate
London
EC2R 6DA

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London
EC1A 1HQ

## Auditors

Ernst & Young LLP
Ten George Street
Edinburgh
EH2 2DZ

## Registrar and Transfer Offices

Lloyds TSB Registrars
PO Box 28448
Finance House
Orchard Brae
Edinburgh
EH4 1WQ

## Corporate information

F&C Asset Management plc is regulated by the Financial Services Authority

## Website

Shareholders are encouraged to visit our website www.fandc.com