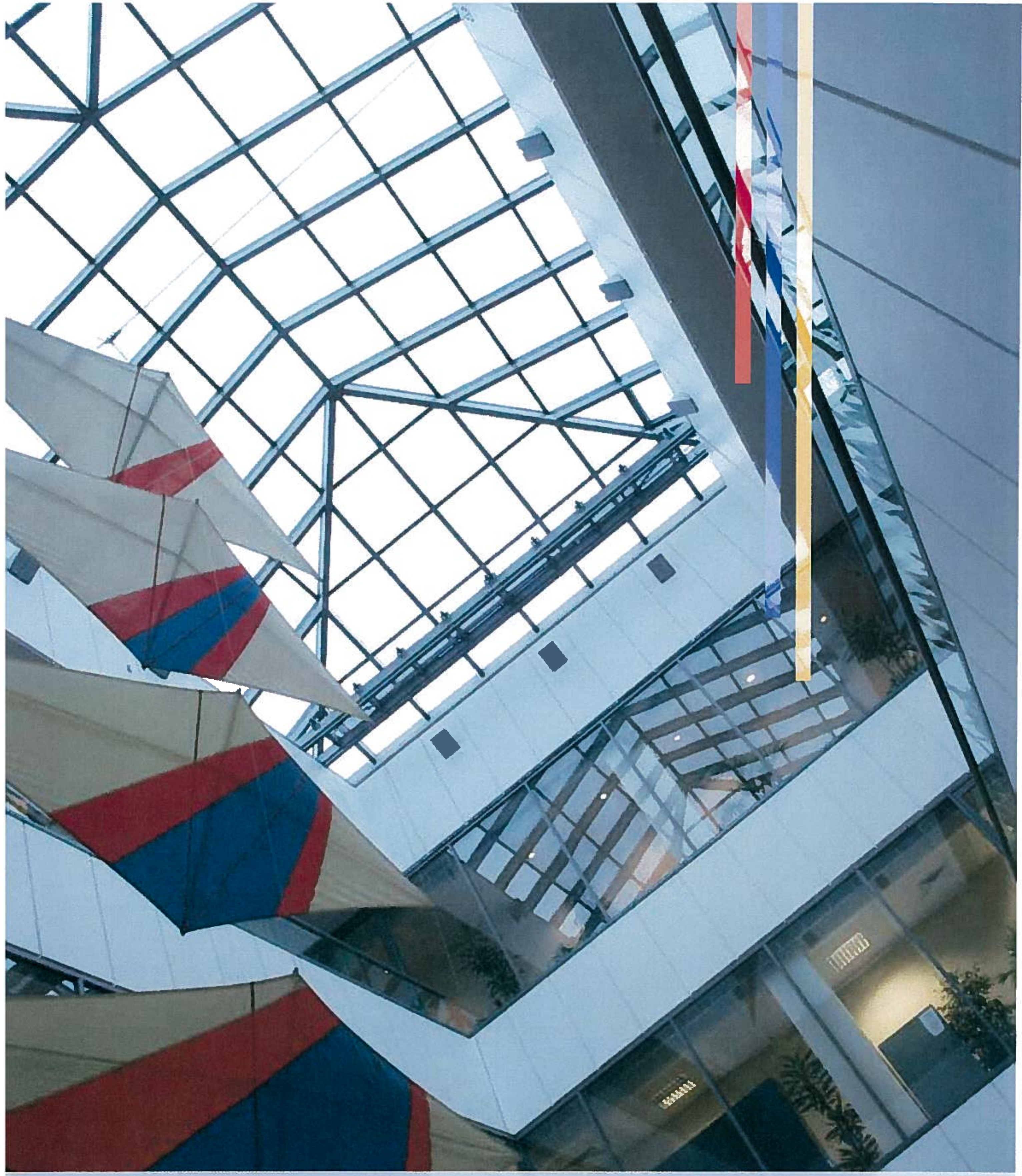
F&C Asset Management plc

Annual Report & Financial Statements 2007

Expect excellence



Forward-looking statements

This Annual Report and Financial Statements may contain certain "forward-looking statements" with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", "seeks" and "anticipates", and words of similar meaning, are forward-looking.

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation and deflation; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which the Group operates.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in the Group's forward-looking statements. F&C undertakes no obligation to update the forward-looking statements contained in this Annual Report and Financial Statements. Nothing in this publication should be considered as a profit forecast.

Contents

3	Key Highlights of 2007
4	Chairman's Statement
6	Chief Executive's Report
10	Business Review
24	Directors
28	Report of the Directors
34	Directors' Report on Corporate Governance
41	Directors' Remuneration Report
50	Statement of Directors' Responsibilities
51	Independent Auditor's Report
52	Consolidated Income Statement
53	Consolidated Balance Sheet
54	Consolidated Statement of Recognised Income and Expense
55	Consolidated Cash Flow Statement
56	Accounting Policies
66	Notes to the Consolidated Financial Statements
142	Five Year Record
145	Company Balance Sheet
146	Company Accounting Policies
151	Notes to the Company Financial Statements
164	Notice of Annual General Meeting
167	Corporate Information

Definitions

"F&C, FCAM, Group or Company" F&C Asset Management plc and its subsidiaries

"FP" Friends Provident plc, the Company's ultimate parent undertaking

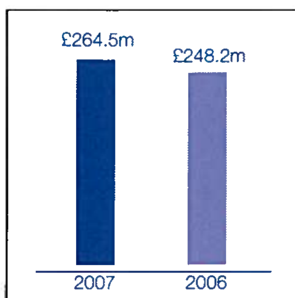
"F&CGH" F&C Group (Holdings) Limited and its subsidiaries

Trusted for over a century

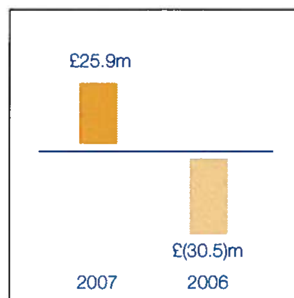
Key Highlights of 2007

"Asset management is a service industry, our business philosophy is to excel in everything that our clients expect from us... this straightforward view has been embedded as the cornerstone of our corporate culture"...

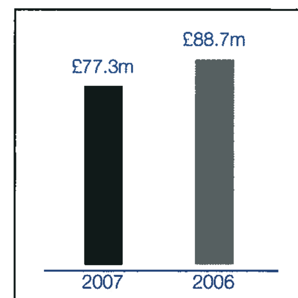
Net revenue†



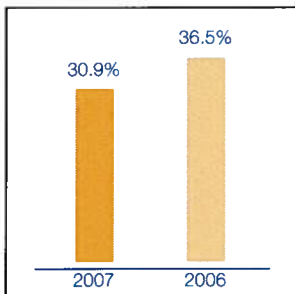
Profit/(loss) before tax



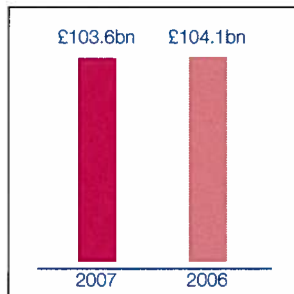
Underlying profit before taxation*‡



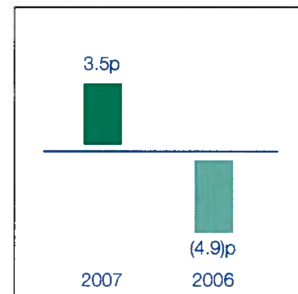
Operating margin*#



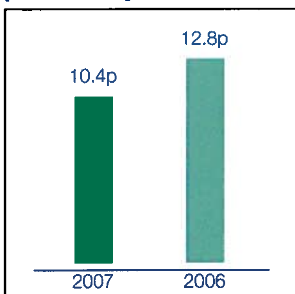
Assets under management



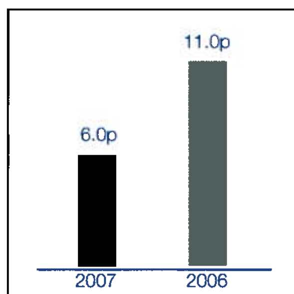
Basic earnings/(loss) per ordinary share



Underlying earnings per ordinary share*‡



Total dividends per ordinary share



Reconciliation between reported earnings and underlying earnings and between basic earnings/(loss) per share and underlying earnings per share are given in note 11 to the Consolidated Financial Statements.

† excluding BCP compensation receipt.

* before amortisation and impairment of intangibles, BCP compensation receipt, restructuring costs, Investment Trust VAT expense and the cost of the Re-Investment Plan.

‡ excluding minority interest.

operating margin represents underlying operarting profit expressed as a percentage of net revenue.

Chairman's Statement

Results

For the year 2007, the Company recorded a profit after tax of £18.7 million. This compares to a reported loss in 2006 of £22.5 million. Underlying earnings per share were 10.4 pence versus the 12.8 pence reported in 2006. The swing to reported profit reflects the absence of prior year distortions such as impairment charges. The reduction in *underlying earnings* reflects early stage investment in accordance with our three-year plan.

Strategy and Outlook

Last year we announced a three-year plan designed to better position your Company for growth. The strategy required an upfront increase in investment spending. We said that we would spend more in the short term to make more in the long term. 2007 was year one of the three year plan. The resultant underlying earnings are consistent with the indication given at the time. Non-earnings-related targets were also established for which Key Performance Indicators were agreed and tracked. The accompanying CEO Report and Business Review give details on progress made to date.

During the year, the Board revisited and reaffirmed its commitment to the plan and to the strategy it represents. We continue to believe that the realisation of the plan is the best strategy by which to maximise shareholder value. Meanwhile, Friends Provident, our 52% shareholder has undertaken its own strategic review. Among the conclusions announced by the Board of FP was that wealth management would no longer be core to their strategy. We are therefore working with Friends Provident to seek a solution which will work to the benefit of all parties and shareholders. Needless to say, this development offers both challenge and opportunity.

Dividend and Dividend Policy

The Board are recommending a final dividend of 4.0 pence, payable on 16 May 2008 to shareholders on the register at 11 April 2008.

Our policy is to pursue progressive dividend growth from the rebased dividend for 2007 and to achieve at least 1.5 times earnings cover.

Board Developments

There were a number of Board changes since my last statement. These have of course been announced but are summarised below. Biographical details are given on pages 24 and 25.

Philip Moore, Chief Executive of Friends Provident stepped down from the Board of F&C in November 2007 upon leaving the Board of Friends Provident. We thank Philip for his contribution during his tenure and wish him well.

Sir Adrian Montague, Executive Chairman of Friends Provident replaced Philip Moore on the Board of F&C. He joins as a non-Executive, non-Independent Director.

Nicholas MacAndrew joined the Board last May as an Independent non-Executive Director. He is a chartered accountant with experience in both finance and asset management. Nick is a member of the Audit & Compliance Committee.

Gerhard Roggemann joined the Board in July as an Independent non-Executive Director. Gerhard's long career in finance includes experience in the asset management, banking and corporate finance sectors. He brings a particular knowledge of the German marketplace.

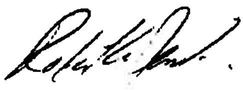
John Heywood reached the normal retirement age of 70 in 2007 and intends to retire from the Board at the forthcoming Annual General Meeting in May. During his years on the Board, John could always be counted on to ask the challenging question in a manner both incisive and polite. He is an example to us all. He will be missed.

John chaired the Company's Remuneration Committee. To ensure a smooth transition ahead of his retirement and in advance of the most recent bonus round, the Chair was assumed during the 3rd quarter by Brian Larcombe. Brian is a long standing member of the Remuneration Committee.

Summary

We remain committed to the objectives of the three-year plan. 2007 was the first year of this effort and overall progress is encouraging. As set out further in the Chief Executive's Report, the market and corporate situation creates uncertainty over the timetable for delivery but not to our commitment to the strategic direction.

On behalf of the Board, I would like to thank our employees for their tremendous efforts and impressive achievements.



Robert Jenkins
Chairman
6 March 2008

Chief Executive's Report

Last year I reported the launch of a three-year plan, focused on targeting specialist areas and higher margin products, to foster profitable organic growth. Consistent with this strategy, our Key Performance Indicators are biased towards growth, rather than short term operating margin or assets under management.

The first phase of this plan required accelerated investment in people, products and infrastructure to ensure we deliver strong investment performance on existing funds and upgrade our product suite, distribution resources and operating platform. Underpinning this we identified a portfolio of eight product and marketing initiatives for 2007, as well as specific infrastructure investments.

In spite of turbulent markets in the second half of the year and the corporate backdrop, discussed further below, I am pleased to report good overall progress in executing the first year of our plan. Our portfolio approach to new initiatives, combined with a careful monitoring of progress in each, provided us with the flexibility to adjust the mix of the investment programme throughout the year in light of market developments. In aggregate, the revenues and costs of these initiatives were well within the parameters of our plan.

The financial outcome for 2007 is slightly ahead of our plans, with underlying earnings per share of 10.4 pence and operating margin of 30.9 per cent. Our average fee rate has continued to rise progressively from 21.6 basis points in 2006 to 22.5 in 2007 reflecting our focus on increasing revenue margins.

Business Flows

2007 was another record year for our UK retail funds business with £703 million of inflows into open ended funds. Our net sales rose 28 per cent. during a period when, according to the Investment Management Association, net sales of UK domiciled retail funds actually declined by 38 per cent. Importantly, inflows were across a broad number of funds including multi-manager, ethical, corporate bond, UK and Asian equity funds. We have excellent momentum in UK retail and have secured a number of new distribution agreements with adviser firms that should allow us to build sales further during 2008.

Having disclosed in January 2007 that we had received notification of institutional withdrawals during 2007 of £5.2 billion, final institutional outflows totalled £6.1 billion including an £800 million withdrawal from Cambridge University notified in September 2007, following its decision to establish its own investment office. We recorded increased institutional inflows of £3.3 billion during the year and obtained eleven new consultant "buy" ratings. Average fees on institutional inflows were higher than average fees lost on institutional outflows, reflecting the implementation of our strategy.

Investment Performance

Investment performance was strong across a number of key products and asset classes during 2007 resulting in performance fees increasing by more than 100 per cent. We out-performed in core UK equities, UK high alpha, UK small cap, pan-European equities, emerging equities, global equities, UK credit, high yield bonds, emerging debt and convertibles. Performance was excellent in Asia ex Japan and emerging equities. The latter result is particularly pleasing as it vindicates the actions taken to rebuild our emerging equities team in 2006.

We under performed in US, Japanese and Continental European equities and UK government bonds and global credit. Where necessary we have taken action to improve performance in these asset classes. For example, we have appointed a new Head of European equities and, in the case of US large cap equities, we moved all mandates to our Quantitative Equity Strategies desk at the start of 2008.

Socially Responsible Investment (SRI) funds under performed their unscreened sectors during 2007 as they are naturally biased towards small caps and were limited in their ability to participate in oil and gas and mining shares, as well as certain defensive sectors such as tobacco. However, our SRI funds remain positioned as market leaders against their ethically screened competitors and we expect to see ongoing strong demand for sustainable investments.

Investment in Products, People and Infrastructure

New product development was a key feature of 2007, particularly in the first half of the year. In addition to those products identified in my interim report and at the launch of the three-year plan, we also launched an innovative multi-asset Diversified Growth Fund and the first '130/30' fund focused on UK equities. We further built our sustainable investment range with new funds focused on ethical bonds and the investment opportunities linked to climate change. In The Netherlands we launched our own fiduciary management service to respond to the structural changes in that market.

We also continued work on our infrastructure platform. We successfully brought in-house the element of our operations that had previously been outsourced to Mellon and now have in place a single, integrated operational function that leaves us better placed to take on new business and ensure consistency of service. As we recognise the efficiencies generated by these infrastructure developments and other investments we would anticipate a reduction in head count from the end of 2007 levels. Likewise, we implemented a new front-office Decision, Risk and Dealing (DRD) system to support the delivery of investment performance, particularly as we develop more sophisticated products.

We have made additional investments in human capital, following on from the substantial upgrades of our investment teams in 2006. Much of our recruitment in 2007 has been focused on the further development of our distribution capabilities to allow us to achieve increased inflows over the coming years. In particular we recruited a Head of Distribution and Business Development to lead the distribution drive in our international wholesale and institutional businesses and a Head of Product Management to improve the speed of delivery of new product initiatives. We have strengthened distribution teams in The Netherlands, Germany and the UK and opened an office in Sweden. We have also registered our funds into a number of new jurisdictions including Austria, Switzerland and the Nordic region.

Outlook

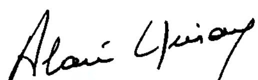
With strong performance, an enhanced product suite and additional hires in sales and business development, the focus of

2008 will be distribution. In Europe we will continue to deepen our presence in existing markets as well as extend into new territories. We have recently concluded a distribution deal with the Allfunds Bank platform that will provide us access to a broad base of distributors located in several markets, including Spain and Italy. Moreover, we have recently established distribution relationships with banks in both Italy and Russia. We are also finding opportunities outside of Europe, including a new agreement with IM Trust that will provide us with access to the Chilean market and are exploring initiatives in Asia and the Middle East.

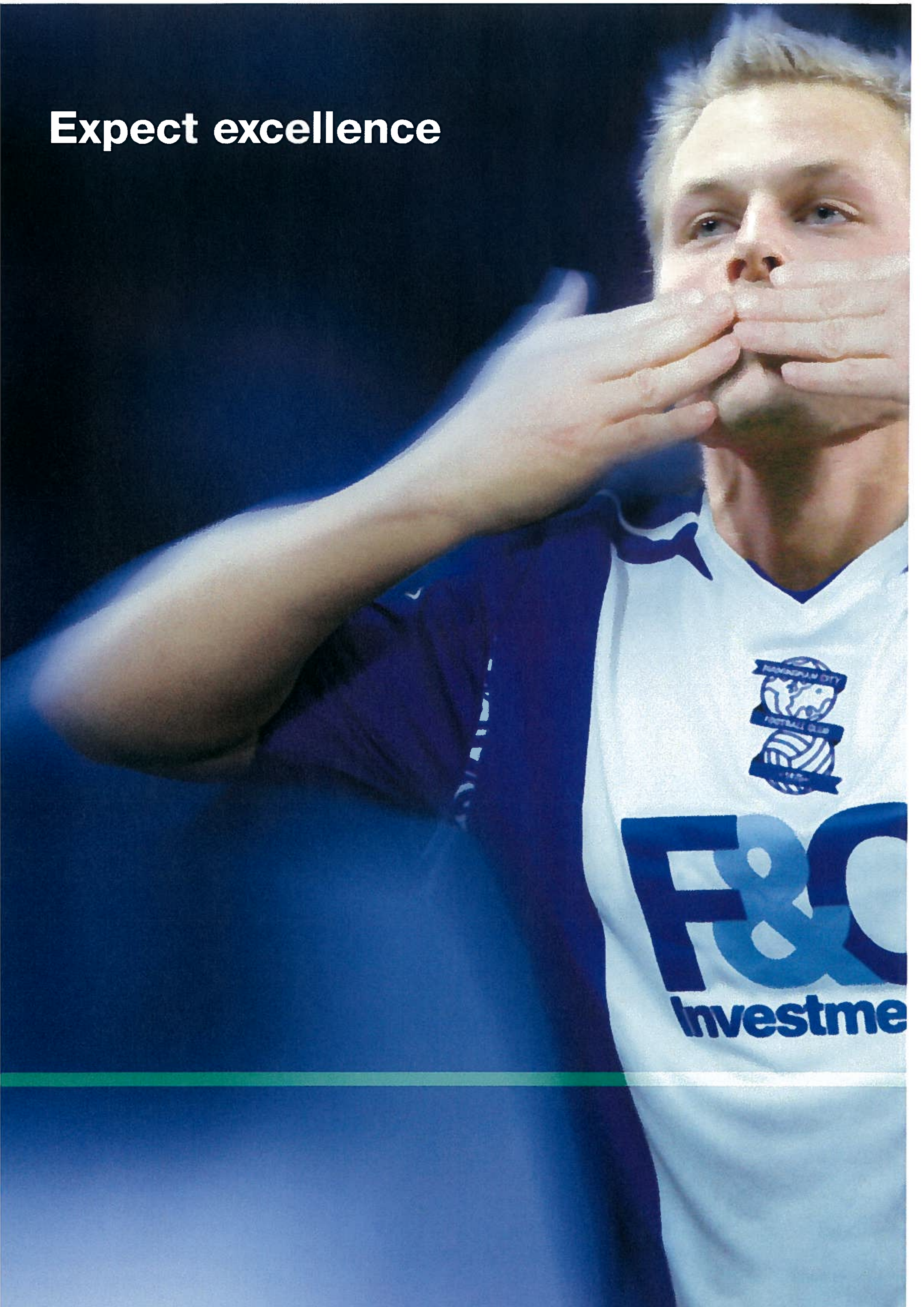
Against this backdrop of good progress in executing the plan there are undoubtedly challenges ahead, not least from a deteriorating economic environment and volatile markets. We believe that our strategy of being a diversified business by asset class, client type and geography positions us well to weather the storm. We have no direct exposure to US sub-prime mortgages and limited exposure to structured credit instruments. However, volatile markets undoubtedly present significant challenges for active investors and hamper net sales.

In our 2006 Annual Report & Financial Statements, we stated that: "we are setting ourselves a target of increasing underlying EPS by 50 per cent. from 2007 to 2009". Since that statement was made the Company has entered into an Offer Period and has confirmed with the Takeover Panel that this target qualifies as a Profit Forecast for the purposes of the Takeover Code. Given its duration the target cannot be reported on as a Profit Forecast as required by the Takeover Code and in the absence of such a report the Company is unable to provide an assurance that the target will be achieved. Accordingly shareholders should not rely upon it.

As outlined earlier the Board and management are pleased with the progress to-date in implementing its strategy and during 2007 launched a number of new products, recruited high quality professionals and improved investment performance in key product areas. However, since publishing the earnings target a number of factors have affected our business including the uncertainty surrounding Friends Provident, the recent announcement by Friends Provident that it is considering divesting its shareholding in the company and deteriorating market conditions. The combination of these factors is impacting some client and consultant decisions on new business and has resulted in there being an increased level of uncertainty around the timing of the growth anticipated in the plan. Nevertheless the Board and management remains committed to the strategic direction set out in the plan and its focus on seeking organic growth opportunities in higher revenue margin and specialist product areas. The Board and management believe that the group will increase its rate of progress once market conditions stabilise and our long term ownership is resolved.



Alain L. Grisay
Chief Executive
6 March 2008


Expect excellence
F&C

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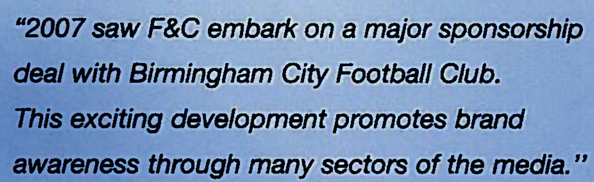


"2007 saw F&C embark on a major sponsorship deal with Birmingham City Football Club. This exciting development promotes brand awareness through many sectors of the media."

Business Review

The Board has prepared this report on pages 10 to 21 in accordance with the requirements of Section 417 of the Companies Act 2006 and it forms part of the Directors' Report. The law requires the Company's auditors to report on whether the information given in the Directors' Report and Business Review is consistent with the financial statements. The auditor's opinion is included in their report on page 51.

The purpose of this review is to provide shareholders with a snapshot summary setting out the business objectives of the Company, the Board's strategy to achieve those objectives, the risks faced, the regulatory environment and the key performance indictors (KPIs) used to measure performance.

Underlying earnings per ordinary share – see pages 18 and 19

Year	
2007	10.4p
2006	12.8p
2005	15.9p

Basic earnings/(loss) per ordinary share

Year	
2007	3.5p
2006	(4.9p)
2005	(16.4p)

The Group's sole activity is asset management. We are an active international investor but with a client focus on the UK and Continental Europe. Our clients comprise a wide range of insurance, institutional and retail investors, across multiple jurisdictions, for whom we manage a diverse range of investments including equities, fixed income and property. The asset management industry is highly competitive and we have a range of competitors, who differ by geography, product and asset class. While we operate across multiple locations, with a physical presence in nine countries, our organisational philosophy has two key parameters – to seek to avoid duplication, by, for example, managing each asset class from only one location, and to place client service functions where appropriate in order to meet client requirements.

Our objective

To deliver shareholder value. Asset management is a service industry, so seeking to excel in everything that clients expect from us is the key to building shareholder value.

Our strategy

- Focus on investment performance to deliver client satisfaction
- Seek and develop distribution opportunities in key markets to deliver organic growth
- Focus on higher margin and specialist areas for new business
- Maintain diversity of revenues while leveraging our scale

Key risks – see page 16

In addition to the "normal risks" facing the business relating to the market, interest rates, foreign currency and personnel, the Board has identified the following as the key risks facing the business in 2008:

- Uncertainty and distraction arising from Friends Provident's strategic announcement that it is considering divesting from the Company.
- Risk of poor historic investment performance leading to loss of key investment mandates.
- Development of front office control processes.
- Market trends towards polarisation and fiduciary management.
- Development of operational platforms.

Executive Directors, Executive Committee and Management Committee

Messrs Grisay and Logan are the Executive Directors of the Company. These Executive Directors, together with Messrs Criticos, Mendez de Vigo and Ribeiro form the Executive Committee (EXECOM). EXECOM is accountable and responsible for implementing Board strategy, proposing development of new elements of strategy and, together with the Management Committee (ManCom), for the day-to-day running of the business. In addition to overseeing the implementation of the strategy, EXECOM and ManCom regularly review business issues and matters not reserved for the Board as a whole. The Committees have reserved lists to assist them in carrying out their functions. Examples of matters reserved for EXECOM and ManCom as delegated authorities from the Board are: The approval of day-to-day business issues linked to the strategy or the annual budget and including the launch of new products; approval of contractual commitments; approval of expenditure; and the management of any issue that could have a potential legal or reputational impact on the Group.

Alain Grisay
Chief Executive

David Logan
Chief Financial Officer

Nick Criticos
Head of UK Retail and Marketing

Fernando Ribeiro
Head of Investments

Cristobal Mendez de Vigo
Head of Distribution and Business Development

Our view of the market

After a buoyant start to the year, 2007 will be remembered as one of the most challenging years on record for financial markets. Problems emanating from the US housing market, and the sub-prime mortgage sector in particular, sent shockwaves through the financial system with a freezing up of credit that notably resulted in the first run on a UK bank in over a century.

We see the fall-out from the credit crisis continuing to unfold for some time as banks announce write-offs and consumers and corporate borrowers no longer have access to the easy credit which has helped fuel growth in recent years. The risk of a US recession driven by a slowdown in the housing market has increased and signs of an economic slowdown have spread to other markets.

Against this backdrop of slowing economic growth, inflationary pressures continue to cause concerns and present a real dilemma for central bankers, particularly the Bank of England, which has a specific remit to control inflation. Rising oil prices, household energy bills, council tax and food prices are strong inflationary factors in the UK which may therefore curtail the Bank of England's willingness to cut interest rates as aggressively as US authorities are able to.

Given these macro economic headwinds we anticipate continued levels of significant volatility in equity markets and continued lack of liquidity in the credit markets. These create challenging conditions for managers of both equity and bond portfolios. Mergers and acquisitions activity, particularly from private equity leveraged buy-out (LBO) funds, had been a significant feature of markets in recent years but as a result of tougher credit conditions we anticipate much more subdued levels of M&A activity going forward and trade deals to be a bigger feature of the market as LBOs subside.

The financial sector has been at the sharp edge of the deteriorating economic outlook, to the extent that we believe the market has priced in recession in its rating of some banks. Asset managers, along with other market participants, have experienced a de-rating of their stock prices, particularly those with a heavy focus on retail investors, commercial property and equities. We believe that our strategic commitment to remaining a well balanced business by client type, asset class and geography means we are relatively well positioned.

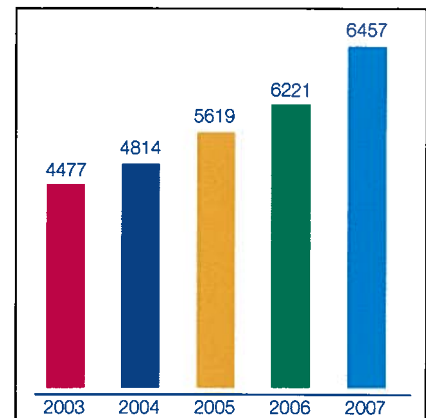
Developments in distribution continue to be a key driver of the asset management industry with banks and insurers gradually shifting away from the manufacturing and distribution of in-house product towards "open architecture" models, where they provide their clients with access to products from multiple providers through wrap accounts and other platforms.

In the UK, firms of Independent Financial Advisers (IFAs) continue to seek to scale up through consolidation and re-engineer their service propositions. In particular, we believe that the Financial Services Authority's "Treating Customers Fairly" initiative is accelerating the pace at which some firms withdraw from in-house fund selection and migrate client assets into multi-manager products. Service support and operational effectiveness are therefore becoming key factors alongside investment performance.

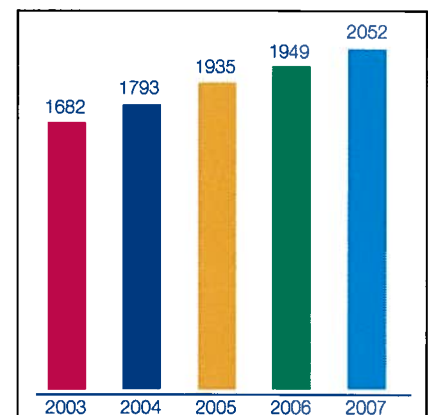
A further key regulatory development during 2007 was the introduction of the Markets in Financial Instruments Directive (MiFID). The impacts of MiFID are wide ranging and we anticipate it will create further impetus for change.

In the institutional marketplace we believe that the shift away from balanced management has largely played out in the UK but remains a trend on the Continent, particularly in markets such as The Netherlands where fiduciary management has made strong inroads. In this environment the ability of an asset manager to demonstrate the delivery of "alpha" in specific products is more important than its perceived overall capabilities.

UK Equity Market Performance – FTSE 100 Index



UK Government Bond Market Performance – FTA Brit. Gov. Fixed All Stocks Total Return



All graphs at 31 December.

Business Review

Our view of the market *continued*

At the product level there is a clear separation between the provision of "alpha", through specialist mandates and portable alpha products, including Global Tactical Asset Allocation funds, and low-cost "beta" exposure achieved through Exchange Traded Funds, index funds and derivative instruments. Alternative investments continue to grow in acceptance and enhanced alpha products, such as "130/30" funds, are attracting closer scrutiny following rapid growth in the US. As a result of these various developments, performance fees are becoming ever more common-place on actively managed investment mandates. In turn, this may lead to greater revenue volatility for asset managers.

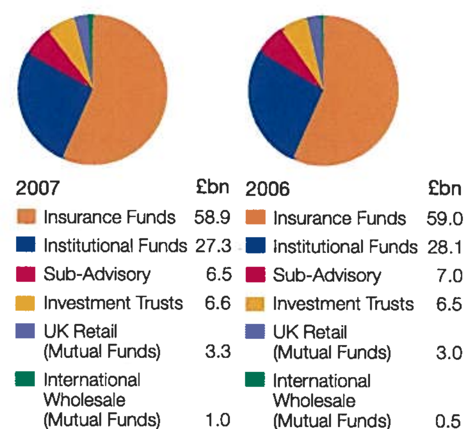
Strong equity market performance in recent years has helped many company pension schemes close their funding gaps. However, as markets move into more uncertain territory, we expect funding gaps once more to become a concern. This should also refocus the attention of trustees once again on the need to hedge inflation and interest rate risk and renew interest in Liability Driven Investment (LDI) and Asset Liability Management (ALM).

Many of these product trends require asset managers to deepen their derivatives expertise and ensure that decision, risk and dealing systems are sufficiently robust. Increasingly asset managers are therefore recruiting staff from the same pool as investment banks which is further adding to competitive pressures.

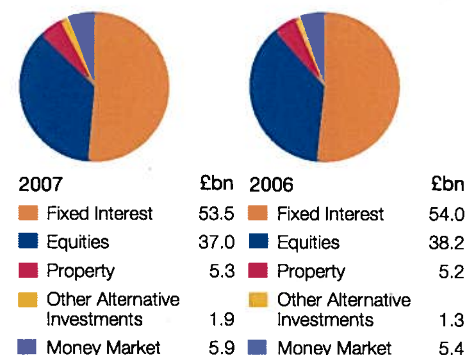
Assets under management

Year	
2007	£103.6bn
2006	£104.1bn
2005	£131.0bn

Assets under Management by client category



Assets under Management by asset class



All graphs at 31 December.

Focus on performance to deliver client satisfaction

We seek to define and deliver top quartile performance in everything we do. Our strategy is grounded in our belief in a virtuous circle: delivering excellent performance will be validated by organic growth which will, in turn, translate into earnings growth and stock price performance.

2007 Key points

- We launched a three-year plan to accelerate revenue growth by focusing on new business opportunities in higher margin areas and specialist mandates
- To support the three-year plan, 2007 saw increased investment in people, products and infrastructure, financed by a rebasing of our full-year dividend from historic levels
- Further strengthening of investment and distribution teams with additional hires
- Implemented new Decision, Risk and Dealing systems to support the delivery of investment performance and the new product suite
- A portfolio of eight growth initiatives was identified for 2007

Key Performance Indicators

Corporate Health

The Board has identified sixteen corporate health indicators providing an overview of the Group's corporate strategy, management, IT infrastructure and control environment. These indicators are assessed by the Board on a quarterly basis and coded as follows:

RED = At risk,
AMBER = Need for improvement,
GREEN = Competitive

Number of green indicators (out of sixteen)

Number of red indicators (out of sixteen)

2007 Investment Performance awards included:

- Category winner – F&C Far East Equity, Standard & Poors European Fund Awards
- Category winner – Best overall group, Lipper Fund Awards
- Category winners – F&C Global Convertible Bond Fund and F&C HVB Stiftungsfonds, Lipper Fund Awards
- Category runner ups – F&C European High Yield Bond Fund (2nd place) and F&C Global Convertible Bond Fund (3rd place), Finanzen Euro Awards
- Category winner – F&C Global Smaller Companies, Money Observer Investment Trust Awards
- Best Asset Manager investing in Environmental, Social & Governance, TBLI / IPE Awards

Investment Performance

2007 Key points

- £20.8 million performance fees earned – an increase of over 100% from 2006
- Out-performance in core UK equities, UK high alpha, UK smaller companies, pan-European equities, Asia ex Japan, emerging equities, global equities, UK credit, high yield bonds, emerging debt and convertibles
- Underperformance in US equities, Japanese equities, Continental European equities, UK government bonds and global credit
- Sixteen UK retail funds achieved Standard & Poors Fund Research ratings
- Fourteen mutual funds delivered top quartile performance
- Socially Responsible Investment funds posted relative underperformance against unscreened sectors because ethical restrictions limited oil, gas and mining exposure

2008 Priorities

- Accelerate new inflows into recent product launches
- Deliver top quartile performance against a more challenging economic environment
- Retain key investment personnel during period of corporate change
- Continue momentum in Performance First initiative

Business Review

Seek and develop distribution opportunities in key markets to deliver organic growth

Our business model is based on intermediaries and partnerships. We are focused primarily on the UK and Continental Europe, however, we will increasingly seek to expand distribution into other geographies. Our priority is organic growth, however, we will take an opportunistic approach towards further acquisitions.

2007 Key points

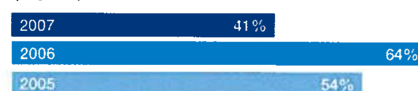
- Record year for our UK retail business with £703 million gross sales during a period when industry net retail sales declined by 38 per cent.
- Institutional new business increased 11 per cent.; outflows reflected the pipeline identified 12 months ago
- Signed new UK retail distribution deals on our Lifestyle fund range with Lighthouse, Paradigm and Thinc
- Appointed a new Head of Distribution & Business Development and re-organised wholesale and institutional distribution
- Further expanded our European footprint with the opening of a new office in Sweden and registration of funds in Austria, Switzerland and the Nordic region
- Strengthened sales and client servicing teams in Germany, The Netherlands and the UK
- Enhanced brand building activities through sponsorship of Birmingham City Football Club

2008 Key priorities:

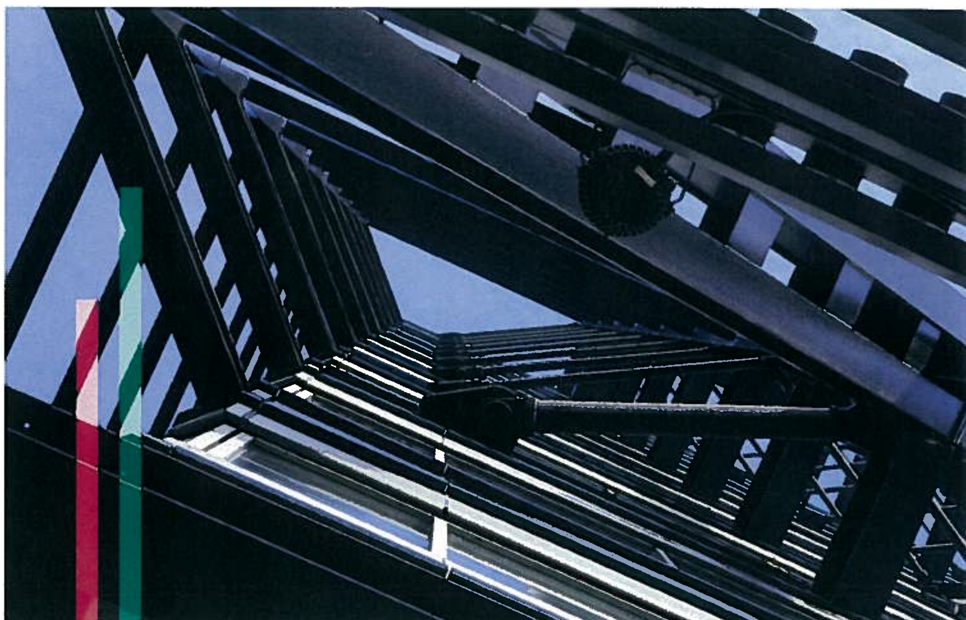
- Further expand European presence into Spain, Italy and Russia
- Seek distribution opportunities in South America, Canada, Asia and the Middle East
- Support strong momentum in the UK retail market through broadening and deepening client relationships
- Sign additional Lifestyle fund distribution deals with UK IFA firms
- Add links to additional life company platforms

Key Performance Indicators

Percentage of Retail funds above median (1 year)



Percentage of key institutional accounts exceeding client objective (3 years)



Focus on higher margin and specialist areas

We are targeting net new business in higher margin and specialist areas. These include retail, alternatives and specialist institutional mandates yielding performance fees.

2007 Key points:

- **Significantly upgraded product suite including the launch of:**
- Four Lifestyle multi-manager funds
- A European private equity fund of funds
- A multi-asset Diversified Growth Fund
- A UK equities '130/30' fund
- A Global Tactical Asset Allocation fund
- An enhanced cash fund
- Climate Change and Ethical Bond Funds
- Two new hedge funds and a listed fund of hedge funds
- A fiduciary management service
- Average fee rate improved from 21.6 basis points to 22.5 basis points
- Performance fees increased from £9.5 million to £20.8 million

2008 Key priorities:

- Product priorities in the UK institutional market include LDI and Diversified Growth
- In Continental Europe and the US the focus will vary from market to market but will include emerging equities/ Indian equities, Asian equities, SRI products and convertibles
- UK retail sales priorities are multi-manager, F&C UK Growth & Income, Stewardship, Asia ex Japan and emerging equities

Key Performance Indicators

Average basis points earned on Assets Under Management

Year	Basis points
2007	22.5
2006	21.6
2005	20.8

Maintain diversity of earnings while leveraging scale

We are a diversified business by client type, asset mix and geography. This provides us with a robust business model across market cycles. We benefit from scale in terms of research, infrastructure, distribution and access to the market.

2007 Key points:

- Over 45 per cent. of revenues are earned from non UK clients
- Continued to diversify distribution across Europe with the registration of funds in Austria, Switzerland and the Nordic region
- Consolidated our operations in to a single in-house function following the termination of our contracts with Mellon
- Continued to embed our multi-boutique investment model
- Delivered 31 per cent. Operating Margin in line with indications given to the market

2008 Priorities

- Increase strategic focus on distribution
- Seek presence in additional markets both within and beyond Europe
- Continue to consider bolt-on acquisitions, particularly those which bring added distribution

Key Performance Indicators

Operating Margin

Year	Operating Margin
2007	30.9%
2006	36.5%
2005	44.1%

Business Review

Key risks

- **Uncertainty and distraction arising from Friends Provident's strategic announcement that it is considering divesting from the Company**
  Friends Provident's January 2008 announcement creates a risk of disruption to asset gathering and the stability of the Company's human capital. The Board of F&C is working with the board of FP to find a solution that is in the best interests of all shareholders and are proposing amendments to the Company's remuneration plans to enhance retention.

- **Development of operational platforms**
  During 2007, investment administration services previously outsourced to Mellon were brought back in-house and merged into one Investment Operations function. This has allowed for greater management oversight and enhancement of the control environment. Throughout 2008, a major programme is underway to consolidate the systems and processes on to a single platform and operating model.

- **Development of front office control processes**
  During 2007 significant progress has been made in relation to the development and implementation of the new front office systems. An integrated systems platform is now in place for dealing and order management and decision support for equity fund managers. Equivalent systems for fixed income and pre and post-trade compliance will be implemented in the first half of 2008. In addition, a core risk platform was implemented for use by both the front office and Investment Risk functions replacing multiple legacy risk services.

- **Market trends towards polarisation and fiduciary management**
  The trend, particularly in The Netherlands, towards Fiduciary Management presents a business risk for the balanced institutional mandates managed by F&C but has also opened up some new opportunities. F&C's own Fiduciary Services offering has already been launched for clients in The Netherlands.

- **Risk of poor historic investment performance leading to loss of key investment mandates**
  Despite difficult market conditions in the second half of 2007, investment performance remained resilient throughout the year with some notable areas of out-performance. In 2008 there will be continued focus on performance and the retention of key talent.

Our trading performance and outlook

Overall, funds under management at 31 December 2007 were £103.6 billion, compared with £104.1 billion at the end of 2006. During 2007 F&C experienced net outflows of £9.0 billion.

Insurance

Net outflows of £5.0 billion from insurance clients represented 56 per cent. of all net outflows during the year. These included £1.6 billion resulting from the reinsurance of Friends Provident's annuity book with Swiss Re.

Institutional

Institutional net outflows of £2.9 billion reflected the following:

- Inflows during the year of £3.3 billion;
- In January 2007 we highlighted a pipeline of £5.2 billion institutional outflows. This included some Dutch balanced mandates moving to fiduciary managers;
- Cambridge University, a longstanding client, withdrew an £800 million equity portfolio as it established its own investment office along the lines of many US universities.

New institutional business inflows were at higher fee rates than outflows with mandate wins in convertibles, emerging market debt, global equities and LDI.

Good progress has been made with consultants in newer product areas such as LDI and UK high alpha equities.

Sub Advisory

Continuing the trend reported last year, 2007 saw further net outflows (£1.3 billion) which substantially represented Portuguese retail investors moving out of money market funds and into banking products. Fee margins on these assets are substantially below our average fee rate.

Investment Trusts

2007 was an active year for our investment trust business with a successful roll-over of an existing trust and the launch of F&C Event Driven (a £75 million fund of hedge funds). There were no investment trust mandate losses. A £346 million net outflow of investment trust assets related to the following factors:

- Share buyback activity;
- Reductions in gearing levels;
- The natural wind-up of Investors Capital Trust of which 61 per cent. was rolled-over into a successor vehicle.

Our investment trusts savings products continued to account for approximately a third of all industry inflows, with more than 51,000 Child Trust Fund accounts now having been opened.

UK Retail

2007 was a record year for us with net retail sales up 28 per cent. and gross inflows of £703 million. Flows were spread across a range of key products including our multi-manager, ethical, corporate bond, UK and Asian equities funds. New distribution deals have been signed with key partners including Lighthouse, Paradigm and Thinc on our Lifestyle multi-manager range with further deals in the pipeline for 2008.

International Wholesale

Net sales of mutual funds increased 109 per cent. to £111 million, primarily reflecting a very significant reduction in the level of historic outflows. Strengthened distribution, registrations into new countries and good investment performance will see significantly increased focus on this currently small part of our business in 2008. In particular we are concentrating activity around the F&C Asia Dynamic, F&C HVB Stiftungsfonds, F&C Global Convertibles, F&C Stewardship International, and F&C Indian Investment Company funds.

Business Review

Our financial performance

Total return

Our focus is the creation of shareholder value and an indicator of our success is total shareholder return, measured as percentage change in share price plus dividends. In the year ended 31 December 2007, our total shareholder return was -4.31 per cent. In the same period, the average total shareholder return on the FTSE 250 index was -2.46 per cent. and the FTSE100 was 7.36 per cent. However, financial stocks, including asset managers, which are often seen as generating returns correlated to stock markets, were particularly volatile in the second half of 2007 and our return was impacted accordingly.

Overview

We set out in last year's review an outline of our three-year plan, which, as reported elsewhere, was successfully launched in the first quarter of the year. Integral to the plan was a need for investment, to accelerate our future organic growth, and accordingly 2007 saw additional investment in people, distribution and infrastructure. As an asset management business, we require limited capital expenditure and much of our investment took the form of revenue expenditure, to assist us to grow future revenues. We indicated on the launch of the plan that this additional expenditure was likely to reduce our operating margin for 2007 and our margin has fallen to 30.9 per cent., in line with indications we gave at the start of the year.

Presentation of financial results

IFRS requires our financial statements to consolidate the results of our Managed Pension Fund business on a line-by-line basis, impacting both our Income Statement and Balance Sheet presentation. Our Income Statement also includes Re-Investment Plan costs of £6.4 million. These costs relate to the share scheme established at the time of the merger in 2004 to lock-in and incentivise senior staff. This scheme matured during 2007 and that year is the last period in which such costs will be incurred.

During 2006 our Income Statement also included impairment charges on intangible assets of £58.5 million, principally arising from the fact that our client loss rate on investment management contracts acquired in corporate acquisitions was greater than that assessed at the time of those acquisitions. In 2007, we incurred no such impairment charges.

Net revenue

Net revenue for the year was £264.5 million (2006: £248.2 million excluding the £2.6 million compensation received for the loss of funds in 2005). Whilst new business of £6.5 billion was won during the year and rising markets and positive exchange variances added approximately £8.5 billion to our funds under management, our management fees were impacted by net business outflows totalling £9.0 billion, together with the full year revenue effect of business outflows which arose in 2006. Net fund flows are a key performance measure for us and are indicative of the growth of our business. In that respect, our net UK retail funds inflows were approximately 28 per cent. higher than 2006 and our institutional net outflows fell by some 64 per cent. from 2006.

In addition another important indicator is the level of performance fees earned from clients. In 2007 performance fees were £20.8 million, an increase of more than 100 per cent. from 2006.

Revenue margins

Our revenue margin, measured as management fee income divided by average assets under management, has increased from 21.6 basis points in 2006 to 22.5 basis points in 2007. Although in part this reflects the loss of low fee mandates, it is also a measure of our progress against our objective of generating net new business in higher margin products.

Operating expenses

Operating expenses excluding the Re-Investment Plan costs, amortisation and impairment of intangible assets, restructuring costs and Investment Trust VAT expense were £183.8 million (2006: £159.4 million). The largest component of this is staff related costs. Accordingly, managing our headcount and our remuneration policies is critical to effective cost control. During 2007 our headcount rose by some 138, 81 relating to the transfer of staff on the termination of the Mellon outsourcing agreement. The remaining headcount increase represents part of our investment in the business and reflects the need for additional personnel to support our distribution plans and manage and support our enhanced product range. During 2007, our IT and operations costs also increased as a result of the significant project costs associated with changes made to our operating platform, both through the reintegration of the Mellon back office and the introduction of new front office Decision, Risk and Dealing systems.

Operating margin

As a consequence of the changes in our net revenue and expense base, discussed above, our operating margin for the year to 31 December 2007 was 30.9 per cent (2006: 36.5 per cent).

Investment Trust VAT expense

During the year, litigation between an investment trust and Her Majesty's Revenue & Customs ("HMRC") concluded in the European Court of Justice. That litigation determined that investment trust management fees should not be subject to VAT. This judgement is retrospective and accordingly we have created a provision for amounts of VAT and interest which may be payable to investment trust clients beyond that recoverable from HMRC.

Underlying earnings

The Board utilises underlying earnings per share as one of its key metrics in assessing financial performance. The table opposite sets out the reconciliation between underlying earnings and statutory earnings. Underlying earnings per share for the year ended 31 December 2007 was 10.4 pence (2006: 12.8 pence). The reduction principally reflects the investment costs discussed earlier.

Example of promotional activity for our high margin UK Retail business.

Reconciliation of Earnings per share (pence)	2007	2006
Earnings/(loss) per Ordinary Share	3.54	(4.91)
BCP compensation receipt	–	(0.38)
Amortisation of intangibles, net of tax	5.25	6.29
Impairment of intangibles	–	8.54
Cost of the Re-Investment Plan, net of tax	0.98	1.81
Restructuring costs post acquisition of F&CGH Group	–	1.45
Investment Trust VAT expense, net of tax	0.60	–
Underlying earnings per share*	10.37	12.80

* Defined as earnings before amortisation and impairment of intangibles, BCP compensation receipt, restructuring costs, Investment Trust VAT expense and the cost of the Re-Investment Plan.

Dividends

At the start of the year, and as announced at that time, the Board determined it was appropriate to rebase the 2007 dividends in light of the need to fund the investment in the business to launch the three-year plan. Accordingly, we indicated that the 2007 dividend would be rebased to achieve at least 150 per cent. cover on underlying earnings. In line with this policy, the Board has declared a final dividend of 4.0 pence per share, which, subject to approval by shareholders, will be paid on 16 May 2008 to shareholders on the register at 11 April 2008. This dividend, when taken with the interim dividend of 2.0 pence per share, results in a total dividend for the year of 6.0 pence per share.

Intangible assets

Under IFRS when an acquisition is made, there is a requirement to recognise separately the fair value attributed to intangible assets, in our case, management contracts. The excess of consideration over the fair value of net assets acquired represents the business value and infrastructure and is recognised as goodwill.

Management contracts are separated by client type and are amortised over their estimated useful lives. Where an indicator of impairment occurs, such as greater than anticipated fund losses, we are required to review the carrying value of these contracts. No such indicators of impairment arose during 2007 and accordingly no impairment charges were recognised. We are also required to conduct an annual impairment review of the carrying value of goodwill. This review demonstrated that there was no impairment and hence no requirement to write down goodwill.

Cash resources

While we have debt on our balance sheet, we also have cash resources of £216.2 million. However, a significant part of that cash is held in our regulated subsidiaries against their capital requirements and is accordingly not available for corporate purposes. As asset management should generally be a cash generative business, we should not require significant cash for working capital purposes beyond our regulatory capital requirement.

Pension funds

Our pension fund deficits have fallen from £45.4 million at 31 December 2006 to £26.8 million at 31 December 2007, partly through additional contributions of £8.0 milion made during 2007 to facilitate the merger of the two UK defined benefit schemes.

Our strategic approach and commitment to Corporate Responsibility ("CR")

CR strategy

The Company has two overarching strategic ambitions:

- To enable our clients to respond effectively to changing dynamics in the world economy through our products and through influencing companies to improve business performance.
- To ensure that we meet the highest practicable standards of corporate responsibility in our own operations.

The Company is committed to meeting these ambitions over a three year time horizon in line with the broader goals of the business articulated in the group's three-year plans.

We have defined four key categories supporting our strategic ambitions, Marketplace, Environment, Workplace and Community.

We are committed to monitoring and reporting on progress against the targets set within each category, both internally (on a quarterly basis) and externally (at least annually). F&C's Corporate Responsibility policies are guided by a number of broadly accepted international standards and benchmarks. Wherever practicable, we will seek external validation of our progress and publish these results.

F&C considers the following key external measures to validate our relative Corporate Responsibility performance.

External Validation	Existing Position	3 Year Target
BITC Corporate Responsibility Index	Silver status	Platinum status
EIRIS/FTSE4Good	Inclusion	Inclusion
UN Global Compact CCP	Member	Member
Carbon Disclosure Project	Member	Member
Principles for Responsible Investment	Founding Signatory	Founding Signatory

F&C identifies its key stakeholders as shareholders, clients, employees, suppliers, government and 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 that is tailored to meet the requirements of each stakeholder group.

CR categories supporting the strategic ambitions

F&C has established key performance indicators (KPIs) for each of the CR categories detailed below, details of which can be found on the Corporate Responsibility section of the Company's website.

Marketplace

F&C will use the influence of its customers' assets to engage with companies on all relevant CR matters where this will improve business performance. F&C will increase the number of milestones achieved (being an instance in which a company improves its policies, procedures or practices following engagement and where F&C's participation has been a major factor) to 250 in 2007 and to 300 by 2010.

F&C will issue voting instructions in line with its Corporate Governance Operational Guidelines on 100% of global resolutions that it is mandated to on behalf of clients and will publish its voting history. F&C will contact 100% of companies following an abstention or vote against mangement.

Environment

F&C is targeting carbon neutrality internally and is committed to helping our clients and suppliers cut carbon emissions. Over the next three years F&C will obtain 100 per cent. of its energy usage from renewable sources, where such markets exist.

F&C will source 100 per cent. of its paper used from chlorine free recycled supplies, reduce like for like waste to landfill by 20 per cent. and increase its own recycling by 20 per cent.

F&C will actively embark on an internal education programme on the effect that water and other waste management has on the environment.

F&C, through its marketplace engagement activity, will widen its influence to the companies in which it invests.

As the market leader in sustainable investment, F&C seeks to embed corporate responsibility throughout its own business, including an active community programme.

Early in 2008, as part of the Community programme, the Company organised a tree planting day at Hanworth Park in London.

Workplace

F&C is committed to ensuring good practices in managing its own workplace issues.

F&C will undertake an annual Employee Survey and will, by 2009, target top decile employee participation levels.

F&C always seeks to employ the best person for each job and does not discriminate on grounds of gender, race, ethnicity, religion, sexual orientation, age or physical disability. F&C will educate 100 per cent. of employees on the importance of recognising and embracing diversity in the workplace and the community as a whole.

F&C encourages share ownership and will continue to operate all-employee share schemes.

Community

F&C will, over the next three years, introduce financial support and wherever practicable offer time off work to support employees involved in Charitable Activities.

F&C will, over the next three years, target 75 per cent. of all employees dedicating at least one working day per year to a Charitable or community programme.

F&C will target 15 per cent. of employees, participating in the Give as You Earn scheme and will match employee contributions up to a set monthly level.

CR commitment

The Board is committed to maintaining 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.

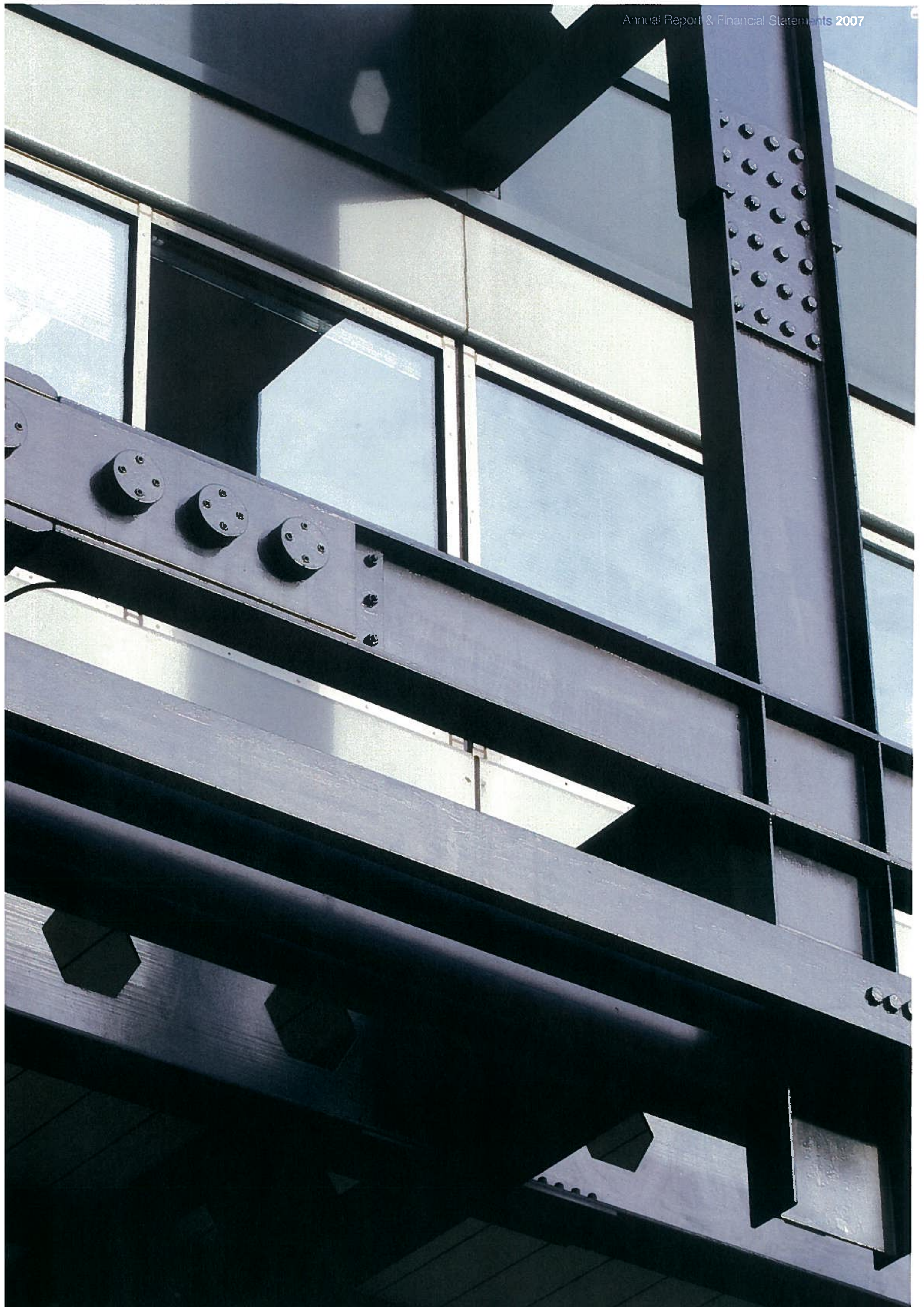
How is Corporate Responsibility implemented by F&C?

The Board is ultimately responsible for CR within the Group. Development of F&C's policies on CR and their implementation throughout the Group are co-ordinated by the CR Committee chaired by David Logan.

Alain Grisay
20 March 2008

David Logan
20 March 2008

Headquartered in the heart of the City of London and operating across nine countries, F&C manages assets for a diverse range of insurance, institutional and retail clients.



Non-executive Directors

Robert Jenkins‡
BA, MA
Age 57

Chairman

Mr Jenkins joined the Board on completion of the merger in October 2004. Prior to his appointment Mr Jenkins was Chief Executive of F&CGH. Prior to joining F&CGH in 1997, 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 is Chairman of the Board of the Investment Management Association in the UK, Member of The Takeover Panel, Executive Fellow of the London Business School and Honorary Visiting Professor of Investment Management at City University London's Cass Business School.

John Heywood*†, LLB
Age 70

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 served as a Non-executive Director of F&CGH since his appointment in January 1998.

Keith Bedell-Pearce*†,
LLB, MSc
Age 62

Senior 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 30 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).

Brian Larcombe*†‡
Age 54

Independent Director

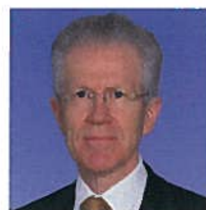
Mr Larcombe joined the Board in January 2005. Prior to his appointment, Mr Larcombe was Chief Executive of 3i Group plc and is currently Chairman of Bramdean Alternatives Limited and a Non-executive Director of Smith & Nephew plc.

Gerhard Roggemann
Age 60

Independent Director

Mr Roggemann joined the Board in June 2007 as an Independent Director. Mr Roggemann is currently Vice Chairman of Hawkpoint Partners Europe, responsible for the development of its German business, and an independent director of Friends Provident plc and Deutsche Börse AG.

He spent much of his professional career with financial services firm, JPMorgan, where his positions included managing director of JPMorgan's German branch in Frankfurt and regional treasurer Asia Pacific in the Tokyo office. He spent a total of 13 years on the management board of two German Landesbanks, joining the executive boards of Norddeutsche Landesbank in 1991, and of Westdeutsche Landesbank (WestLB AG) in 1996. Previous board appointments include AXA Lebensversicherungs AG, AXA Kapitalanlagegesellschaft mbH, Deka Bank, Fresenius AG, Hapag Lloyd AG and VHV Holdings AG.



Dick de Beus‡
Age 61

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, and retired as Chairman in 2004. Mr de Beus had been member and Vice-Chairman of the Supervisory Board of KAS BANK N.V. from 1996 (European custodian services, Amsterdam). He is involved in several supervisory functions in non-listed real estate companies and non-profit organisations. Mr de Beus served as a Non-executive Director of F&CGH since his appointment in February 2004.

Nick MacAndrew
FCA †
Age 61

Independent Director

Mr MacAndrew, a Chartered Accountant, joined the Board in May 2007. He worked for Schroders plc for over 30 years until 2002, latterly as finance director. He is a Non-executive Director of Fuller Smith & Turner plc, Jardine Lloyd Thompson Group plc and Wates Group Limited and recently retired as Chairman of Save the Children.

* Member of the Remuneration Committee

† Member of the Audit & Compliance Committee

‡ Member of the Nomination Committee

Jeff Medlock, B.Sc(Econ), F.I.A.
Age 67

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. He 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 2004 but remains a director of Eureko's companies in Ireland and Cyprus. He is also a trustee of the children's charity Life Education Centres.

Sir Adrian Montague‡, CBE, MA, Solicitor,
Age 60

Sir Adrian joined the Board in November 2007. He was appointed chairman of Friends Provident in May 2005, having been appointed an independent director in October 2004. In November 2007 Sir Adrian assumed the role of Executive Chairman of Friends Provident plc. Sir Adrian is currently the Non-executive chairman of British Energy Holdings plc, Michael Page International plc and Infrastructure Investors Limited. Sir Adrian is a Trustee of the Waterways Trust and a director of London First and CellMark Holdings AB and a member of the Supervisory Board of Skanska AB.

Formerly Deputy Chairman of Network Rail and Chairman of Cross-London Rail Links Limited (Crossrail). Previously Chief Executive of the Treasury Taskforce and Deputy Chairman of Partnerships UK plc. In his early career, he was a partner of Linklaters & Paines, and subsequently the Global Head of Project Finance for Dresdner Kleinwort Benson.

Jim Smart, B.Com, CPFA, FCCA, MBA
Age 48

Mr Smart joined the Board in January 2007. He joined Friends Provident in November 2006 and was appointed Group Finance Director of Friends Provident plc on 1 January 2007. He is a member of the Financial Regulation and Taxation Committee of the Association of British Insurers and was previously Chief Financial Officer at Boots Group plc. Prior to joining Boots, he was at Abbey National plc for 15 years where he held a number of senior finance and operational positions and was a director of the group's life assurance business, Scottish Mutual Assurance plc.

Executive Directors

Alain Grisay, LLM, MA
Age 53

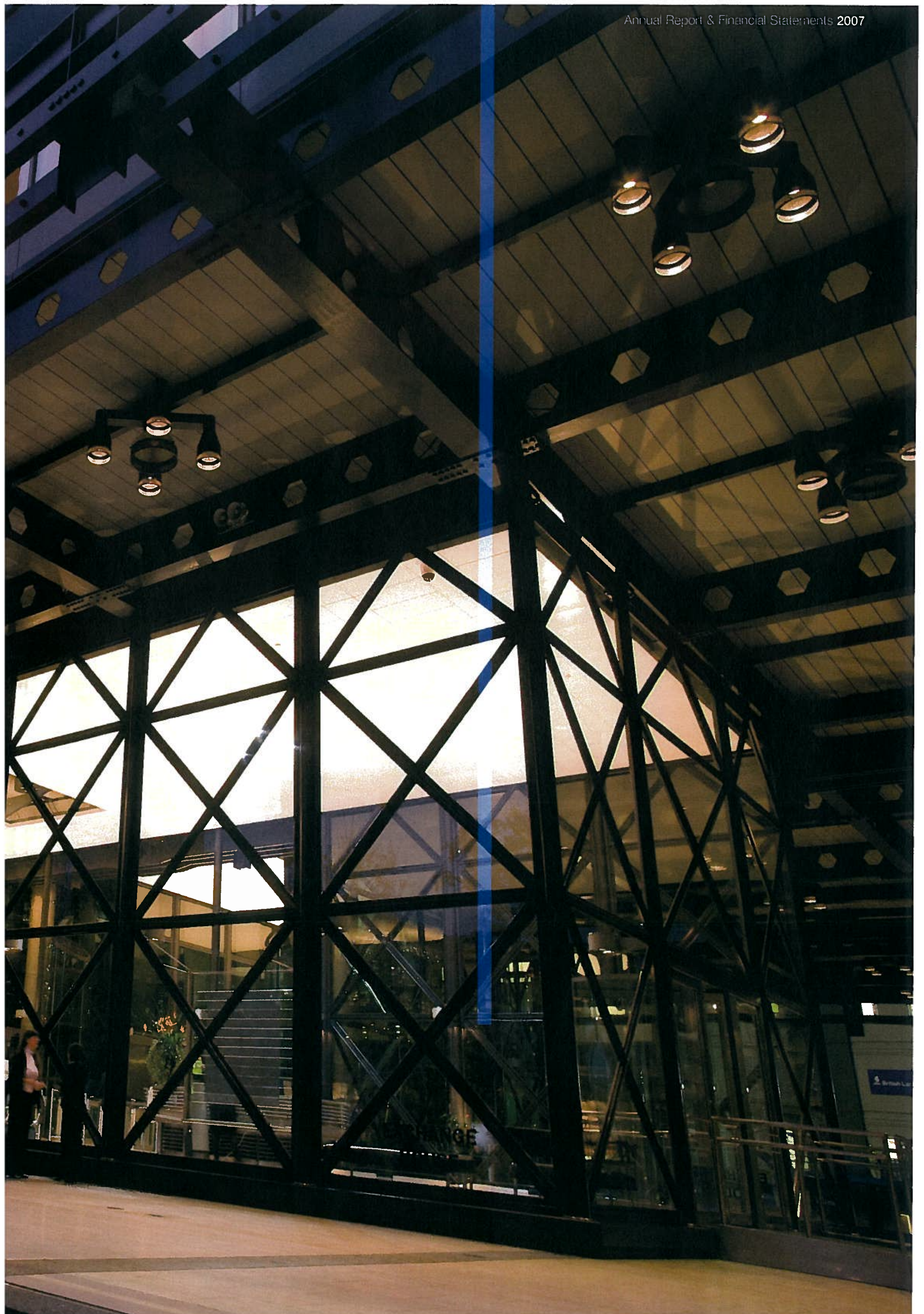
Chief Executive

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. Mr Grisay was appointed an Executive Director of Friends Provident plc on 1 January 2006.

David Logan, BA, CA
Age 38

Chief Financial Officer

Mr Logan joined the Board on 31 July 2006. Prior to his appointment Mr Logan spent seventeen years in the accounting profession, including four years as a partner at Deloitte & Touche LLP and three years as a partner at Andersen.



Report of the Directors

Results, business review and dividend

The Group's results for the year ended 31 December 2007 are shown in the Consolidated Income Statement on page 52. A business review of the year ended 31 December 2007 and future developments are covered on pages 10 to 21. This review forms part of the Report of the Directors.

The Group profit for the year, after tax, amounted to £18.7 million.

The Directors recommend a final ordinary dividend of 4.0 pence per share, amounting to £19.7 million, resulting in a total of 6.0 pence and £29.4 million for the year. Preference dividends of £0.1 million were also incurred during the year.

The final ordinary dividend, if approved, will be paid on 16 May 2008 to ordinary shareholders whose names are on the register on 11 April 2008. No liability for the proposed dividends has been recognised as at 31 December 2007, in accordance with IFRS.

Principal activity and status

The Group's business is asset management. Details of the progress of the business during the year and of future prospects are contained in the Chairman's Statement, the Chief Executive's Report and the Business Review.

The Company is registered as a Public Limited Company in terms of the Companies Act 2006 and is currently a constituent of the FTSE 250 Index. The Company is registered in Scotland, registered number 73508 and is domiciled in the United Kingdom.

Significant agreements

In addition to the significant contracts with Friends Provident plc and the Achmea Group, details of which are contained in Note 40 to the Consolidated financial statements, F&C is party to the following significant contracts that take effect, alter or terminate upon a change of control of the Company.

Millennium BCP Group (BCP)

The consequences of termination of the various agreements with BCP related funds are regulated by an Umbrella Agreement with BCP which provides that compensation is payable if any of these agreements are terminated before 29 June 2013. These agreements may be terminated on written notice with immediate effect in the event that a person acquires an interest which is larger than the aggregate interest of Friends Provident and Eureko in the shares of F&C. Under such circumstances, compensation is payable by BCP to F&C based on prescribed compensation periods which in turn are linked to when the change of control takes place.

Royal Sun Alliance (RSA)

The investment management agreement with the RSA group is a long term agreement expiring on 1 July 2012. In the event that it is terminated by the RSA group prior to 1 July 2012 and if the aggregate fees received by F&C from 1 January 2008 up until the point of termination fall below a certain threshold, F&C shall be entitled to receive the difference between the amount of fees received at that point and the threshold figure.

Foreign & Colonial Investment Trust Plc

The Investment Management Agreement in place with Foreign & Colonial Investment Trust Plc can be terminated by the investment trust on a minimum of six months' notice expiring at the end of any calendar month. In the event that there is a change of control in F&C (as defined in Section 840 of ICTA 1988), then the investment trust is entitled to terminate the agreement on not less than 3 months' notice to expire at the end of any calendar month.

F&C Commercial Property Trust

The Investment Management Agreement in place with F&C Commercial Property Trust Limited can be terminated by the investment trust on not less than 12 months' notice, provided that such notice may expire no earlier than 4 March 2009. Early termination can be undertaken by the investment trust, but only subject to the payment of compensation to F&C based on revenue stream. Immediate termination is possible by the investment trust in the event that there is a change of control in F&C (as defined in Section 840 of ICTA 1988) which has not been consented to by its Board.

Property, plant and equipment

Details of changes in property, plant and equipment are disclosed in note 12 to the Consolidated Financial Statements. At 31 December 2007, there were no significant differences between the net book and market value of property, plant and equipment.

Financial instruments

Details of financial instruments are disclosed in notes 14 and 19 to the Consolidated Financial Statements. The financial risk management objectives and policies of the Group are contained in note 36.

Share capital and directors' interests

During the year the Company issued 10,929,940 ordinary shares in respect of vested awards or options under the Company's long term incentive schemes.

Details of shares under option at 31 December 2007 are shown on pages 101 to 114. Details of all shares issued during the year ended 31 December 2007, are given in note 31. The Directors who held office at the year end and their interests in the share capital of the Company are shown below:

		31 December 2007 Ordinary Shares	31 December 2006** Ordinary Shares
Robert Jenkins	Beneficial	200,000	200,000
	Non Beneficial *	562,857	665,111
Dick de Beus	Beneficial	Nil	Nil
Keith Bedell-Pearce	Beneficial	51,285	51,285
Alain Grisay	Beneficial †	1,438,676	326,153
John Heywood	Beneficial	4,326	4,326
	Non Beneficial *	Nil	665,111
Brian Larcombe	Beneficial	20,000	Nil
	Non Beneficial *	562,857	Nil
David Logan	Beneficial	990	Nil
Nick MacAndrew	Beneficial	25,000	Nil
Jeff Medlock	Beneficial	10,000	10,000
Sir Adrian Montague	Beneficial	Nil	Nil
Gerhard Roggemann	Beneficial	Nil	Nil
Jim Smart	Beneficial	Nil	Nil

*Robert Jenkins and Brian Larcombe 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 Heywood was a Director of F&C Group ESOP Trustee Limited until November 2007.

**Or date of appointment if later.

†These shares include Alain Grisay's participation in the Purchased Equity Plan. Further details of this plan are set out in the Remuneration Report on pages 41 to 49.

No other changes to Directors' interests have occurred.

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 2007 Ordinary Shares	31 December 2006 Ordinary Shares
Sir Adrian Montague	Beneficial	6,281	6,018
Gerhard Roggemann	Beneficial	–	–
Jim Smart	Beneficial	19,205	–

Directors' and officers' liability

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

The Directors have the benefit of the indemnity provision set out in the Company's Articles of Association at article 166 which is a qualifying third party indemnity provision as defined in the Companies Acts and which was in force throughout the year and is currently in force.

As summarised in paragraph 7 of the summary of amendments to the Articles of Association of the Company on page 33, it is proposed that the articles be amended to reflect, amongst other things, the Companies Act 2006 provisions relating to the power of a company to indemnify Directors and to fund expenditure incurred in connection with certain actions against Directors.

One qualifying third party indemnity has been granted to a Director who held office during the year ended 31 December 2007.

Charitable and political contributions

During the year the Group made contributions to charity of £117,000 (2006 – £94,000). No political donations were made during the year (2006 – £nil). Further details on the criteria for charitable giving are contained on the Company's website.

Payment policy and practice

It is the Group'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 2007, trade creditors represented the equivalent of 10 days (2006 – 13 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, above 3 per cent., as at 20 March 2008.

	Ordinary Shares	Percentage
Friends Provident plc	258,722,798	52.5
Credit Agricole	58,082,694	11.8
Eureko B.V.	51,128,190	10.4
Fidelity	22,867,297	4.6

Report of the Directors

Employees

At 1 February 2008 there were 869 full-time employees and 61 part-time employees within the Group (1 February 2007 – 750 full-time employees and 52 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 Executive Directors, Management Committee and the internal publication of relevant information. Wherever appropriate, employees are consulted to ensure that their views are taken into account before decisions are taken which are likely to affect their interests.

Equal opportunities

The Group 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 Group respects the dignity of individuals and their beliefs. The Group 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 41 to 49 or the notes to the Consolidated Financial Statements on pages 101 to 114.

Annual General Meeting (AGM)

The Company will hold its AGM on Tuesday, 13 May 2008 at Butchers Hall, 87 Bartholomew Close, London EC1. The meeting will start at 12 noon (UK time). Details of all resolutions being put to shareholders are set out in the Notice of Annual General Meeting commencing on page 164.

Relationship agreement

The relationship agreement formalises the ongoing relationship between the Company and its parent, Friends Provident plc, and Friends Provident plc's subsidiaries. If renewed, the relationship agreement will remain in place until the next AGM or until Friends Provident's interest in the ordinary shares of the Company falls below 30 per cent. 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. Your Directors are recommending that the relationship agreement be re-approved and the authority be renewed at this year's AGM pursuant to resolution 11. Members of the Friends Provident group will abstain from voting on such ordinary resolution.

Board changes

On 1 January 2007, Keith Satchell, a Non-executive Director, retired from the Board and was replaced on the same date by Jim Smart, a Non-executive Director.

On 10 May 2007, David Gray an independent Non-executive Director, and Christopher Jemmett, an independent Non-executive Director, retired from the Board. Nick MacAndrew joined the Board as an independent Non-executive Director on 10 May 2007.

On 19 June 2007, Gerhard Roggemann joined the Board as an independent Non-executive Director.

On 27 November 2007, Philip Moore, a Non-executive Director, retired from the Board and was replaced on the same date by Sir Adrian Montague, a Non-executive Director.

Having reached the age of 70 during 2007, John Heywood, an independent Non-executive Director, will retire from the Board and relevant Board Committees on conclusion of this year's Annual General Meeting.

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

Ordinary resolution 12 will be put to the AGM 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 164,074,921 unissued ordinary shares, being up to an aggregate maximum nominal amount of £164,074.92. This maximum nominal amount represents 33.33 per cent. of the Company's total ordinary share capital in issue at the date of this report (calculated exclusive of treasury shares) and meets institutional guidelines. The Company holds 3,431,540 ordinary shares in treasury at the date of this report. This amount represents 0.7 per cent. of the Company's total ordinary share capital in issue at the date of this report (calculated exclusive of treasury shares). The authority conferred by this resolution will expire on the conclusion of the AGM of the Company to be held in 2009.

Special resolution 16 will be put to the AGM 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 £164,074.92 of unissued ordinary share capital and, if renewed, will apply to any ordinary shares allotted and treasury shares sold:

(a) in accordance with the relationship agreement referred to above (conditional upon the passing of the ordinary resolution 11 referred to above);

(b) in order to satisfy options or awards under any share scheme for employees or share incentive plan approved by the Company in general meeting;

(c) 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

(d) other than pursuant to (a), (b) and (c) above, up to an aggregate nominal amount of £24,785.28, 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 12 and the power proposed to be granted by resolution 16 are necessary in order to take advantage of opportunities as they arise and to retain flexibility. The Directors do not have any intention of exercising such authority or power at the present time other than for the purposes referred to in (b) above.

Purchase of own shares

Special resolution 17 will be put to the AGM to renew the present power to make market purchases of the Company's own ordinary shares. Pursuant to special resolution 17 the maximum aggregate number of ordinary shares which may be purchased pursuant to the authority shall be 49,227,399 (being approximately 10 per cent. of the issued ordinary share capital (excluding treasury shares) of the Company as at the date of this report). 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 the date of this report, the Company had 17,687,366 options to subscribe for ordinary shares outstanding (representing 3.6 per cent. of the issued ordinary share capital of the Company (excluding treasury shares) at the same date). If the buy-back authority is renewed at the 2008 AGM and is then utilised in full, the options outstanding at the date of this report would represent 4.0 per cent. of the issued ordinary share capital of the Company (excluding treasury shares). The power conferred by this resolution will expire on the earlier of the date falling 15 months after the date of the passing of this resolution and the conclusion of the Annual General Meeting of the Company to be held in 2009.

With the coming into force of the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (as amended); on 1 December 2003, the Company may do any of the following 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).

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.

In 2007, the Group purchased 1,279,618 ordinary 0.1 pence shares (2006 the Group acquired 563,205 ordinary 0.1 pence shares) representing 0.3 per cent. of the ordinary Shares in issue at 31 December 2007 pursuant to this authority. The aggregate consideration paid for own share purchases in 2007 was £2.4 million (2006: £1.1 million).

Proposed amendment to the Company's Long Term Remuneration Plan (LTRP)

Friends Provident, our 52 per cent. shareholder, announced the results of its strategic business review on 31January 2008. The continued market and media speculation relating to this review has already caused considerable uncertainty for the Company's shareholders, management and staff and this uncertainty is further compounded by the continued volatility in markets experienced in the year to date.

The continued stability of our key employees is fundamental to the successful achievement of the Company's three-year plan. Your Board and the Company's management team place the highest priority on the retention of top-performing fund managers as well as other valuable executives and professionals. It is for this reason that the Company's compensation policy is based on the delivery of competitive total compensation as warranted by performance and relevant market comparators.

In practice, the Company's policy is to provide a strong emphasis on long-term share-based awards. The LTRP is the Company's principal scheme to provide an alignment of long-term interest between employees and shareholders. Under this arrangement your Board approves annually the conditional awards of shares to high-performing and market-visible key employees, below Executive Director level. These awards are made with a delayed three-year maturity and comprise 'deferred' and/or 'performance' shares.

In facing a continued period of uncertainty it is important to ensure that the Company's long-term share plans provide maximum retention value. In accordance with their terms of reference and best market practice, the Company's Remuneration Committee and its Board keep the terms and the effectiveness of the Company's share schemes under review. Having concluded the recent review, which commenced in the final quarter of 2007, your Board's assessment is that in one important aspect the rules of the LTRP do not provide the necessary retention value required during this period of uncertainty and as such should be amended.

Under the current rules of the LTRP, a participant whose employment is terminated in certain 'good leaver' circumstances (namely, redundancy, retirement at normal retirement age, the transfer of his employing business or company out of the F&C group, or any other reason at the discretion of the Board) receives only a pro rata award (to reflect the period of service) and at a future date, being the original vesting date of the award.

Our proposal is to enhance the retention value of the deferred share awards to certain categories of 'good leavers' (namely, participants who cease employment due to redundancy or in any other circumstance which the Board considers makes it appropriate for the revised provisions to be applied) by providing, in respect of all existing deferred share awards and for any

deferred share awards made during 2008, for full vesting as at the date of termination of employment. The ordinary shares of the Company to which the employee will become entitled as a result of such vesting will be released to the employee as soon as reasonably practicable after termination (and in any event not later than thirty days from the date of vesting). It is intended that deferred share awards made after 2008 will revert to the good leaver rules that applied prior to this proposal. The Board will, however, retain discretion to apply this proposed change to future deferred share awards as appropriate.

It should be noted that the LTRP rules covering restricted share awards remain unchanged and subject to the existing tests of performance. The terms of The F&C Asset Management plc Executive Director Remuneration Plan, covering the Executive Directors of the Company, also remain unchanged by this proposal.

Further details of the proposed amendment to the LTRP rules are set out in the appendix to the notice of meeting contained on page 166.

Friends Provident has given its irrevocable undertaking to vote in favour of the resolution approving the proposed amendments to the LTRP.

Changes to the Company's Articles of Association

Special resolution 14 will be put to the AGM to amend the Company's articles of association to reflect the provisions of the Companies Act 2006 brought into force on 1 January 2007, 20 January 2007, 6 April 2007 and 1 October 2007. A summary of the principal proposed alterations is set out in paragraphs 1 to 7 below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 or changes to market practice have not been noted in this summary.

Certain of the provisions of the Companies Act 2006, in particular those relating to Directors' conflicts of interests summarised in paragraph 8 below, will be brought into force on 1 October 2008. Special resolution 15 will be put to the AGM to amend the Company's articles of association to reflect those provisions from 1 October 2008 or such later date as those provisions are brought into force.

The proposed changes to the Company's articles of association in resolution 14 and 15 are set out in the copies of the articles of association marked "A" and "B" respecitively which will be available for inspection at the Company's registered office, 80 George Street, Edinburgh EH2 3BU, and at the Company's head office at Exchange House, Primrose Street, London EC2A 2NY during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) from the date of this annual report until the date of the AGM and at the place of the AGM from 15 minutes prior to and during the continuance of the meeting.

Summary of Amendments to the Articles of Association

Amendments to take effect from the date of the AGM, conditional on the passing of special resolution 14

1. Articles which duplicate statutory provisions
Provisions in the current articles which replicate provisions contained in the Companies Act 1985 are in the main amended to bring them into line with the Companies Act 2006. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights and provisions regarding the period of notice required to convene general meetings. The main changes to reflect this approach are detailed below.

2. Form of resolution
The current articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. It is proposed that this provision be amended as the concept of extraordinary resolutions has not been retained under the Companies Act 2006.

The current articles enable members to act by written resolution. Under the Companies Act 2006 public companies can no longer pass written resolutions. It is therefore proposed that these provisions be deleted.

3. Variation of class rights
The current articles contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the Companies Act 2006. It is proposed that the relevant provisions in the articles be amended to reflect the provisions of the Companies Act 2006.

4. Convening extraordinary and annual general meetings
The provisions in the current articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. In particular an extraordinary general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

5. Votes of members
Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the current articles proxies are only entitled to vote on a poll. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The proposed amendments to the articles reflect all of these new provisions.

6. Age of directors on appointment

The current articles contain a provision limiting the age at which a Director can continue to be a Director or be appointed. Such provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so it is proposed that it be deleted.

7. Directors' indemnities and loans to fund expenditure
The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

The proposed amendments to the articles reflect these provisions of the Companies Act 2006 and include inserting new provisions in the articles to allow Directors to be counted in the quorum and vote at a meeting of the Directors in respect of a resolution relating to the entry into any indemnity in favour of him or any provision to him of funds to meet expenditure incurred or to be incurred by him in certain investigations, actions or proceedings where he would otherwise not be entitled to be counted in the quorum and vote.

Amendments to take effect from 1 October 2008, conditional on passing of special resolution 15

8. Directors' interests
The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

The changes to the articles of association proposed in special resolution 15, to take effect from 1 October 2008, would give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation.

It is also proposed that the articles of association should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a Director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors and will take effect from 1 October 2008.

Auditors

KPMG Audit Plc 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 AGM.

Details of the auditor's 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 40 within the Directors' Report on Corporate Governance.

Adequacy of the information provided to the auditors

The Directors who held office at the date of approving this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board,
W Marrack Tonkin, FCCA
Secretary

80 George Street
Edinburgh EH2 3BU
20 March 2008

Directors' Report on Corporate Governance

The Company is committed to, and strives for, best practice in 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 the Company has, throughout the year ended 31 December 2007 and up to the date hereof, applied the principles and met the requirements of the Code.

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, 13 May 2008.

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, two Executive Directors and nine Non-executive Directors, six of whom the Board has identified as Independent Directors. Keith Bedell-Pearce is the Senior Independent Director. The biographies of the Directors appear on pages 24 and 25. 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 in 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 52 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, Sir Adrian Montague (FP Executive Chairman), Philip Moore and Jim Smart (FP Executive Directors) served as Directors of the Company during the year. Alain Grisay, the Company's Chief Executive, served as an Executive Director of FP during the year. No remuneration or benefits are paid to Mr Grisay in respect of his services as an Executive Director of FP. In addition, Gerhard Roggemann is an independent Non-executive Director of both FP and the Company. Mr Roggemann joined the Board as an independent Non-executive Director in June 2007. As part of the formal annual evaluation exercise, the Board assessed Mr Roggemann's ongoing independence in March 2008 and determined Mr Roggemann to be independent in character and judgement. The Board's conclusion was based on the integrity, objectivity and professionalism displayed by Mr Roggemann's contribution to Board discussions and debates. The Board acknowledges and respects that some parties may hold a different view of Mr Roggemann's independence as a consequence of him being an independent Non-executive Director of FP.

The other Non-executive Directors of the Company are Robert Jenkins (Chairman), Keith Bedell-Pearce, Dick de Beus, John Heywood, Brian Larcombe, Nick MacAndrew and Jeff Medlock. With the exception of Jeff Medlock, who in 2004 retired as Chief Financial Officer of Eureko, a 10 per cent. shareholder in the Company, all of the Non-executive Directors listed above meet the criteria of independence as set out in the accepted guidance. Although not independent on appointment, the Chairman is considered by the Board to be sufficiently independent of management.

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 are reviewed and approved annually by the Board, 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) 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 appointment process exists.

Membership
The Committee is chaired by Robert Jenkins. The Committee comprises the Chairman and three Non-executive Directors, two of whom are Independent Non-executive Directors.

Throughout 2007 the Committee met formally on three occasions. In addition, the Committee or its members had many other occasions to meet informally or with advisers and candidates. None of these informal sessions are reflected in the numbers shown on page 36.

On 10 May 2007 David Gray retired from the Board and the Committee.

On 27 November 2007 Philip Moore retired from the Board and the Committee. Sir Adrian Montague replaced Mr Moore as a member of the Committee at the same date.

Members of the Nomination Committee: Robert Jenkins (Chairman), Dick de Beus, Brian Larcombe and Sir Adrian Montague.

Activities and work of the Committee
In January 2007, Keith Satchell, a Non-executive Director, retired from the Board and was replaced on the same date by Jim Smart.

On 10 May 2007, David Gray, an independent Non-executive Director, and Christopher Jemmett, a Non-executive Director, retired from the Board.

During 2007, the Committee, assisted by an external search agency, successfully concluded searches for two independent Non-executive Directors. Nicholas MacAndrew joined the Board on 10 May 2007 and Gerhard Roggemann joined the Board on 19 June 2007.

As an integral part of its succession planning, the Committee reviews the balance and composition of the Board including the number of Directors serving thereon. After due deliberation the Committee and the Board re-affirmed the Company's commitment to striving to achieve best practice corporate governance by continuing with a Code-compliant Board and Board Committee structure.

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 fulfilment of their duties and assesses 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
20 March 2008

(b) 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, Environmental and Ethical matters, internal control and adherence to policies and procedures.

Membership
The Committee is chaired by Keith Bedell-Pearce. The Committee comprises solely independent Non-executive Directors.

The Committee usually meets at least five times a year to review the integrity of the Interim Report and Financial Statements and the Annual Report and Financial Statements and other matters as set out in the terms of reference. Senior management and a representative from FP, given the enlarged group's governance requirements, attend as required. These meetings are also attended by senior members of the Company's auditor.

During the year the Committee met formally on five 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 Audit Risk & Compliance department without any other members of management present.

Members of the Audit & Compliance Committee:
Keith Bedell-Pearce (Chairman), Brian Larcombe, John Heywood and Nick MacAndrew. Brian Larcombe and Nick MacAndrew joined the Committee on 10 May 2007 and Messrs Gray and Jemmett retired from the Board and the Committee on the same day. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience, a position that should continue throughout 2008.

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 five 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 and the Group's financial performance, including any significant financial reporting judgements contained in them. A similar process is adopted at the interim reporting stage, with a final meeting taking place late in the year to consider any year end matters. 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
Keith Bedell-Pearce
Chairman, Audit & Compliance Committee
20 March 2008

(c) Statement of 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
The Chairman of the Committee is Brian Larcombe. Having reached the age of 70 during the year, John Heywood, the Committee's former Chairman, will retire from the Board and the Committee on conclusion of the forthcoming Annual General Meeting. In order to effect a smooth handover of responsibilities, Mr Larcombe assumed the role of Chairman to the Committee in the third quarter of 2007. The Committee comprises solely independent Non-executive Directors.

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

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 41 to 49). 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 41.

For the Board
Brian Larcombe
Chairman, Remuneration Committee
20 March 2008

Attendance at meetings

The following table identifies the number of Board and formal committee meetings held in 2007 and the attendance record of the individual Directors as members of committees of the Board. In addition to the meetings detailed below a number of sub-committees of the Board and Board Committees occurred.

	Board	Non-executive Director meetings without management present	Remuneration Committee	Audit & Compliance Committee	Nomination Committee
Number of meetings held in 2007(2006)	8(7)	2(2)	4(6)	5(7)	3(4)
Robert Jenkins	8	2	–	–	3
Alain Grisay	7	–	–	–	–
Keith Bedell-Pearce	8	2	4	5	–
Dick de Beus	8	2	–	–	3
David Gray[1]	3	1	–	2	2
John Heywood	7	2	4	3	–
Christopher Jemmett[1]	3	1	–	2	–
Brian Larcombe[2]	8	2	4	3	2
David Logan	8	–	–	–	–
Jeff Medlock	8	2	–	–	–
Nick MacAndrew[3]	2	1	–	2	–
Philip Moore[4]	6	1	–	–	2
Sir Adrian Montague[5]	1	–	–	-	–
Gerhard Roggemann[6]	2	1	–	–	–
Keith Satchell[7]	–	–	–	–	–
Jim Smart[8]	6	–	–	–	–

[1] Resigned as a member of the Board and relevant Board Committees on 10 May 2007.
[2] Appointed as a member of the Audit & Compliance Committee on 10 May 2007.
[3] Appointed as a member of the Board and Audit & Compliance Committee on 10 May 2007.
[4] Resigned as a member of the Board and relevant Board Committees on 27 November 2007.
[5] Appointed as a member of the Board and the Nomination Committee on 27 November 2007.
[6] Appointed as a member of the Board on 19 June 2007.
[7] Resigned as a member of the Board and relevant Board Committees on 1 January 2007.
[8] Appointed as a member of the Board on 1 January 2007.

Board roles

Chairman

The Chairman of the Company is Robert Jenkins. As Chairman, Mr 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 and includes 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.

The performance of the Chairman during 2007 was reviewed by the Non-executive Directors in a meeting chaired by Keith Bedell-Pearce, the Senior Independent Director. The Non-executive Directors concluded at the meeting that Robert Jenkins displayed the characteristics expected of a Chairman including being appropriately independent of the management team.

Mr Jenkins' biography is set out on page 24. Mr Jenkins assumed the Chair of the Investment Management Association of the UK in May 2007. This is a Non-executive, part-time role. Finally, Mr Jenkins volunteers time to two London based business schools with which he is affiliated.

Chief Executive

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

Non-executive Directors

Messrs Bedell-Pearce, de Beus, Heywood, Larcombe, MacAndrew, Medlock, Sir Adrian Montague, Roggemann and Smart are the Company's Non-executive Directors. As Non-executive Directors they are responsible for: Promoting entrepreneurial leadership and the highest standards of governance within a framework of prudent and effective controls; constructively challenging and helping develop strategic proposals; ensuring that the Group has in place the necessary resources to meet its strategic objectives; reviewing management performance; determining appropriate levels of Executive Director Remuneration (Remuneration Committee members), 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.

Board evaluation and professional development

A comprehensive and rigorous evaluation of the performance of the Board, its principal Committees and the Chairman was conducted during the year. The Board evaluation was carried out with the assistance of the Company Secretary and was led by the Chairman. The procedure adopted was for each Director to complete a detailed questionnaire, on a non-attributable basis, on their perception of the composition, operation and effectiveness of the Board and its Committees. Each Director was then interviewed by the Chairman in order to explore certain issues in greater depth and to identify areas requiring improvement.

The results of the review were then considered during one-to-one discussions with the Chairman and collectively at a Board meeting as well as at the relevant Committee meetings.

This process confirmed that areas of weakness highlighted in the prior year had been satisfactorily addressed and that the Board was functioning effectively. One significant area identified for improvement in the year ahead is strengthened executive director succession planning. The aim is to ensure continuous improvement in Board processes and procedures. The Non-executive Directors also met separately, under the Chairmanship of the Senior Independent Director, to discuss the performance of the Chairman and provide him with collective feedback.

During the year the Chairman, in consultation with the Nomination Committee, performed an evaluation of the skills each Board member brings to the Board and created a skills matrix that was presented to the Nomination Committee and the Board for use in identifying professional development requirements and succession planning.

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.

During 2007, the Board made site visits to the Company's offices in Edinburgh and The Netherlands. These visits afforded an opportunity to meet with senior staff in both locations. The Board has, since the merger in 2004, visited all the Company's offices with the exception of its sales and marketing offices in Boston, Geneva and Paris. The result of these visits is a better understanding by the Board of the Company's activities.

Directors and Directors' election and re-election

The Directors who served at any time during the year ended 31 December 2007 are as shown in the Directors' Remuneration Report on page 47. Details of the Executive Directors' service contracts and Non-executive Directors' letters of appointment can be found on pages 46 and 47.

Nick MacAndrew and Gerhard Roggemann, both of whom are Independent Non-executive Directors, and Sir Adrian Montague, a Non-executive Director, were appointed during the year. As such, they retire at the Annual General Meeting and, being eligible, are offering themselves for election.

Directors' Report on Corporate Governance

Under the terms of the Company's Articles of Association, at least one third of Directors eligible to stand for re-election must do so at each Annual General Meeting. Accordingly Messrs Bedell-Pearce, de Beus and Medlock have been selected by the Nomination Committee and the Board to 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 re-election at the Annual General Meeting demonstrate commitment to their role. In accordance with the requirements of the Code, the Nomination Committee gave more detailed consideration to the proposed re-election of Mr Bedell-Pearce, given that he will, if re-elected, enter his third three-year term of appointment. The Nomination Committee and the Board have resolved to review Mr Bedell-Pearce's appointment on an annual basis. The Nomination Committee has also confirmed that all Directors submitting themselves for 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-executive Directors display the qualities expected of a Chairman and of an effective Non-executive Director. The Nomination Committee believes that all Directors submitting themselves for election and re-election should be elected or re-elected.

Details of the Directors offering themselves for election or re-election can be found on pages 24 and 25.

Board succession planning

The Nomination Committee has a detailed succession plan for the Board's Non-executive Directors. The plan was shaped by the aforementioned skills profile, projected and expected normal retirements, and the Company's commitment to corporate governance best practice. The plan is approved annually by the Board. The Directorate changes during 2007 were consistent with the plan.

Relations with shareholders

The Board as a whole acknowledges 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 Chief Financial Officer 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, 13 May 2007 can be found in the notice of the meeting commencing on page 164.

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. Unattributed shareholder feedback on the Company, facilitated by the Company's brokers, is also presented to the Board following management's year end results presentations.

Shareview

The Company's registrar, Equiniti, offers a Shareview service enabling shareholders to have more control over their shares and other investments:

- Direct access to data held on the share register including recent share movements and dividend details.
- The ability to change address details or dividend payment instructions on-line.
- To sign up for Shareview – shareholders need the "shareholder reference" printed on the proxy form or dividend stationery – and there's no charge to register.

On registration, shareholders can select their preferred format (post or e-mail) for shareholder communications. Shareholders selecting "e-mail" as their mailing preference 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. Shareholders selecting "post" as their preference will be sent paper documents as usual.

Details of software and equipment requirements are given on the website, www.shareview.co.uk

Electronic communications

Copies of the 2007 Annual Report and Financial Statements, the Notice of Annual General Meeting, other corporate publications, press releases and announcements are available on the Company's website. Shareholders are encouraged to take advantage of the provisions allowing the Company to communicate electronically.

Voting Online

In accordance with good governance practice the Company is offering shareholders use of an online voting service, "sharevote", offered by the Company's registrar, Equiniti, at www.sharevote.co.uk. Shareholders can use this service to vote or appoint a proxy online. The same voting deadline (12 noon (UK time) on 11 May 2008) applies as for the Personalised Voting Form to vote or appoint a proxy by post to vote. Shareholders need to use the unique personal identification details (Reference Number, Card ID and Account Number) that are printed on the Personalised Voting Form to use this service.

CREST members

Registered shareholders who are CREST members who are entitled to attend and vote at the meeting 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 13 May 2008, 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 or instruction made by means of the CREST service 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, Equiniti (ID 7RA01), by 12 noon (UK time) on 11 May 2008. 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. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is therefore the responsibility of the CREST member concerned to take (or procure the taking of) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

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.

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 2007.

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 20 March 2008, the date of approval of the Annual Report and Financial Statements. 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 its 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. The quarterly reports include issues of material business risk. These reports are discussed in detail by the Management Committee which includes both Executive Directors. All significant items are identified and reported to the Board on a regular basis.

The key risks facing the Group at the year end and the mitigating actions assigned to these risks are detailed in the Business Review on page 16.

Monitoring and corrective action

There is a formal compliance function, which is integrated with the internal audit function and 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. Any issues of significance are brought to the attention of the Board by the

Directors' Report on Corporate Governance

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 Group, the Board has a clear policy that it follows when considering awarding non-audit work to the Group's auditors. The policy applied during 2007 is detailed below.

The Company does not impose an automatic ban on the Group's auditors 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.

Auditors of the Company are permitted to perform non-audit work in areas where, in the opinion of the Audit & Compliance Committee, it is appropriate for them to do so and there are no actual or perceived independence issues.

The Chairman of the Audit & Compliance Committee is authorised to approve the use of auditors for non-audit work provided that the cost does not exceed £50,000 and the aggregate value does not exceed the audit fee for the financial year in question. In other circumstances, the approval of the Audit & Compliance Committee is required.

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 2006, a competitive audit tender exercise was undertaken resulting in the appointment of KPMG Audit Plc at the 2007 Annual General Meeting. KPMG Audit Plc have expressed their willingness to remain in office and the Board's recommendation to shareholders to re-appoint KPMG Audit Plc as the Company's auditor is contained in the Notice of the Meeting on page 164.

During the year, Deloitte, Ernst & Young, and PricewaterhouseCoopers, all of whom are independent of KPMG, the external auditors, provided non-audit related services to the Group. Details of fees paid to these accounting firms during 2007 are disclosed in note 4 on page 70 of the notes to the Consolidated Financial Statements.

Future developments

The Board believes that the controls in place during 2007 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 FSA and leading practice.

By order of the Board,
W Marrack Tonkin, FCCA
Secretary

80 George Street
Edinburgh EH2 3BU
20 March 2008

Directors' Remuneration Report

In designing the total compensation arrangements for the Group and in preparing this report, the Board and the Remuneration Committee have complied with the provisions of the Combined Code ("the Code"), Schedule 992 to the Companies Act 2006 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.

The following policies represent the policies now adopted by the Group for the forthcoming year and subsequent financial years.

Introduction and objectives

The Remuneration Committee is a standing committee of the Board, chaired by Brian Larcombe, an independent Non-executive Director, (the Committee was chaired by John Heywood, an independent Non-executive Director until November 2007; Mr Heywood continues to serve as a member of the Committee). Its other member is Keith Bedell-Pearce an independent Non-executive Director.

The Committee has been established by the Board to:

(a) Recommend to the Board the Group's policy on Directors' remuneration;

(b) ensure that the 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 Group is determined by a committee of Board members which has no personal interest in the level of remuneration of the Group'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 Group; and

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

Research and advice

During the year, the Remuneration Committee sought and received independent remuneration research undertaken by McLagan & Partners, Deloitte, Kepler Associates, and PricewaterhouseCoopers, leading firms of executive remuneration consultants appointed by the Committee to assess comparability of the Group's remuneration policies to the marketplace and in particular the remuneration policies of the Group'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 2007 the Remuneration Committee also received advice from PricewaterhouseCoopers, Shepherd and Wedderburn and Kepler Associates relating to the application of the rules and the operation of the Company's long term incentive plans.

Statement of the 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 participation; 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. Total remuneration will comprise basic salary, pension provision, annual bonus, any awards under the long term share incentive schemes and all-employee share plans.

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

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 Group has an active policy of reducing the emphasis on base salary for senior employees.

(b) Bonus

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.

Bonus awards to all staff, including the Executive Directors, are made under the discretionary bonus scheme. The purpose of this scheme is to reward all staff and the Executive Directors for performance relative to agreed targets.

A 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:

Directors' Remuneration Report

- 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 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 (£100,000 in respect of the year ended 31 December 2007), will be required to defer one third of the element exceeding £75,000 (£100,000 in respect of the year ended 31 December 2007) into shares (comprising a range of investment products managed by the Company or the Company's 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").

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 2007, the Compulsory Purchased Equity element of the Purchased Equity Plan was applied to 78 employees (2006: 57 employees) in respect of their performance in 2006: Awards equivalent to £3.3 million (2006: £1.8 million) were acquired under the Compulsory Purchased Equity element of the Purchased Equity Plan.

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, 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 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 underlying earnings of the Group.

(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.

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. To date no such invitations have been made.

(c) Savings-related share schemes

To foster a culture of share ownership throughout the Group, the Board operates a Share Save Scheme (Share Save) and a Share Incentive Plan (SIP) for all eligible employees. Both schemes are "all-employee share schemes" and all employees including Executive Directors who meet certain criteria are eligible to participate. Invitations to all employees eligible to participate in these schemes are issued following the announcement of the year end results in March.

The SIP is a share scheme that enables employees to purchase F&C shares in a tax efficient manner on a monthly basis at the prevailing market price. The Share Save is a personal savings scheme that enables employees to either purchase discounted F&C shares, the price of which is determined at the time of offering, at the end of a three-year or five-year saving period, or to receive the accumulated cash value, including accrued interest, on a tax-free basis.

At 31 December 2007, 332 employees (31 December 2006: 321 employees) participated in Share Save and 413 employees (31 December 2006: 426 employees) participated in the SIP.

Shares under option within Share Save at 31 December 2007 are detailed below:

Number of options	Term (years)	Exercise price
March 2003 Participation		
256,474	5	114.0 pence
March 2004 Participation		
5,332	3	181.0 pence
102,955	5	181.0 pence
March 2005 Participation		
197,180	3	186.6 pence
122,334	5	186.6 pence
March 2006 Participation		
238,050	3	171.0 pence
117,033	5	171.0 pence
March 2007 Participation		
436,163	3	144.3 pence
182,446	5	144.3 pence

290,089 shares (2006: 213,109 shares) were held in trust for employees within the SIP. Both "all-employee share schemes" seek to buy shares in the market to remove any possible impact of dilution.

(d) 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 below is independent, PricewaterhouseCoopers will report to the Remuneration Committee as to whether the performance criteria under all schemes have been met.

Directors' Remuneration Report

The results of each year's calculation are set out below.

Achievement of performance conditions

During 2007 the growth in the Group's underlying EPS underperformed the growth in the RPI by 22.8 percentage points (2006: underperformed, as amended for the adjustment in relation to the loss of Resolution assets (2.74pence per share), by 6.7 percentage points, 2005: outperformed by 22.2 percentage points, 2004: outperformed by 13.2 percentage points).

In respect of awards made in 2007, the Company's total shareholder return ("TSR") ranked 89 out of a FTSE 250 Index comparator group of 210 companies* in the period from 1 January 2007 to 31 December 2007.

In respect of awards made in 2006, the Company's TSR ranked 114 out of a FTSE 250 Index comparator group of 185 companies* in the period from 1 January 2006 to 31 December 2007.

The share price at 31 December 2007 was 192.5 pence. During the year the highest price was 222.0 pence per share and the lowest price was 161.25 pence.

The F&C Asset Management plc Executive Director Remuneration Plan (EDRP)

The EDRP is an arrangement tailored to address the retention and incentive required for the Executive Directors of the Company during the term of the three-year business plan.

The EDRP comprises two components: Deferred Share Awards and Restricted Share Awards. The Restricted Share Award made during the year was a one-off award linked to the three-year growth plan for the Group.

Deferred awards

Vesting of the Ordinary Shares that are subject to a deferred award under the EDRP will be contingent solely on the continued employment of the Executive Director over the three year period.

During the year, 1,500,574 deferred awards were made under the EDRP.

Restricted awards

Vesting of the Ordinary Shares that are currently the subject of a restricted award under the EDRP will be contingent upon both the specified performance conditions below and conditions of continued service.

The performance conditions applied to restricted awards under the EDRP are determined by the Board and are measured over a three-year period. The vesting of Restricted Share Awards will generally be dependent on the satisfaction of a performance condition relating to the Underlying Earnings Per Share, excluding the costs associated with the EDRP ("EPS") performance of the Group.

Under this condition, a Restricted Share Award will only vest if the Group's EPS equals or exceeds a specified target in the year ending 31 December 2009. On achievement of the specified target, 100 per cent. of the award will vest.

The EPS that will be required in order for a Restricted Share Award to vest is appropriately challenging at not less than 18.0 pence per share, representing growth in excess of 40 per cent. from the 2006 reported EPS.

In addition, and in order to ensure that the EDRP encourages and rewards exceptional performance over and above the stretching target which must be met in order for a Restricted Share Award to vest, the terms of the above performance condition will also provide that, where the Group's EPS over the performance period exceeds the specified target level, a participant will be given the opportunity to increase the percentage of the relevant award that vests, up to a maximum of 140 per cent. To achieve the maximum enhanced level of vesting an extremely stretching condition of EPS at not less than 25.0 pence per share, representing growth in excess of 95 per cent. from the 2006 reported EPS, is required.

Where the EPS actually achieved by the Group over the performance period exceeds the level required for a Restricted Share Award to vest but is less than the specified target which must be met in order to achieve the maximum level of enhanced vesting, then the percentage of the award that vests will be calculated on a "straight-line" basis between 100 per cent. and 140 per cent.

On vesting, any Restricted Share Awards will be subject to an additional holding period with 50 per cent. of any shares vesting held until announcement of the 2010 annual results and the balance not being released before September 2011.

During the year 2,860,000 restricted awards (being 100% of the maximum 140% of the award) were made under the EDRP.

The F&C Asset Management plc Long Term Remuneration Plan (LTRP)

The LTRP is the primary long term incentive arrangement of the Company.

The LTRP is a discretionary contingent share award scheme unapproved by HM Revenue and Customs. The LTRP is designed to support the business objectives of the Group.

Under the LTRP, contingent awards of shares are made under two categories:

Deferred awards

Vesting of the Ordinary Shares that are subject to a deferred award under the LTRP will be contingent solely on the continued employment of the relevant participant over a three-year period.

During the year, 5,911,422 deferred awards were made under the LTRP (2006: 3,634,418). Deferred awards were made to 202 staff (2006: 183 staff).

Restricted awards

Vesting of the Ordinary Shares that are currently the subject of a restricted award under the LTRP will be contingent upon both the specified performance conditions below and conditions of continued service.

The performance conditions applied to restricted awards under the LTRP are determined by the Board and are measured over a three-year period. For existing restricted awards under the LTRP, 50 per cent. of any award relates to TSR and 50 per cent. of the award relates to real earnings per share growth.

*In line with the definition of the performance condition, the constituent companies of the FTSE 250 Index were taken as at the date of award and 31 December 2007. Only companies appearing in the index on both dates are included for the purpose of the analysis.

TSR target (applying to 50 per cent. of any award) The Group's TSR relative to FTSE 250	Percentage of award vesting
Below Median	Nil
Median	35%
Upper Quartile	100%

Underlying EPS target (applying to 50 per cent. of any award) Growth in Group's EPS over three year performance period	Percentage 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 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 would 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 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 327,548 restricted awards were made under the LTRP (2006: 1,482,046). Restricted awards were made to 9 staff (2006: 20 staff).

Deferred Share Awards

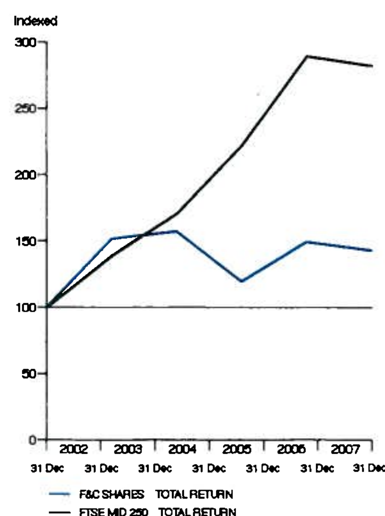
In November 2007 the Company made deferred awards of 1,096,539 ordinary shares in the Company to four employees in connection with commitments made to them on recruitment in 2005. The awards will vest in November and December 2008 and will be settled by the ISIS Employee Benefit Trust.

Policy on grants and awards under the share incentive schemes

The Company's policy for the granting of awards under the LTRP and EDRP is that awards and grants are based on an assessment of individual contribution to the business and independent advice obtained on current remuneration practices. Award levels will be determined by the Remuneration Committee with reference to Group 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 and EDRP 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.

Performance graph for the share incentive schemes

The graph below compares the performance of the Company for the five financial periods ending 31 December 2007 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

Directors' Remuneration Report

(e) Policy on other benefits
The Group provides all staff with life assurance cover. The Group'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.

(f) Policy on pension
The Group'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.

(g) 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.

(h) Policy on Non-executive Directors' remuneration
Non-executive Directors' fees for the year to 31 December 2007 are set out below. None of the Non-executive Directors have 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. All fees are reviewed annually.

Apart from the Chairman, Non-executive Directors are paid a basic fee. In the year ended 31 December 2007 the Non-executive base fee was £30,000 per annum. Non-executive Directors are separately remunerated for their services on Board Committees. In the year ended 31 December 2007 The Chairman of the Board, who chairs the Nomination Committee, received an annual all inclusive fee of £100,000.

The Remuneration Committee sets the Chairman's annual remuneration. The Board as a whole determines the fees for Non-executive Directors, the Senior Independent Director supplement and the additional fees payable for Membership and Chairing Board Committees. The supplemental member and Chairman's fees paid for Board Committees are set out below.

On 27 November 2007 the Board approved an increase to the Chairman's fee of £25,000 per annum and an increase of £10,000 to the basic fee payable to Non-executive Directors. A £15,000 supplemental fee is paid to the Senior Independent Director. No changes were made to the additional fees payable for Membership or Chairing Board Committees. The increase in fees took effect from 1 January 2008.

Chairman's fee	Committee Member's fee (£)	(payable in addition to the member's) (£)
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.

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

Messrs Grisay and Logan have current service contracts with the Company that are for a rolling period of one year, details of which are summarised below. No employee of the Group has a service contract that cannot be brought to an end within one year.

Executive Directors	Date of contract	Notice period	Unexpired term	Provision for compensation payable by the Company on early termination £000
Alain Grisay	11 Oct 2004	Twelve months	rolling twelve months	331
David Logan	31 July 2006	Twelve months	rolling twelve months	252

Chairman and Non-executive Directors	Date of contract	Notice period	Unexpired term at 31 March 2008	Provision for compensation payable by the Company on early termination £000
Robert Jenkins	16 May 2006	None	Fourteen months	Nil
Keith Bedell-Pearce	16 May 2006	None	Fourteen months	Nil
Dick de Beus	16 May 2006	None	Fourteen months	Nil
John Heywood	26 Apr 2005	None	One month	Nil
Brian Larcombe	10 May 2007	None	Twenty six months	Nil
Nick MacAndrew	10 May 2007	None	N/A*	Nil
Jeff Medlock	26 Apr 2005	None	One month	Nil
Sir Adrian Montague	27 Nov 2007	None	N/A*	Nil
Gerhard Roggemann	19 Jun 2007	None	N/A*	Nil
Jim Smart	10 May 2007	None	Twenty six months	Nil

* Subject to election at the forthcoming Annual General Meeting

Directors retiring and seeking election/re-election

The names of those Directors proposed for election and re-election are contained in the Directors' Report on Corporate Governance on pages 37 and 38.

Statement on Directors Remuneration (audited)

The remuneration of the Chairman and the other Directors who held office during the year ended 31 December 2007 is set out in the table below:

	Salary and fees 2007 £000	Bonus 2007 £000	Benefits and allowances 2007 £000	Total 2007 (excluding pension contribution) £000	Total 2006 (excluding pension contribution) £000	Pension contributions 2007 £000	Total 2007 £000	Total 2006 £000
Executive Directors								
Alain Grisay	325	1,161*	11	1,497	1,689	892**	2,389	2,374
David Logan(1)	250	317*	3	570	556	195	765	567
Chairman and Non-executive Directors								
Robert Jenkins (Chairman)	100	–	2	102	102	–	102	102
Christopher Jemmett (2)	20	–	–	20	55	–	20	55
Dick de Beus	35	–	–	35	35	–	35	35
Keith Bedell-Pearce(3)	59	–	–	59	48	–	59	48
David Gray(2)	16	–	–	16	65	–	16	65
John Heywood	51	–	–	51	48	–	51	48
Brian Larcombe(4)	50	–	–	50	38	–	50	38
Nick MacAndrew(5)	26	–	–	26	–	–	26	–
Sir Adrian Montague(6)	–	–	–	–	–	–	–	–
Philip Moore(7)	–	–	–	–	–	–	–	–
Jeff Medlock	30	–	–	30	30	–	30	30
Gerhard Roggemann(8)	16	–	–	16	–	–	16	–
Jim Smart	–	–	–	–	–	–	–	–
Total	978	1,478	16	2,472	2,666	1,087	3,559	3,362

*In addition, Alain Grisay and David Logan received £633,333 and £158,333 repectively, which will be deferred for three years in Compulsory Purchased Equity under the terms of the Purchased Equity Plan details of which are shown on pages 41 and 42.

**Includes £666,666 pension contribution, each year representing one third of the £2,000,000 contribution detailed below.

(1)Appointed as a Director on 31 July 2006.

(2)Resigned as a Director on 10 May 2007.

(3)Appointed Senior Independent Director on 10 May 2007.

(4)Appointed to the Audit & Compliance Committee on 10 May 2007 and appointed Chairman of Remuneration Committee on 27 November 2007.

(5)Appointed as a Director on 10 May 2007.

(6)Appointed as a Director on 27 November 2007.

(7)Resigned as a Director on 27 November 2007.

(8)Appointed as a Director on 19 June 2007.

Directors' Remuneration Report

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

The Company received £Nil (2006: £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 Philip Moore, Sir Adrian Montague and Jim Smart, which would have been payable to Friends Provident plc, were waived in 2007 by Friends Provident in lieu of the services provided by Alain Grisay to their Board in his capacity as a Director of Friends Provident, for which no fee is payable to F&C.

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:

	2007 Number	2006 Number
Members of money purchase pension scheme	2	2
Members of defined benefit scheme	–	2

	2007 £000	2006 £000
Company contributions paid to money purchase pension schemes		
Alain Grisay	225	2,018*
David Logan (2006 – from appointment on 31 July 2006)	195	11

*£2,000,000 of which is re-payable in full by Mr Grisay if he resigns or is dismissed for cause before 15 January 2009. This payment, which is equivalent to £666,666 per annum for three years, represents the Company's commitment to Mr Grisay on assuming the role of Chief Executive to provide him with an appropriate pension at age 60.

During the year, the Company paid a widow's pension of £91,000 (2006: £88,000) in respect of the pension benefits which had accrued to a former chairman.

No Directors were members of a defined benefit scheme during the year.

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 31/12/2007	(4) Transfer value of net increase in accrual over period	(5) Total change in value during period	(6) Value of accrued pension at 31/12/2007	(7) Value of accrued pension at 31/12/2006
Robert Jenkins	£4,100	–	£110,500	–	£479,400	£2,383,000	£1,903,600

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 to form F&C Asset Management plc.

(c) Transfer values have been calculated in accordance with version 9.2 of guidance note GN11 issued by the actuarial profession.

(d) The transfer values represent the actuarial value of a liability to the Group, 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 2007 are shown below.

David Logan, an Executive Director, received an award of 154,838 deferred shares on joining the Company in July 2006. This award, which is contingent on Mr Logan remaining with the Company for a period of at least three years, will vest in July 2009. This award was an initial joining award made outwith any of the Company's long term incentive schemes.

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

Executive Director Remuneration Plan (audited)

Details of the Executive Director Remuneration Plan are set out on page 44.

During the year both Alain Grisay and David Logan participated in the plan.

Date of Grant	Nature of Award	Alain Grisay	David Logan	Total Awards Outstanding	Share Price at date of award
21 May 2007	Deferred	1,300,000	200,574	1,500,574	193.0p
21 May 2007	Restricted*	2,500,000	360,000	2,860,000	193.0p

* representing 100 per cent. of the maximum 140 per cent. of the award.

Long Term Remuneration Plan awards (audited)

Details of the Long Term Remuneration Plan are set out on page 44.

At 31 December 2007 there are no awards outstanding to any Executive Director under the Long Term Remuneration Plan (31 December 2006: 1,165,270 outstanding to Mr Grisay). On 10 May 2007, following shareholder approval for the adoption of the Executive Director Remuneration Plan, the restricted share award of 956,937 made under the LTRP in 2006 to Alain Grisay was waived. No awards were made to Executive Directors under the Long Term Remuneration Plan in 2007. On 15 November 2007, being the third anniversary of the awards made in 2004, Alain Grisay exercised 104,167 awards and 104,167 awards lapsed. The share price on 15 November 2007 was 210.5p.

Re-Investment Plan (audited)

Details of the Re-Investment Plan are set out on page 104.

During the year the Re-Investment Plan, which was a one-off plan introduced at the time of the merger in 2004, matured. On 11 October 2007 1,195,638 "matching" shares were allocated to Alain Grisay in accordance with the rules of the plan. The share price on 11 October 2007 was 213.75p.

At 31 December 2007, there are no awards outstanding to any Executive Director under the Re-Investment Plan.

Share options (audited)

Details of the share option schemes are set out on pages 101 to 114. No options have been granted to Directors or former Directors since 2003.

At 31 December 2007, David Logan held 6,548 options at an exercise price of 144.3 pence by saving £250 per month in the F&C Asset Management plc Share Save Scheme for 3 years.

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 2007 (excluding pension contribution)" within the Statement on Directors' remuneration on page 47.

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) 2007	Number of senior executives (excluding Executive Directors) 2006
100-125	65	56
126-150	31	39
151-175	15	18
176-200	14	13
201-225	20	6
226-250	18	13
251-300	12	19
301-400	10	12
401-500	5	4
501-600	2	2
601-700	1	3
>700	1	1

By order of the Board,

W Marrack Tonkin, FCCA
Secretary

80 George Street
Edinburgh EH2 3BU

20 March 2008

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Consolidated and Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Consolidated and Company Financial Statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and applicable law and have elected to prepare the Company Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Consolidated Financial Statements are required by law and IFRS as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company Financial Statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing each of the Consolidated and Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Consolidated Financial Statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

Independent Auditor's Report to the Members of F&C Asset Management plc

We have audited the Consolidated and Company Financial Statements (the "Financial Statements") of F&C Asset Management plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Statement of Recognised Income and Expense, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU, and for preparing the Company Financial Statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 50.

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

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

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Consolidated Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Company Financial Statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007;
- the Company Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh

20 March 2008

Consolidated Income Statement

for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Revenue			
Investment management fees	2	**267.2**	257.6
Other income	2	**10.6**	3.7
Total revenue		**277.8**	261.3
Fee and commission expenses	2	**(13.3)**	(10.5)
Net revenue	2	**264.5**	250.8
Net gains and investment income on unit-linked assets	3	**45.0**	106.7
Movements in fair value of unit-linked liabilities		**(43.9)**	(105.0)
Operating expenses			
Operating expenses	4(b)	**(183.8)**	(159.4)
Investment Trust VAT expense	4(c)	**(4.2)**	–
Re-Investment Plan costs		**(6.4)**	(11.6)
Amortisation of intangible assets – management contracts	13	**(42.4)**	(43.0)
Impairment of intangible assets – management contracts	13	**–**	(58.5)
Total operating expenses before restructuring costs		**(236.8)**	(272.5)
Operating profit/(loss) before restructuring costs		**28.8**	(20.0)
Restructuring costs	6	**–**	(9.7)
Operating profit/(loss) after restructuring costs		**28.8**	(29.7)
Finance revenue	7	**23.8**	20.6
Finance costs	8	**(27.3)**	(22.0)
Impairment in associates and other financial investments	14	**–**	(0.8)
Loss on disposal of associates	16(b)	**–**	(0.1)
Share of profit of associates	15	**0.6**	1.5
Profit/(loss) before tax		**25.9**	(30.5)
Tax – Policyholders		**(0.6)**	(0.9)
Tax – Shareholders		**(6.6)**	8.9
Tax (expense)/income	9	**(7.2)**	8.0
Profit/(loss) for the year		**18.7**	(22.5)
Attributable to:			
Equity holders of the parent		**17.1**	(23.5)
Minority interests		**1.6**	1.0
Profit/(loss) for the year		**18.7**	(22.5)
Basic earnings/(loss) per share	11	**3.54p**	(4.91)p
Diluted earnings/(loss) per share	11	**3.43p**	(4.91)p
		£m	£m
Memo – dividends paid	10(a)	**43.5**	52.7
– dividends proposed	10(a)	**19.7**	33.8

Consolidated Balance Sheet
as at 31 December 2007

	Notes	As at 31 December 2007 £m	As at 31 December 2006 £m
Assets			
Non-current assets			
Property, plant and equipment	12	**11.4**	12.8
Intangible assets:			
– Goodwill	13	**569.9**	569.9
– Management contracts	13	**253.7**	284.3
– Other intangible assets	13	**1.1**	1.1
	13	**824.7**	855.3
Other financial investments	14	**3.8**	2.1
Other receivables	21	**0.8**	2.5
Investment in associates	15	**–**	1.4
Deferred acquisition costs	17	**8.1**	7.9
Deferred tax assets	18(a)	**29.0**	33.4
Total non-current assets		**877.8**	915.4
Current assets			
Financial investments	19	**1,042.8**	1,128.8
Reinsurance assets	20	**2.3**	2.4
Stock of units and shares	19	**0.8**	0.7
Trade and other receivables	21	**96.7**	86.2
Deferred acquisition costs	17	**3.8**	3.4
Cash and cash equivalents:			
– Policyholders	22	**58.2**	53.3
– Shareholders	22	**216.2**	214.3
	22	**274.4**	267.6
Total current assets		**1,420.8**	1,489.1
Total assets		**2,298.6**	2,404.5
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	23	**258.7**	258.5
Other payables	24	**7.2**	4.0
Provisions	25	**10.2**	9.2
Pension deficit	26	**26.8**	45.4
Employee benefits		**2.0**	–
Deferred income	28	**12.1**	13.7
Deferred tax liabilities	18(a)	**73.4**	86.1
Total non-current liabilities		**390.4**	416.9
Current liabilities			
Investment contract liabilities	29	**1,090.1**	1,175.1
Insurance contract liabilities	30	**2.3**	2.4
Interest bearing loans and borrowings	23	**–**	5.0
Trade and other payables	24	**58.9**	62.2
Provisions	25	**10.1**	9.3
Employee benefits		**33.7**	32.8
Deferred income	28	**4.3**	4.2
Current tax payable		**15.3**	12.8
Total current liabilities		**1,214.7**	1,303.8
Total liabilities		**1,605.1**	1,720.7
Equity attributable to equity holders of the parent			
Share capital	31, 32	**0.5**	0.5
Share premium account	32	**33.8**	32.6
Merger reserve	32	**499.3**	520.7
Other reserves	32	**13.6**	(2.7)
Retained earnings	32	**145.2**	132.3
Total equity attributable to equity holders of the parent		**692.4**	683.4
Minority interests	32	**1.1**	0.4
Total equity	32	**693.5**	683.8
Total liabilities and equity		**2,298.6**	2,404.5

The financial statements were approved by the Board of Directors and authorised for issue on 20 March 2008. They were signed on its behalf by:

Robert Jenkins
Chairman

Alain Grisay
Chief Executive

Consolidated **Statement of Recognised Income and Expense**

for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Profit/(loss) for the year		**18.7**	(22.5)
Foreign exchange movements on translation of foreign operations		**14.9**	(4.4)
Actuarial gains on defined benefit pension schemes	26	**11.1**	2.5
Gain on available for sale financial investments		**1.9**	1.9
Fair value gains on available for sale financial investments transferred to the Income Statement		**–**	(2.4)
Tax expense on items taken directly to equity	9(a)	**(4.5)**	(0.8)
Other		**–**	0.1
Net income/(expense) recognised directly in equity		**23.4**	(3.1)
Total recognised income and expense for the year	32	**42.1**	(25.6)
Attributable to:			
Equity holders of the parent		**40.5**	(26.6)
Minority interests		**1.6**	1.0
		42.1	(25.6)

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Cash flows from operating activities			
Operating profit/(loss) before restructuring costs		**28.8**	(20.0)
Cash outflow relating to restructuring costs		**(2.9)**	(11.3)
Adjustments for non-cash items	33	**59.9**	119.4
Changes in working capital and provisions	33	**(0.8)**	41.4
Cash generated from operating activities		**85.0**	129.5
Income tax paid		**(21.3)**	(18.3)
Net cash inflow from operating activities		**63.7**	111.2
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(2.2)**	(4.1)
Refund of acquisition consideration for loss of Resolution Life funds		**–**	27.0
Purchase of intangibles – software		**(0.8)**	(0.7)
Return of capital from investments		**0.1**	0.1
Distributions to minority interests		**(0.9)**	(0.5)
Repayment of loan from associate (ISIS EP LLP)		**1.0**	–
Payments to acquire investments		**(2.0)**	(1.8)
Proceeds from disposal of investments		**–**	0.2
Expenses of F&CGH Group acquisition		**(0.1)**	(0.2)
Distributions received from associates		**1.9**	0.4
Investment income – investments		**3.8**	6.4
Investment income – interest and dividends		**10.6**	5.7
Net cash inflow from investing activities		**11.4**	32.5
Cash flows from financing activities			
Proceeds from issue of share capital	32	**1.2**	1.9
Repayment of loan from Eureko B.V.		**–**	(9.0)
Repayment of loans from FP Group		**(5.0)**	(205.0)
Proceeds from long-term borrowings		**–**	260.0
Payments in respect of expenses for long-term borrowings		**(0.3)**	(2.1)
Interest paid on Loan Notes		**(17.6)**	–
Interest paid on other loans		**(0.1)**	(14.0)
Other interest paid		**(0.2)**	(0.5)
Equity dividends paid	10(a)	**(43.5)**	(52.7)
Interest on Preference Shares		**(0.1)**	(0.1)
Cash movements from dealing in own shares		**(2.2)**	(0.7)
Net cash outflow from financing activities		**(67.8)**	(22.2)
Net increase in cash and cash equivalents		**7.3**	121.5
Effect of exchange rate fluctuations on cash held		**(0.5)**	(0.1)
Cash and cash equivalents at 1 January		**267.6**	146.2
Cash and cash equivalents at 31 December	22	**274.4**	267.6
Cash and cash equivalents			
Shareholders	22	**216.2**	214.3
Policyholders	22	**58.2**	53.3
	22	**274.4**	267.6

Accounting Policies

Basis of preparation and statement of compliance

These are the Consolidated Financial Statements of F&C Asset Management plc and its subsidiaries (the Group) which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (''adopted IFRS'') and those parts of the Companies Act 1985 applicable to companies reporting under adopted IFRS. The Consolidated Financial Statements are presented in millions of pounds Sterling, rounded to one decimal point, except where otherwise indicated.

The Group has adopted the following standards and interpretations during 2007:

IFRS 7 Financial Instruments: Disclosures.
IAS 1 Amendment – Presentation of Financial Statements: Capital Disclosures.

These standards primarily concern the disclosure of capital, financial instruments and risks. These disclosures can be found primarily in notes 36 and 37.

Parent company financial statements

The parent Company has continued to present individual financial statements prepared on a UK GAAP basis as permitted by section 226(2) of, and Schedule 4 to, the Companies Act 1985, adopting the exemption of omitting the profit and loss account and related notes conferred by section 230 of that Act. The parent Company financial statements, together with its respective accounting policies, are presented on pages 145 to 163.

Accounting estimates assumptions and judgements

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the balance sheet date as well as the reported income and expenses for the year. While estimates are based on management's best knowledge and judgement using information and financial data available to them, the actual outcome may differ from these estimates.

The key sources of estimation uncertainty and critical judgements in applying accounting policies are disclosed, where appropriate, in the following notes to the Consolidated Financial Statements:

(a) Amortisation periods used on intangible assets

The amortisation periods used on intangible management contracts and amortisation costs, as disclosed in note 13.

(b) Impairment testing of intangible assets

The projected revenue growth, projected operating cost growth and discount rates applied to cash flow projections as disclosed in note 13.

(c) Deferred taxation assets

An assessment of probable future taxable profits is made, against which temporary differences, being the carrying forward of excess tax expenses and tax losses, are utilised. Deferred tax assets and liabilities are disclosed in note 18.

(d) Provisions

Details of provisions are disclosed within note 25. Actuarial valuations are used for the guaranteed product, long-term sickness and long-term service awards using assumptions consistent with the pension assumptions disclosed in note 26. Onerous contract provisions for premises are subject to uncertainties over time, including market rent reviews and break-options within the lease arrangements. A number of uncertainties exist with respect to the Investment Trust VAT provision.

(e) Pension assumptions

The mortality assumptions, expected rates of return, discount rates, rates of salary increases and rate of inflation increases, as disclosed in note 26.

(f) Share-based payments

The valuation models used, together with the assumptions used on expected volatility, risk free rates, expected dividend yields and expected forfeiture rates, as disclosed in note 27.

(g) Insurance contract liabilities

The mortality and discount rates used on insurance contract liabilities, as disclosed in note 30.

Summary of significant accounting policies

The accounting policies set out below have been applied consistently throughout the Group for the purposes of the Consolidated Financial Statements for the years ended 31 December 2007 and 31 December 2006.

(a) Consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities. All subsidiaries follow accounting policies consistent with those of the Group and have coterminous reporting periods.

The Consolidated Financial Statements incorporate the assets, liabilities, results and cash flows of the Company and its subsidiaries. The results of subsidiaries acquired or sold during the period are included in the consolidated results from the date of acquisition or up to the date of disposal. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the Income Statement and within equity in the Balance Sheet, separately from parent shareholders' equity.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control over the financial and operating policies. Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any impairment loss) identified on acquisition.

Under the equity method of accounting, an investment is included as the cost of the investment plus the Group's share of post-acquisition changes in net assets after deducting any distributions received and any impairment loss recognised. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised but is subject to impairment where indicators of potential impairment exist. The Group's share of post-tax profits or losses is presented as a single line item in the Income Statement. The Group's associates follow accounting policies consistent with those of the Group and have coterminous reporting periods.

(iii) Business combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity. The result is that one entity, the acquirer, obtains control of one or more entities or businesses.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

(b) Foreign currencies

The Group's functional and presentation currency is pounds Sterling. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured in that functional currency.

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at the balance sheet date, and any exchange differences arising are taken to the Income Statement.

Non-monetary assets and liabilities, other than intangible assets arising on the acquisition of foreign operations (measured at historical cost in a foreign currency) are translated using the exchange rate at the date of transaction and are not subsequently restated. Non-monetary assets and liabilities stated at fair value in a foreign currency are translated at the exchange rate at the date the fair value was determined. When fair value movements in assets and liabilities are reflected in the Income Statement, the corresponding exchange movements are also recognised in the Income Statement. Similarly, when fair value movements in assets and liabilities are reflected directly in equity, the corresponding exchange movements (except any relating to available for sale monetary assets) are also recognised directly in equity.

(ii) Foreign operations

The functional currency of foreign operations is predominantly the Euro.

The assets and liabilities of or relating to foreign operations are translated to Sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Sterling at foreign exchange rates approximating to the rates ruling at the dates of the transactions. Foreign exchange differences arising on translation of foreign operations into Sterling, including related intangible assets, are recognised directly in the Group's Foreign Currency

Translation Reserve (“FCTR”), which is a separate component of equity, and reported in the Statement of Recognised Income and Expense (“SORIE”). These exchange differences are recognised as income or expenses in the period in which the foreign operations are disposed of.

(c) Revenue recognition

Management fees, investment advisory fees and other revenue generated from the Group’s asset management activities are recognised in the Income Statement over the period for which these investment management services are provided.

Initial fees received in advance, arising on OEIC contracts, are taken to the Balance Sheet and amortised over the period of the asset management service. The Group enters into standard contractual terms for all investors. Therefore, the period of provision of asset management services is estimated based upon the Group’s experience of the average holding periods of OEIC investors. The average holding period is reassessed on an annual basis.

The Group is entitled to earn performance fees from a number of clients if the actual investment performance of clients’ assets exceeds defined benchmarks by an agreed level of outperformance in a set time period. Most of the Group’s performance fee arrangements are assessed on a calendar year basis. Performance fees are recognised when the quantum of the fee can be estimated reliably, which is when the performance period ends when this occurs on or before the reporting date, or where there is a period of less than six months remaining to the end of the performance period and there is evidence at the reporting date which suggests that the current performance will be sustainable.

(d) Leases

All leases entered into by the Group are operating leases, being leases where the lessor retains substantially all the risks and rewards of ownership of the leased asset. Rentals paid under operating leases are charged to the Income Statement on a straight-line basis over the lease term. Lease incentives are recognised by the Group as a reduction in the rental expense, allocated on a straight-line basis over the lease term. Accounting policy (s) – Provisions discusses the recognition of onerous provisions on property leases when the leased space has ceased to be occupied by the Group.

(e) Fee and commission expenses

Fee and commission expenses comprise two main elements – costs associated with gaining new asset management contracts and subsequent commission paid to agents. The costs associated with gaining OEIC contracts are deferred and amortised over the estimated term of the contracts (in line with the treatment of the associated initial OEIC fees received), while the subsequent renewal commission paid to agents is expensed as the services are provided.

(f) Restructuring costs

Where the Group incurs significant, Board-approved, non-recurring expenditure as a result of a strategic decision which fundamentally changes how the Group operates, the expenditure in relation to that strategic project is separately recognised on the face of the Income Statement as ‘Restructuring costs’. These costs are recognised on an accruals basis.

(g) Finance revenue

Finance revenue comprises interest, dividends, expected return on pension assets and fair value adjustments through the Income Statement in respect of shareholder investments. Dividend income is recognised when the right to receive payment is established. Interest income is recognised in the Income Statement on an effective interest rate basis as it accrues.

(h) Finance costs

Finance costs comprise interest payable on borrowing, interest on pension liabilities and dividends on Preference Shares. Borrowing costs are recognised in the Income Statement on an effective interest rate basis.

(i) Income taxes

The income tax expense/income disclosed on the face of the Income Statement represents the aggregate of current tax and the movement in deferred tax. Income tax is recognised in the Income Statement for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in equity. In such cases the gain or loss shown in equity is stated separately from the attributable income tax.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, accounted for using the balance sheet liability method.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Any income tax expense or income in respect of taxable gains or losses attributable to policyholders falls to be borne by or to the benefit of the Group's unit-linked policyholders. As a result, the Directors consider it appropriate to differentiate on the face of the Income Statement between tax attributable to policyholders and that attributable to shareholders.

(j) Property, plant and equipment

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

Expenditure on property, plant and equipment is capitalised on initial recognition. Subsequent expenditure is only capitalised when it is probable that there will be future economic benefits associated with the expenditure which can be measured reliably. All other expenditure is recognised in the Income Statement as an expense as incurred.

Property, plant and equipment is depreciated so as to write off the cost of assets, using the straight-line method, over their estimated useful lives, as follows:

Leasehold improvements – over 10 years
Motor vehicles – over 3-4 years
Office furniture & equipment – over 3-5 years
Computer equipment – over 3 years

Depreciation is recognised as an expense in the Income Statement.

The carrying value of assets and their useful lives are reviewed at each reporting date. If an indication of impairment exists, the assets are written down to their recoverable amount and the impairment is charged to the Income Statement in the period in which it arises.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the Income Statement in the year the asset is derecognised.

(k) Intangible assets

(i) Goodwill

Goodwill arising from a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets and liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Business combinations arising after 1 July 2002 are accounted for under IFRS 3 'Business Combinations' using the purchase method. Where the initial amount of goodwill can only be determined on a provisional basis at the end of the financial reporting period, adjustments are made to the amount of goodwill up to 12 months from the date of acquisition. Other adjustments to goodwill are made for amounts that are contingent on future events and on the realisation of potential benefits of the acquiree's tax loss carry forwards and other deferred tax assets that did not satisfy the criteria for separate recognition on acquisition.

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(ii) Investment management contracts

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

The useful lives of management contracts are finite and such contracts are amortised on a straight-line basis over their estimated useful lives or average contractual term, with amortisation being charged to the Income Statement. The amortisation period is reviewed at each financial year-end. Details of estimated useful lives are shown in note 13.

(iii) Other intangible assets

The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Separately purchased intangible assets have a finite life and are shown at cost less accumulated amortisation and impairment losses. Amortisation is charged to the Income Statement in equal annual instalments, based on the following useful economic lives:

Software – 3 years
Licences – over the contractual term (3-5 years)

Subsequent expenditure on capitalised intangible assets is expensed as incurred.

(l) Impairment of intangible assets

At each reporting date the Group assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Any impairment arising is recognised in the Income Statement. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to a cash-generating unit, or group of cash-generating units, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Except for any goodwill impairments which cannot be reversed, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement. After such a reversal, the amortisation or depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(m) Financial instruments

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

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

Financial instruments are classified into the categories described below:

(i) *Financial instruments at fair value through profit or loss* include investments that are held for trading purposes or that have been specifically designated as 'at fair value through profit or loss'. They are carried in the Balance Sheet at fair value and movements in fair value are taken to the Income Statement in the period in which they arise. The following assets and liabilities are classified as *financial instruments at fair value through profit or loss*:

Current assets:

- Financial investments
- Stock of units and shares

Current liabilities:

- Investment contract liabilities

The Group has adopted the Fair Value Option in IAS 39, which enables the liabilities in respect of the Group's unit-linked investment contracts to be matched to the fair value of the related assets which are solely attributable to the investment contract policyholders, thus reflecting the contractual entitlement of the policyholders. Differences in fair values are taken to the Income Statement.

(ii) *Available for sale financial assets* are also carried at fair value in the Balance Sheet. In respect of unquoted instruments, or where the market for a financial instrument is not active, fair value is established by using recognised valuation methodologies, in accordance with International Private Equity and Venture Capital Valuation Guidelines, issued by the British Venture Capital Association. Where insufficient information exists to produce a valuation then the price of recent investments is used. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis and option pricing models.

For unquoted investments in early stage enterprises and enterprises with revenues but without significant profits or significant positive cash flows, fair value is determined using the ''Price of a Recent Investment'' method. Repayments are treated as reductions to carrying value. After an appropriate period, an assessment is made as to whether the circumstances of the investment have changed such that another valuation methodology is appropriate, and whether there is any evidence of deterioration or strong defensible evidence of an increase in value. In the absence of these indicators fair value is determined to be that reported at the previous balance sheet date.

Unquoted investments with revenues, maintainable profits and/or maintainable cash flows are valued by deriving an Enterprise Value of the underlying business.

Movements in fair value, other than impairment losses and foreign exchange movements on monetary assets, are taken to the fair value reserve in equity until derecognition of the asset, at which time the cumulative amount in this reserve is recognised in the Income Statement. The following assets are classified as *available for sale:*

Non-current assets

- Other financial investments

(iii) *Loans and receivables* are measured on initial recognition at fair value plus any directly attributable transaction costs incurred. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income Statement when loans and receivables are derecognised or impaired, as well as through the amortisation process. The following assets are classified as *loans and receivables:*

Non-current assets:

- Other receivables

Current assets:

- Cash and cash equivalents
- Trade and other receivables

(iv) *Financial liabilities* are recognised at amortised cost using the effective interest method after initial recognition. The following liabilities are classified as *financial liabilities*:

Non-current liabilities:

- Interest bearing loans and borrowings
- Other payables

Current liabilities:

- Interest bearing loans and borrowings
- Trade and other payables

Expenses in respect of raising capital on interest bearing loans and borrowings are amortised over the term of the loan on an effective interest rate basis. These expenses are offset against the loan amount.

The Group has adopted "trade date" accounting for purchases or sales of financial assets under a contract whose terms require delivery of the asset within the time frame established in the marketplace concerned. Accordingly, such financial instruments are recognised on the date the Group commits to the purchase of the investments, and are derecognised on the date it commits to their sale.

Derecognition of financial assets and liabilities

Financial assets

A financial asset or, where applicable, a part of a financial asset, is derecognised when the rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective yield. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Income Statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the Income Statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available for sale financial assets

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the Income Statement, is transferred from equity to the Income Statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the profit or loss. Reversals of impairment losses on debt instruments are taken through the Income Statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held at call with banks and other short-term, highly liquid investments in money market instruments with original maturity dates of three months or less.

(o) Investment contracts

The Group sells unit-linked pension investment contracts through its insurance subsidiary, F&C Managed Pension Funds Limited (MPF). These unit-linked contracts involve both the transfer of a financial instrument and the provision of investment management services. The financial instrument component is classified as a financial liability at fair value through profit or loss. The financial liability is measured using a valuation technique based on the carrying value of the assets and liabilities that are held to back the contract, adjusted to take account of the effect on the liabilities of discounting for the time value of tax payments on assets sold in the fund.

Unit-linked policyholder assets held by MPF and related policyholder liabilities are carried at fair value, with changes in fair value taken to profit or loss.

Amounts received from and paid to investors under these contracts are accounted for as deposits received or paid and therefore not recorded in the Income Statement. At the balance sheet date the value of these contracts is stated at an amount equal to the fair value of the net assets held to match the contractual obligations.

(p) Insurance contract liabilities

Insurance contract liabilities are measured in accordance with actuarial principles and guidance. Any change in the value of the liability is taken to ''Movements in fair value of unit-linked liabilities'' in the Income Statement. Where these liabilities are reinsured, the element of the risk reinsured is valued on the same basis as the related liability and is included as an asset in the Balance Sheet. Changes in the value of the asset are taken to the Income Statement. Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date.

(q) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are recognised as an undiscounted expense and liability when the employee has rendered services during an accounting period. Short-term compensated absences are recognised, in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences or, in the case of non-accumulating compensated absences, when the absences occur.

(ii) Profit-sharing and bonus payments

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

(iii) Pension obligations

Defined benefit schemes

The Group operates a number of defined benefit pension arrangements.

These schemes provide benefits based on final pensionable salary. The assets of the funded schemes are held in separate trustee administered funds.

The pension liability recognised in the Balance Sheet is the present obligation of the employer, which is the estimated present value of future benefits that employees have earned in return for their services in the current and prior years, less the value of the plan assets in the schemes. The discount rate applied to the employees' benefits is the appropriate AA corporate bond yield at the balance sheet date. A qualified actuary performs the calculation annually using the projected unit credit method. The pension costs of the schemes in the Income Statement are analysed into:

- Current service cost, which is the actuarially calculated present value of the benefits earned by the active employees in each period.
- Past service costs, which relate to employee service in prior periods, and arise as a result of the introduction of, or improvement to, retirement benefits in the current period. These are recognised in the Income Statement on a straight-line basis over the period in which the increase in benefits vest.
- Settlements or curtailments are recognised in the Income Statement to the extent that they are not allowed for in the actuarial assumptions. Losses on settlements or curtailments are measured at the date on which the employer becomes demonstrably committed to the transaction. Gains on settlements or curtailments are measured at the date on which all parties, whose consent is required, are irrevocably committed.
- The expected return on pension assets is recognised within 'Finance revenue' and the interest on scheme obligations is recognised in 'Finance costs'.

The actuarial gains and losses, which arise from any new valuation and from updating the previous actuarial valuation to reflect conditions at the balance sheet date, are taken in full to the SORIE for the period.

Where the Group is unable to identify its share of assets and liabilities in multi-employer defined benefit schemes, the Group accounts for these in the same way as for defined contribution schemes.

Defined contribution schemes

Contributions made to these schemes are charged to the Income Statement as they become payable in accordance with the rules of the scheme.

(iv) Other long-term employee benefits

Other long-term employee benefits are recognised at the discounted present value of the obligation at the balance sheet date. The benefit is determined using actuarial techniques to estimate the amount of benefit employees have earned for their services at the balance sheet date.

(v) Termination benefits

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

(r) Share-based payments

The Group operates a number of share scheme arrangements which require to be accounted for as share-based payments.

All grants of shares, share options or other share-based instruments that were granted after 7 November 2002 have been recognised as an expense. The fair values of share-based payment awards are measured using a valuation model applicable to the terms of the awards (Black Scholes, Binomial or Monte Carlo simulation). The fair value is measured by an independent external valuer at the date the award is granted and the expense is spread over the period during which the employees become unconditionally entitled to exercise the awards, known as the vesting period. The cumulative expense recognised in the Income Statement is equal to the estimated fair value of the award multiplied by the number of awards expected to vest. Vesting of awards typically depends upon meeting defined performance criteria such as continued Company service requirements, underlying earnings per share (EPS) targets and/or share price return targets.

The fair value of share-based payment awards, where it is not considered possible to reliably estimate the fair value of these awards at the grant date, have been determined by measurement of the equity instruments at intrinsic value. The intrinsic value is spread over the vesting period.

Vesting of equity-settled employee share awards depends upon meeting ''market'' and/or ''non-market related'' performance conditions. The type of vesting criteria affects the calculation of the expense charged to the Income Statement and subsequent adjustments, as follows:

(i) Non-market related conditions are performance criteria not directly linked to Company share price targets, such as EPS targets and/or Company service requirements. The probability of meeting non-market conditions is incorporated into the expense charge via the estimate of the number of awards expected to vest. The total cumulative expense is ultimately adjusted to reflect the actual number of awards which vest. Therefore, if no awards vest, no cumulative expense charge is ultimately recognised.

(ii) Market related conditions are performance criteria linked to Company share price targets. The probability of meeting market conditions is incorporated into the calculation of the fair value of the award. Should the market-based performance condition not ultimately be met, no ''true up/down'' adjustment is made to reflect this. Therefore, an expense charge is made whether market-based awards ultimately vest or not.

IFRS 2 'Share-based Payment' makes a distinction between awards settled in equity and those settled in cash. Equity-settled awards are charged to the Income Statement with a corresponding credit to equity. Cash-settled awards are charged to the Income Statement with a corresponding credit to liabilities. The estimated fair value of cash-settled awards is re-measured at each reporting date until the payments are ultimately settled.

Awards to employees treated as ''good leavers'' vest immediately and the remaining full expense of the awards is charged to the Income Statement at that time. Good leavers include retirees and employees who have been made redundant.

The dilutive effect of outstanding options is reflected as share dilution in the computation of EPS.

(s) Provisions

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

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Where the Group has obligations 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.

(t) Share capital

When shares are issued, any component that creates a financial liability of the Company or Group is presented as a liability in the Balance Sheet, measured initially at fair value, net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption.

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' equity, net of transaction costs.

Preference Share capital

The Group's issued preference share capital is classified as a liability. It is carried at amortised cost in the Balance Sheet. Preference dividends are recognised in the Income Statement as an interest expense as they accrue.

Ordinary Share capital

When Ordinary Shares are repurchased, the amounts of consideration paid, including directly attributable costs, are recognised in the own share reserve included within retained earnings and are classified as deductions in equity. Dealings in own shares are reflected through equity. Dividends on Ordinary Shares are recognised on the date of payment, or if subject to approval, the date approved by the shareholders. The dividends on certain own shares held by Employee Benefit Trusts are waived by the Trustees.

(u) Accounting for Employee Benefit Trusts ('EBTs')

The Group has several EBTs which own shares in the Company to enable it to satisfy certain future exercises of share-based awards. The EBTs are consolidated into the Group's results, with these shares included within retained earnings at cost. Consideration received for such shares is also recognised in retained earnings. No gain or loss is recognised in the performance statements on the purchase, sale, issue or cancellation of equity shares.

(v) New standards and interpretations not applied

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

		Effective Date
International Accounting Standards (IAS/IFRS)		
Endorsed and available for early adoption:		
IFRS 8	Operating Segments	1 January 2009
Changes not endorsed:		
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.	1 January 2008
IAS 1	Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive income.	1 January 2009
IAS 27	Consolidated and Separate Financial Statements – Consequential amendments arising to IFRS 3.	1 January 2010
IFRS 2	Share-based Payment – Amendments relating to vesting conditions and cancellations.	1 January 2009
IFRS 3	Business Combinations – Comprehensive revision on applying the acquisition method.	1 January 2010

The Directors do not anticipate that the adoption of these standards will materially impact the Group's financial results in the period of initial application although there will be revised presentations to the primary financial statements and additional disclosures. Any future business combinations will be affected. The Group intends to adopt the standards in the reporting period when they become effective.

Notes to the Consolidated Financial Statements

1. Segment reporting

The Group operates as a single asset management business, which does not comprise different business segments, and the Board views the business as a whole as the primary reportable entity.

Although there are several different sources of revenue within the business and distinct distribution channels, and assets under management can be categorised by client type and asset class, the Directors do not consider these to constitute separate business segments within the meaning of IAS 14 'Segment Reporting'. The risks and returns to the Group across these categories are not significantly different, with the fee levels charged reflecting the varying complexities and levels of administration and expertise involved in managing the underlying assets; it is the clients themselves rather than the Group who have the different risk/return profiles.

The Directors monitor profitability of the business only on a Group-wide basis. Furthermore, geographical considerations aside, the internal operations and management structure are organised on a single overall Group-wide basis, and remuneration and rewards are determined in the context of the performance of the whole business.

The Group has provided segment information on a geographical basis by location of assets, and in the absence of business segments, has disclosed the geographical segments in the primary reporting format.

By default, primary segment disclosures are also reported for the Group's single business segment – asset management – in the column headed 'Consolidated' in part (a). Secondary format disclosures are given in relation to revenue from external clients by geographical location of clients, as shown in part (b).

The Group is predominantly UK based but has significant operations in three other European countries.

The reportable geographical segments are as follows:

– The United Kingdom

– The Netherlands

– Portugal

– The Republic of Ireland

These locations present different risks to the Group, primarily of a legislative and regulatory nature. In order to meet its objectives, and manage risk appropriately, the Group has statutory entities registered in each of these locations. Consequently, the respective statutory entities reflect the reporting which takes place within the Group in that there are identifiable results, assets and liabilities directly attributable to those segments, while representing the broad organisational reporting structure and management of the business.

Transfer prices between reportable segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between reportable segments. Those transfers are eliminated on consolidation.

During the previous year, impairment losses were recognised in respect of management contracts. These intangible assets and their related impairment losses have been associated to geographical segments, on the basis of revenues generated from the contracts, proportionately across the various locations. The allocation of the intangible assets' impairment recognised in the Income Statement for the prior year is shown in part (a).

1. Segment reporting (cont'd)

(a) Geographical segments – by location of assets

	The United Kingdom		The Netherlands		Portugal		The Republic of Ireland		Other		Eliminations		Consolidated	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Revenue														
External clients	**202.8**	194.4	**54.1**	47.1	**12.3**	11.9	**4.2**	3.6	**4.4**	4.3	–	–	**277.8**	261.3
Inter-segment sales	**15.0**	17.1	**–**	–	**–**	–	**0.3**	–	**–**	–	**(15.3)**	(17.1)	**–**	–
Segment revenue	**217.8**	211.5	**54.1**	47.1	**12.3**	11.9	**4.5**	3.6	**4.4**	4.3	**(15.3)**	(17.1)	**277.8**	261.3
Segment result	**1.4**	(40.6)	**17.4**	(7.1)	**5.2**	1.2	**1.4**	(0.6)	**3.4**	1.9	**–**	15.5	**28.8**	(29.7)
Operating profit/(loss) after restructuring costs													**28.8**	(29.7)
Finance revenue													**23.8**	20.6
Finance costs													**(27.3)**	(22.0)
Impairment in associates and other financial investments													**–**	(0.8)
Loss on disposal of associates													**–**	(0.1)
Share of profit of associates	**0.6**	1.5	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**0.6**	1.5
Tax (expense)/income													**(7.2)**	8.0
Profit/(loss) for the year													**18.7**	(22.5)
Other information														
Segment assets	**1,520.2**	1,636.5	**145.3**	130.9	**41.8**	41.6	**11.1**	16.2	**8.0**	7.4	**(35.6)**	(39.7)	**1,690.8**	1,792.9
Investment in associates	**–**	1.4	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	1.4
Unallocated corporate assets													**607.8**	610.2
Consolidated total assets													**2,298.6**	2,404.5
Segment liabilities	**(1,258.0)**	(1,356.5)	**(31.1)**	(31.5)	**(1.4)**	(2.5)	**(2.7)**	(7.5)	**–**	–	**35.6**	39.7	**(1,257.6)**	(1,358.3)
Unallocated corporate liabilities													**(347.5)**	(362.4)
Consolidated total liabilities													**(1,605.1)**	(1,720.7)
Capital expenditure	**2.8**	3.2	**0.1**	1.6	**–**	–	**0.1**	0.1	**–**	–	**–**	–	**3.0**	4.9
Depreciation and amortisation	**(29.9)**	(32.6)	**(12.2)**	(9.9)	**(2.8)**	(2.5)	**(1.0)**	(0.8)	**(1.0)**	(0.9)	**–**	–	**(46.9)**	(46.7)
Impairment of intangible assets	**–**	(35.7)	**–**	(16.1)	**–**	(4.0)	**–**	(1.2)	**–**	(1.5)	**–**	–	**–**	(58.5)
Other non-cash expenses	**(58.6)**	(123.5)	**(0.7)**	(2.2)	**(0.5)**	(0.1)	**(0.2)**	(0.4)	**–**	–	**–**	–	**(60.0)**	(126.2)

There were no discontinued operations in 2007 or 2006.

(b) Revenue by location of clients

	2007 £m	2006 £m
The United Kingdom	**145.8**	136.3
The Netherlands	**61.3**	58.1
Portugal	**24.2**	24.1
The Republic of Ireland	**19.9**	19.5
Other	**26.6**	23.3
Consolidated total revenue	**277.8**	261.3

2. Net revenue

	2007 £m	2006 £m
Investment management fees	**246.4**	248.1
Performance related management fees	**20.8**	9.5
Investment management fees	**267.2**	257.6
Compensation received from BCP in respect of withdrawal of funds under management*	**–**	2.6
Other income#	**10.6**	1.1
Total other income	**10.6**	3.7
Renewal commission on open-ended investment products	**(8.4)**	(7.6)
Other selling expenses	**(4.9)**	(2.9)
Fee and commission expenses	**(13.3)**	(10.5)
Total net revenue	**264.5**	250.8

* During 2006 the Group received £2.6m from Banco Commercial Português S.A. (BCP) as compensation following the withdrawal during 2005 of some €2bn of assets which were managed by the Group under long-term contractual arrangements.

Other income in 2007 includes:

- a £2.4m receipt from Eureko B.V. in settlement of the historic pension liabilities arising on non-UK defined benefit schemes acquired as part of the merger in 2004;
- £2.4m other income was received from Friends Provident as reimbursement of costs associated with the potential acquisition of Resolution Asset Management; and
- £5.2m income arising as a result of the termination of outsourced investment operations, including the release of deferred income.

3. Net gains and investment income on unit-linked assets

	Note	2007 £m	2006 £m
Interest revenue on policyholders cash	7	**2.6**	2.3
Interest revenue on other financial instruments	7	**12.0**	11.9
Dividend revenue		**20.6**	23.2
Movements in fair values of unit-linked assets		**9.8**	69.3
		45.0	106.7

4. Expenses

(a) Total expenses

Total operating expenses incurred, including restructuring costs, classified by nature, can be summarised as follows:

	2007 £m	2006 £m
Staff related and employee benefit expenses*	**126.6**	118.6
Premises expenses	**10.3**	9.0
Communication and information technology expenses	**14.8**	13.7
Third party administration expenses	**9.7**	13.2
Promotional and client servicing expenses	**6.7**	6.6
Depreciation and amortisation expenses	**46.9**	46.7
Impairment expenses	**–**	58.5
Other expenses	**21.8**	15.9
	236.8	282.2

* This includes £8.0m (2006: £7.1m) of staff related expenses.

(b) Operating expenses

Operating expenses include the following:

	Notes	2007 £m	2006 £m
Depreciation of owned tangible property, plant and equipment	12	**3.7**	3.0
Amortisation of intangible assets – software	13	**0.8**	0.7
Auditor's remuneration – audit of these financial statements		**0.4**	0.5
Auditor's remuneration – audit of financial statements of subsidiaries pursuant to legislation		**0.2**	0.1
Auditor's remuneration – other services		**0.3**	0.8
Operating lease rentals – land and buildings (head leases)		**10.3**	9.5
Operating lease rentals – vehicles		**0.4**	0.4
Operating lease rentals – other*		**2.0**	2.0
Rentals receivable – operating leases		**(3.0)**	(2.3)
Foreign exchange (gains)/losses		**(0.6)**	0.7

* Stated net of amounts receivable from brokers under Commission Sharing Arrangements.

Sub-lease rentals of £3.0m (2006: £2.3m) were received during the year of which £2.8m (2006: £2.2m) relates to guaranteed payments and £0.2m (2006: £0.1m) relates to contingent payments.

All amounts within operating lease and sub-lease rental payments relate to minimum lease payments.

(c) Investment Trust VAT expense

	2007 £m	2006 £m
Investment Trust VAT expense	**4.2**	–

During the year, litigation between an investment trust and HMRC concluded, resulting in investment management fees paid by investment trusts not being subject to VAT.

This expense represents VAT and onerous interest which may be payable to investment trust clients in respect of historic periods, beyond the amount estimated as recoverable from HMRC.

Due to the non-recurring nature of this expense the directors have excluded this from underlying earnings. Details relating to the uncertainties in respect of this expense and the associated provision are given in note 25.

4. Expenses (cont'd)

(d) Auditors' remuneration

KPMG Audit Plc replaced Ernst & Young LLP as the Group's auditors on 20 October 2006. All KPMG Audit Plc fees have been treated as relating to fees paid to the Group's auditors in 2006. All Ernst & Young LLP fees paid in 2006 are disclosed as fees paid to other accountancy firms for non-audit services (see below). The amount paid to Ernst & Young LLP includes work in respect of their interim review for 2006.

Fees paid to the Group's auditors are summarised as follows:

	KPMG Audit Plc	
	2007	**2006**
	£m	**£m**
Annual audit fees – 2007	**0.4**	–
Annual audit fees – 2006	**–**	0.5
Audit of these financial statements	**0.4**	0.5
Audit of financial statements of subsidiaries pursuant to legislation	**0.2**	0.1
Total audit fees of the Group	**0.6**	0.6
Other services supplied pursuant to such legislation	**0.1**	0.1
Other services relating to taxation	**0.1**	0.1
Services relating to information technology	**–**	0.8
Services relating to recruitment and remuneration	**–**	0.1
All other services	**0.1**	0.2
Total auditors' remuneration*	**0.9**	1.9

* Includes £nil of KPMG fees (2006: £0.5m) which are included within restructuring costs (see note 6).

The Group's policy on the award of non-audit services to accountancy firms is outlined in the Directors' Report on Corporate Governance. During the year the additional fees paid by F&C to other accountancy firms for non-audit services were as follows:

	2007	**2006**
	£m	**£m**
Ernst & Young	**0.3**	1.0
PricewaterhouseCoopers	**0.5**	0.7
Deloitte & Touche	**0.2**	–
	1.0	1.7

In addition to the above, 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:

	2007	**2006**
	£m	**£m**
PricewaterhouseCoopers	**0.3**	0.3

5. Employee benefits expenses

Total employee benefits expenses, including remuneration of the Directors, were:

	Note	2007 £m	2006 £m
Short-term employee benefits:			
Salaries and related benefits		**53.6**	47.7
Bonus		**26.7**	24.1
Wages and salaries		**80.3**	71.8
Social Security costs		**10.6**	9.4
		90.9	81.2
Post-employment benefits:			
Defined contributions scheme expenses		**4.4**	3.0
Defined benefits scheme expenses		**4.6**	3.9
		9.0	6.9
Total of wages and salaries, Social Security costs and post-employment benefits		**99.9**	88.1
Termination benefits		**2.3**	5.0
Share-based payment expenses	27	**16.4**	18.4
Total employee benefits expenses		**118.6**	111.5

Included within the above employee benefits expenses is £nil (2006: £5.3m) related to restructuring costs as disclosed within note 6.

The monthly average number of employees (including Executive Directors) of the Group during 2007 was 901 (2006: 855). F&C Asset Management plc had no employees during the years ended 31 December 2007 and 2006.

6. Restructuring costs

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

The Directors consider it appropriate to disclose separately the following integration, reorganisation and restructuring costs relating to continuing operations, due to the fundamental impact the acquisition in 2004 had on the management and operational structure of the enlarged Group:

	2007 £m	2006 £m
Termination and related employee benefits	–	5.3
Premises costs	–	0.3
Information technology and related costs	–	3.7
Re-branding, administration and client servicing	–	0.3
Consultancy and other costs supporting the restructuring process	–	0.1
Restructuring costs	–	9.7
Tax income in respect of restructuring costs	–	(2.7)
Net effect of restructuring costs	–	7.0

This restructuring was completed in 2006.

7. Finance revenue

	Note	2007 £m	2006 £m
Loans and receivables:			
Bank interest receivable		**10.5**	5.6
Other interest receivable		**0.1**	0.3
Designated as Fair Value through profit or loss:			
Movement in fair value of investments		**0.5**	0.5
Designated as available for sale investments:			
Investment income receivable		**3.8**	6.4
		14.9	12.8
Other finance revenue:			
Expected return on pension plan assets	26	**8.9**	7.8
		23.8	20.6

Investment income receivable primarily represents distributions from interests in private equity investments.

Total interest income	Note	2007 £m	2006 £m
Bank interest receivable		**10.5**	5.6
Other interest receivable		**0.1**	0.3
Interest revenue on policyholders cash	3	**2.6**	2.3
Interest revenue on other financial instruments	3	**12.0**	11.9
		25.2	20.1

8. Finance costs

	Notes	2007 £m	2006 £m
Interest expense on financial liabilities recognised at cost using the effective interest rate method:			
Interest expense on £260m Subordinated Notes		**17.6**	0.6
Interest expense payable to Friends Provident group:			
– £180m term loan		**–**	10.3
– £50m revolving credit facility		**0.1**	0.4
– £25m subordinated loan		**–**	1.4
– Cumulative Preference Shares	10(b)	**0.1**	0.1
Interest expense on £9m subordinated loan from Eureko		**–**	0.5
Bank charges		**0.1**	0.1
Other interest payable		**0.1**	0.4
Total interest expense		**18.0**	13.8
Amortisation of Subordinated Notes costs		**0.2**	–
Unwinding of discount rate on onerous provisions		**0.1**	0.1
Interest cost on pension obligations	26	**9.0**	8.1
		27.3	22.0

9. Income tax

(a) Analysis of tax expense/(income) in the year

The major components of tax expense/(income) are:

Consolidated Income Statement	2007 £m	2006 £m
Current income tax:		
UK	**20.7**	18.5
Double tax relief in UK on overseas earnings	**(8.9)**	(5.3)
Overseas	**10.5**	9.0
Adjustments in respect of previous years	**0.3**	0.5
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(10.1)**	(28.9)
Adjustments in respect of previous years	**(1.3)**	(1.8)
Adjustments in respect of Corporation Tax rate change	**(4.0)**	–
Tax expense/(income) reported in the Consolidated Income Statement	**7.2**	(8.0)

Consolidated Statement of Changes in Equity	2007 £m	2006 £m
Deferred and current income tax related to items charged or credited directly to equity:		
Gain/(loss) on financial investments	**0.6**	(0.1)
Actuarial gains on defined benefit pension schemes	**3.4**	0.9
Adjustments in respect of Corporation Tax rate change	**0.5**	–
Tax expense recognised directly in equity	**4.5**	0.8

(b) Factors affecting the tax expense/(income) for the year

A reconciliation between the actual tax expense/(income) and the accounting profit/(loss) multiplied by the Group's domestic tax rate for the years ended 31 December 2007 and 2006 is as follows:

	2007 £m	2006 £m
Profit/(loss) before tax	**25.9**	(30.5)
At the Group's statutory income tax rate of 30.0% (2006: 30.0%)	**7.8**	(9.1)
Adjustments in respect of previous years	**(1.0)**	(1.3)
Disallowed expenses	**2.7**	1.2
Non-taxable income	**(0.3)**	(0.4)
Overseas tax	**0.9**	0.6
Utilisation of unrecognised losses	**–**	(0.3)
Share-based payments	**1.1**	1.3
Corporation Tax rate change	**(4.0)**	–
Tax expense/(income) reported in the Consolidated Income Statement	**7.2**	(8.0)

Deferred tax assets and liabilities are shown in note 18.

(c) Factors affecting future tax charges

The Finance Bill 2007, which has been substantially enacted, changes the UK Corporation Tax rate from 30% to 28% with effect from 31 March 2008. The Income Statement for the year ended 31 December 2007 reflects a £4.0m tax credit as a result of the Group's deferred tax balances being revised to the rate at which timing differences are expected to reverse. This credit comprises two elements: A £0.3m tax charge which impacts the underlying earnings of the Group and a £4.3m tax credit which is excluded from underlying earnings, consistent with the treatment of the cost to which it relates, namely the amortisation of intangible assets and the cost of the Re-Investment Plan. £0.5m has been charged to equity reflecting the deferred tax that is expected to reverse through equity.

10. Dividends

(a) Ordinary dividends

	2007 £m	2006 £m
Declared and paid during the year		
Equity dividends on Ordinary Shares:		
Final dividend for 2006: 7.0p (2005: 7.0p)	**33.8**	33.5
Interim dividend for 2007: 2.0p (2006: 4.0p)	**9.7**	19.2
	43.5	52.7
Proposed for approval at the Annual General Meeting		
Equity dividends on Ordinary Shares:		
Final dividend for 2007: 4.0p (2006: 7.0p)	**19.7**	33.8

The entitlement of Employee Benefit Trusts to receive dividends (on some of their holdings of F&C shares) has been waived by the Trustees. This has resulted in the following dividends being waived:

	Shares	£m
2007 Dividends		
2006 Final	3,162,392	0.2
2007 Interim	3,095,242	0.1
2006 Dividends		
2005 Final	6,155,096	0.4
2006 Interim	2,338,653	0.1

(b) Non-equity dividends on Cumulative Preference Shares

	2007 £m	2006 £m
Interest expense during the year	**0.1**	0.1

11. Earnings per Share

Basic earnings per share amounts are calculated by dividing profit/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on the conversion of all the dilutive potential Ordinary Shares into Ordinary Shares.

In the opinion of the Directors the ''underlying profit'' (defined as the profit before amortisation and impairment of intangibles, the BCP compensation receipt, restructuring costs, Investment Trust VAT expense and the cost of the Re-Investment Plan) more accurately reflects the underlying earnings performance of the Group.

Reconciliation of Earnings per Share*	2007 Basic p	2007 Diluted p	2006 Basic p	2006 Diluted p
Earnings/(loss) per Ordinary Share	**3.54**	**3.43**	(4.91)	(4.91)
Investment Trust VAT expense, net of tax	**0.60**		–	
Cost of the Re-Investment Plan, net of tax	**0.98**		1.81	
Amortisation of intangibles, net of tax	**5.25**		6.29	
Impairment of intangibles, net of tax	**–**		8.54	
BCP compensation receipt, net of tax	**–**		(0.38)	
Restructuring costs, net of tax	**–**		1.45	
Underlying earnings per share	**10.37**		12.80	

* Where the Group has incurred a basic loss per Ordinary Share, no dilution arises despite the 'dilutive potential weighted average number of Ordinary Shares' being greater than the 'weighted average number of Ordinary Shares used to determine the basic loss per share'. As a result, the reported basic and diluted loss per Ordinary Share are the same in 2006.

11. Earnings per Share (cont'd)

The following reflects the income and share capital data used in the basic and diluted earnings per share calculations:

Earnings	Note	2007 £m	2006 £m
Earnings/(loss) attributable to ordinary equity holders of the parent for basic earnings/(loss) per share		**17.1**	(23.5)
Investment Trust VAT expense, net of tax		**2.9**	–
Cost of the Re-Investment Plan, net of tax		**4.8**	8.7
Amortisation of intangibles, net of tax		**25.4**	30.1
Impairment of intangibles, net of tax		**–**	40.9
BCP compensation receipt, net of tax		**–**	(1.8)
Restructuring costs, net of tax	6	**–**	7.0
Underlying earnings attributable to ordinary equity holders of the parent		**50.2**	61.4

Share capital	2007 No.	2006 No.
Weighted average number of Ordinary Shares (excluding own shares held by Employee Benefit Trusts) for basic earnings/(loss) per share	**484,192,096**	479,285,850
Weighted average dilutive potential Ordinary Shares exercisable:		
2002 ESOS options	**212,119**	475,912
Share Save Scheme options	**126,219**	193,233
The Re-Investment Plan awards	**6,109,672**	9,820,735
The Long Term Remuneration Plan awards	**8,915,722**	1,995,924
Purchased Equity Plan awards	**1,247,902**	501,598
Discretionary awards	**8,916**	–
Dilutive potential weighted average number of Ordinary Shares	**500,812,646**	492,273,252

Certain former employees are entitled to exercise their 1995 or 2002 Executive Share Options for a defined period after leaving the Company, in accordance with scheme rules. Where the option prices are below the average share price for the year, these options have been treated as dilutive.

Transactions involving Ordinary Shares or potential Ordinary Shares between the reporting date and the date of approval of the Consolidated Financial Statements were as follows: no share options have been exercised during this period (2006: 194,036, satisfied by the issue of ordinary share capital).

Potential future dilution

The Group operates several share-based payment schemes which could potentially dilute basic earnings per share in the future but which were not included in the calculation of diluted earnings per share as they were anti-dilutive for the years presented.

The share-based payment schemes must meet the relevant performance criteria for each scheme before the exercise of options is possible. The only exception to this is for ''good leavers'', where there is usually a period of time over which the employees can exercise their options in accordance with the specific rules of each scheme regardless of whether the performance criteria have been met.

The options for all the awards in the 1995 Executive Share Option Scheme vested on 24 March 2006, as the performance criteria had been met. At 31 December 2007 the 1,333,047 (31 December 2006: 2,031,927) options outstanding, at exercise prices between 203.83p and 455.83p, are now potentially dilutive, as settlement would be made by the issue of new shares.

In addition, the options granted on 19 March 2003 under the 2002 Executive Share Option Scheme vested on 24 March 2006, as the performance criteria had been met. The 1,228,227 (31 December 2006: 1,122,876) options outstanding, at an exercise prices of between 139.00p and 240.83p, are now potentially dilutive, as settlement would be made by the issue of new shares.

Details of other awards exercisable at 31 December 2007 and 31 December 2006 are disclosed in note 27, together with the total number of awards outstanding for each scheme.

Notes to the **Consolidated Financial Statements**

12. Property, plant and equipment

	Leasehold improvements £m	Motor vehicles £m	Office furniture and equipment £m	Computer equipment £m	Total £m
Cost:					
At 1 January 2006	9.0	0.1	2.5	8.9	20.5
Additions	3.1	0.1	0.3	1.2	4.7
Disposals	(0.1)	–	(0.1)	(0.5)	(0.7)
At 31 December 2006	12.0	0.2	2.7	9.6	24.5
Additions	0.3	0.1	0.5	1.3	2.2
Disposals	–	(0.1)	(0.4)	(0.4)	(0.9)
Foreign exchange gains	0.1	–	–	0.1	0.2
At 31 December 2007	**12.4**	**0.2**	**2.8**	**10.6**	**26.0**
Depreciation and impairment:					
At 1 January 2006	1.6	–	1.0	6.7	9.3
Depreciation charge for the year	1.1	0.1	0.4	1.4	3.0
Disposals	–	–	(0.1)	(0.5)	(0.6)
At 31 December 2006	2.7	0.1	1.3	7.6	11.7
Depreciation charge for the year	1.4	0.1	0.9	1.3	3.7
Disposals	–	(0.1)	(0.4)	(0.4)	(0.9)
Foreign exchange losses	–	–	–	0.1	0.1
At 31 December 2007	**4.1**	**0.1**	**1.8**	**8.6**	**14.6**
Net book values:					
At 31 December 2005	7.4	0.1	1.5	2.2	11.2
At 31 December 2006	9.3	0.1	1.4	2.0	12.8
At 31 December 2007	**8.3**	**0.1**	**1.0**	**2.0**	**11.4**
Cumulative impairment losses:					
At 31 December 2006	2.0	–	–	–	2.0
At 31 December 2007	**2.0**	**–**	**–**	**–**	**2.0**

There are no restrictions on the Group's title to the above assets and none are pledged as security for liabilities.

The cost of fully depreciated property, plant and equipment which is still in use at 31 December 2007 is £7.5m (31 December 2006: £6.1m).

13. Goodwill and other intangible assets

	Goodwill £m	Management contracts £m	Software and licences £m	Total £m
Cost:				
At 1 January 2006	578.0	619.8	4.1	1,201.9
Additions	–	–	0.2	0.2
Disposals	(8.1)	(43.2)	(0.1)	(51.4)
Foreign exchange losses	–	(3.3)	–	(3.3)
At 31 December 2006	569.9	573.3	4.2	1,147.4
Additions	–	–	0.8	0.8
Disposals	–	–	(0.2)	(0.2)
Foreign exchange gains	–	11.8	0.1	11.9
At 31 December 2007	**569.9**	**585.1**	**4.9**	**1,159.9**
Amortisation and impairment:				
At 1 January 2006	–	203.7	2.5	206.2
Amortisation charge for the year	–	43.0	0.7	43.7
Disposals	–	(16.2)	(0.1)	(16.3)
Impairment losses	–	58.5	–	58.5
At 31 December 2006	–	289.0	3.1	292.1
Amortisation charge for the year	–	42.4	0.8	43.2
Disposals	–	–	(0.1)	(0.1)
At 31 December 2007	**–**	**331.4**	**3.8**	**335.2**
Net book values:				
At 31 December 2005	578.0	416.1	1.6	995.7
At 31 December 2006	569.9	284.3	1.1	855.3
At 31 December 2007	**569.9**	**253.7**	**1.1**	**824.7**

Goodwill arose on business combinations and relates to the business as a whole following the fundamental integration, rationalisation and re-organisations which took place after each acquisition. As such, goodwill is not allocated to cash generating units below the overall entity level. Goodwill is not amortised but requires to be tested for impairment annually. The carrying value of goodwill has been tested for impairment at the balance sheet date, as described below. The accumulated impairment losses at 31 December 2007 relating to goodwill were £nil (31 December 2006: £nil).

Notes to the Consolidated Financial Statements

13. Goodwill and other intangible assets (cont'd)

Management contracts predominantly relate to contracts arising from business acquisitions. Their descriptions, carrying amounts at the year-end, remaining amortisation periods and estimated useful lives are as follows:

	31 December 2007			31 December 2006		
	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)
RSAI insurance contracts	**3.1**	**4**	**10**	3.8	5	10
RSAI retail contracts	**24.4**	**4**	**10**	29.9	5	10
F&C insurance contracts	**89.4**	**7**	**10**	94.1	8	10
F&C institutional contracts (fixed term/non-fixed term)	**47.0**	**7/3**	**10/4**	57.4	8/4	10/4
F&C investment trust contracts	**27.2**	**8½**	**10**	30.4	9½	10
F&C advisory and sub-advisory contracts	**49.6**	**7**	**10**	54.0	8	10
F&C OEICs	**11.9**	**7**	**10**	13.6	8	10
Private equity fund of funds	**1.1**	**17**	**20**	1.1	18	20
	253.7			284.3		

The accumulated impairment losses at 31 December 2007 relating to management contracts were £170.0m (2006: £170.0m). Details of impairment recognised in 2006 relating to F&C institutional and investment trust contracts, and changes to their estimated remaining useful lives, are discussed below.

As disclosed in the 2006 annual report and financial statements, Resolution plc withdrew the majority of its assets in the first quarter of 2006. The reimbursement of £27.0m of the original acquisition price paid in 2002 was recognised as proceeds in respect of the deemed disposal of intangible assets. The cost of the assets disposed of was £43.2m and the related cumulative amortisation amounted to £16.2m. Therefore the carrying value of the disposed asset equalled the proceeds received giving rise to neither a gain nor a loss. The £8.1m disposal of goodwill in 2006 is in respect of the deferred tax which related to the £27.0m carrying value of the intangible assets disposed of.

Impairment testing of goodwill and intangible assets with finite lives

Goodwill

The recoverable amount of goodwill has been determined based on a value in use calculation using cash flow projections based on the latest annual financial budget approved by the Board.

The discount rate applied to cash flow projections is 8.5% (2006: 8.9%). This is based on the Group's weighted average cost of capital, calculated as at the year-end, and takes into account the risks associated with the Group's revenue streams.

Projected revenues for the first year are based on the Board-approved budget. Beyond this, revenues have been grown at 5.85% per annum (2006: 5.75%) which is in line with the Group's long-term view of market growth, and consistent with that experienced across the markets in which assets are invested. Revenues earned from significant contracts with a fixed term are assumed to terminate at the end of the fixed term, with operating costs falling by an amount which assumes associated profit margins of 70%.

Projected operating costs for the first year are driven by the budgeted Group profit margin for 2008. Thereafter, costs have been grown at a minimum of 4.00% per annum (2006: 3.75%), to accord with anticipated future inflation and salary increases, with the margin capped at 45% (2006: 45%) as a measure of prudence, based on historical performance.

A terminal value has been calculated and added to the net present value in order to ascertain an overall value in use of the business. The recoverable value is then compared to the carrying value of goodwill, management contracts and other intangible assets, net of associated deferred tax provisions, and property, plant and equipment in order to ascertain whether any impairment exists. The Directors consider the terminal value to reflect fairly the long-term nature of the business and the Board's current view that there is no reason to believe that the business will not continue ad infinitum.

13. Goodwill and other intangible assets (cont'd)

As this annual impairment review of goodwill determined a surplus, no impairment has been recognised in the year in respect of goodwill (2006: £nil).

	31 December 2007 £m	31 December 2006 £m
Carrying amount of goodwill	**569.9**	569.9

The key assumptions referred to above to which the calculated value in use is most sensitive, are as follows:

	2007	2006
Discount rate	**8.5%**	8.9%
Revenue growth rate	**5.85%**	5.75%
Cost inflation rate	**4.00%**	3.75%
Capped operating margin	**45.0%**	45.0%

In order to assess the sensitivity of the key assumptions on the value of goodwill, an analysis was conducted to ascertain the change that would be required to derive a recoverable amount which approximated to the carrying value of goodwill.

The absolute levels of the discount rate, the revenue growth rate or the cost inflation rate which most closely equated to a match in the recoverable amount to carrying value of goodwill were 14.7%, 3.4% and 7.1% respectively (2006: 12.6%, 4.0% and 6.2%). This is based on varying each assumption in turn individually, keeping the others constant.

Management contracts

During 2006 the business experienced a level of fund outflows which was higher than anticipated. This level of lost business has a notable impact on revenues and was significant enough to be considered an indicator of potential impairment of certain intangible assets, namely the related investment management contracts. No such indicators of impairment existed in 2007 and therefore no impairment review of management contracts has been undertaken this year. The information which follows is the disclosure in respect of the comparative period.

In accordance with IAS 36 "Impairment of Assets", full impairment reviews of these assets were undertaken as at 30 June 2006 and 31 December 2006. The review resulted in impairment losses being recognised in respect of management contracts as follows:

	2007 £m	2006 £m
F&C investment trust contracts	–	22.2
F&C institutional contracts	–	36.3
Total impairment recognised in the Income Statement	–	58.5

The above contracts relate to the investment trust management contracts and institutional fund management contracts acquired as a result of the business combination of the ISIS and F&CGH Groups on 11 October 2004.

The recoverable amounts of the assets were determined based on value in use calculations using cash flow projections based on the latest annual financial budget approved by the Board, at that time.

The discount rate applied to the cash flow projections as at 31 December 2006 was 9.4% (30 June 2006: 10.1%) for institutional contracts with no fixed term and 8.4% (30 June 2006: 9.1%) for fixed term institutional contracts. A review of investment trust contracts was only carried out as at 30 June 2006 and the discount rate applied was 10.1%. These rates reflect the varying risks and uncertainties inherent in the revenues from the underlying assets, using the Group's weighted average cost of capital of 8.9%, calculated as at 31 December 2006, (30 June 2006: 9.6%) as a benchmark.

The revenue projections assumed growth of 5.75% per annum, in line with the Group's long-term view of market growth, and consistent with that experienced across the markets in which the managed assets are invested. The projections were derived using the estimated useful lives of the underlying contracts and assumed a constant loss of revenues over the projection periods.

Operating costs for the first year of the projections were driven by the budgeted Group profit margin for 2007. Thereafter, costs were driven by the Group's projected operating profit margins, as determined for the purposes of the most recent goodwill impairment review.

13. Goodwill and other intangible assets (cont'd)

Impairment was determined by comparing the results of the value in use calculations in respect of the remaining contracts at the period-end to the carrying value (cost less aggregate amortisation and prior impairment) of the assets at the balance sheet dates, with any deficits arising constituting impairment to be recognised for the period.

Having continued to lose contracts at a higher than anticipated rate during 2006, the Group reconsidered the average expected lives of the related assets. The reappraisal at the half-year stage revised the estimate of the remaining useful lives of the investment trusts and non-fixed term institutional management contracts to 10 years and 6 years respectively, with effect from 1 July 2006. Following further business outflows in the second half of 2006, the Board revisited the useful life estimates of the affected assets at the end of 2006 and as a result, with effect from 1 January 2007, the remaining life of non-fixed term institutional contracts was assessed as 4 years. The Board determined these useful lives remained appropriate during 2007.

The original estimate of the useful lives on acquisition of the assets in October 2004 was 20 years for investment trusts and 10 years for non-fixed term institutional contracts. The estimated useful lives of all other categories of management contracts remained unchanged.

The revised useful lives represented a change in accounting estimate and accelerated the amortisation of the remaining value of the assets from July 2006 and again from January 2007. The effect of these changes increased the amortisation charge in the second half of 2006 by £1.7m and the charge in 2007 and beyond is increased by £2.6m compared to continuing to amortise over the lives assigned from 1 July 2006, until such time as the assets become fully amortised.

14. Other financial investments

The following assets are designated as available for sale:

	31 December 2007 £m	31 December 2006 £m
Quoted	–	0.1
Unquoted	3.8	2.0
	3.8	2.1

Unquoted investments include the Group's direct investment, co-investments and carried interest entitlement in private equity limited partnerships.

The fair value of the unquoted investments has been estimated using International Private Equity and Venture Capital Valuation Guidelines.

The Directors believe that the estimated fair values resulting from the valuation technique applied to unquoted shares which are recorded in the Balance Sheet, and the related realised fair value gains recorded in the Income Statement, are reasonable and the most appropriate at the balance sheet date.

The investments have no fixed maturity date or coupon rate.

Included within the unquoted financial investments at 31 December 2007 are £0.3m (31 December 2006: £0.4m) of equity instruments measured at the price of recent investments. The fair value of these investments cannot be measured reliably as the Group does not have access to the underlying information to produce fair value valuations for these investments. These investments consist of loans and carried interest in private equity limited partnerships. These investments are managed by external fund managers and the Group obtain returns when the investments are realised. The Group intends to hold these investments until all the private equity investments are realised.

The Group received distributions totalling £3.9m (2006: £4.1m) which comprised £3.8m (2006: £4.0m) of investment income and £0.1m (2006: £0.1m) return of capital in respect of these investments.

Included in the movement in unquoted investments during the year is an impairment charge of £nil (2006: £0.8m).

15. Investment in associates

The Group held an investment in an associate limited liability partnership, ISIS EP LLP, which acquired the private equity business previously owned by the Group; F&C held a 19.99% stake in this business until the investment was terminated by an agreed Deed of Retirement in December 2007 resulting in ISIS EP LLP no longer being an associate of the Group at the year-end. The Group also previously held an investment in an associate alternative investment business involved in hedge funds, Cardinal Capital Partners Limited (Cardinal), which was disposed of during 2006. Details of investments in associates held during the year are as follows:

Name of company	Place of incorporation and operation	Proportion of ownership	Proportion of voting power held	Method used to account for investment
ISIS EP LLP	England	19.99%	19.99%	Equity method

ISIS EP LLP is a private Limited Liability Partnership which is not listed on any public exchanges.

The movements in the aggregate carrying amount of investments in associates are analysed below:

	2007 £m	2006 £m
At 1 January	**1.4**	0.3
Disposals in the year	**–**	(4.0)
Share of profit for the year	**0.6**	1.5
Distributions of profits received in the year	**(1.9)**	(0.4)
Further distribution due on termination of investment agreement (included in trade and other receivables)	**(0.1)**	–
Reversal of impairment losses previously recognised on investments disposed of in the year	**–**	4.0
At 31 December	**–**	1.4

The Group's share of the total assets, liabilities, revenues and profits of associates is set out below:

	31 December 2007 £m	31 December 2006 £m
Share of associates' balance sheet:		
Current assets	**–**	4.2
Non-current assets	**–**	–
Current liabilities	**–**	(0.8)
Non-current liabilities	**–**	(2.0)
Net assets	**–**	1.4

	2007 £m	2006 £m
Share of the associates' revenues and profits:		
Revenues	**3.3**	3.0
Profit	**0.6**	1.5

Notes to the Consolidated Financial Statements

15. Investment in associates (cont'd)

Investment in ISIS EP LLP

The background to the Group's investment in ISIS EP LLP was given in the 2006 financial statements. In 2005 the Group received a nominal amount of cash plus 19.99% of ISIS EP LLP's voting A class ordinary capital. In addition, F&C subscribed £2.5m for non-voting, non-participating B class capital in ISIS EP LLP, in order that the partnership had sufficient regulatory capital. The proceeds from the B capital were maintained in a designated bank account by ISIS EP LLP and any bank interest earned on that account accrued to F&C as a dividend on B capital.

Under the terms of the Partnership Deed, F&C was entitled to a share of profit from ISIS EP LLP. The share of the profit which the Group was entitled to was a cascade calculation of both a fixed and variable element of any profit arising, after priority was given to the fixed share of profit attributable to the other members of the partnership. Accordingly, the Group's 19.99% interest in ISIS EP LLP did not equate to the actual profit entitlement of the Group.

The investment in ISIS EP LLP at the end of 2006, and the amount included in other receivables at the end of 2007, reflects the share of profit entitlement for the year in question not received as at the balance sheet date.

Under the terms of the Deed of Retirement from ISIS EP LLP, F&C received £1.0m in respect of the B capital and the full nominal amount relating to the A voting capital prior to year-end, and ceased to be a member. The balance of the £1.5m B capital is included within trade and other receivables at 31 December 2007; £1m is due to be received in 2008 and the remaining £0.5m in 2009.

In addition, the Deed of Retirement entitles F&C to a potential further distribution depending on the impact of the outcome of any legal proceeding challenging the VAT status of Venture Capital Trusts. The maximum amount distributable to F&C in this respect is £1.5m. This matter has been disclosed as a contingent asset in note 34.

16. Acquisition and disposal of subsidiaries and associates

(a) Acquisition of F&C Group (Holdings) Limited

Following the review of the Completion Accounts and subsequent fair value adjustments to the purchase consideration for the acquisition of F&C Group (Holdings) Limited on 11 October 2004, there is an estimated further consideration of £2.9m payable to Eureko B.V. at 31 December 2007 (31 December 2006: £2.9m).

(b) Disposal of associates

The Group incurred the following loss on disposal:

	2007 £m	2006 £m
Loss on disposal of Cardinal Capital Partners Limited	–	(0.1)
Loss on disposal of associates	–	(0.1)

17. Deferred acquisition costs

	2007 £m	2006 £m
At 1 January	**11.3**	11.4
Costs deferred in the year	**3.6**	2.5
Amortisation in the year	**(3.0)**	(2.6)
At 31 December	**11.9**	11.3

	2007 £m	2006 £m
Split as follows:		
Non-current assets	**8.1**	7.9
Current assets	**3.8**	3.4
At 31 December	**11.9**	11.3

Deferred acquisition costs represent the commission paid to gain new asset inflows into OEICs. These costs are amortised over the expected terms of the contacts, in line with the initial fees received from investors, as disclosed in note 28.

18. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

(a) Recognised deferred assets and liabilities

	31 December 2007			31 December 2006		
	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Employee benefits*	**10.8**	**–**	**10.8**	14.6	–	14.6
Share-based payments	**10.6**	**–**	**10.6**	12.6	–	12.6
Unused tax losses	**1.8**	**–**	**1.8**	2.5	–	2.5
Property, plant and equipment	**3.7**	**–**	**3.7**	1.8	–	1.8
Receivables, payables & provisions	**2.1**	**–**	**2.1**	1.9	–	1.9
Intangible assets	**–**	**(71.0)**	**(71.0)**	–	(85.0)	(85.0)
Revaluation of unrealised fair value gains on available for sale assets	**–**	**(0.9)**	**(0.9)**	–	(0.5)	(0.5)
Unremitted overseas earnings	**–**	**(1.5)**	**(1.5)**	–	(0.6)	(0.6)
Net deferred tax assets/(liabilities)	**29.0**	**(73.4)**	**(44.4)**	33.4	(86.1)	(52.7)

* Includes £7.4m (31 December 2006: £12.8m) relating to deferred tax on defined benefit pension obligations.

(b) Movement in temporary differences during the year

	1 January 2007 £m	Recognised in income £m	Recognised in equity £m	Revaluation in year £m	Pension transfer £m	31 December 2007 £m
Employee benefits	**14.6**	**(0.7)**	**(4.0)**	**0.1**	**0.8**	**10.8**
Share-based payments	**12.6**	**(2.0)**	**–**	**–**	**–**	**10.6**
Unused tax losses	**2.5**	**(0.7)**	**–**	**–**	**–**	**1.8**
Property, plant and equipment	**1.8**	**1.9**	**–**	**–**	**–**	**3.7**
Receivables, payables & provisions	**1.9**	**0.2**	**–**	**–**	**–**	**2.1**
Intangible assets	**(85.0)**	**17.5**	**–**	**(3.5)**	**–**	**(71.0)**
Revaluation of unrealised fair value gains on available for sale assets	**(0.5)**	**0.1**	**(0.5)**	**–**	**–**	**(0.9)**
Unremitted overseas earnings	**(0.6)**	**(0.9)**	**–**	**–**	**–**	**(1.5)**
	(52.7)	**15.4**	**(4.5)**	**(3.4)**	**0.8**	**(44.4)**

	1 January 2006 £m	Recognised in income £m	Recognised in equity £m	Revaluation in year £m	Transferred to goodwill £m	31 December 2006 £m
Employee benefits	17.1	(1.1)	(1.4)	–	–	14.6
Share-based payments	9.1	3.5	–	–	–	12.6
Unused tax losses	4.7	(2.2)	–	–	–	2.5
Property, plant and equipment	1.6	0.2	–	–	–	1.8
Receivables, payables & provisions	1.5	0.4	–	–	–	1.9
Intangible assets	(124.5)	30.4	–	1.0	8.1	(85.0)
Revaluation of unrealised fair value gains on available for sale assets	(0.6)	(0.1)	0.2	–	–	(0.5)
Unremitted overseas earnings	(0.2)	(0.4)	–	–	–	(0.6)
	(91.3)	30.7	(1.2)	1.0	8.1	(52.7)

The Directors believe it is appropriate to recognise a deferred tax asset because it is considered probable that there will be suitable taxable profits from which the underlying temporary differences can be deducted.

Deferred tax has been provided on the unremitted earnings of the Group's foreign operations to the extent that it is planned for these companies to distribute profits in the foreseeable future.

18. Deferred tax assets and liabilities (cont'd)

(c) Unrecognised deferred tax assets and liabilities

The Group has unrecognised tax losses which arose in the UK of £0.2m (31 December 2006: £0.1m) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they cannot be used to offset taxable profits elsewhere in the Group, and they have arisen in companies that have not had taxable profits for some time.

19. Financial instruments

(a) Analysis of balance sheet assets

Financial investments held in relation to the activities of the Group's insurance subsidiary have been classified as fair value through profit or loss within current assets.

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

Financial investments included within non-current assets are classified as available for sale and are carried at fair value (or amortised cost if fair value cannot be measured reliably). Loans receivable included within non-current assets are carried at amortised cost.

(i) Designated as fair value through profit or loss

	Notes	31 December 2007 £m	31 December 2006 £m
Financial investments in respect of unit-linked contracts	(1)	**1,034.2**	1,125.0
Other financial investments	(2)	**8.6**	3.8
		1,042.8	1,128.8

(1) Financial investments in respect of unit-linked contracts:

	31 December 2007 £m	31 December 2006 £m
Equity securities		
Listed	**713.2**	772.9
Unit trusts and OEICs	**14.8**	3.7
Total equity securities	**728.0**	776.6
Debt and fixed income securities		
Government bonds	**109.7**	111.6
Other listed fixed interest securities	**100.7**	132.0
Index linked gilts	**34.0**	35.5
Participation in pooled investments	**61.8**	69.3
Total debt and fixed income securities	**306.2**	348.4
Total unit-linked financial investments designated as fair value through profit or loss	**1,034.2**	1,125.0

Financial instruments relating to unit-linked contracts

The Group's insurance subsidiary, F&C Managed Pension Funds Limited, provides unit linked pension wrappers. From F&C's perspective, the risks and rewards of managing these assets are the same as other assets under management, as the financial risks and rewards attributable to the assets invested fall to be borne by, or to the benefit of, the Group's clients. Hence, while a number of significant financial instruments are recognised in the Balance Sheet in respect of this subsidiary, the key risk to the Group is the impact on the level of management fees which are earned from this entity and which are directly affected by the underlying value of policyholder assets. While F&C Managed Pension Funds Limited has some insurance risks, these risks are fully reinsured, thereby negating any insurance risk to the Group's equity holders.

19. Financial instruments (cont'd)

The amounts included in the Consolidated Balance Sheet in respect of assets and liabilities held within unit-linked funds are as follows:

	31 December 2007 £m	31 December 2006 £m
Fair value through profit or loss:		
Financial investments designated as fair value through profit or loss	**1,034.2**	1,125.0
Loans and receivables:		
Deferred acquisition costs	**0.6**	0.6
Trade and other receivables	**0.4**	0.6
Cash and cash equivalents	**58.2**	53.3
Trade and other payables	**(3.3)**	(4.4)
Total unit-linked assets less liabilities	**1,090.1**	1,175.1

These unit-linked assets are matched by the associated investment contract liabilities disclosed in note 29.

(2) Other financial investments comprise:

	31 December 2007 £m	31 December 2006 £m
NIC hedge	**3.3**	2.8
Corporate bonds	**3.0**	–
Purchased Equity Plan	**1.2**	–
Bonuses – managed funds	**1.1**	1.0
	8.6	3.8

The NIC hedge represents an investment in equities made via a trust for the purpose of funding future national insurance contributions (NIC) payments on the Deferred Investment Plan and Deferred Investment Option Plan. The provision for NIC is separately recognised.

Corporate bonds represents investments in corporate bonds held by F&C Managed Pension Funds Limited.

The Purchased Equity Plan represents investments held by an Employee Benefit Trust in F&C funds for the purpose of future settlement of Purchased Equity Plan awards. A corresponding liability is recognised over the vesting period; details are given in note 27(v)(b).

'Bonuses – managed funds' represents an investment in managed funds in respect of the future settlement of bonuses. The liability for these bonuses is separately recognised.

The corporate bonds have the following maturity dates:

Maturity date	31 December 2007 £m	31 December 2006 £m
2011	**1.7**	–
2012	**0.3**	–
2014	**0.4**	–
2037	**0.6**	–
	3.0	–

19. Financial instruments (cont'd)

(ii) Held for trading

	31 December 2007 £m	31 December 2006 £m
Stock of units and shares	**0.8**	0.7

The Group holds a stock of shares and units in respect of its OEIC and unit trust business. This stock of shares and units is commonly referred to as the 'Manager's Box'. The Group's stock of shares and units is valued using quoted market values. The Group is therefore exposed to market value movements in the value of these assets.

(iii) Classified as loans and receivables

	31 December 2007 £m	31 December 2006 £m
Cash and cash equivalents	**274.4**	267.6
Trade and other receivables:		
Loan to associate	**–**	2.5
Trade debtors	**11.0**	10.1
Accrued income	**45.3**	36.3
Other debtors	**25.6**	25.5
Amounts owed by associate	**–**	1.3
Amounts owed by Eureko Group	**6.5**	4.8
Amounts owed by Friends Provident Group	**1.5**	–
	364.3	348.1

19. Financial instruments (cont'd)

(b) Fair values

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

	Carrying amount		Fair value	
	31 December 2007 £m	31 December 2006 £m	31 December 2007 £m	31 December 2006 £m
Financial assets				
Other financial investments	**3.8**	2.1	**3.8**	2.1
Loan to associate	–	2.5	–	2.5
Financial investments at fair value through profit or loss	**1,042.8**	1,128.8	**1,042.8**	1,128.8
Reinsurance assets	**2.3**	2.4	**2.3**	2.4
Stock of units and shares	**0.8**	0.7	**0.8**	0.7
Cash and cash equivalents	**274.4**	267.6	**274.4**	267.6
Financial liabilities				
Interest bearing loans and borrowings:				
Fixed/Floating Rate Subordinated Notes 2026	**(257.9)**	(257.7)	**(239.9)**	(258.3)
Preference Share capital	**(0.8)**	(0.8)	**(0.6)**	(0.7)
Revolving credit facilities	–	(5.0)	–	(5.0)
Investment contract liabilities	**(1,090.1)**	(1,175.1)	**(1,090.1)**	(1,175.1)
Insurance contract liabilities	**(2.3)**	(2.4)	**(2.3)**	(2.4)

The fair values of short-term 'trade and other receivables' and 'trade and other payables' have been excluded from the above table as their carrying amounts are a reasonable approximation of their fair value.

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

Securities

The fair value of listed investments is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The fair value of unlisted investments has been valued in accordance with International Private Equity and Venture Capital Valuation Guidelines and in accordance with the underlying limited partnership agreements.

Interest bearing loans and non-equity shares

The fair value of the Subordinated Notes is based on quoted market price at the balance sheet date.

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

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

20. Reinsurance assets

	31 December 2007 £m	31 December 2006 £m
Reinsurers' share of insurance contract liabilities	**2.3**	2.4
Total reinsurance assets – current assets	**2.3**	2.4

21. Trade and other receivables

	31 December 2007 £m	31 December 2006 £m
Current:		
Trade debtors	**11.0**	10.1
VAT recoverable	**1.1**	–
Accrued income	**45.3**	36.3
Other debtors	**24.8**	25.5
Prepayments	**6.5**	8.2
Amounts owed by Friends Provident Group	**1.5**	–
Amounts owed by associate	**–**	1.3
Amounts owed by Eureko Group	**6.5**	4.8
	96.7	86.2

Trade debtors are non-interest bearing and are generally receivable within 30 days.

	31 December 2007 £m	31 December 2006 £m
Non-current:		
Other debtors	**0.8**	–
Loan to associate	**–**	2.5
	0.8	2.5

As set out in note 15, as at 31 December 2007 the Group no longer held any investment in ISIS EP LLP and therefore it is no longer an associate company. £1m of the loan (representing B class capital) was repaid in 2007, £1m will be received in 2008 and the final £0.5m in 2009. These amounts are included within other debtors.

22. Cash and cash equivalents

	31 December 2007 £m	31 December 2006 £m
Policyholders		
Cash at bank and in hand	8.8	21.7
Short-term deposits	49.4	31.6
	58.2	53.3
Shareholders		
Cash at bank and in hand	9.8	20.0
Short-term deposits	206.4	194.3
	216.2	214.3
Total cash and cash equivalents	274.4	267.6

Cash and cash equivalents are held by the Group for the purpose of meeting short-term cash commitments rather than for investment or other purposes. All items above are readily convertible to a known amount of cash and are not subject to significant risk of changes in value.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents at 31 December 2007 is £274.4m (31 December 2006: £267.6m).

Restrictions on use of cash

The policyholders' cash is not available for general use by the Group. These funds are held on behalf of policyholders of unit linked insurance contracts which are consolidated within the results of the Group. At 31 December 2007 this amounted to £58.2m (31 December 2006: £53.3m) of the total cash and cash equivalents balance.

Borrowing facilities

The Group has borrowing facilities available to it. The undrawn committed facilities available at the year-end are as follows:

	31 December 2007 £m	31 December 2006 £m
Expiring in one year or less:		
Bank overdraft facilities	2.0	2.0
Revolving credit facility with Friends Provident Group	–	45.0
	2.0	47.0

23. Interest bearing loans and borrowings

The contractual terms of the Group's interest bearing loans and borrowings are as follows:

Contractual terms	31 December 2007 £m	31 December 2006 £m
Preference Share capital:		
Dividends are set at LIBOR + 2% and are payable each half-year in arrears.		
Preference Shares' rights are described in note 31.	**0.8**	0.8
£260m Fixed/Floating Rate Subordinated Notes 2026:		
Interest rate of 6.750% per annum for period 20 December 2006 – 19 December 2016, payable annually in arrears.		
Issuer has the option to extend the notes beyond 20 December 2016.		
Interest rate of 2.69% above 3 month LIBOR for the period 20 December 2016 – 20 December 2026, payable quarterly in arrears.	**257.9**	257.7
£50m revolving credit facility with Friends Provident plc:		
Amount drawn down, at 3 month Sterling LIBOR plus 0.6% margin.	**–**	5.0
	258.7	263.5

The revolving credit facility with Friends Provident was terminated when the £5.0m drawn down was repaid to Friends Provident on 28 March 2007.

	31 December 2007 £m	31 December 2006 £m
Repayment periods		
Amounts repayable:		
In one year or less, or on demand	**–**	5.0
In more than one year but not more than two years	**–**	–
In more than two years but not more than five years	**–**	–
In more than five years	**258.7**	258.5
	258.7	263.5

Additional information about the Group's exposure to interest risk is provided in note 37.

24. Trade and other payables

	31 December 2007 £m	31 December 2006 £m
Amounts due within one year:		
Trade creditors	**3.1**	4.4
Amounts owed to Friends Provident Group	**–**	0.1
Amounts owed to Eureko Group	**2.9**	2.9
VAT	**–**	0.2
Social Security and PAYE	**5.1**	0.9
Accruals	**18.8**	21.5
Other creditors	**29.0**	32.2
	58.9	62.2
Amounts due outwith one year:		
Accruals	**5.8**	2.4
Other creditors	**1.4**	1.6
	7.2	4.0

Trade creditors are non-interest bearing and are settled in accordance with the individual contractual arrangements.

25. Provisions

	Onerous premises contracts £m	NIC on share schemes £m	Long-term sickness £m	Guaranteed product £m	Long-term service award £m	Investment Trust VAT £m	Total £m
At 1 January 2006	13.2	4.2	1.6	0.3	0.1	–	19.4
Provided during the year	0.5	3.0	0.4	–	–	–	3.9
Utilised during the year	(3.6)	(0.8)	–	–	–	–	(4.4)
Reversed during the year	(0.3)	–	–	(0.1)	–	–	(0.4)
At 31 December 2006	9.8	6.4	2.0	0.2	0.1	–	18.5
Provided during the year	2.3	2.2	–	0.1	–	3.9	8.5
Utilised during the year	(3.5)	(3.1)	–	(0.1)	–	–	(6.7)
At 31 December 2007	**8.6**	**5.5**	**2.0**	**0.2**	**0.1**	**3.9**	**20.3**
At 31 December 2007							
Non-current	**6.8**	**1.3**	**1.8**	**0.2**	**0.1**	**–**	**10.2**
Current	**1.8**	**4.2**	**0.2**	**–**	**–**	**3.9**	**10.1**
At 31 December 2006							
Non-current	6.7	0.4	1.8	0.2	0.1	–	9.2
Current	3.1	6.0	0.2	–	–	–	9.3

25. Provisions (cont'd)

Onerous contracts

The Group holds all properties under operating leases. This includes a number of vacant or sub-let properties which were either previously occupied by the Group or are only partially occupied by the Group. Provision has been made for the residual lease commitments where significant, after taking into account existing and expected sub-tenant contractual arrangements. The remaining terms are for up to 14 years, although a significant element of this provision relates to lease incentive arrangements and is expected to be utilised within 3 years. Assumptions have been made as to whether each leasehold property may be sub-let or assigned in the future. All leases, and the majority of sub-leases, are for minimum guaranteed rentals. One sub-lease involves the possible receipt of contingent rent. Any contingent rent received in excess of the anticipated amount is recognised as income during the period. The provision is subject to uncertainties over time including market rent reviews and break-options within the lease arrangements.

NIC on share options

The provision for National Insurance Contributions (NIC) on share schemes represents the potential NIC liabilities in respect of a number of share-based payment schemes operated by the Group. The provision is subject to uncertainties in respect of the extent to which performance conditions are met, movements in the Company's share price, the extent to which awards lapse and, where eligible, the timing of when employees choose to exercise options. The current element of the provision for NIC on share schemes relates to awards which are expected to vest within one year. At 31 December 2007 £3.3m (31 December 2006: £2.8m) of financial investments were held by the Group to partially fund the NIC liability on the Deferred Investment Plan and Deferred Investment Option Plan. This is disclosed in note 19.

Long-term sickness

The Group has long-term sickness insurance arrangements which cover the cost of absence from work of all current employees. However, the cost of employees who went on long-term absence prior to these arrangements being established are self-insured by the Group. The provision represents the present value of income protection payments due to these individuals.

This provision has been quantified on the assumption that all employees currently on long-term sick leave do not return to the employment of the Group. The discount rate and salary growth assumptions used in each year are identical to those used for the purposes of determining defined benefit pension obligations.

Guaranteed product

The provision for the 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 of the investor. This provision is subject to uncertainties in respect of movements in market levels and the mortality rates of investors. The underlying investment plan was closed to new investors during 2004.

Long-term service award

This provision represents the non-current obligation in respect of long-term service benefits to which some employees are entitled, including incremental holiday entitlement and long-term service awards.

Investment Trust VAT

HM Revenue and Customs (HMRC) decided on 5 November 2007 not to contest the European Court of Justice ruling regarding the JP Morgan Claverhouse Investment Trust/Association of Investment Companies (Claverhouse) case that management services to UK Investment Trust Companies (ITCs) should be exempt from VAT. As a result, the Group no longer applies VAT to investment management fees charged to UK investment trust clients. A number of Group companies, in common with other asset managers in the UK, now face claims from ITCs for the repayment of VAT charged to them for periods dating back to 1990.

While the Group charged VAT in accordance with applicable UK law at the time, a provision has been recognised to the extent that the expected payments to be made to ITCs are greater than the expected amount recoverable from HMRC. The provision of £3.9m represents the estimate of the net cost to the Group.

Significant uncertainty remains as to the final quantification of amounts recoverable from HMRC and the actual quantum payable to ITCs for this period. In addition, uncertainty exists as to the repayment methodology to be applied by HMRC as well as the timing of any repayments both from HMRC and to the Group's investment trust clients.

26. Employee benefits – Pension scheme obligations

The Group operates a defined benefit scheme in the United Kingdom, one in The Netherlands, one in the Republic of Ireland, and participates in one in Portugal. The UK scheme is closed to new entrants. All new UK employees are eligible to benefit from defined contribution arrangements, which provide greater certainty over the future cost to the Group.

On 31 March 2007 the F&C Management Pension Plan was merged into the ISIS Asset Management plc Pension Fund as part of a rationalisation of UK employment arrangements. The new scheme was renamed the F&C Asset Management Pension Plan.

In the past, where the Group was unable to separately identify its share of assets and liabilities in overseas multi-employer defined benefit schemes, these schemes were accounted for as defined contribution plans.

Prior to the merger of F&C and ISIS in 2004, employee benefits in Ireland were provided through the multi-employer Friends First pension scheme. In 2006 a separate pension plan was established and in 2007 employees decided whether to transfer into the new plan, or accept a defined contribution alternative. The new plan maintained the existing benefits enjoyed previously by employees in Ireland. Until the member decisions had been finalised, the pension plan in Ireland was accounted for as a defined contribution (multi-employer) scheme. The F&C share of assets and liabilities for this scheme is now separately identifiable and is included as a defined benefit scheme from 1 January 2007.

A separate exercise was conducted to make an assessment of any final transfer value receivable from Eureko in respect of the non-UK schemes acquired as part of the acquisition in 2004. The exercise is now complete and Eureko paid the company £2.4m in January 2008. This amount has been recognised within other income in 2007.

The Chairman of the Group, Mr R W Jenkins, has a pension entitlement of £100,000 per annum, commencing on his 60th birthday. This pension will be indexed in line with the Retail Price Index on 1 January each year with effect from 11 October 2004, the date of the pension award. The Group has not earmarked any assets to date with respect to this liability.

The pension obligations are recognised under non-current liabilities in the Balance Sheet and are stated gross of the related deferred tax asset.

The results of the latest full actuarial valuations were updated at 31 December 2007 by qualified independent actuaries.

The pension deficits/(surpluses) of the Group are summarised as follows:

	31 December 2007 £m	31 December 2006 £m
F&C Management Pension Plan	–	21.9
F&C Asset Management Pension Plan	**21.4**	18.3
F&C Portugal pension obligation	**(0.1)**	0.2
F&C Netherlands pension obligation	**2.9**	2.6
F&C Ireland pension obligation	**0.2**	–
R W Jenkins pension obligation	**2.4**	2.4
Total pension deficit	**26.8**	45.4

26. Employee benefits – Pension scheme obligations (cont'd)

Disclosure relating to the Group's defined benefit obligations

The information given in (1) to (4) below reflects the aggregate disclosures in respect of all Group defined benefit pension arrangements.

(1) Plan assets and expected rate of return

Plan assets	31 December 2007 £m	%	31 December 2006 £m	%
Equities	**100.0**	**66**	92.5	69
Gilts	**1.8**	**1**	17.3	13
Corporate bonds	**–**	**–**	13.2	10
LDI Pools	**37.2**	**25**	–	–
Cash	**2.4**	**2**	4.0	3
Other	**9.2**	**6**	7.4	5
Total fair value of plan assets	**150.6**	**100**	134.4	100

Plan assets include £63.4m (31 December 2006: £77.4m) of underlying investments held by the Group pensions schemes via transferable investment contracts with F&C Managed Pension Funds Limited, the Group's unit-linked pooled pension business.

Other assets consist of assets held in insurance contracts in respect of The Netherlands scheme and some property assets.

The plan assets do not include Ordinary Shares issued by the Company or Friends Provident plc.

Expected long-term rates of return applied to all funded defined benefit obligations are as follows:

Expected long-term rate of return on plan assets*	31 December 2007	31 December 2006
Equities	**7.00%**	7.00%
Gilts	**5.00%**	5.00%
Corporate bonds	**5.60%**	5.00%
LDI Pools	**4.50%**	n/a
Cash	**4.50%**	4.50%
Other	**7.00%**	7.00%

* Expected returns are shown for UK obligations only.

Basis used to determine the expected rate of return on plan assets

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for the future returns of each asset class. The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio.

(2) Major assumptions used by schemes' Actuaries in respect of benefit obligations

(i) Mortality assumptions

The mortality assumptions used for the main UK defined benefit scheme and the unfunded UK obligation are:

	31 December 2007	31 December 2006
Mortality table for males retiring in the future	**PMA92MCYOB – 1**	PMA92B1965MC – 1
Mortality table for females retiring in the future	**PFA92MCYOB – 1**	PFA92B1965MC – 1
Mortality table for current male pensioners	**PMA92MCYOB – 1**	PMA92B1935MC – 1
Mortality table for current female pensioners	**PFA92MCYOB – 1**	PFA92B1935MC – 1

In The Netherlands the mortality assumption was updated to the *Prognosetafel* 2008-2050. The corresponding assumption used at 31 December 2006 was the industry standard table *Coll 2003*. The change in assumption lead to an increase of approximately 2.5% in liabilities for The Netherlands scheme.

26. Employee benefits – Pension scheme obligations (cont'd)

(ii) Impact of mortality assumptions

To demonstrate what these mortality assumptions mean, the expected ages at death of members retiring at age 60 are as follows:

	31 December 2007 Years	31 December 2006 Years
Expected age at death for a male retiring in the future at age 60	**89**	88
Expected age at death for a female retiring in the future at age 60	**92**	91
Expected age at death for a current male pensioner aged 60	**88**	86
Expected age at death for a current female pensioner aged 60	**91**	89

(iii) Cost of annuities

The table below summarises the cost of providing annuities of £1 per annum (with associated death benefits and pension increases) for members aged 60 based on the assumptions used for the pension disclosures:

	31 December 2007 £	31 December 2006 £
Male annuity	**23.50**	24.50
Female annuity	**24.00**	25.00

These rates assume a monthly payments model with a discount rate of 5.6% (2006: 5.00%) based on the iBoxx over 15 year AA corporate bond index of 5.82% (2006: 5.12%). The rates also assume two thirds of the members' benefit will be paid to the spouse; a 5-year guarantee is provided; and pensions in excess of GMP will increase by 3.3% (2006: 3.00%) per annum.

(iv) Discount and growth assumptions

The range of assumptions used to determine benefit obligations are as follows:

	31 December 2007	31 December 2006
Discount rate	**5.50% – 5.60%**	4.60% – 5.00%
Rate of salary increase	**2.50% – 4.55%**	2.50% – 4.25%
Rate of inflation increase	**2.00% – 3.30%**	1.75% – 3.00%

The range of assumptions used to determine net pension cost for the year are as follows:

	2007	2006
Discount rate	**4.60% – 5.00%**	4.25% – 4.70%
Weighted average expected long-term return on plan assets	**3.90% – 6.45%**	5.50% – 6.50%
Rate of inflation increase	**1.75% – 3.00%**	1.75% – 2.75%
Rate of salary increase	**2.50% – 4.25%**	2.75% – 4.00%

(v) Sensitivities

An estimate of the sensitivities regarding the principal assumptions used to measure the schemes' liabilities are set out below:

Assumption	Change in assumption	Estimated impact on scheme liabilities
Inflation	Increase/decrease by 0.1%	Increase/decrease by 1.7%
Salaries	Increase/decrease by 0.1%	Increase/decrease by 0.4%
Pensions	Increase/decrease by 0.1%	Increase/decrease by 1.2%
Discount rate	Increase/decrease by 0.1%	Decrease/increase by 2.4%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 2.1%

26. Employee benefits – Pension scheme obligations (cont'd)

(3) Profile of Schemes' Membership

The profile of the current membership of defined benefit arrangements in the Group is as follows:

	31 December 2007		31 December 2006	
	% of total membership	Average age	% of total membership	Average age
Active members	**22%**	**42**	21%	42
Deferred members	**68%**	**42**	69%	42
Pensioners	**10%**	**65**	10%	65
	100%		100%	

The profile of the liabilities of defined benefit arrangements throughout the Group is as follows:

	2007 £m	2006 £m
Active members	**50.4**	56.8
Deferred members	**82.1**	83.4
Pensioners	**44.9**	39.6
Benefit obligation at 31 December	**177.4**	179.8

(4) Aggregate disclosure obligations

	2007 £m	2006 £m
Change in benefit obligation		
Benefit obligation at 1 January	**179.8**	164.1
Foreign exchange movements	**1.3**	–
Current service cost	**4.1**	3.6
Past service cost*	**0.5**	0.3
Interest cost on pension liabilities	**9.0**	8.1
Members' contributions	**–**	0.2
Actuarial gains	**(13.3)**	(4.3)
Transfer in respect of The Netherlands scheme	**–**	10.7
Transfer in respect of the Ireland scheme	**1.4**	–
Settlements	**(0.1)**	–
Benefits paid	**(5.3)**	(2.9)
Benefit obligation at 31 December	**177.4**	179.8

*The past service cost relates to the re-linking of past service to salaries for employees reinstated to the UK Plan and augmentation of pension entitlements for certain employees.

	31 December 2007 £m	31 December 2006 £m
Analysis of defined benefit obligation		
Plans that are wholly or partly funded	**175.0**	177.4
Plans that are wholly unfunded	**2.4**	2.4
	177.4	179.8

26. Employee benefits – Pension scheme obligations (cont'd)

	2007 £m	2006 £m
Change in plan assets		
Fair value of plan assets at 1 January	**134.4**	116.1
Foreign exchange movements	**1.0**	(0.1)
Expected return on plan assets	**8.9**	7.8
Actuarial (losses)/gains	**(1.6)**	2.1
Transfer in respect of The Netherlands scheme	**–**	6.8
Transfer in respect of the Ireland scheme	**0.8**	–
Employer contributions	**12.5**	4.4
Member contributions	**–**	0.2
Settlements	**(0.1)**	–
Benefits paid	**(5.3)**	(2.9)
Fair value of plan assets at 31 December	**150.6**	134.4

	31 December 2007 £m	31 December 2006 £m
Funded status	**(26.8)**	(45.4)
Net deficit recognised	**(26.8)**	(45.4)

	2007 £m	2006 £m
Components of pension cost		
Current service cost	**4.1**	3.6
Past service cost	**0.5**	0.3
Interest cost on pension liabilities	**9.0**	8.1
Expected return on pension plan assets	**(8.9)**	(7.8)
Total pension cost recognised in the Income Statement	**4.7**	4.2

	Notes	2007 £m	2006 £m
Pension costs are included in the Income Statement as follows:			
Operating expenses		**4.6**	3.9
Finance revenue	7	**(8.9)**	(7.8)
Finance costs	8	**9.0**	8.1
Total pension cost recognised in the Income Statement		**4.7**	4.2

	2007 £m	2006 £m
Actuarial gains immediately recognised in the SORIE*	**(11.1)**	(2.5)
The cumulative actuarial losses recognised in the SORIE since transition to IFRS	**20.1**	31.2

* The actuarial gains includes the transfer into the Irish scheme of plan assets and benefit obligations (2006: includes transfer into The Netherlands scheme).

	2007 £m	2006 £m
Actual return on plan assets	**7.3**	9.9

26. Employee benefits – Pension scheme obligations (cont'd)

Five year history

	2007 £m	2006 £m	2005 £m	2004 £m	2003* £m
Benefit obligations at 31 December	**(177.4)**	(179.8)	(164.1)	(114.5)	(37.5)
Fair value of plan assets at 31 December	**150.6**	134.4	116.1	96.8	29.7
Total pension deficit	**(26.8)**	(45.4)	(48.0)	(17.7)	(7.8)
Difference between expected and actual return on plan assets					
Amount	**(1.6)**	2.1	11.5	1.7	2.2
Percentage of plan assets	**(1%)**	2%	10%	2%	7%
Experience gains and losses on benefit obligations					
Amount	**(3.4)**	(1.6)	(0.4)	(0.5)	–
Percentage of benefit obligations	**(2%)**	1%	–%	–%	–%
Total gains and losses					
Amount	**11.7**	2.5	(30.7)	(2.9)	0.8
Percentage of benefit obligations	**6%**	1%	(19%)	(3%)	2%

* On an FRS17: Retirement Benefits basis.

(5) Pension schemes' details

F&C Asset Management Pension Plan ('FCAM Plan') previously called ISIS Asset Management plc Pension Fund

Date of last actuarial valuation	31 March 2005
Scheme Actuary	Mercer Limited
Method of valuation	Projected Unit
Market value of assets at last valuation date	£33.6m
Level of funding	80%

The F&C Management Pension Plan merged into the ISIS Asset Management plc Pension Fund ("ISIS Fund") on 31 March 2007. The enlarged scheme was renamed the F&C Asset Management Pension Plan on the same date.

Prior to the merger of the two plans, contribution schedules were agreed by the Company and the relevant Trustees. A schedule of contributions for the merged plan was agreed in May 2007. The Company has paid contributions at the rate of £0.2m per month during 2007 with an additional £8.0m employer contribution during the year. The Company has agreed to pay contributions of a minimum of 25% of Pensionable Salaries in respect of former ISIS Fund members and 29.9% of Pensionable Salaries for former F&C Management Pension Plan members until the earlier of the implementation of a new schedule of contributions or April 2011. Employee contributions are payable via a salary sacrifice scheme in addition to the Company contributions. The rates of employee contributions payable are increasing on a phased basis until March 2009. Contributions are subject to review at future actuarial valuations. The minimum estimated contribution expected to be paid into the plan during the current financial year is £2.8m.

As the FCAM 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 scheme's assets, which are managed by F&C, are held under the control of the Trustees and are used to secure benefits for the members of the scheme and their dependants in accordance with the Trust Deed and Rules.

Trustee board of the FCAM Plan

The appointment of Trustees is determined by the FCAM Plan's trust documentation. The Trustee board currently consists of three employer-appointed Trustees, three member-selected Trustees and two Independent Trustees, one of whom is currently the Chairman of the Trustee board. Of the current employer-appointed and member-selected Trustees, five are employees of F&C and active members of the FCAM Plan, while one is retired and receiving a pension from the FCAM Plan.

Relationship between F&C and the Trustees of the FCAM Plan

The FCAM Plan's assets are held in a separate Trustee-administered fund to meet long-term pension liabilities to past and present employees. The Trustees of the Plan are required to act in the best interests of the Plan's beneficiaries.

26. Employee benefits – Pension scheme obligations (cont'd)

Other pension schemes

As a result of the merger of ISIS and F&C in 2004, employees in The Netherlands and Ireland were no longer able to continue to participate in the existing plans. Separately identifiable plans have been set up in The Netherlands and Ireland and the assets and liabilities for these employees transferred to the new plans.

F&C Portugal SA

Certain employees in Portugal participate in the multi-employer scheme Fundo de Pensoes do Grupo Banco Commercial Português. The assets and liabilities of the scheme are separately identifiable. There are no Trustees, and the Company controls the assets relating to the F&C members of the scheme.

F&C Netherlands BV

The Group insures the scheme liabilities in The Netherlands with an insurance company. There are no Trustees, but the Works Council has input into negotiations on potential changes to the plan.

F&C Ireland Limited

Employee benefits in Ireland were provided through the Friends First Retirement and Death Benefits Plan, in which F&C participated together with Friends First. This, until the start of 2007, was accounted for as a multi-employer plan on a defined contribution basis.

F&C Ireland Limited set up a separate defined benefit plan in 2006, but decisions on members transferring were not made until 2007. The assets and liabilities were transferred into the F&C Ireland Pension Fund in 2007 from the Friends First Retirement and Death Benefits Plan.

(6) Future funding requirements

UK schemes

The Trustees of the ISIS Fund and F&C Management Pension Plan merged the schemes on 31 March 2007 into the FCAM Plan. This was achieved by the transfer of all of the defined benefit assets and liabilities from the F&C Management Pension Plan into the ISIS Fund. The assets and liabilities were merged on a co-mingled basis (i.e. they will not be separately identifiable into F&C Management Fund or ISIS Fund sections). In conjunction with this merger, special employer contributions totalling £8.0m were paid into the FCAM Plan around the time of the merger with a view to improving the funding level of the merged scheme.

Following the merger, a formal actuarial valuation was initiated, dated 31 March 2007. This actuarial valuation is still ongoing. This valuation will be subject to the requirements of the scheme funding regulations introduced under the Pensions Act 2004 and the funding principles are to be agreed between the Trustees of the merged scheme and F&C. The results of this formal valuation will help to determine the future level of employer contributions to the merged scheme. Until such time as any revision to employer contributions is agreed, it is anticipated that employer contributions will continue.

Overseas schemes

Given the recent establishment of new schemes, there is some uncertainty over the future level of employer contributions that may be required. The figures in the table below assume that contributions at the level paid in 2007 will continue for the overseas schemes.

Contributions to defined benefit schemes

Amounts paid into the Group's defined benefit schemes in the past two years and expected future payments over the next five years are as follows:

Contributions paid	£m
2006	4.4
2007	**12.5**

Expected future contributions	£m
2008	4.2
2009	4.3
2010	4.4
2011	4.4
2012	4.4

26. Employee benefits – Pension scheme obligations (cont'd)

(7) Risk management

(a) UK schemes

The Trustees set general investment policy but delegate the responsibility for the selection of specific investments (other than investments in respect of members' voluntary contributions) to the investment manager.

The Trustees regularly monitor the Plan's investments. The Trustees seek advice from their investment adviser and believe they have sufficient skills and expertise to make investment decisions based on this advice.

The Trustees have set performance and risk targets for the investment manager. The performance objectives are long-term, however, the Trustees monitor the investment manager on a regular basis in order to ensure that the scheme is on track to meet its long-term objectives.

Prior to the merger of the two schemes, both sets of Trustees conducted an asset-liability review. These studies were used to assist the Trustees and the Group to determine the optimal long-term asset allocation with regard to the liabilities within the schemes, subject to an acceptable funding cost to the Group. The results of the studies were also used to assist the Trustees and the Group in managing volatility in the underlying investment performance and risk of a significant increase in the schemes' deficits by providing information used to determine the schemes' investment strategy. A further asset-liability review is being undertaken alongside the actuarial valuation of the merged plan.

Asset allocation

Following the pre-merger asset-liability reviews, both sets of Trustees agreed with F&C that they would implement a Liability Driven Investment (LDI) approach to their investment strategy. In both cases this involves the use of pooled LDI products managed by F&C. The exact details of the investment strategy and asset allocation for the merged plan for the future are still being considered.

Interest rate and inflation risk

The LDI pools are intended to help provide a degree of matching to the liabilities of the scheme. Each pool comprises zero coupon derivatives with the same maturity as the expected cash flows of the scheme. Each pool has leveraged exposure of varying amounts to inflation and interest rates.

The pools are valued using the market values of the underlying securities.

Currency risk

In order to increase the diversification of the equity portfolio, the plan invests in overseas assets. However, the plan's liabilities are denominated entirely in Sterling and therefore there is a risk that the appreciation of Sterling against other currencies will reduce the return from overseas equities.

Operational risk

The investment managers do not directly hold any of the Plan's securities. These are held by an external custodian.

The assets are ring fenced from F&C's creditors and therefore transferable.

(b) Overseas schemes

The plan in The Netherlands is insured. The value of the plan assets is the value of the reserve which the insurance company holds to match guaranteed pension liabilities. These reserves are, in effect, fixed interest instruments, so provide a reasonable match to pension liabilities.

The plan in Portugal is part of an industry-wide banking sector plan. Each participant company holds a share of the assets, which are invested using the same asset allocation as the overall plan assets. F&C Portugal is the asset manager for the overall scheme.

The plan in Ireland invests in pooled unitised funds, with returns reflecting the performance of the underlying assets.

At 31 December 2007, the assets of both the Portugal and Ireland plans were invested in diversified portfolios that consisted primarily of debt and equity securities.

26. Employee benefits – Pension scheme obligations (cont'd)

(8) Cost of defined contribution plans (including restructuring costs)

	2007 £m	2006 £m
Group personal pension plans	**3.3**	2.2
Other defined contribution schemes	**1.1**	0.8
	4.4	3.0

The Group had £0.1m of pension contributions outstanding as at 31 December 2007 (31 December 2006: £0.1m).

27. Employee benefits – Share-based payments

The Group operates several share-based payment arrangements as part of its total employee compensation. The details of each scheme are disclosed below.

Details of option pricing models and key assumptions used to obtain the fair value of services received, or the fair value of the equity instruments granted, have been disclosed only for awards granted during the year ended 31 December 2007. Details of awards granted in previous accounting periods are disclosed in the notes of previous years' financial statements.

The weighted average share price during 2007 was £1.93 (2006: £2.01).

(i) 2002 Executive Share Option Scheme

The 2002 Executive Share Option Scheme ('2002 ESOS') was activated in March 2003. The vesting period for each award is three years and options are settled by an allotment of shares to individuals. No cash alternative is available.

If the options remain unexercised after a period of 10 years from the date of award, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest. Employees who are deemed "good leavers" are entitled to exercise their options for a period of one year after they leave, dependent on the achievement of performance conditions at their departure date.

The vesting of options granted under the Scheme will be dependent on the achievement by the Group of specified thresholds of underlying earnings per share 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 underlying EPS of the Group over the period exceeds the growth in the RPI over the same period by 9%. Where that 9% 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 underlying EPS of the Group over the period must exceed the growth in the RPI over the same period by a minimum of 24%. The number of Ordinary Shares subject to option which will become exercisable will increase on a sliding scale if the growth in the underlying EPS exceeds the growth in the RPI by between 9% and 24% over the performance period. The underlying EPS measure is chosen because it is designed to enable the Scheme to reward sustained improvement in the Group's financial performance.

The number and weighted average exercise prices (WAEP) of share options are as follows:

	2007 No.	2007 WAEP £	2006 No.	2006 WAEP £
Outstanding at 1 January	**1,880,376**	**1.83**	4,000,302	1.71
Exercised during the year	**(573,017)**	**1.39**	(1,341,353)	1.39
Forfeited during the year	**(79,132)**	**2.27**	(778,573)	2.01
Outstanding at 31 December	**1,228,227**	**1.99**	1,880,376	1.83
Exercisable at 31 December	**1,228,227**	**1.99**	1,122,876	1.44

The 9 March 2004 award vested on 9 March 2007. All the 2002 ESOS options have now vested. The options exercised during 2007 and 2006 relate to a mixture of "good leavers" and vested options.

27. Employee benefits – Share-based payments (cont'd)

At 31 December 2007 the following options granted under the 2002 ESOS to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercisable before	Exercise price
19 March 2003	500,692	19 March 2006	19 March 2013	139.00p
9 March 2004	727,535	9 March 2007	9 March 2014	240.83p

The options outstanding at 31 December 2007 have a weighted average outstanding term of 5.8 years (2006: 6.7 years).

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of options granted is measured based on a Binomial model. The contractual life of the option (10 years) is used as an input to this model. Expectations of early exercise are incorporated into the model. The cumulative expense was ''trued up'' during the vesting period and at the end of the vesting period after allowing for actual forfeitures and the outturn on underlying EPS.

(ii) 2002 Share Save Scheme

The 2002 Share Save Scheme is an ''all-employee share scheme'' which was activated in March 2003. The options granted entitle the holders to acquire Ordinary Shares, whether by subscription or purchase, at a price per Ordinary Share determined by the Directors prior to the issue of invitations. The price at which options can be offered cannot be less than 80% of the middle-market quotation of an Ordinary Share at the date of grant. No cash alternative is available.

As part of the application process, a participant is required to enter into a savings contract with a savings provider (presently Yorkshire Building Society), and agree to make 36 (in the case of a 3-year savings contract) or 60 (in the case of a 5-year contract) monthly savings contributions of a fixed amount. At the end of the savings contract, the participant may choose to apply for repayment of his or her savings contributions, in addition to a tax free bonus.

An option may only be exercised once and normally only during the period of six months after the date on which the participant first becomes entitled to repayment of his or her savings contributions plus bonus.

The option will generally lapse after a period of six months following the end of the savings contract.

Employees who are deemed ''good leavers'' are entitled to exercise their options, for which they have accrued savings to date, for a period of up to six months after they leave.

The number and weighted average exercise price (WAEP) of share options are as follows:

	2007		2006	
	No.	WAEP £	No.	WAEP £
Outstanding at 1 January	**1,448,752**	**1.66**	1,398,425	1.55
Granted during the year	**663,307**	**1.44**	564,830	1.71
Exercised during the year	**(104,874)**	**1.74**	(277,570)	1.19
Forfeited during the year	**(349,218)**	**1.69**	(236,933)	1.70
Outstanding at 31 December	**1,657,967**	**1.56**	1,448,752	1.66
Exercisable at 31 December	**11,191**	**1.71**	6,730	1.51

The options exercised during 2007 relate to both the vesting of the 19 April 2004 (3 year) award and ''good leavers''. The options exercised during 2006 relate to both the vesting of the 9 May 2003 (3 year) award and ''good leavers''.

27. Employee benefits – Share-based payments (cont'd)

At 31 December 2007 the following options granted under the 2002 Share Save Scheme to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercisable before	Exercise price
9 May 2003 (5 year)	256,474	9 May 2008	9 Nov 2008	114.0p
19 April 2004 (3 year)	5,332	19 April 2007	1 May 2008	181.0p
19 April 2004 (5 year)	102,955	19 April 2009	19 Oct 2009	181.0p
29 April 2005 (3 year)	197,180	29 April 2008	29 Oct 2008	186.6p
29 April 2005 (5 year)	122,334	29 April 2010	29 Oct 2010	186.6p
18 April 2006 (3 year)	238,050	18 April 2009	18 Oct 2009	171.0p
18 April 2006 (5 year)	117,033	18 April 2011	18 Oct 2011	171.0p
25 April 2007 (3 year)	436,163	25 April 2010	25 Oct 2010	144.3p
25 April 2007 (5 year)	182,446	25 April 2012	25 Oct 2012	144.3p

The options outstanding at 31 December 2007 have a weighted average outstanding term of 2.0 years (2006: 2.6 years).

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of options granted is measured based on a Binomial model. The contractual life of the option (3.5 or 5.5 years) is used as an input to this model. Expectations of early exercise are incorporated into the model.

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

	2007 grant (3 year)	**2007 grant (5 year)**
Fair value at measurement date (per option)	**64.0p**	**70.0p**
Number of options granted	**478,592**	**184,715**
Share price at grant date	**189.0p**	**189.0p**
Exercise price	**144.3p**	**144.3p**
Vesting period	**3 years**	**5 years**
Full term of option	**3.5 years**	**5.5 years**
Expected volatility (i)	**30.0%**	**30.0%**
Risk free rate at grant date (ii)	**5.24%**	**5.24%**
Expected dividend yield	**2.75%**	**2.75%**
Expected forfeiture rate (per annum)	**5.0%**	**5.0%**

(i) The expected volatility is based on the historic volatility of the Company's share price over a period equal to the term of the option prior to the date of grant, adjusted, if applicable, for any expected changes to future volatility due to trends in the data.

(ii) The risk free rate at grant date is based on UK treasury bonds with an appropriate term.

The cumulative expense is "trued up" during the vesting period and at the end of the vesting period after allowing for actual forfeitures.

27. Employee benefits – Share-based payments (cont'd)

(iii) The Re-Investment Plan

The Re-Investment Plan was established to allow employees previously employed by F&C Group Holdings Group (F&CGH) prior to the 2004 merger to voluntarily re-invest one half of their entitlement under the F&CGH Shadow Equity Plan into Ordinary Shares in F&C Asset Management plc, and rights to receive further Ordinary Shares in F&C Asset Management plc.

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	Nil

To encourage re-investment, and in recognition of the fact that the Investment Shares carried forfeiture provisions, after three years, participants received up to one Matching Share for each Investment Share (subject to continued employment and achievement of performance conditions). One third of Matching Shares have no performance criteria, while the remaining two-thirds vested in line with the schedule below.

The performance condition, described below, is based on growth in the underlying EPS of 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.

Underlying EPS growth 2003 – 2006	Percentage becoming unconditional
PI + 9% or less cumulative over three years	Nil
PI + 24% or more cumulative over three years	100%
In between points	Straight-line pro-rata between 0% and 100%

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

For levels of underlying EPS performance between those shown in the table above, the number of Matching Shares awarded varied on a straight-line basis between the minimum and maximum level shown.

The cash-settled element of the awards is based on dividends payable on the shares during the vesting period, prior to becoming unconditional, being notionally re-invested in F&C Asset Management plc shares. Once the award shares vest, the value of the notional shares is paid to the employee in cash.

The number of Investment Shares and Matching Share awards are as follows:

	2007		2006	
	Investment Shares No.	Matching Shares No.	Investment Shares No.	Matching Shares No.
Outstanding at 1 January	**47,907**	**7,903,160**	4,625,626	9,533,741
Exercised during the year	**(47,907)**	**(7,819,584)**	(4,408,520)	(485,821)
Forfeited during the year	**–**	**(83,576)**	(169,199)	(1,144,760)
Outstanding at 31 December	**–**	**–**	47,907	7,903,160

The first and second tranches of the Investment Shares vested during 2005 and 2006 respectively. The Matching Shares vested in 2007. All Matching Shares exercised during 2006 related to ''good leavers''.

The fair value of services received in return for share awards granted is measured by reference to the fair value of share awards granted. No valuation model was used as awards were granted at full market value. Part of the Re-Investment Plan awards were settled in equity shares and part in cash. The cash element relates to the value of accrued dividends at the date of vesting.

The cumulative expense is ''trued up'' during the vesting period and at the end of the vesting period after allowing for actual forfeitures and the underlying EPS achieved.

27. Employee benefits – Share-based payments (cont'd)

(iv) The Long-Term Remuneration Plan (LTRP)

The LTRP is the primary long-term incentive arrangement of the Group. Awards of these options are at the discretion of the Board.

(a) Restricted Share Awards

Vesting of the Ordinary Shares that are currently the subject of an award under the LTRP will be dependent upon 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% of any award relates to the achievement of total shareholder return (TSR) targets and 50% of the award relates to real underlying EPS growth as set out below:

TSR target (applying to 50% of any award) **The Group's TSR relative to FTSE 250**	**Percentage of award vesting**
Below Median	Nil
Median	35%
Upper Quartile	100%

Underlying EPS target (applying to 50% of any award) **Growth in Group's EPS over three year performance period**	**Percentage 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).

The TSR target is dependent upon the TSR of the Group 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. At the end of the performance period, the Group 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 Group 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 comparator list index), awards would vest on a straight-line basis between 35% for median and 100% for upper quartile. The TSR measure reflects the movement in the value of shares plus any dividends declared during the relevant period. It was chosen as the performance measure for the LTRP as it is directly related to movements in shareholder value.

For levels of both TSR and underlying 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.

The cash-settled element of the awards is based on dividends payable on the shares during the vesting period, prior to becoming unconditional, being notionally re-invested in F&C Asset Management plc shares. Once the award shares vest, the value of the notional shares is paid to the employee in cash.

The number of restricted share awards is as follows:

	2007 **No.**	**2006** **No.**
Outstanding at 1 January	**6,506,759**	5,952,988
Granted during the year	**327,548**	1,482,046
Exercised during the year	**(2,771,901)**	–
Forfeited during the year	**(3,209,750)**	(928,275)
Outstanding at 31 December	**852,656**	6,506,759

The EPS element of the award granted on 15 November 2004 award vested in full on 15 November 2007. The TSR element of the award was not achieved.

27. Employee benefits – Share-based payments (cont'd)

At 31 December 2007 the following restricted share awards granted under the LTRP (restricted) were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date*	Exercise price
17 May 2006	525,108	17 May 2009	0.0p
16 March 2007	327,548	16 March 2010	0.0p

* assuming performance criteria satisfied.

The awards outstanding at 31 December 2007 have a weighted average outstanding term of 1.7 years (2006: 1.2 years).

The fair value of services received in return for share options granted is measured by reference to the fair value of share awards granted. The estimate of the fair value of awards granted is measured at full market value for the EPS criteria and no valuation model is used for this element. Monte Carlo Simulation is used to value the TSR criteria. The contractual life of the award (3 years) is used as an input to the TSR model. The value of dividend payments has been separated as these are settled in cash.

The key assumptions which have been used in the model to ascertain the fair value of 2007 awards are as follows:

	2007 grant – TSR		2007 grant – EPS	
	Equity	Cash	Equity	Cash
Fair value at measurement date (per award)	65.0p	6.0p	160.0p	14.0p
Number of awards granted	163,774		163,774	
Share price at grant date	173.0p		173.0p	
Exercise price	0.0p		0.0p	
Vesting period	3 years		3 years	
Full term of award	3 years		3 years	
Expected volatility (i)	30.0%		N/A	
Risk free rate at grant date (ii)	5.02%		N/A	
Expected dividend yield	2.75%		2.75%	
EPS performance hurdle	N/A		75.0%	
Expected forfeiture rate	5.0%		5.0%	

(i) The expected volatility is based on the historic volatility of the Company's share price over a period equal to the term of the award prior to the date of grant, adjusted, if applicable, for any expected changes to future volatility due to trends in the data.

(ii) The risk free rate at grant date is based on UK treasury bonds with an appropriate term.

The cumulative grant expense is "trued up", during the vesting period and at the end of the vesting period, after allowing for actual forfeitures and the underlying EPS achieved.

27. Employee benefits – Share-based payments (cont'd)

(b) Deferred Share Awards

The Long Term Remuneration Plan allows deferred awards to be granted to employees below Executive Director level, subject only to a time-vesting period of three years.

The cash-settled element of the deferred awards is based on dividends payable on the shares during the vesting period, prior to becoming unconditional, being notionally re-invested in F&C Asset Management plc shares. Once the award shares vest, the value of the notional shares is paid to the employee in cash.

The number of deferred share awards is as follows:

	2007 No.	2006 No.
Outstanding at 1 January	**3,446,624**	–
Granted during the year	**5,911,422**	3,634,418
Exercised during the year	**(89,712)**	–
Forfeited during the year	**(654,310)**	(187,794)
Outstanding at 31 December	**8,614,024**	3,446,624
Exercisable at 31 December	**43,220**	–

The awards exercised during 2007 and exercisable at 31 December 2007 relate to ''good leavers''.

At 31 December 2007 the following awards granted under the LTRP (deferred) were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
17 May 2006	3,002,337	17 May 2009	0.0p
1 September 2006	96,969	1 September 2009	0.0p
16 March 2007	5,383,828	16 March 2010	0.0p
16 April 2007	130,890	16 April 2010	0.0p

The awards outstanding at 31 December 2007 have a weighted average outstanding term of 1.9 years (31 December 2006: 2.4 years).

The fair value of services received in return for share options granted is measured by reference to the fair value of share awards granted. The estimate of the fair value of awards granted is measured at full market value and no valuation model is used. The value of dividend payments has been separated from the valuation as these are settled in cash.

The key assumptions which have been used in the valuation to ascertain the fair value of awards made during 2007 are as follows:

	16 March 2007		16 April 2007	
	Equity	Cash	Equity	Cash
Fair value at measurement date (per award)	160.0p	14.0p	176.0p	15.0p
Number of awards granted	5,780,532		130,890	
Share price at grant date	173.0p		191.0p	
Exercise price	0.0p		0.0p	
Vesting period	3 years		3 years	
Full term of award	3 years		3 years	
Expected dividend yield	2.75%		2.75%	
Expected forfeiture rate (per annum)	5.0%		5.0%	

The cumulative grant expense is ''trued up'' during the vesting period and at the end of the vesting period after allowing for actual forfeitures.

27. Employee benefits – Share-based payments (cont'd)

(v) Purchased Equity Plan

(a) F&C Asset Management plc shares

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. No Voluntary Purchased Equity awards have been granted.

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 (£100,000 in respect of the year ended 31 December 2007) will be required to defer one third of the element exceeding £75,000 (£100,000 in respect of the year ended 31 December 2007) into shares (comprising either a range of investment products managed by the Group or the Company's Shares) (Compulsory Purchased Equity) for three years.

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.

The cash-settled element of the awards is based on dividends payable on the shares during the vesting period, prior to becoming unconditional, being notionally re-invested in F&C Asset Management plc shares. Once the award shares vest, the value of the notional shares is paid to the employees in cash.

The number of Compulsory Purchased Equity Plan share awards is as follows:

	2007 Awards No.	2006 Awards No.
Outstanding at 1 January	**1,401,112**	684,425
Granted during the year	**1,131,097**	857,462
Exercised during the year	**(30,475)**	(80,491)
Forfeited during the year	**(30,146)**	(60,284)
Outstanding at 31 December	**2,471,588**	1,401,112
Exercisable at 31 December	**57,822**	–

The awards exercised during 2007 and 2006 and exercisable at 31 December 2007 relate to ''good leavers''.

At 31 December 2007 the following awards granted under the Purchased Equity Plan to acquire Ordinary Shares were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date*	Exercise price
24 March 2005	525,640	24 March 2008	0.0p
24 March 2006	815,749	24 March 2009	0.0p
13 April 2007	1,130,199	13 April 2010	0.0p

* assuming performance criteria satisfied.

The awards outstanding at 31 December 2007 have a weighted average outstanding term of 1.5 years (2006: 1.9 years).

No valuation model is required as awards are granted at full market value. The value of dividend payments is separated out, as these are settled in cash.

27. Employee benefits – Share-based payments (cont'd)

The key assumptions which have been used to ascertain the fair value of awards made during 2007 are as follows:

	2007 award Compulsory Purchased Equity Equity	2007 award Compulsory Purchased Equity Cash
Fair value at measurement date (per award)	168.0p	14.0p
Number of awards granted	1,131,097	
Share price at grant date	182.0p	
Exercise price	0.0p	
Vesting period	3 years	
Full term of award	51 months	
Expected forfeiture rate (per annum)	5.0%	

The cumulative grant expense is "trued up" during the vesting period and at the end of the vesting period after allowing for actual forfeitures.

(b) F&C Investment Funds

A new element was introduced into the Purchased Equity Plan in 2007 whereby the cash bonus is deferred on a mandatory basis into certain F&C Funds (Compulsory Purchased Equity) subject to continued service over either three or four years. This option is now available in addition to the Compulsory Purchased Equity into F&C Asset Management plc ("FCAM plc") shares. The main benefit of this arrangement is to incentivise fund managers to invest in the funds they manage, thereby further aligning employee interests with those of clients.

The settlement of awards from the Compulsory Purchased Equity (F&C Investment Funds) is made by realisation of the holding in the fund at the vesting date and purchase of FCAM plc shares at that date. The value of the investment in F&C Funds, the FCAM plc share price and hence the ultimate number of FCAM plc shares to be settled is only known with certainty at the vesting date. Any dividends paid during the vesting period are used to buy further underlying F&C Investment Funds shares.

Although the awards meet the criteria of IFRS 2 "Share-based Payment" as the awards are ultimately settled in FCAM plc shares, it is not considered possible to reliably estimate the fair value of these awards at the grant date. This is due to the number of market based criteria which ultimately combine to determine the number and value of FCAM plc shares settled. Settlement of these awards to employees is satisfied by the purchase of FCAM plc shares in the market.

The fair value of these awards at the year end has been determined by measurement of the equity instruments at intrinsic value, being the quoted price of the relevant F&C Funds, both at the grant date and at each subsequent balance sheet date. The intrinsic value is then spread over the vesting period. The value of the services provided is measured using the ultimate value of awards which vest.

Awards totalling £1.2m were made on 13 April 2007. These awards were invested into a total of 26 eligible F&C Investment Funds, comprising OEICs and Investment Trusts.

The underlying investments are held within an Employee Benefit Trust. Further details of the investments are disclosed in note 19(a)(i).

	31 December 2007 £m	31 December 2006 £m
Value of F&C Investments held within the Purchased Equity Plan (intrinsic value)	**1.2**	–
	No.	**No.**
Number of FCAM plc shares which would be settled as at balance sheet date (based on year end FCAM plc share price)	**597,294**	–

27. Employee benefits – Share-based payments (cont'd)

(vi) Deferred Share Award

The Group has made some deferred share awards which are not subject to ongoing performance conditions, but have a time-vesting period.

The cash-settled element of the deferred award is based on dividends payable on the shares during the vesting period, prior to becoming unconditional, being notionally re-invested in F&C Asset Management plc shares. Once the award shares vest, the value of the notional shares is paid to the employee in cash.

The number of share awards is as follows:

	2007 No.	2006 No.
Outstanding at 1 January	**154,838**	–
Granted during the year	**1,096,539**	154,838
Outstanding at 31 December	**1,251,377**	154,838

No awards were exercisable at either 31 December 2007 or 31 December 2006.

At 31 December 2007 the following awards granted under the Deferred Share Award were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
21 December 2007	593,747	22 November 2008	0.0p
21 December 2007	502,792	21 December 2008	0.0p
9 August 2006	154,838	9 August 2009	0.0p

The awards outstanding at 31 December 2007 have a weighted average outstanding term of 1.0 year (31 December 2006: 2.6 years).

The fair value of services received in return for share options granted is measured by reference to the fair value of share awards granted. The estimate of the fair value of awards granted is measured at full market value and no valuation model is used. The value of dividend payments has been separated from the valuation as these are settled in cash.

The key assumptions which have been used in the valuation to ascertain the fair value of the awards made on 21 December 2007 are as follows:

	Equity	Cash	Equity	Cash
Fair value at measurement date (per award)	186.3p	8.2p	185.6p	8.9p
Number of awards granted	593,747		502,792	
Share price at grant date	194.5p		194.5p	
Exercise price	0.0p		0.0p	
Vesting period	11 months		12 months	
Full term of awards	11 months		12 months	
Expected dividend yield	4.65%		4.65%	
Expected forfeiture rate (per annum)	0.0%		0.0%	

The cumulative expense is "trued up" during the vesting period and at the end of the vesting period after allowing for actual forfeiture.

27. Employee benefits – Share-based payments (cont'd)

(vii) The Executive Directors' Remuneration Plan

The Executive Director Remuneration Plan ("EDRP") was approved at the 2007 AGM. Any Executive Director of the Company is eligible to participate in the EDRP. The EDRP provides for the grant of two different forms of award, Restricted Share Awards and Deferred Share Awards.

(a) Restricted Share Awards

The vesting of the Restricted Share Awards are dependent on the satisfaction of pre-determined performance conditions relating to the Underlying Earnings Per Share ("Underlying EPS") performance of the Group measured over a period of three consecutive financial years, commencing with the financial year in which the award is granted. Under this condition, a Restricted Share Award will only vest if the Group's Underlying EPS over the performance period equals or exceeds the specified target for the year ending 31 December 2009. On achievement of the specified target, 100% of the award will vest. The participant can achieve a maximum enhanced level of vesting of 140% of the award by achieving an extremely stretching condition of Underlying EPS. Where the actual Underlying EPS exceeds the minimum vesting conditions but is less than the maximum enhanced level of vesting, then the percentage of the award that vests will be calculated on a "straight-line" basis between 100% and 140%.

The 2007 Restricted Share Award is subject to the following EPS hurdle:

Underlying EPS for the Final Financial Year in the three year vesting period	Percentage of Restricted Share awards Vesting
18.1p	100%
25.2p	140%
18.1p – 25.2p	Pro-rata between 100% and 140% on a straight-line basis

Restricted Share Award vested plan shares will be held by Trustees, in a nominee capacity, throughout a fixed holding period at the end of which the shares may be transferred to the participant. The holding period applicable to 50% of such vested plan shares will end on announcement of the 2010 year end results; the balance of vested plan shares will be subject to a further six month holding period. During the holding period the participant will be eligible to receive dividends and exercise voting rights.

The cash-settled element of the awards is based on dividends payable on the shares during the vesting period, prior to becoming unconditional, being notionally re-invested in F&C Asset Management plc shares. Once the award shares vest, the value of the notional shares is paid to the participant in cash.

The number of Restricted Share Awards is as follows:

	3 years		3.5 years	
	2007 No.	2006 No.	2007 No.	2006 No.
Granted during the year and outstanding at 31 December (i)	**2,002,000**	–	**2,002,000**	–

(i) This represents the maximum number of restricted shares which could be achieved by the participants (i.e. 140%).

No awards were exercised during 2007 or are exercisable at 31 December 2007.

27. Employee benefits – Share-based payments (cont'd)

At 31 December 2007 the following awards granted under the EDRP Restricted Share Awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
21 May 2007	2,002,000	10 May 2010	0.0p
21 May 2007	2,002,000	10 November 2010	0.0p

The awards outstanding at 31 December 2007 have a weighted average outstanding term of 2.6 years.

The fair value of services received in return for share options granted is measured by reference to the fair value of share awards granted. The estimate of fair value of awards granted is measured at full market value for EPS criteria and no valuation model is used. The value of dividend payments has been separated from the valuation as these are settled in cash.

The key assumptions which have been used in the valuation to ascertain the fair value of the 2007 awards are as follows:

	Restricted – EPS (3 years)		Restricted – EPS (3.5 years)	
	Equity	Cash	Equity	Cash
Fair value at measurement date (per award)	178.0p	15.0p	175.0p	18.0p
Number of awards granted	2,002,000		2,002,000	
Share price at grant date	193.0p		193.0p	
Exercise price	0.0p		0.0p	
Vesting period	3 years		3 years	
Full term of awards	3 years		3.5 years	
EPS performance hurdle	50.0%		50.0%	
Expected forfeiture rate	0.0%		0.0%	

The cumulative grant expense is "trued up" during the vesting period and at the end of the vesting period after allowing for actual forfeitures.

(b) Deferred Share Awards

Awards vest at the end of a three year period from grant date, subject to the continued employment of the participant within the Group. There are no performance criteria attached to the deferred shares and the vested shares transfer to the participant as soon as possible after vesting.

The cash-settled element of the awards is based on dividends payable on the shares during the vesting period, prior to becoming unconditional, being notionally re-invested in F&C Asset Management plc shares. Once the award shares vest, the value of the notional shares is paid to the participant in cash.

The number of Deferred Share Awards is as follows:

	3 years	
	2007 No.	2006 No.
Granted during the year and outstanding at 31 December	**1,500,574**	–

No awards were exercised during 2007 or are exercisable at 31 December 2007.

27. Employee benefits – Share-based payments (cont'd)

At 31 December 2007 the following awards granted under the EDRP Deferred Share Awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
21 May 2007	1,500,574	10 May 2010	0.0p

The awards outstanding at 31 December 2007 have an outstanding term of 2.4 years.

The fair value of services received in return for share options granted is measured by reference to the fair value of share awards granted. The estimate of fair value of awards granted is measured at full market value and no valuation model is used. The value of dividend payments has been separated from the valuation as these are settled in cash.

The key assumptions which have been used in the valuation to ascertain the fair value of the 2007 award are as follows:

	Deferred – 3 years	
	Equity	Cash
Fair value at measurement date (per award)	178.0p	15.0p
Number of awards granted	1,500,574	
Share price at grant date	193.0p	
Exercise price	0.0p	
Vesting period	3 years	
Full term of award	3 years	
Expected dividend yield	2.75%	
Expected forfeiture rate	0.0%	

The cumulative grant expense is "trued up" during the vesting period and at the end of the vesting period after allowing for actual forfeitures.

(viii) 1995 Executive Share Option Scheme

IFRS 2 'Share-based Payment' is only applied to grants of shares, share options or other equity instruments that were granted after 7 November 2002 and had not vested before 1 January 2005 (i.e. the effective date of IFRS 2).

The 1995 Executive Share Option Scheme ("1995 ESOS") last granted options before 7 November 2002 and is not therefore subject to the full effects of IFRS 2 in terms of recognising an expense in profit or loss. The standard does, however, require certain disclosures to be made in respect of this scheme.

The 1995 ESOS is an unapproved share option scheme, where participation was entirely at the discretion of the Directors. The lifespan of the Scheme is ten years from the date on which it was approved by shareholders and accordingly no further options can be granted under the Scheme after 1 September 2005. The vesting period is three years. Options are settled by grant of shares to individuals. No cash alternative is available.

If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest. Employees who are deemed "good leavers" are entitled to exercise their options for a period of one year after they leave, regardless of whether the vesting requirements have been met.

The option price shall not be less than the market value of a share on the dealing day (or averaged over the three dealing days) before the option is granted.

The exercise of options granted under the Scheme will be dependent on the achievement by the Company of specified thresholds of underlying earnings per share. Options cannot be exercised before the third anniversary of the date of the grant. Thereafter they can be exercised (in whole or in part) only when the underlying EPS percentage increase in each three consecutive years exceeds the RPI by at least 2% per annum.

27. Employee benefits – Share-based payments (cont'd)

The number and weighted average exercise price (WAEP) of share options are as follows:

	2007 No.	2007 WAEP £	2006 No.	2006 WAEP £
Outstanding at 1 January	**2,031,927**	**2.63**	2,693,131	2.64
Exercised during the year	**(194,036)**	**2.04**	–	–
Forfeited during the year	**(504,844)**	**2.48**	(661,204)	2.67
Outstanding at 31 December	**1,333,047**	**2.77**	2,031,927	2.63
Exercisable at 31 December	**1,333,047**	**2.77**	2,031,927	2.63

The options exercised during 2007 relate to ''good leavers''.

At 31 December 2007 the following options granted under the 1995 ESOS to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Date vested	Exercisable before	Exercise price
9 June 1998	321,490	24 March 2006	9 June 2008	203.83p
16 July 1999	340,158	24 March 2006	16 July 2009	232.50p
28 April 2000	323,659	24 March 2006	28 April 2010	214.00p
20 October 2000	18,740	24 March 2006	20 October 2010	320.17p
1 March 2001	329,000	24 March 2006	1 March 2011	455.83p

The options outstanding at 31 December 2007 have a weighted average outstanding term of 1.9 years (2006: 2.7 years).

Summary of share-based payment schemes

The Group recognised total expenses, excluding National Insurance Contributions, related to share-based payment schemes as follows:

	Note	2007 £m	2006 £m
2002 ESOS		**0.1**	0.6
2002 Share Save scheme		**0.2**	0.2
The Re-investment Plan		**5.2**	10.6
The Long-Term Remuneration Plan (restricted shares)		**2.5**	4.7
The Long-Term Remuneration Plan (deferred shares)		**4.6**	1.3
Purchased Equity Plan – FCAM plc shares		**1.7**	1.0
Purchased Equity Plan – F&C investment funds		**0.5**	–
Executive Directors Remuneration Plan		**1.3**	–
Deferred Share Awards		**0.3**	–
Total share-based payment expenses recognised in the Income Statement	5	**16.4**	18.4

	31 December 2007 £m	31 December 2006 £m
Total carrying amount of cash-settled liabilities	**1.4**	3.2

The total expense recognised during the year in respect of share-based payment schemes is split as follows:

	2007 £m	2006 £m
Equity – settled	**13.0**	15.7
Cash – settled	**3.4**	2.7
Total share-based payment expenses recognised in the Income Statement	**16.4**	18.4

28. Deferred income

	2007 £m	2006 £m
At 1 January	**17.9**	18.0
Income deferred in the year	**5.0**	3.9
Amortisation in the year	**(6.5)**	(4.0)
At 31 December	**16.4**	17.9

	31 December 2007 £m	31 December 2006 £m
Split as follows:		
Non-current liabilities	**12.1**	13.7
Current liabilities	**4.3**	4.2
	16.4	17.9

Deferred income primarily comprises initial fees arising on investments made by OEIC investors. These fees are initially recognised as deferred income and released to income over the estimated period (2007: 7 years; 2006: 7 years) for which the investment is expected to be held.

29. Investment contract liabilities

Investment contract liabilities in respect of policyholder investments at the start and end of the year and an analysis of movements during the year are as follows:

	2007 £m	2006 £m
Liability as at 1 January	**1,175.1**	1,006.9
Contributions received	**96.7**	198.7
Investment return applied	**45.0**	106.7
Charges levied	**(3.9)**	(5.7)
Repayments	**(215.3)**	(140.2)
Movement in reinsurance ceded	**(7.5)**	8.7
Liability as at 31 December	**1,090.1**	1,175.1

All investment contract liabilities have been disclosed as due within one year as this is considered to be appropriate to the rights of policyholders who have the right to withdraw their investments at short notice.

The Directors expect that the majority of the investment contract liabilities will be repayable outwith one year. However, as the investment contracts are repayable on demand of the policyholders they have been disclosed within current liabilities.

30. Insurance contract liabilities

Insurance contract liabilities include life assurance liabilities in respect of lifetime guarantees provided with certain investment products, and annuity liabilities in respect of pension investment contracts where the investor has retired. These liabilities and related reinsurance balances at the start and end of the year, together with an analysis of movements in the year, are as follows:

	2007			2006		
Insurance contract liabilities	**Gross £m**	**Reinsurance £m**	**Net £m**	**Gross £m**	**Reinsurance £m**	**Net £m**
At 1 January	**2.4**	**2.4**	**–**	2.6	2.6	–
Claims paid	**(0.2)**	**(0.2)**	**–**	(0.1)	(0.1)	–
Change in economic assumptions	**–**	**–**	**–**	(0.1)	(0.1)	–
Unwinding of discount rate	**0.1**	**0.1**	**–**	0.1	0.1	–
Other changes in year	**–**	**–**	**–**	(0.1)	(0.1)	–
At 31 December	**2.3**	**2.3**	**–**	2.4	2.4	–

The reinsurance liabilities relate to annuity business reinsured with Friends Provident Pensions Limited.

A liability adequacy test was carried out at policy level and resulted in no additional provision for either 2007 or 2006. No significant gain or loss arose on reinsurance contracts incepted in 2007 or 2006.

Assumptions

The principal assumptions used in determining the insurance contract liabilities and the reinsurers' share of these liabilities, and the process adopted to arrive at these assumptions are as follows:

Mortality rates	**2007**	**2006**
Annuities in payment	**81-94% PCXA00**	67-95% PXA92

(i) Projected thereafter using 100% of the average of medium and long cohort improvement factors for males (75.0% for females) subject to a minimum annual rate of improvement of 1.5% for males (1.25% for females).

Due to the small number of annuity policies, the mortality assumptions reflect recent experience of the reinsurer together with an allowance for future mortality improvement. Experience analysis for mortality is performed annually by the reinsurer.

Discount rate

The discount rate used is 4.75% (2006: 4.56%) based on current fixed interest gross redemption yields, with a prudent adjustment for risk.

31. Share capital

(a) Ordinary share capital of 0.1p

	31 December 2007 Number of shares	31 December 2007 £m	31 December 2006 Number of shares	31 December 2006 £m
Authorised:				
Equity interests				
Ordinary Shares of 0.1p	**800,000,000**	**0.8**	800,000,000	0.8
Allotted, called up and fully paid:				
Equity interests				
Ordinary Shares of 0.1p	**495,705,530**	**0.5**	484,775,590	0.5

	No. of Ordinary Shares 2007	No. of Ordinary Shares 2006
Issued at 1 January	**484,775,590**	483,434,237
Issue of shares at par to settle share-based payment awards	**10,162,887**	–
Share options exercised during the year	**767,053**	1,341,353
Issued at 31 December	**495,705,530**	484,775,590

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

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
4 January 2007	1995 ESOS	16,557	203.83p
24 January 2007	1995 ESOS	177,479	203.83p
22 March 2007	2002 ESOS	158,632	139.00p
10 April 2007	2002 ESOS	198,020	139.00p
24 May 2007	2002 ESOS	13,489	139.00p
3 October 2007	2002 ESOS	30,215	139.00p
11 October 2007	2002 ESOS	120,000	139.00p
25 October 2007	2002 ESOS	52,661	139.00p
		767,053	

In addition, the following shares were allotted, at par value, to settle share-based payment awards. There was no exercise price associated with these awards.

Issue date	Share-based payment scheme	No. of Ordinary Shares
11 October 2007	Re-Investment Plan: Matching award	7,443,069
15 November 2007	Long-term Remuneration Plan: 2004 awards	2,719,818
		10,162,887

31. Share capital (cont'd)

The Group held the following shares in Employee Benefit Trusts (EBTs). These are categorised as own shares held, and are deducted from shareholders' funds:

	31 December 2007 No.	31 December 2006 No.
ISIS Employee Benefit Trust	**1,357,922**	1,467,551
The Ivory & Sime Employee Benefit Trust	**562,857**	665,111
F&C Management Limited Employee Benefit Trust	**1,512,449**	339,840
	3,433,228	2,472,502

The aggregate nominal value of own shares held by EBTs at 31 December 2007 was £3,000 (31 December 2006: £2,000). The market value of these shares at 31 December 2007 was £6.6m (31 December 2006: £5.2m).

During the year, the Group purchased 1,279,618 of its own Ordinary Shares (2006: 563,205) of 0.1p to satisfy the exercises of awards granted under the share save scheme in respect of ''good leavers'' and to hold as own shares. The consideration paid for the shares was £2.4m (2006: £1.1m). The cost of this to the Group, after exercise price monies paid by the employees, was £2.2m (2006: £0.4m).

(b) Preference Share capital of £1 each

	31 December 2007		31 December 2006	
	Number of shares	£m	Number of shares	£m
Authorised, allotted, called up and fully paid	**800,000**	**0.8**	800,000	0.8

The issued Cumulative Preference Shares are classified as financial liabilities. The key terms and conditions relating to these Preference Shares are as follows:

- 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 dividend.
- Holders of Cumulative Preference Shares are entitled to one vote in instances where the 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.

32. Reserves

Reconciliation of movement in reserves

	Ordinary share capital £m	Share premium account £m	Merger reserve £m	Foreign currency translation reserve[1] £m	Fair value reserve[1] £m	Special distri-butable reserve[1] £m	Other reserves[1] £m	Retained earnings £m	Minority interests £m	Total equity £m
Balance at 1 January 2006	0.5	30.7	606.1	0.6	1.5	50.2	(0.1)	56.4	(0.5)	745.4
Items reported in the Consolidated Statement of Recognised Income and Expense	–	–	–	(4.4)	(0.4)	–	0.1	(21.9)	1.0	(25.6)
Realised element of merger reserve to offset amortisation and impairment of intangible assets	–	–	(85.4)	–	–	–	–	85.4	–	–
Share capital allotted on exercise of options	–	1.9	–	–	–	–	–	–	–	1.9
Purchase of own shares	–	–	–	–	–	–	–	(0.7)	–	(0.7)
Settlement proceeds received on exercise of share options	–	–	–	–	–	–	–	0.3	–	0.3
Final 2005 dividend paid	–	–	–	–	–	–	–	(33.5)	–	(33.5)
Interim 2006 dividend paid	–	–	–	–	–	–	–	(19.2)	–	(19.2)
Transfer from special distributable reserve in relation to dividends	–	–	–	–	–	(50.2)	–	50.2	–	–
Share-based payment charges credited to equity	–	–	–	–	–	–	–	15.7	–	15.7
Allocation to minority interest in excess of profits	–	–	–	–	–	–	–	(0.4)	0.4	–
Distributions to minority interest	–	–	–	–	–	–	–	–	(0.5)	(0.5)
Balance at 31 December 2006	0.5	32.6	520.7	(3.8)	1.1	–	–	132.3	0.4	683.8
Items reported in the Consolidated Statement of Recognised Income and Expense	**–**	**–**	**–**	**14.9**	**1.4**	**–**	**–**	**24.2**	**1.6**	**42.1**
Realised element of merger reserve to offset amortisation of intangible assets	**–**	**–**	**(21.4)**	**–**	**–**	**–**	**–**	**21.4**	**–**	**–**
Share capital allotted on exercise of options	**–**	**1.2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1.2**
Purchase of own shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2.4)**	**–**	**(2.4)**
Settlement proceeds received on exercise of share options	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**–**	**0.2**
Final 2006 dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(33.8)**	**–**	**(33.8)**
Interim 2007 dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9.7)**	**–**	**(9.7)**
Share-based payment charges credited to equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**13.0**	**–**	**13.0**
Distributions to minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.9)**	**(0.9)**
Balance at 31 December 2007	**0.5**	**33.8**	**499.3**	**11.1**	**2.5**	**–**	**–**	**145.2**	**1.1**	**693.5**

Cumulative defined pension scheme actuarial losses recognised as at 31 December 2007 are £20.1m which are included in retained earnings (31 December 2006: £31.2m). See note 26.

[1] The total of foreign currency translation reserve, fair value reserve, special distributable reserve and other reserves constitutes 'Other reserves' as disclosed in the Consolidated Balance Sheet and amounts to a credit of £13.6m (31 December 2006: debit of £2.7m).

32. Reserves (cont'd)

Nature and purpose of reserves

Share premium account

The share premium account is used to record the issue of share capital in excess of par value.

Merger reserve

The merger reserve is used to record share premium on shares issued by way of consideration in respect of acquisitions. The element of the merger reserve which relates to amortisation and impairment of intangible assets charged to the Income Statement is considered to be realised. A transfer is made from the merger reserve to retained earnings to recognise the extent to which the merger reserve has been realised, thereby offsetting the corresponding element of the intangible amortisation charge.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations and non-Sterling denominated intangible assets.

Fair value reserve

This reserve records fair value changes on available for sale investments until the investments are derecognised.

Special distributable reserve

The special distributable reserve was created by the cancellation of share premium, following Court approval and was transferred to retained earnings in respect of dividends paid.

Other reserves:

- **Capital redemption reserve**
  The capital redemption reserve was created on cancellation of share capital.
- **Non-distributable reserve – associate**
  This reserve comprised the Group's share of associate expenses which were written off to share premium.

Retained earnings

Retained earnings comprises:

- net profits and losses recognised through the Income Statement;
- actuarial gains and losses recognised on the pension liability;
- deferred tax on actuarial gains and losses;
- transactions relating to equity-settled share-based payments, and deferred tax movements on share-based payments reflected through equity;
- the purchase and sale of own shares; and
- transfer from merger reserve.

33. Notes to the cash flow statement

(a) Analysis of cash flow statement movements

	2007 £m	2006 £m
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**3.7**	3.0
Amortisation of intangible assets	**43.2**	43.7
Impairment of intangible assets	**–**	58.5
Loss on disposal of investments	**–**	0.1
Share-based payment expenses	**13.0**	14.1
	59.9	119.4
Changes in working capital and provisions:		
(Increase)/decrease in trade and other receivables	**(9.0)**	6.2
Increase in trade and other payables	**3.0**	5.7
Increase in other assets (stock of units and shares)	**(0.1)**	(0.1)
(Decrease)/increase in other liabilities	**(1.1)**	0.4
(Decrease)/increase in investment contract liabilities	**(77.5)**	159.5
Increase in employee benefit liabilities	**2.9**	2.9
(Increase)/decrease in deferred acquisition costs	**(0.6)**	0.1
Decrease in deferred income	**(1.5)**	(0.1)
Defined benefit pension contributions paid less pension operating profit charge	**(7.9)**	(0.5)
Increase in provisions for liabilities and charges	**0.2**	1.1
Decrease/(increase) in financial investments	**90.8**	(133.8)
	(0.8)	41.4

(b) Property, plant and equipment

During the period the Group acquired property, plant and equipment with an aggregate cost of £2.2m (2006: £4.7m). Cash payments of £2.2m (2006: £4.1m) were made to purchase property, plant and equipment during the year.

(c) Cash and cash equivalents

Note 22 provides details of cash and cash equivalent balances, a description of cash and cash equivalents, restrictions on use of cash, and details of borrowing facilities.

34. Contingencies

Contingent asset:

On disposal of the Group's investment in ISIS EP LLP, the Group has potential entitlement to contingent profit share from this former associate entity. Details of this contingent asset are given in note 15.

Contingent liabilities:

In the normal course of its business, the Group is subject to matters of litigation or dispute. While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Group.

35. Commitments

Operating leases

The Group had the following future minimum rentals payable in respect of non-cancellable operating leases and other contracts at the year-end:

	Premises		Other Contracts	
	31 December 2007 £m	31 December 2006 £m	31 December 2007 £m	31 December 2006 £m
Within one year	**10.3**	9.5	**2.0**	4.3
After one year but not more than five years	**42.0**	40.9	**1.3**	2.3
More than five years	**63.3**	72.9	**–**	–
	115.6	123.3	**3.3**	6.6

Obligations in respect of Other Contracts are stated gross and exclude amounts potentially recoverable from brokers under commission sharing arrangements.

Commitments in respect of premises leases excludes service charges and other costs, which are variable in nature, and cannot be reliably estimated.

Sub-lease receivables

Future minimum rentals receivable under non-cancellable operating leases at the year end are as follows:

	Premises	
	31 December 2007 £m	31 December 2006 £m
Within one year	**4.0**	2.2
After one year but not more than five years	**10.1**	5.5
More than five years	**8.4**	8.9
	22.5	16.6

A contingent lease payment, based on a percentage of revenue, is receivable in addition to the minimum lease payments in respect of one property. The maximum amount receivable under this arrangement is £0.6m (31 December 2006: £0.6m) per annum.

Capital commitments

The amounts contracted for in terms of capital expenditure, but not provided for in the financial statements at 31 December 2007, total £1.1m (31 December 2006: £0.6m).

36. Financial risk management

Overview

The Group has exposure to a number of business risks. The Board of Directors has overall responsibility for the Group's risk management arrangements, but has delegated the implementation and operation of the Board policies to Management. The Group's risk management policies and the risk management framework for identifying, monitoring and managing risks across the Group, including strategic and operational risks, are detailed in the Directors' Report on Corporate Governance on pages 39 and 40.

As an asset management business, the Directors consider it appropriate to differentiate between those financial risks which directly impact the Group and those which indirectly impact the Group due to the risks borne by our clients and the subsequent impact on the Group's revenues. The Group's direct or indirect exposure to financial instruments arises from the following financial risks:

- Market risk
- Credit risk
- Liquidity risk

This note presents information on the Group's direct or indirect exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the management of the Group's capital. Note 37 provides numerical analysis of the Group's financial instrument exposure, including relevant sensitivity analysis, at the balance sheet date.

Indirect earnings risk through client assets

As an active fund manager the Group is responsible for managing assets in accordance with the mandates specified by our clients. The assets managed by the Group are subject to varying financial risks (market, credit and liquidity). While these risks could result in financial loss or gain through a change in asset value, these risks and rewards are fully borne by, or fall to the benefit of, our clients.

However, as the majority of the Group's revenues are quantified as a percentage of assets under management (generally on a quarterly or monthly basis), the Group's income is impacted by movements in client assets which are caused by the exposure to financial risks. As a result of the direct link of revenues to the value of client assets, the Group's interests are aligned to those of our clients.

A key risk to our business is that of poor investment performance, which could lead to the subsequent loss of client mandates. A key role of the Head of Investments is to monitor the fund performance achieved by our investment professionals. Where it is necessary, actions are taken to change process or personnel with a view to attaining top quartile performance. The Group has the ability to earn performance fees from a number of our clients, where out-performance of the benchmark or set objective is achieved. These arrangements reinforce the alignment of the Group's interests with those of our clients.

The key components of financial risk to which our clients are exposed are:

Market risk – the risk of financial loss arising from changes in the market prices of assets. Market risks include exposure to all asset classes, including equities, fixed income products and property as well as currency risk and interest rate risk.

Credit risk – the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations in respect of assets held within client portfolios. Credit risk can vary by asset class and individual instrument.

Liquidity risk – the risk of financial loss to client portfolios because a client does not have sufficient financial resources available and is unable to realise assets in order to meet its obligations as they fall due, or can only realise assets by suffering financial loss.

The Group does not hedge its revenue exposure to movements in the value of client assets arising from any of these risks.

Direct earnings and capital exposure

The Group has direct exposure to the following risks in respect of financial instruments on the Consolidated Balance Sheet:

- *Market risk* – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.
- *Credit risk* – the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations in respect of financial instruments held by the Group. Credit risk includes investment credit risk, counterparty risks, deposit and loan risks and country risks.
- *Liquidity risk* – Liquidity risk is the failure of the Group to maintain adequate levels of financial resources to enable it to meet its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Group could be required to pay its liabilities earlier than expected or because of any inability to realise assets in order to meet obligations as they fall due or is only able to realise assets by suffering financial loss.

A fuller analysis of the financial risks associated with the Group's financial instruments, together with the objectives, policies and processes to manage the Group's exposure follows.

36. Financial risk management (cont'd)

Unit-linked assets

A significant element of the value of the Group's financial assets relates to the Group's unit-linked pooled pension business. As outlined in note 19, Financial Instruments, the risks and rewards associated with these assets, which are held by the Group's insurance subsidiary, fall to be borne by, or to the benefit of, the underlying policyholders. As a result, the investment contract liabilities reflected on the Group Balance Sheet are equal and opposite in value to the assets which are held on behalf of unit-linked policyholders. The Group has no direct exposure to fluctuations in the value of the assets arising from changes in market prices or credit default, although the revenue stream earned from managing these assets varies in line with the movement in assets held on behalf of clients.

The financial risk management disclosures specifically exclude policyholders' unit-linked assets and liabilities relating to F&C Managed Pension Funds as there is no direct risk to the Group from the associated financial instruments.

Other financial investments

Recognising that the Group's revenue stream has significant financial exposure to fluctuations in assets managed on behalf of clients, a key principle of the Group Treasury Policy set by the Board is to restrict investment of the Group's assets into low risk deposits or money market instruments where the risk of capital loss is low, thereby seeking to protect the Group's capital. Advanced Board approval is required for any investment which does not follow this general principle.

In November 2007 the Board amended the Group Treasury Policy to allow up to £20m of the Group's cash resources to be utilised as seed capital to support the launch of new investment funds. The policy permits seed capital to be invested in a maximum of two funds at any point in time, restricts the maximum initial investment to £10m in any one fund and targets divestment of seed capital no later than 12 months from the date of investment. While no such investments were held at the balance sheet date, a €13.3m investment was made in January 2008 to facilitate the launch of F&C Zircon, a new single strategy hedge fund. A forward exchange contract was also entered into with a view to seeking to minimise any financial loss arising from exposure to currency risk on the initial investment.

'Other financial investments' classified as fair value through profit or loss, detailed on pages 84 and 85, primarily comprise assets held in connection with current or historic employee remuneration arrangements. The Group has no net financial exposure to 'Purchased Equity Plan' and 'Bonus-managed funds' investments as the risks and rewards of all movements in the value of these financial assets fall to the beneficiary and are offset by equal and opposite movement in Group liabilities, which accrue over the vesting period. The 'NIC hedge' economically hedges the Group's exposure to movements in future National Insurance Contributions obligations in respect of certain assets held by the Group's Employee Benefit Trusts.

'Other financial investments' classified as available for sale reflect the value of the Group's private equity investments. These primarily reflect 'carried interest entitlement' which arises from the Group's historical ownership of private equity businesses. The Board does not seek to manage any of the financial risks associated with these investments and recognises that uncertainty exists as to the quantum and timing of future distributions which may arise from these investments.

Stock of units and shares

The Group operates and manages a number of Open Ended Investment Companies (OEICs) whose funds, into which retail and institutional investors can invest, have a wide range of investment objectives. The Group holds a stock of units and shares in these OEIC funds in order to facilitate the creation and redemption of units by investors. The Group's risk management policy specifically limits the overall magnitude of the units held by the Group to £1.5m and the amount which may be held in any single fund to £0.05m.

Trade debtors and accrued income

Trade debtors and accrued income represent amounts recognised within net revenue in the Income Statement, but which have not been settled in cash. The nature of F&C's business is such that asset management fees accrue based on daily, month-end or quarter-end asset values, which once known, are billed to clients and are due to be settled in line with individual contractual terms. As a result, the aggregate value of debtors and accrued income can typically represent up to 4 months of revenue at any point in time. In addition, as most of the performance fees earned by the Group accrue in respect of the calendar year and can only be billed subsequently, the quantum of accrued income at the balance sheet date is generally higher than at other periods and is sensitive to the magnitude of performance fees recognised.

Before the Group takes on new clients, it undertakes the required ''Know Your Client'' procedures. As the Group manages assets on behalf of clients and management fees are typically charged to and paid from the underlying funds we manage, there is a relatively low risk of default on management fees. The Group does not hold any credit insurance.

36. Financial risk management (cont'd)

Due to the scale of some of F&C's larger clients, the Group is exposed to a concentration of credit risk from large clients or groups of connected clients, arising from timing difference between the recognition of income and the receipt of management fees outlined above. Very few clients have external credit ratings.

Where management fees are denominated in a currency other than Sterling, the Group is exposed to currency risk. The Group does not hedge its exposure to monetary assets denominated in foreign currency.

Other debtors

Other debtors include 'Trustee debtors' and 'debtors due from investors in respect of the purchase of units'. In operating and managing OEICs, the Group seeks to match the purchase and sale of investments to align to the receipt or payment of funds from or to investors. However, if these obligations are not matched then there is a requirement for the Group to fund any short fall from its corporate cash resources. The risk relating to unsettled transactions is considered small due to the short settlement period involved. In the event that investors default on sums due, then the Group is entitled to reimbursement of costs from the investor.

Cash and cash equivalents

F&C adopts a low risk approach to treasury management and seeks to ensure that its capital is preserved and financial risks are managed appropriately.

The Group treasury operations are managed by the Finance function within parameters defined by the Board. The regulatory capital and treasury position of the Group are reported to the Board on a regular basis.

The Group's cash and cash equivalent assets are exposed to a number of financial risks in the normal course of its business. The policy adopted 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:

- Funds on deposit will only be placed on a short term basis (maximum term 90 days) to help maximise regulatory capital.
- Deposits may only be placed with counterparties approved by the F&C Credit Committee, and the Board has set a £25m limit for the maximum exposure to any single counterparty. The F&C Credit Committee's primary focus is to assess the credit position of counterparties prior to placing any client assets with them together with the monitoring of credit risk thereafter.
- Exposure to cash and cash equivalent balances held in foreign currency is managed to reduce the risk of movements in exchange rates, where possible, by the repatriation of surplus foreign currency into Sterling. This is achieved in practice via the regular settlement of the Group's transfer pricing arrangements and through the payment of dividends from foreign subsidiaries, having regard to their respective, legal, regulatory and working capital requirements.
- Cash and deposit balances can be exposed to interest rate movements. The Group utilises the experience and skills of its professional dealing team to obtain the best interest rates, ensuring the expected maturity dates of deposits are aligned to the Group's working capital requirements.

Reinsurance assets

The Group unit-linked pooled pension subsidiary is an insurance company and has some exposure to insurance contract liabilities, as outlined in note 30. These liabilities are fully reinsured as the Group seeks to have no net insurance exposure. The reinsurance assets represent the expected amounts recoverable to meet insurance liabilities as they fall due. The Group has exposure to both credit and liquidity risk on these assets.

Defined benefit pension deficit

The Group's defined benefit pension obligation represents the discounted value of future pension obligations in excess of plan assets, details of which are given in note 26.

The Group has exposure to the movements in the market value of the plan assets, which include equities and LDI fixed interest pools. Approximately 25% of the assets held in respect of the UK scheme are held in LDI pools, with maturity profiles which match the expected maturity profile of pension obligations. The market values of the LDI pools are impacted by movements in interest rates.

The value of defined benefit pension obligations is quantified and discounted using corporate bond rates. Movements in these rates can have a significant impact on the pension liabilities and hence the quantum of the Group's pension deficit.

36. Financial risk management (cont'd)

Management of capital

While F&C considers its capital to be its total equity, this is effectively managed via the net assets to which it relates.

The Company's Ordinary Shares are listed on the London Stock Exchange. The Board monitors significant movements in the composition of its shareholder base. Details of substantial interests in share capital are shown on page 29. In the ordinary course of business the only movements in the absolute number of shares in issue would be through the issue of new or own shares to satisfy obligations under share-based payment arrangements or through the purchase of own shares to satisfy future share scheme obligations. The Directors give careful consideration to the appropriate funding structure for financing all acquisitions, which historically have included both equity and debt funded transactions.

In 2007 the Directors rebased the dividend to ensure a dividend cover of 1.5 times underlying profit, thereby seeking to fund additional investment in the business to support the three-year plan.

The overall objective of shareholder liquidity risk management is to ensure that there is sufficient liquidity over short and medium time horizons to meet the needs of the business. This includes liquidity to cover, among other things, capital expenditure, servicing debt and equity capital as well as working capital to fund the Group's day-to-day requirements.

None of the Group's assets are held as collateral.

Working capital

Working capital is monitored on a daily basis to ensure that settlement terms of all forthcoming liabilities can be met. This activity includes timely collection of debtors and monitoring of cash on deposit, having regard to regulatory capital requirements, as outlined below. The Group's Finance function includes a Treasury team which ensures the short-term cash-flow requirements of the Group are met while seeking to maximise the amount of cash on deposit.

The Group also has bank overdraft facilities available to it which provide some protection against any short-term cash-flow requirements. The undrawn committed facilities available at the balance sheet date are shown in note 22. In 2006 the Group issued £260m fixed rate Subordinated Notes for which the earliest repayment date is 2016, but this can be extended at the option of the Group until 2026. The Group has the option to defer interest payments on this debt, but if it elects to do so then no dividend can be paid to ordinary shareholders until the cumulative amount of any unpaid interest due on the debt is settled in full. No such interest payments have been deferred.

The Group does not routinely use a hedging strategy to manage financial risks. As such, the Board Reserved List prohibits the use of derivatives including futures, options and forward contracts, in respect of the Group's net assets, without prior Board approval.

Regulatory capital requirements

The Group is required to maintain a minimum level of capital in accordance with the Capital Requirements Directive (CRD) prescribed in the UK by the Financial Services Authority (FSA).

In 2006, the Group obtained from the FSA a waiver from meeting any minimum capital requirements under the consolidated supervision rules of the CRD. This waiver took effect from 1 January 2007 and does not need to be renewed until 2011.

At the balance sheet date, there were 14 regulated companies in the Group, of which 11 are registered in the United Kingdom and are subject to regulation by the FSA. This includes F&C Managed Pension Funds Limited which, being a regulated insurance firm, as opposed to a regulated investment firm, is not part of F&C's consolidation group for regulatory capital reporting purposes but is part of the Friends Provident regulatory group. Overseas regulated companies, registered in the Republic of Ireland, The Netherlands and Portugal are subject to regulatory capital requirements set out by their local regulatory authority as embedded within the legislation of those jurisdictions.

Regulatory rules set out the measurement of Capital Resources and Capital Resources Requirements (CRR) to determine the regulatory capital surplus or deficit. This CRR is referred to as the Pillar 1 capital requirements under CRD.

For the UK regulated investment firms; the CRR is the higher of:

- The sum of the credit risk capital requirement and the market risk capital requirement; and
- the fixed overhead requirement.

Credit risk represents the risk of a party being unable to meet its obligations to a firm, calculated using risk weighted percentages applied to the various exposure amounts. The market risk for F&C represents the risk of loss from fluctuations in exchange rates, calculated as a percentage of the total of the long or short positions, denominated in foreign currencies, whichever is the greater. The fixed overheads requirement is calculated as a quarter of a firm's relevant fixed annual expenditure in the previous year's audited financial statements.

36. Financial risk management (cont'd)

The regulated companies are required to submit financial returns to the FSA, or the local regulatory authority for overseas companies, setting out the calculation of the regulatory capital surplus (or deficit). The Group's regulated companies are required to submit returns quarterly or semi-annually and the Group must submit a consolidated return semi-annually.

The CRD requires the Group to conduct an Internal Capital Adequacy Assessment Process (ICAAP), referred to as Pillar 2 capital requirements. The objective of this process is to ensure that firms have adequate capital to enable them to manage their risks not deemed to be adequately covered under the Pillar 1 minimum requirements. This is a forward looking exercise which includes stress testing on major risks, considering how the firm would cope with a significant market down turn for example, and an assessment of the Group's ability to mitigate the risks.

All of the Group's regulated entities maintained surpluses of regulatory capital throughout the year.

37. The extent of risks arising from financial instruments

Note 36 presents details of the Group's direct or indirect exposure to financial risks arising from financial instruments and the Group's objectives, policies and processes for measuring and managing risk and the management of the Group's capital. This note provides numerical analysis of the Group's direct exposure to such financial risk, including relevant sensitivity analysis, at each balance sheet date.

The disclosures in this note exclude any policyholder unit-linked assets and liabilities in respect of the Group's insurance subsidiary, as the risks and rewards rest primarily with the policyholders.

(a) Credit risk

(i) Maximum exposure to credit risk

The carrying amount of financial assets represents the Group's maximum exposure to credit risk. The maximum exposure of each class of financial asset is:

	31 December 2007 £m	31 December 2006 £m
Financial assets at fair value through profit or loss		
Other financial investments	**8.6**	3.8
Available for sale financial assets		
Other financial investments	**3.8**	2.1
Loans and receivables		
Loan to associate	**–**	2.5
Trade debtors	**11.0**	10.1
Accrued income	**45.3**	36.3
Other debtors	**25.6**	25.5
Amounts owed by Friends Provident Group	**1.5**	–
Amounts owed by associate	**–**	1.3
Amounts owed by Eureko Group	**6.5**	4.8
Cash and cash equivalents – shareholders	**216.2**	214.3
	318.5	300.7

The accrued income balance is higher than the average monthly balance during the year. This is primarily due to the level of performance fees recognised at 31 December 2007.

37. The extent of risks arising from financial instruments (cont'd)

The credit risk of the financial assets analysed by the credit ratings of the counterparties, is set out below:

As at 31 December 2007	AAA £m	AA £m	A £m	Other rated £m	Not rated £m	Total £m
Financial assets at fair value through profit or loss						
Other financial investments	0.4	2.3	–	0.3	5.6	8.6
Available for sale financial assets						
Other financial investments	–	–	–	–	3.8	3.8
Loans and receivables						
Trade debtors	–	–	0.9	–	10.1	11.0
Accrued income	–	–	20.5	–	24.8	45.3
Other debtors	–	–	–	–	25.6	25.6
Amounts owed by Friends Provident Group	–	–	1.5	–	–	1.5
Amounts owed by Eureko Group	–	–	6.5	–	–	6.5
Cash and cash equivalents – shareholders	6.5	179.1	30.6	–	–	216.2
	6.9	**181.4**	**60.0**	**0.3**	**69.9**	**318.5**

As at 31 December 2006	AAA £m	AA £m	A £m	Other rated £m	Not rated £m	Total £m
Financial assets at fair value through profit or loss						
Other financial investments	–	–	–	–	3.8	3.8
Available for sale financial assets						
Other financial investments	–	–	–	–	2.1	2.1
Loans and receivables						
Loan to associate	–	–	–	–	2.5	2.5
Trade debtors	–	–	1.8	–	8.3	10.1
Accrued income	–	–	14.3	–	22.0	36.3
Other debtors	–	–	–	–	25.5	25.5
Amounts owed by associate	–	–	–	–	1.3	1.3
Amounts owed by Eureko Group	–	–	4.8	–	–	4.8
Cash and cash equivalents – shareholders	8.0	130.5	75.8	–	–	214.3
	8.0	**130.5**	**96.7**	**–**	**65.5**	**300.7**

(Based on external credit ratings)

37. The extent of risks arising from financial instruments (cont'd)

(ii) Analysis of financial assets past due but not impaired

The analysis of financial assets which are receivable but have not been impaired is as follows:

As at 31 December 2007	Neither past due nor impaired £m	Less than 30 days £m	Between 30 and 90 days £m	Between 90 days and 1 year £m	Beyond 1 year £m	Total £m
Financial assets at fair value through profit or loss						
Other financial investments	8.6	–	–	–	–	8.6
Available for sale financial assets						
Other financial investments	3.8	–	–	–	–	3.8
Loans and receivables						
Trade debtors	3.2	2.6	4.3	0.9	–	11.0
Accrued income	45.3	–	–	–	–	45.3
Other debtors	25.5	0.1	–	–	–	25.6
Amounts owed by Friends Provident Group	1.5	–	–	–	–	1.5
Amounts owed by Eureko Group	4.1	–	–	–	2.4	6.5
Cash and cash equivalents – shareholders	216.2	–	–	–	–	216.2
	308.2	**2.7**	**4.3**	**0.9**	**2.4**	**318.5**
As at 31 December 2006						
Financial assets at fair value through profit or loss						
Other financial investments	3.8	–	–	–	–	3.8
Available for sale financial assets						
Other financial investments	2.1	–	–	–	–	2.1
Loans and receivables						
Loan to associate	2.5	–	–	–	–	2.5
Trade debtors	2.3	3.2	1.7	2.9	–	10.1
Accrued income	36.3	–	–	–	–	36.3
Other debtors	24.6	0.8	0.1	–	–	25.5
Amounts owed by associate	1.3	–	–	–	–	1.3
Amounts owed by Eureko Group	4.8	–	–	–	–	4.8
Cash and cash equivalents – shareholders	214.3	–	–	–	–	214.3
	292.0	**4.0**	**1.8**	**2.9**	**–**	**300.7**

Based on past experience and the nature of the Group's business, the Directors believe that no additional impairment provision is necessary at 31 December 2007 in respect of trade debtors.

The £2.4m owed by the Eureko Group at 31 December 2007 was settled post year-end.

37. The extent of risks arising from financial instruments (cont'd)

(iii) Impairment losses

Details of impairment of financial assets at 31 December are as follows.

Trade debtors provision:

	2007 £m	2006 £m
Balance at 1 January	**0.9**	0.1
Bad debt charge in the year	**0.2**	0.8
Utilised in the year	**(1.0)**	–
Balance at 31 December	**0.1**	0.9
Gross impaired trade debtors	**0.1**	0.9

(iv) Concentration risk

The specific concentration of risk in respect of amounts receivable from any one client or group of connected clients is £1.0m or more at the balance sheet date is given below:

	31 December 2007 £m	31 December 2006 £m
Amounts due from Friends Provident Group	**4.0**	–
Amounts due from Eureko Group	**12.8**	8.9
Amounts due from ISIS EP LLP	**1.6**	5.2
Amounts due from OEIC Trustee (JPMorgan Cazenove)	**7.7**	12.7
Amounts due from other significant clients – 2007: 11 clients (2006: 9)	**30.1**	17.7
	56.2	44.5

37. The extent of risks arising from financial instruments (cont'd)

(b) Liquidity risk

The Group has borrowing facilities available to it. The undrawn committed facilities available at 31 December 2007 and 2006 are shown in note 22.

The following are the maturity dates of the Group's financial liabilities:

As at 31 December 2007	Within 1 year, or repayable on demand £m	Within 1-2 years £m	Within 2-5 years £m	More than 5 years £m	Total £m
£260.0m fixed/floating Subordinated Notes 2026	–	–	–	260.0	260.0
Preference Share capital	–	–	–	0.8	0.8
Trade and other payables					
Trade creditors	3.1	–	–	–	3.1
Other creditors – short-term	29.0	–	–	–	29.0
– long-term	–	0.1	0.5	0.8	1.4
Accruals – short-term	18.8	–	–	–	18.8
– long-term	–	0.4	1.1	4.3	5.8
	50.9	**0.5**	**1.6**	**265.9**	**318.9**

As at 31 December 2006	Within 1 year, or repayable on demand £m	Within 1-2 years £m	Within 2-5 years £m	More than 5 years £m	Total £m
£260.0m fixed/floating Subordinated Notes 2026	–	–	–	260.0	260.0
Preference Share capital	–	–	–	0.8	0.8
£50.0m revolving credit facility (£5.0m drawn down)	5.0	–	–	–	5.0
Trade and other payables					
Trade creditors	4.4	–	–	–	4.4
Amounts owed to Friends Provident Group	0.1	–	–	–	0.1
Other creditors – short-term	32.2	–	–	–	32.2
– long-term	–	0.2	0.4	1.0	1.6
Accruals – short-term	21.5	–	–	–	21.5
– long-term	–	–	–	2.4	2.4
	63.2	**0.2**	**0.4**	**264.2**	**328.0**

The maturity dates of the Group's financial liabilities have been determined by reference to the earliest contractual date which the third party could demand payment and represents undiscounted cash flows.

37. The extent of risks arising from financial instruments (cont'd)

(c) Market risk

(i) Market price risk

The analysis of financial assets which are exposed to market price risk is as follows:

	31 December 2007 £m	31 December 2006 £m
Financial assets at fair value through profit or loss		
Other financial investments	**8.6**	3.8
Stock of units and shares	**0.8**	0.7
	9.4	4.5

Details of the assets held by the Group's defined benefit pension schemes, which are also exposed to market price risk are given in note 26.

(ii) Other price risk

	31 December 2007 £m	31 December 2006 £m
Available for sale financial assets		
Other financial investments	**3.8**	2.1

(iii) Currency risk

The Group is exposed to currency risk at the balance sheet date in respect of:

(i) financial assets and liabilities denominated in foreign currencies; and

(ii) the foreign currency risk of net assets of foreign operations.

The net monetary assets and net investment in foreign operations, in Sterling, which are attributable to the equity holders and which are denominated in foreign currencies are:

	Euro £m	US Dollar £m	Other £m	Total £m
31 December 2007	**81.0**	**3.2**	**0.1**	**84.3**
31 December 2006	107.0	1.3	–	108.3

The above table excludes intangible assets.

37. The extent of risks arising from financial instruments (cont'd)

(iv) Interest-rate risk

The following tables set out the carrying amount and maturity profile of the Group's financial instruments that are exposed to interest rate risk:

Year ended 31 December 2007	Within 1 year £m	Within 1-2 years £m	Within 2-5 years £m	More than 5 years £m
Fixed rate				
£260.0m fixed/floating Subordinated Notes 2026	–	–	–	(260.0)
Other financial investments – corporate bonds	–	–	2.0	1.0
Floating rates				
Cash and cash equivalents – shareholder	216.2	–	–	–
Preference Share capital	–	–	–	(0.8)
	216.2	**–**	**2.0**	**(259.8)**

Year ended 31 December 2006				
Fixed rate				
£260.0m fixed/floating Subordinated Notes 2026	–	–	–	(260.0)
Floating rates				
Trade and other receivables (Loan to associate)	2.5	–	–	–
Cash and cash equivalents – shareholder	214.3	–	–	–
£50.0m Revolving credit loan (£5.0m drawn down)	(5.0)	–	–	–
Preference Share capital	–	–	–	(0.8)
	211.8	**–**	**–**	**(260.8)**

37. The extent of risks arising from financial instruments (cont'd)

(v) Sensitivity analysis

The Group has quantified the impact of specific changes in its significant market risk variables. This analysis measures the change in fair value and cash flows of the Group's financial instruments.

The sensitivity analysis, which is for illustrative purposes only, is prepared based on financial instruments that are recognised at the balance sheet dates. The sensitivity assumes changes in certain market conditions. These assumptions may differ materially from the actual outturn due to the inherent uncertainties in global financial markets. In practice, market risks rarely change in isolation and are likely to be interdependent. The methods and assumptions used are the same for both reporting periods.

Changes in market interest rates assume an increase or decrease of 1.0% in the rate applied to average cash balances in the year.

The estimated changes in fair values of investments assume a 10.0% increase or decrease in the fair values of investments at the reporting date, with all other variables remaining constant.

Changes in exchange rates assume an instantaneous increase or decrease of 10.0% for foreign currency to sterling rates at the reporting date, with all other variables remaining constant.

The market risk sensitivities of the risk variables, after taxation, are summarised below:

As at 31 December 2007	Profit or loss sensitivity £m	Profit or loss sensitivity £m	Equity sensitivity £m	Equity sensitivity £m
Exchange rate movement	**+10%**	**-10%**	**+10%**	**-10%**
Currency				
Sterling/Euro exchange rates	1.0	(1.2)	7.0	(8.5)
Sterling/USD exchange rates	0.2	(0.3)	0.2	(0.3)
Fair value movement	**+10%**	**–10%**	**+10%**	**–10%**
Investments				
Sterling equity prices	0.6	(0.6)	0.9	(0.9)
Interest rate movement	**+1%**	**–1%**	**+1%**	**–1%**
Sterling market interest rates	1.5	(1.5)	1.5	(1.5)
As at 31 December 2006				
Exchange rate movement	**+10%**	**–10%**	**+10%**	**–10%**
Currency				
Sterling/Euro exchange rates	1.8	(2.1)	7.2	(8.7)
Sterling/USD exchange rates	0.1	(0.1)	0.1	(0.1)
Fair value movement	**+10%**	**–10%**	**+10%**	**–10%**
Investments				
Sterling equity prices	0.4	(0.4)	0.5	(0.5)
Interest rate movement	**+1%**	**–1%**	**+1%**	**–1%**
Sterling market interest rates	1.1	(1.1)	1.1	(1.1)

The sensitivity analysis has been prepared based on the impact a percentage increase or decrease in the market conditions would have on the profit or loss and on total equity.

The method used is for illustrative purposes only and may be unrepresentative of actual changes in market conditions. Often market conditions are inter-dependent and the actual impact of a percentage change in market conditions may have other impacts on profit or loss or equity.

Impairment of financial assets can also be affected by changes in the relevant underlying risk.

37. The extent of risks arising from financial instruments (cont'd)

(d) Capital

A summary of the Group's capital and the net assets which it represents is shown below:

	31 December 2007 £m	31 December 2006 £m
Share capital	**0.5**	0.5
Share premium account	**33.8**	32.6
Merger reserve	**499.3**	520.7
Other reserves	**13.6**	(2.7)
Retained earnings	**145.2**	132.3
Minority interests	**1.1**	0.4
Total equity	**693.5**	683.8
Net assets	**693.5**	683.8

38. Insurance risk management

The Group's insurance contracts are all annuity contracts which guarantee payment during the lifetime of the annuitant at a specified level or with a specified escalation factor. They are all 100% reinsured to Friends Provident Pensions Limited.

The only risk that the Group is subject to in respect of these contracts is the credit risk of the reinsurer. Given the small amount at risk (£2.3m at 31 December 2007; £2.4m at 31 December 2006) this is not considered significant.

39. Subsidiary undertakings

The principal entities controlled by the parent undertaking are as follows:

	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 Property Asset Management plc(1)	100	England	Property investment management
F&C Asset Management Services Limited(1)	100	Scotland	Employee service company
ISIS Equity Partners Holdings Limited(1)	100	England	Holding company
ISIS Investment Manager plc(1)	100	England	Investment management
F&C Managed Pension Funds Limited(1)	100	England	Unit-linked pooled pensions business
F&C Treasury Limited(1)	100	England	Treasury management company
F&C Group (Holdings) Limited(1)	100	England	Holding company
F&C Group ESOP Trustee Limited(1)	100	Scotland	ESOP Trustee
F&C Investment Business Limited(1)	100	Scotland	Investment Trust management
FP Fund Managers Limited(2)	100	England	Investment management
F&C Asset Managers Limited(2)	100	England	Investment management
F&C Property Limited(2)	100	England	Property investment management
F&C Property Investments Limited(3)	100	England	Property investment management
F&C Fund Management Limited(3)	100	England	OEIC investment management
F&C Managers Limited (formerly ISIS Investment Management Limited)(3)	100	England	Investment management
WAM Holdings Limited(4)	100	England	Holding company
F&C Unit Management Limited(5)	100	England	OEIC investment management
FCEM Holdings (UK) Limited(5)	100	England	Holding company
F&C (CI) Limited(6)	100	England	Investment company
F&C Investment Services Limited(6)	100	England	Investment management
F&C Management Limited(6)	100	England	Investment management
F&C Alternative Investments (Holdings) Limited(7)	100	England	Investment holding company
F&C Group Management Limited(7)	100	England	Holding company
F&C Emerging Markets Limited(8)	100	England	Investment management
F&C Holdings Limited(9)	100	England	Holding company

39. Subsidiary undertakings (cont'd)

	Percentage interest and voting rights	Country of registration or incorporation	Nature of business
(i) United Kingdom (cont'd)			
F&C Partners LLP[10]	60	England	Hedge fund investment management
F&C Private Equity Nominees Limited[11]	100	England	Investment company
F&C European Capital Partners (GP) Limited[1]	100	Scotland	General Partner
F&C European Capital Partners (Founder Partner) LP[1]	50	Scotland	Founder Partner
(ii) Overseas			
F&C Channel Islands Limited[5]	100	Jersey	Employee services company
F&C Netherlands B.V.[7]	100	The Netherlands	Investment management
F&C Ireland Limited[7]	100	Republic of Ireland	Investment management
F&C Portugal Gestao de Patrimonios S.A.[7]	100	Portugal	Investment management
F&C Luxembourg S.A.[7]	100	Luxembourg	Investment management
F&C Management Luxembourg S.A.[7]	100	Luxembourg	Investment management

(1) Owned by F&C Asset Management plc

(2) Owned by FP Asset Management Holdings Limited

(3) Owned by WAM Holdings Limited

(4) Owned by F&C Treasury Limited

(5) Owned by F&C Management Limited

(6) Owned by F&C Holdings Limited

(7) Owned by F&C Group (Holdings) Limited

(8) Owned by FCEM Holdings (UK) Limited

(9) Owned by F&C Group Management Limited

(10) Owned by F&C Alternative Investments (Holdings) Limited

(11) Owned by F&C (CI) Limited

40. Related party transactions

In the ordinary course of business, the Company and its subsidiary undertakings carry out transactions with related parties, as defined by IAS 24 'Related Party Disclosures'. Material transactions for the year are set out below.

The principal subsidiary undertakings of the Company are shown in note 39 and its interests in associates are shown in note 15. During the year, the Group entered into the following transactions with related parties:

(a) Compensation of key management personnel of the Group

In aggregate these are set out below:

	Total compensation 2007 £m	Outstanding at 31 December 2007 £m	Total compensation 2006 £m	Outstanding at 31 December 2006 £m
Short-term employee benefits	**9.6**	**5.3**	6.4	3.4
Post-employment benefits	**1.4**	**–**	1.0	–
Termination benefits	**–**	**–**	0.4	–
Share-based payments:				
– recurring arrangements	**3.8**	**–**	0.5	–
– Re-Investment Plan	**5.4**	**–**	5.6	–
Total	**20.2**	**5.3**	13.9	3.4

Where key management personnel participate in defined benefit pension schemes which have been accounted for as such under IAS 19, the amount included as compensation reflects the current service and/or past service cost for the relevant year. Where key management personnel are members of multi-employer defined benefit arrangements or defined contribution schemes, the benefits shown reflect the contributions payable for each year.

The share-based payments disclosed in the table above reflect the value of any share-based payments vesting during the year. This is quantified as the aggregate of cash payments plus the fair value of shares on the date of vesting (excluding any consideration payable on exercise) of such share-based payment awards.

(b) Transactions with key management personnel of the Group

Appropriations of profits paid to key management are as follows:

	2007 £m	Outstanding at 31 December 2007 £m	2006 £m	Outstanding at 31 December 2006 £m
Ordinary dividends paid	**0.1**	**–**	0.1	–
Distributions paid to Minority interests	**0.9**	**1.1**	0.5	0.4

40. Related party transactions (cont'd)

(c) Transactions and balances with related parties

Transactions with related parties during 2007 and 2006 and outstanding balances with these parties as at 31 December 2007 and 31 December 2006 are given below, by each group of related parties.

(i) Related party transactions with the Friends Provident Group (FP Group)

Friends Provident plc is the parent undertaking and ultimate controlling party of the F&C Group.

Companies within the F&C Group provide investment management services to companies in the FP Group and are entitled to receive management fees in line with the contractual terms of relevant investment management agreements.

Companies within the FP Group provide, under the Shared Services Agreement, services in respect of accounting and other professional services. Fees are paid monthly in arrears. The Shared Services Agreement is terminable on six months' written notice by either party. The investment management agreements with the FP Group are terminable with twelve months' notice, but revert to long-term contracts of between 5 and 10 years, from inception, if Friends Provident's shareholding in the Company were to fall below 50%.

	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m	Total invoiced and accrued during 2006 £m	Outstanding at 31 December 2006 £m
Management fees				
Management fees	**35.8**	**2.5**	33.4	(0.6)
Amounts outstanding at 31 December are included within trade debtors and accrued income or other creditors as appropriate.				
Shared services and administration services				
Shared service fees	**0.3**	**–**	0.3	–
Administration service fees	**0.7**	**–**	0.7	0.1
Amounts outstanding at 31 December are included within accruals.				
Other recharges				
Other recharges to the FP Group	**2.5**	**2.4**	0.5	–
Other recharges from the FP Group	**0.3**	**(0.9)**	0.1	(0.1)
Other recharges includes charges made to or from the FP Group for premises, staff costs and other related expenditure. Amounts outstanding at 31 December are included within amounts owed by/to Friends Provident Group.				
Dividends and interest payable				
Ordinary dividends	**22.8**	**–**	27.6	–
Dividends on Preference Shares	**0.1**	**–**	0.1	–
Loan interest	**0.1**	**–**	12.1	–
Amounts outstanding at 31 December are included within amounts owed to FP Group.				
Other transactions				
Reinsurance premiums	**(1.9)**	**–**	(0.2)	–
Reinsurance claims	**0.1**	**–**	0.1	–

Net investment in property funds represents amounts invested through the Property Fund of Friends Provident Life Assurance Limited, a subsidiary undertaking of Friends Provident plc.

The Group's insurance contracts are all annuity contracts and are 100% reinsured to Friends Provident Pensions Limited, a subsidiary undertaking of Friends Provident plc.

40. Related party transactions (cont'd)

OEICs and private equity SPVs

Where the FP Group controls an F&C managed OEIC or private equity special purpose vehicle, it is required to consolidate them and hence the investment management fees received by F&C are related party transactions.

	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m	Total invoiced and accrued during 2006 £m	Outstanding at 31 December 2006 £m
Investment management fees	**10.7**	**0.9**	8.5	0.7
Carried interest receipts	**–**	**–**	2.4	–

Loans due to the FP Group

Details of loans due to the FP Group are shown in note 23.

(ii) Related party transactions with Eureko B.V. and subsidiary companies (Eureko Group)

Since the acquisition of F&C Group (Holdings) Limited in 2004, the Eureko Group has held in excess of 10% of the Ordinary Shares of the Company and is entitled to Board representation. Consequently, transactions between the F&C Group and the Eureko Group are considered to be related party transactions.

Companies within the F&C Group provide investment management services to the Eureko Group. F&C Group has entitlement to receive management fees in line with the contracted terms of relevant investment management agreements. The Achmea Group investment management agreements referred to below are deemed significant. These agreements are subject to long term contracts terminable on 12 months' notice falling on or after the ninth anniversary of their commencement date (typically October 2004). In the event of a change of control whereby a third party acquires a controlling interest in F&C, whether directly or indirectly (as a result of a change of control occurring within Friends Provident), immediate termination is possible with compensation payable to F&C by the Achmea Group based on revenue stream.

Companies within the Eureko Group provide, under the Transitional Services Agreement, services in respect of investment accounting and other administration services.

	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m	Total invoiced and accrued during 2006 £m	Outstanding at 31 December 2006 £m
Shared services and administrative services:				
Friends First	**0.1**	**–**	0.1	0.1
Achmea Group	**0.3**	**–**	1.3	–
Amounts outstanding at 31 December are included within trade creditors and accruals				
Management fees:				
Achmea Group	**32.4**	**5.9**	29.1	3.6
Friends First	**3.8**	**0.3**	4.1	0.4
Imperio	**0.4**	**0.1**	0.4	0.1
Amounts outstanding at 31 December are included within trade debtors and accrued income.				
Dividends and loan interest payable to Eureko B.V.:				
Ordinary dividends	**7.5**	**–**	10.9	–
Loan interest	**–**	**–**	0.5	–

Amounts owed from/to Eureko

In addition to the above, the Group was owed £6.5m at 31 December 2007 (31 December 2006: £4.8m) by Eureko B.V. and its subsidiaries. The Group owed Eureko B.V. £2.9m at 31 December 2007 (31 December 2006: £2.9m) as disclosed in note 16(a).

The Group also owed Eureko B.V. £3.8m at 31 December 2007 (31 December 2006: £3.8m) in respect of taxation balances.

40. Related party transactions (cont'd)

(iii) Related party transactions with associates

ISIS EP LLP

Amounts charged by the Group to ISIS EP LLP	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m	Total invoiced and accrued during 2006 £m	Outstanding at 31 December 2006 £m
Shared service costs	**0.6**	**n/a**	1.0	1.2
Other recharges	**0.4**	**n/a**	0.2	0.1
Profit share	**0.6**	**n/a**	1.4	1.4

In accordance with the Termination Agreement, ISIS EP LLP repaid £1.0m of the non-voting, non-participating B class capital in 2007. At 31 December 2007 £1.5m of the B class capital is due to be repaid in future periods, together with £0.1m of undistributed profit share.

(iv) Post-employment benefit plans

Pension Schemes

The Group operates and participates in several post-employment benefit plans as detailed in note 26.

The Group contributed amounts to the defined benefit plans and had amounts outstanding at 31 December each year as follows:

	2007		2006	
	Employer contributions £m	Outstanding at 31 December £m	Employer contributions £m	Outstanding at 31 December £m
F&C Management Limited Pension Fund	**0.2**	**–**	1.2	–
F&C Asset Management Pension Plan (formerly ISIS Asset Management plc Pension Fund)	**10.6**	**–**	2.3	–
F&C Portugal[1]	**0.5**	**–**	0.3	–
F&C Netherlands	**0.8**	**–**	0.6	–
F&C Ireland[2]	**0.4**	**–**	0.1	–
	12.5		4.5	

[1] incorporated within the Fundo de Pensões do Grupo Banco Comercial Português scheme.
[2] incorporated within the Friends First Retirement and Death Benefits Plan in 2006.

In addition to the above, the Group has an unfunded obligation to provide the Chairman, Mr R W Jenkins, with a pension as detailed in note 26.

The Group manages the assets of the F&C Asset Management plc Pension Plan (formerly the ISIS Asset Management plc Pension Fund). The assets of the scheme totalled £139.9m at 31 December 2007 (31 December 2006: £124.8m which includes the F&C Management Pension Plan). In addition, the Group manages £978.8m (31 December 2006: £779.1m) of investments in respect of Friends Provident's main defined benefit pension scheme. The Group received the following investment management fees from these schemes:

	2007		2006	
	Fees receivable £m	Outstanding at 31 December £m	Fees receivable £m	Outstanding at 31 December £m
F&C Management Pension Plan	**0.2**	**–**	0.2	0.1
F&C Asset Management Pension Plan	**0.2**	**–**	0.2	–
Friends Provident Pension Scheme	**0.9**	**0.2**	0.9	0.2

41. Capital Requirements Directive

Under Pillar 3 of the Capital Requirements Directive, prescribed in the UK by the Financial Services Authority, the Group is required to disclose information relating to its risks and its capital and risk management objectives and policies. The Group's Pillar 3 disclosures are given on the Company's website.

42. Post Balance Sheet events

On 31 January 2008, Friends Provident plc, the Company's 52 per cent majority shareholder, announced the results of its strategic review. Among the conclusions announced by Friends Provident was that wealth management was no longer core to its strategy and as a result it may seek to divest of its shareholding in F&C. The F&C Board is working with Friends Provident to find a solution which will meet the needs of all parties.

The Directors do not believe this announcement has any material financial impact on the financial position of the Group at 31 December 2007, as reported herein. Whilst no certainty exists as to the potential outcome, it is possible that a course of action could trigger change of control clauses which exist within a number of the Group's contractual arrangements.

43. Parent undertaking and controlling party

In the opinion of the Directors, the Group's ultimate parent undertaking and controlling party is Friends Provident plc. Friends Provident plc is incorporated in England and Wales. Copies of the Friends Provident Annual Report and Accounts can be obtained from the Company Secretary, Pixham End, Dorking, Surrey RH4 1QA.

Five Year Record

Historical summaries

International Financial Reporting Standards ("IFRS") has been adopted for the years ending 31 December 2004, 2005, 2006 and 2007. For the year ending 31 December 2003 the Group Financial Statements were prepared under UK GAAP. The five year historical summaries therefore are not directly comparable. The main changes which would be required for the year ended 31 December 2003 to comply with IFRS relate to both presentational and measurement items. The Five Year Record is not part of the audited financial statements.

Group profit and loss account	UK GAAP 2003# £m
Turnover	
Group turnover	110.6
Selling expenses	(2.7)
Net revenue	107.9
Administrative expenses	
Expenses, excluding amortisation of goodwill	(73.5)
Amortisation of goodwill	(22.2)
Total administrative expenses	(95.7)
Other operating income	1.1
Group operating profit	13.3
Exceptional costs	(12.3)
Gain on disposal of subsidiary undertaking	1.0
Other finance income/(expenditure)	(0.2)
Interest and investment income receivable	1.0
Interest payable	(11.4)
Loss on ordinary activities before taxation	(8.6)
Tax on loss on ordinary activities	(3.1)
Loss on ordinary activities after taxation	(11.7)
Dividend on Cumulative Preference Shares	–
Loss attributable to ordinary shareholders	(11.7)
Interim dividend	(6.0)
Final dividend	(10.5)
Transferred from reserves	(28.2)
Underlying earnings per Ordinary Share	12.04p
Loss per Ordinary Share	(7.83)p
Diluted loss per Ordinary Share	(7.83)p
Dividends	
Interim dividend per Ordinary Share	4.00p
Final dividend per Ordinary Share	7.00p
	11.00p
Dividend cover	(0.71)
Dividend cover before amortisation of goodwill, gain on disposal of subsidiary undertaking and exceptional costs	1.10

The financial statements for the year ended 31 December 2003 are as restated to comply with UITF 38 'Accounting for ESOP Trusts'.

Consolidated Income Statements	IFRS* 2004 £m	IFRS 2005 £m	IFRS 2006 £m	IFRS 2007 £m
Revenue				
Investment management fees	154.5	277.3	257.6	**267.2**
Other income	3.3	0.7	3.7	**10.6**
Total revenue	157.8	278.0	261.3	**277.8**
Fee and commission expenses	(5.9)	(10.9)	(10.5)	**(13.3)**
Net revenue	151.9	267.1	250.8	**264.5**
Net gains and investment income on unit-linked assets	93.6	162.6	106.7	**45.0**
Movements in fair value of unit-linked liabilities	(92.4)	(161.3)	(105.0)	**(43.9)**
Operating expenses				
Operating expenses	(101.4)	(150.7)	(159.4)	**(183.8)**
Investment Trust VAT expense	–	–	–	**(4.2)**
Re-Investment Plan costs	(5.4)	(22.2)	(11.6)	**(6.4)**
Amortisation of intangible assets – management contracts	(20.8)	(55.8)	(43.0)	**(42.4)**
Impairment of intangible assets – management contracts	–	(111.5)	(58.5)	**–**
Total operating expenses before restructuring costs	(127.6)	(340.2)	(272.5)	**(236.8)**
Operating profit/(loss) before restructuring costs	25.5	(71.8)	(20.0)	**28.8**
Restructuring costs:				
– Reorganisation costs post acquisition of F&CGH Group	(18.3)	(22.4)	(9.7)	**–**
– Operations outsourcing	(0.9)	(2.2)	–	**–**
Operating profit/(loss) after restructuring costs	6.3	(96.4)	(29.7)	**28.8**
Finance revenue	4.6	15.6	20.6	**23.8**
Finance costs	(15.0)	(19.5)	(22.0)	**(27.3)**
Impairment in associates and other financial investments	–	(5.0)	(0.8)	**–**
Loss on disposal of subsidiaries and associates	–	(0.7)	(0.1)	**–**
Share of (loss)/profit of associates	(0.3)	(0.3)	1.5	**0.6**
(Loss)/profit before tax	(4.4)	(106.3)	(30.5)	**25.9**
Tax – Policyholders	(0.4)	(0.1)	(0.9)	**(0.6)**
Tax – Shareholders	1.3	29.1	8.9	**(6.6)**
Tax income/(expense)	0.9	29.0	8.0	**(7.2)**
(Loss)/profit for the year	(3.5)	(77.3)	(22.5)	**18.7**
Attributable to:				
Equity holders of the parent	(3.5)	(77.3)	(23.5)	**17.1**
Minority interests	–	–	1.0	**1.6**
(Loss)/profit for the year	(3.5)	(77.3)	(22.5)	**18.7**
Underlying Earnings per Ordinary Share	12.76p	15.90p	12.80p	**10.37p**
Basic (loss)/earnings per Ordinary Share	(1.60)p	(16.36)p	(4.91)p	**3.54p**
Diluted (loss)/earnings per Ordinary Share	(1.60)p	(16.36)p	(4.91)p	**3.43p**
Dividends				
Memo				
Final dividend for 2003, 2004, 2005 and 2006	10.5	32.9	33.5	**33.8**
Interim dividend for 2004, 2005, 2006 and 2007	6.0	18.9	19.2	**9.7**
	16.5	51.8	52.7	**43.5**
Final dividend per Ordinary Share for 2003, 2004, 2005 and 2006	7.0p	7.0p	7.0p	**7.0p**
Interim dividend per Ordinary Share for 2004, 2005, 2006 and 2007	4.0p	4.0p	4.0p	**2.0p**
Dividend cover†	(0.21)	(1.58)	(0.45)	**0.39**
Dividend cover before amortisation and impairment of intangibles, BCP compensation receipt, restructuring costs, Investment Trust VAT expense and the cost of the Re-Investment Plan†	1.72	1.45	1.17	**1.15**

* as restated for IFRS.

† based on the dividends paid during 2004, 2005, 2006 and 2007.

F&C Asset Management plc
Company Financial Statements

for the year ended 31 December 2007

These Financial Statements have been prepared in accordance with UK GAAP.

The Consolidated Financial Statements of the F&C Asset Management Group, given on pages 52 to 141, have been prepared in accordance with IFRS.

Company Balance Sheet

as at 31 December 2007

	Notes	As at 31 December 2007 £m	As at 31 December 2006 £m
Fixed assets			
Intangible fixed assets	4	–	1.1
Tangible fixed assets	5	**3.5**	4.3
Investments in subsidiaries	6	**1,103.4**	1,092.1
Other investments	7	**7.9**	1.6
		1,114.8	1,099.1
Current assets			
Debtors – amounts falling due:			
Within one year	8	**152.8**	239.3
Outwith one year	8	**61.9**	3.2
Cash and short-term deposits		**1.8**	0.1
		216.5	242.6
Creditors (amounts falling due within one year)	9	**(12.6)**	(22.5)
Net current assets		**203.9**	220.1
Total assets less current liabilities		**1,318.7**	1,319.2
Creditors (amounts falling due outwith one year)	9	**(258.7)**	(258.5)
Provisions for liabilities	10	**(5.5)**	(5.8)
Net assets excluding pension deficit		**1,054.5**	1,054.9
Pension deficit	13	–	(12.8)
Net assets including pension deficit		**1,054.5**	1,042.1
Capital and reserves			
Called up ordinary share capital	14, 15	**0.5**	0.5
Share premium account	15	**33.8**	32.6
Merger reserve	15	**912.7**	912.7
Other reserves	15	**59.8**	45.4
Profit and loss account	15	**47.7**	50.9
Total shareholders' funds	15	**1,054.5**	1,042.1

The financial statements were approved by the Board of Directors and authorised for issue on 20 March 2008. They were signed on its behalf by:

Robert Jenkins
Chairman

Alain Grisay
Chief Executive

Company Accounting Policies

Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act and are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

In accordance with Section 230 of the Companies Act 1985 a separate Profit and Loss Account for the Company is not presented.

The Company has adopted FRS 29 (IFRS 7) 'Financial Instrument Disclosure' during the year.

The Company has taken advantage of the exemption in FRS 29 'Financial Instruments: Disclosure and Presentation' and has not disclosed the information required by that standard because the Company is included in the Consolidated Financial Statements which are publicly available and include disclosures given under IFRS 7 'Financial Instruments: Disclosures'.

Turnover

Turnover comprises income from investment management services.

Asset management fees, investment advisory fees and other revenue generated by the Company's investment management activities are recognised in the Profit and Loss Account over the period for which these investment management services are provided.

Performance fees are recognised when the quantum of the fee can be estimated reliably, which is when the performance period ends, when this occurs on or before the reporting date, or where there is a period of less than six months remaining to the end of the performance period and there is evidence at the reporting date which suggests that the current performance will be sustainable.

Dividend recognition

Dividends receivable and dividends payable are recognised only when they have been declared and approved or at the date of payment for interim dividends.

Intangible fixed assets

Intangible fixed assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible fixed assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

The useful lives of management contracts are finite and are amortised on a straight-line basis over their estimated contract term, depending on the nature of the contract, with amortisation being charged to the Profit and Loss Account. The amortisation period is reviewed at each financial year-end. The estimated useful lives have been assessed as being 20 years from date of acquisition.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment. The cost includes the uplift arising from the equity-settled share-based payments calculated in accordance with FRS 20 (IFRS 2) 'Share-based Payment', where no cash contributions are made by the subsidiaries. The uplift is credited to a capital contribution reserve in equity. The Company recharges certain non-UK subsidiaries when it satisfies these equity-settled awards.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Expenditure on tangible fixed assets is capitalised on initial recognition. Subsequent expenditure is only capitalised when it is probable that there will be future economic benefits associated with the expenditure which can be measured reliably. All other expenditure is recognised in the Profit and Loss Account as an expense as incurred.

Tangible fixed assets are depreciated, using the straight-line method, to write off the cost of assets over their estimated useful lives, as follows:

Leasehold improvements – 10 years
Office furniture & equipment – 3-5 years
Computer equipment – 3 years

The carrying value of assets and their useful lives are reviewed at each reporting date. If an indication of impairment exists, the assets are written down to their recoverable amount and the impairment is charged to the Profit and Loss Account in the year in which it arises.

Financial instruments

When financial instruments are recognised initially they are measured at fair value plus directly attributable transaction costs.

The fair value of instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices (mid price for Open Ended Investment Companies) at the close of business on the balance sheet date.

Financial instruments are classified into the categories described below:

(i) *Available for sale financial assets* are carried at fair value in the Balance Sheet. In respect of unquoted instruments, or where the market for a financial instrument is not active, fair value is established by using recognised valuation methodologies, in accordance with International Private Equity and Venture Capital Valuation Guidelines.

For unquoted investments in early stage enterprises and enterprises with revenues but without significant profits or significant positive cash flows, fair value is determined using the ‘‘Price of a Recent Investment’’ method. Repayments are treated as reductions to carrying value. After an appropriate period, an assessment is made as to whether the circumstances of the investment have changed such that another valuation methodology is appropriate or there is any evidence of deterioration or strong defensible evidence of an increase in value. In the absence of these indicators, fair value is determined to be that reported at the previous balance sheet date.

Unquoted investments with revenues, maintainable profits and/or maintainable cash flows are valued by deriving an Enterprise Value of the underlying business.

Movements in fair value, other than impairment losses and foreign exchange movements on monetary assets, are taken to the fair value reserve in equity until derecognition of the asset, at which time the cumulative amount in this reserve is recognised in the Profit and Loss Account. The following assets are classified as *available for sale:*

- Fixed assets
  - Other investments

(ii) *Financial instruments at fair value through profit or loss* include investments which have been specifically designated as ‘at fair value through profit or loss’. These are carried in the Balance Sheet at fair value and movements in fair value are taken to the Profit and Loss Account in the period in which they arise. The following assets are classified as *financial instruments at fair value through profit or loss*:

- Fixed assets
  - Other investments

(iii) *Loans and receivables* are measured on initial recognition at fair value plus any incremental costs incurred. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Profit and Loss Account when loans and receivables are derecognised or impaired, as well as through the amortisation process. The following assets and liabilities are classified as *loans and receivables:*

- Fixed assets:
  - Other investments
- Current assets:
  - Debtors
  - Cash and short-term deposits

(iv) The following liabilities are classified as *financial liabilities:*

- Creditors (amounts falling due within one year)
- Creditors (amounts falling due outwith one year)

Financial instruments (cont'd)

Financial liabilities are recognised at amortised cost using the effective interest method after initial recognition.

The Company has adopted ''trade date'' accounting for purchases or sales of financial assets under a contract whose terms require delivery of the assets within the timeframe established in the marketplace concerned. Accordingly, such financial instruments are recognised on the date the Company commits to the purchase of the investments, and are derecognised on the date it commits to their sale.

Derecognition of financial assets and liabilities

Financial assets

A financial asset or, where applicable, a part of a financial asset, is derecognised when the rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is either discharged, cancelled or expires.

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment in loans and receivables carried at amortised cost has occurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective yield. The carrying amount of the asset would be reduced and the amount of the loss recognised in the Profit and Loss Account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the Profit and Loss Account to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available for sale financial assets

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the Profit and Loss Account, is transferred from reserves to the Profit and Loss Account. Reversals in respect of equity instruments classified as available for sale are not recognised in the Profit and Loss Account. Reversals of impairment losses on debt instruments are taken through the Profit and Loss Account, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the Profit and Loss Account.

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.

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 Company 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 Benefit Trusts ('EBTs')

UITF 38 requires that own shares arising through an EBT be deducted in arriving at shareholders' funds until they vest unconditionally to the employees. Consideration paid and received for the purchase or sale of these shares is included in shareholders' funds and no gain or loss is recognised. Other assets and liabilities of the EBTs are recognised as assets and liabilities of the sponsoring Company.

Ordinary shares of the Company are held by EBTs in order to satisfy a number of F&C Group share-based payment plans and future exercises of options and awards to employees of subsidiary companies. The cost relating to the share-based payment plans is recognised in the subsidiary companies which employ the staff in receipt of awards and the Company recognises any fresh issue of shares or re-issue of own shares when it occurs. These shares are included in the financial statements of the Company as a deduction from shareholders' funds. The Trustees of the EBTs have waived their right to the dividend entitlement on some of these shares.

Provisions

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

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Where the Company has obligations 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 Company operated a pension scheme providing benefits on final pensionable salary. The pension scheme assets were measured using market value. Pension scheme liabilities were measured using the 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 arose when the Company made a commitment to provide a higher level of benefit than previously promised. Past service costs were recognised in the Profit and Loss Account on a straight-line basis over the period in which the increases in benefit vested.

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

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 was determined using the discount rate applied to measure the defined benefit liability. The deferred tax relating to the defined benefit asset or liability was 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's defined benefit pension scheme expected to arise from employee service in the period was charged to operating profit. The expected returns on the scheme assets and the increase during the period in the present value of the scheme liabilities arising from the passage of time were included in other finance income and expenditure respectively. Actuarial gains and losses were recognised directly in reserves.

Related party disclosures

FRS 8, 'Related Party Disclosures' requires disclosure of the details of material transactions between the reporting entity and related parties. The Company has taken advantage of the exemption in FRS 8 not to disclose transactions between F&C Group companies which eliminate on consolidation.

Company Accounting Policies

Foreign currencies

The Company's financial statements are presented in pounds Sterling, the Company's functional and presentation currency.

Transactions in foreign currencies are translated to the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at the balance sheet date, and any exchange differences arising are taken to the Profit and Loss Account.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of transaction and are not subsequently restated. Non-monetary assets and liabilities stated at fair value in a foreign currency are translated at the exchange rate at the date the fair value was determined. When fair value movements in assets and liabilities are reflected in the Profit and Loss Account, the corresponding exchange movements are also recognised in the Profit and Loss Account. Conversely, when fair value movements in assets and liabilities are reflected directly in reserves, the corresponding exchange movements are also recognised directly in reserves, with the exception of available for sale debt instruments, which are reflected in the Profit and Loss Account.

Share capital

When shares are issued, any component that creates a financial liability of the Company is presented as a liability in the Balance Sheet, measured initially at fair value, net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption.

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' funds, net of transaction costs.

Preference share capital

The Company's issued preference share capital is classified as a liability. It is carried at amortised cost in the Balance Sheet. Preference dividends are recognised in the Profit and Loss Account as an interest expense as they accrue.

Ordinary Share capital

When Ordinary Shares are repurchased, the amounts of consideration paid, including directly attributable costs, are recognised in the own share reserve included within retained earnings and are classified as deductions in equity. Dealings in own shares are reflected through equity. Dividends on Ordinary Shares are recognised on the date of payment, or if subject to approval, the date approved by the shareholders. The dividends on certain own shares held by Employee Benefit Trusts are waived by the Trustees.

Cash flow statement

The Company has taken advantage of the exemptions in FRS 1 (revised) 'Cash Flow Statements' and has elected not to prepare its own Cash Flow Statement as it is included within the Consolidated Cash Flow Statement in the Consolidated Financial Statements of F&C Asset Management plc.

Notes to the Company Financial Statements

1. Auditors' remuneration

Amounts received by the Company's auditors in respect of services to the Company have not been disclosed as the information is instead required to be disclosed on a consolidated basis in the Consolidated Financial Statements of the Group.

2. Directors' remuneration

Details of Directors' remuneration are as follows:

	2007 £m	2006 £m
Aggregate emoluments	**2.5**	2.7
Company contributions paid to defined contribution pension scheme	**1.1**	0.7
Aggregate value of gains made by Directors on exercise of share options	**3.2**	0.2

A total of 194,036 options (31 December 2006: 161,870) have been exercised by a former Director during the year, realising a gain of £22,000 (2006: £123,000).

	2007 Number	2006 Number
Members of defined contribution pension scheme	**2**	2
Members of defined benefits pension scheme	**–**	2

Full disclosure of Directors' remuneration is shown on pages 47 to 49.

The Company has no employees (including Directors) under contract of employment, all F&C Group employees being employed by several subsidiary companies.

3. Dividends

Details of dividends are disclosed in note 10 to the Consolidated Financial Statements on page 74.

4. Intangible fixed assets

	Management contracts £m
Cost:	
At 1 January 2006 and 31 December 2006	1.2
Disposal	(1.2)
At 31 December 2007	**–**
Amortisation:	
At 1 January 2006	–
Amortisation for the year	0.1
At 31 December 2006	0.1
Disposal	(0.1)
At 31 December 2007	**–**
Net book value:	
At 31 December 2007	**–**
At 31 December 2006	1.1

The management contract was transferred to a subsidiary company on 1 March 2007.

Notes to the Company Financial Statements

5. Tangible fixed assets

	Leasehold improvements £m	Office furniture and equipment £m	Computer equipment £m	Total £m
Cost:				
At 1 January 2007	3.9	0.6	6.0	10.5
Additions	–	–	0.7	0.7
Disposals	–	–	(0.3)	(0.3)
At 31 December 2007	**3.9**	**0.6**	**6.4**	**10.9**
Depreciation:				
At 1 January 2007	1.2	0.4	4.6	6.2
Depreciation charge for the year	0.4	0.1	0.9	1.4
Disposals	–	–	(0.2)	(0.2)
At 31 December 2007	**1.6**	**0.5**	**5.3**	**7.4**
Net book values:				
At 31 December 2007	**2.3**	**0.1**	**1.1**	**3.5**
At 31 December 2006	2.7	0.2	1.4	4.3

6. Investments in subsidiaries

	£m
Cost:	
At 1 January 2007	1,094.4
Additions	5.7
Additions in respect of share-based payment awards	13.0
Recharge in respect of share-based payment awards	(6.7)
At 31 December 2007	**1,106.4**
Impairment:	
At 1 January 2007	2.3
Impairment losses	0.7
At 31 December 2007	**3.0**
Net book values:	
At 31 December 2007	**1,103.4**
At 31 December 2006	1,092.1

Details of subsidiary undertakings are set out in note 39 to the Consolidated Financial Statements on pages 135 and 136.

Additions represent the issue of £5.7m Ordinary Shares by F&C Investment Business Limited, a subsidiary undertaking.

Included within the above net book value is £50.6m (31 December 2006: £44.3m) in respect of equity-settled share-based payment awards made by subsidiary undertakings.

7. Other investments

The classification of investments at 31 December is as follows:

	Note	31 December 2007 £m	31 December 2006 £m
Available for sale	(a)	**3.4**	1.6
Fair value through profit or loss	(b)	**4.5**	–
		7.9	1.6

(a) Available for sale

	Unquoted £m
At 1 January 2007	1.6
Fair value movement in year	1.8
At 31 December 2007	**3.4**

These investments represent carried interest entitlement in private equity funds.

(b) Fair value through profit or loss

	Purchased Equity Plan £m	NIC Hedge £m	Total £m
At 1 January 2007	–	–	–
Transfer in from a subsidiary undertaking	–	2.8	2.8
Purchased in the year	1.2	0.3	1.5
Fair value movement in year	–	0.2	0.2
At 31 December 2007	**1.2**	**3.3**	**4.5**

The cost of quoted investments as at 31 December 2007 was £2.9m (31 December 2006: £2,000).

The valuation of quoted investments as at 31 December 2007 was £3.1m (31 December 2006: £2,000)

Securities

The fair value of quoted investments is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The fair value of unquoted investments has been valued in accordance with International Private Equity and Venture Capital Valuation Guidelines issued by the British Venture Capital Association and in accordance with the limited partnership agreements where possible.

8. Debtors

	Note	31 December 2007 £m	31 December 2006 £m
Amounts due within one year:			
Trade debtors		**0.7**	1.9
Accrued income		**0.3**	4.9
Amounts owed by subsidiary undertakings		**2.8**	17.5
Amounts owed by parent undertaking		**2.4**	–
Loan to subsidiary undertaking		**139.9**	210.0
Prepayments		**1.7**	2.9
VAT recoverable		**0.2**	0.3
Group relief receivable		**1.0**	–
Other debtors		**3.8**	1.8
		152.8	239.3
Amounts due outwith one year:			
Loan to subsidiary undertaking		**60.0**	–
Loan to investee company		**–**	2.5
Other debtors		**0.5**	–
Deferred tax	12	**1.4**	0.7
		61.9	3.2

The loan to the subsidiary undertaking bears interest at 3 month LIBOR minus 0.25% and is to F&C Treasury Limited.
The Company will give written notice of a minimum of one year to seek repayment of £60m. The £139.9m is repayable on demand.

In December 2007 the Company ceased to be an investor in ISIS EP LLP and received repayment of £1.0m of the £2.5m previously invested in this entity. The balance of £1.5m is included in other debtors at 31 December 2007; £1.0m is due to be received in 2008 and the remaining £0.5m in 2009.

9. Creditors

	Note	31 December 2007 £m	31 December 2006 £m
Amounts due within one year:			
Trade creditors		**0.1**	2.1
Bank overdrafts		**–**	0.3
Accruals		**3.3**	4.6
Corporation tax payable		**–**	1.2
Amounts owed to subsidiary undertakings		**3.0**	7.4
Other creditors		**4.1**	4.8
Loan from subsidiary undertaking	11	**2.1**	2.1
		12.6	22.5
Amounts due outwith one year:			
Preference share capital		**0.8**	0.8
Fixed/Floating Rate Subordinated Notes 2026	11	**257.9**	257.7
		258.7	258.5

Other creditors at 31 December 2007 includes £2.9m (31 December 2006: £2.9m) of estimated further consideration payable in respect of the acquisition of F&C Group (Holdings) Limited on 11 October 2004.

10. Provisions for liabilities

	Investment Trust VAT £m	Onerous premises contracts £m	Deferred tax £m	Total £m
At 1 January 2006	–	2.2	0.6	2.8
Lease obligation transferred from subsidiary undertaking	–	3.5	–	3.5
Provided during the year	–	0.4	–	0.4
Utilised during the year	–	(0.7)	(0.2)	(0.9)
At 31 December 2006	–	5.4	0.4	5.8
Provided during the year	1.4	0.3	0.7	2.4
Utilised during the year	–	(2.5)	(0.2)	(2.7)
At 31 December 2007	**1.4**	**3.2**	**0.9**	**5.5**

Onerous contracts

The Company holds all properties under operating leases. This includes a number of vacant or sub-let properties which were either previously occupied by the Company or are partially occupied by the Company. Provision has been made for the residual lease commitments where significant, after taking into account existing and expected sub-tenant contractual arrangements. The remaining terms are for up to 13 years. Assumptions have been made as to whether each leasehold property may be sub-let or assigned in the future. All leases and sub-leases are for minimum guaranteed rentals. The provision is subject to uncertainties over time including market rent reviews and break-options within the lease arrangements.

Investment Trust VAT

HM Revenue and Customs (HMRC) decided on 5 November 2007 not to contest the European Court of Justice ruling regarding the JP Morgan Claverhouse Investment Trust/Association of Investment Companies (Claverhouse) case that management services to UK Investment Trust Companies (ITCs) should be exempt from VAT. In common with other asset managers in the UK, the Company now faces claims from ITCs for the repayment of VAT charged to them for periods dating back to 1990.

While the Company charged VAT in accordance with applicable UK law at the time, a provision has been recognised to the extent that the expected payments to be made to ITCs are greater than the expected amount recoverable from HMRC. The provision of £1.4m represents the estimate of the net cost to the Company.

10. Provisions for liabilities (cont'd)

Significant uncertainty remains as to the final quantification of amounts recoverable from HMRC and the actual quantum payable to ITCs for this period. In addition, uncertainty exists as to the repayment methodology to be applied by HMRC as well as the timing of any repayments both from HMRC and to the Company's former investment trust clients.

Deferred tax

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 deferred tax provision relates to the revaluation of available for sale assets and is recognised as a separate component of reserves.

Deferred taxation is disclosed in note 12.

11. Loans

	31 December 2007 £m	31 December 2006 £m
Amounts repayable:		
£260.0m Fixed/Floating Rate Subordinated Notes 2026 (i)	**257.9**	257.7
US $4.0m loan; wholly repayable on demand (ii)	**2.1**	2.1
	260.0	259.8

(i) The £260.0m Fixed/Floating Rate Subordinated Notes 2026 bear interest at 6.75% per annum for the period 20 December 2006 – 19 December 2016, payable annually in arrears and at 2.69% above 3 month LIBOR for the period 20 December 2016 – 20 December 2026, payable quarterly in arrears. The Company has the option to extend the notes beyond 20 December 2016.

(ii) The US $4.0m loan is due to Friends Ivory & Sime North America Inc, an overseas subsidiary. The loan may be repaid by the Company by giving ten banking days' notice in writing to Friends Ivory & Sime North America Inc.

	Note	31 December 2007 £m	31 December 2006 £m
Amounts repayable:			
In one year or less, or on demand	9	**2.1**	2.1
In more than one year but not more than two years		**–**	–
In more than two years but not more than five years		**–**	–
In more than five years	9	**257.9**	257.7
		260.0	259.8

12. Deferred taxation

	2007 £m	2006 £m
At 1 January	**0.3**	(0.2)
Adjustments in respect of previous periods	**0.4**	0.1
Provided during the year	**(0.2)**	0.4
At 31 December	**0.5**	0.3

	Note	31 December 2007 £m	31 December 2006 £m
Deferred taxation provided in the accounts is as follows:			
Revaluation of available for sale assets		**(0.9)**	(0.4)
Depreciation in advance of capital allowances		**0.7**	0.3
Other timing differences		**0.7**	0.4
		0.5	0.3
Disclosed in the accounts as follows:			
Debtors	8	**1.4**	0.7
Provision for liabilities	10	**(0.9)**	(0.4)
Net deferred tax asset		**0.5**	0.3

13. Pension commitments

The ISIS Asset Management plc Pension Fund ('ISIS Fund')

Until 31 March 2007, the Company operated a defined benefit pension scheme ("The ISIS Asset Management plc Pension Fund") in the UK, which provided benefits based on final pensionable salary.

The sponsoring company and principal employer for the scheme changed on 31 March 2007. Consequently the pension obligation was transferred to F&C Asset Management Services Limited on that date and F&C Asset Management plc ceased to incur a direct charge in respect of the scheme. The scheme was closed to new entrants from 31 December 1995. The assets of the scheme were held independently from those of the Company but are managed by F&C. 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 2005.

The results of the full actuarial valuation carried out at 31 March 2005 were updated to 31 March 2007 by a qualified independent actuary for the purposes of FRS17 "Retirement Benefits".

Date of last actuarial valuation	31 March 2005
Scheme actuary	Mercer Limited
Method of valuation	Projected Unit
Market value of assets at last valuation date	£33,550,000
Level of funding	80%

A contribution schedule was agreed by the Company and Trustees in May 2006. The Company agreed to pay contributions of a minimum of 25% of basic salaries until April 2011. Employee contributions were introduced with effect from April 2004 and these are payable in addition to the Company contributions. Contributions are subject to review at future actuarial valuations. During 2007 the Company paid contributions of £100,000 per month until 31 March 2007.

The F&C Management Pension Fund merged with The ISIS Asset Management plc Pension Fund on 31 March 2007. The merged scheme was renamed the F&C Asset Management Pension Plan (FCAM Plan). On the same date all UK employment contracts were transferred into F&C Asset Management Services Limited. F&C Asset Management Services Limited, being the principal employing company in respect of this scheme, has agreed to assume all historic assets and liabilities and future obligations of the merged schemes in exchange for a payment based on the economic liability assumed at the date of the merger. This transfer was effective from 31 March 2007.

The Company was considered to be the sponsor of the scheme as it was the principal employing company in respect of this scheme. While the Company itself had no employees, there were a significant number of deferred pensioners in the scheme.

The scheme's assets, which are managed by F&C, are held under the control of the Trustees and used to secure benefits for the members of the scheme and their dependants in accordance with the Trust Deed and Rules.

The appointment of Trustees is determined by the plan's trust documentation. Until 31 March 2007 the Trustee board consisted of 3 employer-appointed Trustees and 2 member-selected Trustees.

The FCAM Plan assets are held in a separate Trustee-administered fund to meet long-term pension liabilities to past and present employees. The Trustees of the plan are required to act in the best interests of the plan's beneficiaries.

The major assumptions used by the actuaries for the purposes of FRS 17 were:

	31 December 2007	31 December 2006	31 December 2005
Rate of increase in salaries	N/A	4.25%	4.00%
Rate of increase of pensions in payment (range)	N/A	3.00% – 3.50%	2.75% – 3.50%
Discount rate	N/A	5.00%	4.70%
Inflation assumption	N/A	3.00%	2.75%

13. Pension commitments (cont'd)

The assets in the scheme and the expected rates of return used on the scheme are:

(i) Expected long-term rates of return

	31 December 2007	31 December 2006	31 December 2005
Equities	N/A	7.00%	7.00%
Gilts	N/A	5.00%	5.00%
Corporate bonds	N/A	5.00%	4.70%
Cash	N/A	4.50%	4.00%

(ii) Value of assets in the scheme

	31 December 2007 £m	31 December 2006 £m	31 December 2005 £m
Equities	–	34.2	30.8
Gilts	–	6.5	6.0
Corporate bonds	–	3.3	2.3
Cash	–	1.0	0.7
Total market value of scheme assets	–	45.0	39.8
Actuarial value of scheme liabilities	–	(63.3)	(62.2)
Deficit in the scheme	–	(18.3)	(22.4)
Deferred tax asset on deficit	–	5.5	6.7
Net pension deficit	–	(12.8)	(15.7)

(iii) Analysis of amount recognised in reserves

		2007 £m	%	2006 £m	%
Actual return less expected return on assets	(a)	(1.1)	(2)	1.2	3
Experience gains and losses on liabilities	(b)	(0.1)	–	(0.7)	(1)
Changes in assumptions		3.3		2.5	
Actuarial gain recognised in reserves	(b)	2.1	4	3.0	5

The amounts shown for 2007 represent movements in the period to 31 March 2007, being the date of the pension scheme merger.

The percentages shown for each year are calculated as follows:

(a) Percentage of the scheme assets at 31 March 2007 (31 December 2006).

(b) Percentage of the present value of the scheme liabilities at 31 March 2007 (31 December 2006).

Notes to the Company Financial Statements

13. Pension commitments (cont'd)

(iv) Movement in deficit during the year

	2007 £m	2006 £m
Deficit in scheme at 1 January	**(18.3)**	(22.4)
Movements in year:		
Current service costs	**(0.2)**	(0.9)
Past service costs	**–**	(0.1)
Contributions	**4.4**	2.3
Expected return on pension scheme assets	**0.7**	2.7
Interest on pension liabilities	**(0.8)**	(2.9)
Transferred to subsidiary undertaking	**12.1**	–
Actuarial gain recognised in reserves	**2.1**	3.0
Deficit in scheme at 31 December	**–**	(18.3)

(v) History of experience gains and losses

	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:					
amount (£m)	**(1.1)**	1.2	3.6	0.3	2.2
percentage of scheme assets	**(2%)**	3%	9%	1%	7%
Experience gains and losses on scheme liabilities:					
amount (£m)	**(0.1)**	(0.7)	(1.8)	0.2	–
percentage of the present value of the scheme liabilities	**–%**	(1%)	(3%)	1%	–%
Total amount recognised in reserves:					
amount (£m)	**2.1**	3.0	(12.9)	(1.7)	0.8
percentage of the present value of the scheme liabilities	**4%**	5%	(21%)	(4%)	2%

14. Ordinary share capital

(a) Ordinary share capital of 0.1p

	31 December 2007		31 December 2006	
	Number of shares	£m	Number of shares	£m
Authorised:				
Equity interests				
Ordinary Shares of 0.1p	**800,000,000**	**0.8**	800,000,000	0.8
Allotted, called up and fully paid:				
Equity interests				
Ordinary Shares of 0.1p	**495,705,530**	**0.5**	484,775,590	0.5

	No. of Ordinary Shares 2007	2006
Issued at 1 January	**484,775,590**	483,434,237
Issue of shares at par to settle share-based payment awards	**10,162,887**	–
Share options exercised during the year	**767,053**	1,341,353
Issued at 31 December	**495,705,530**	484,775,590

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Details of share options exercised during the year are disclosed in note 31 to the Consolidated Financial Statements on page 117.

The consideration received in respect of the Ordinary Share capital issued during the year ended 31 December 2007 was £1.2m (year ended 31 December 2006: £1.9m).

14. Ordinary share capital (cont'd)

The Group operates several share-based payment schemes which have a contingent right to the allotment of shares in the Company.

At 31 December 2007 the contingent right to the allotment of shares was as follows:

Scheme	No. of awards outstanding	Exercise price (p)	Exercisable/vested
2002 Executive Share Option Scheme	500,692	139.00	1 January 2008 – 19 March 2013
2002 Executive Share Option Scheme	727,535	240.83	1 January 2008 – 9 March 2014
2002 Share Save Scheme	256,474	114.00	9 May 2008 – 9 November 2008
2002 Share Save Scheme	108,287	181.00	1 January 2008 – 19 October 2009
2002 Share Save Scheme	319,514	186.60	29 April 2008 – 29 October 2010
2002 Share Save Scheme	355,083	171.00	18 April 2009 – 18 October 2011
2002 Share Save Scheme	618,609	144.30	25 April 2010 – 25 October 2012
Long-Term Remuneration Plan (restricted)	852,656	0.00	17 May 2009 – 16 March 2010
Long-Term Remuneration Plan (deferred)	8,614,024	0.00	17 May 2009 – 16 April 2010
Purchased Equity Plan (F&C Shares)	2,471,588	0.00	24 March 2008 – 13 April 2010
Purchased Equity Plan (F&C Funds)	597,294	0.00	13 April 2010 – 13 April 2011
Deferred Share Award	1,251,377	0.00	22 November 2008 – 9 August 2009
Executive Directors Remuneration Plan	5,504,574	0.00	10 May 2010 – 10 November 2010
1995 Executive Share Option Scheme	321,490	203.83	1 January 2008 – 9 June 2008
1995 Executive Share Option Scheme	340,158	232.50	1 January 2008 – 16 July 2009
1995 Executive Share Option Scheme	323,659	214.00	1 January 2008 – 28 April 2010
1995 Executive Share Option Scheme	18,740	320.17	1 January 2008 – 20 October 2010
1995 Executive Share Option Scheme	329,000	455.83	1 January 2008 – 1 March 2011
	23,510,754		

The following shares are held in Employee Benefit Trusts (EBTs). These are categorised as own shares, and deducted from shareholders' funds:

	31 December 2007 Number	31 December 2006 Number
The Ivory & Sime Employee Benefit Trust	**562,857**	665,111
F&C Management Limited Employee Benefit Trust	**1,512,449**	–
ISIS Employee Benefit Trust	**1,357,922**	1,467,551
	3,433,228	2,132,662

The Company assumed responsibility as the sponsoring company for F&C Management Limited Employee Benefit Trust during 2007.

The aggregate nominal value of own shares held by EBTs at 31 December 2007 was £3,000 (31 December 2006: £2,000). The market value of these shares at 31 December 2007 was £6.6m (31 December 2006: £4.5m).

During the year, the Company purchased 1,279,618 of its own Ordinary Shares (2006: 60,629) of 0.1p to satisfy the exercises of awards granted under the share save scheme in respect of 'good leavers'. The consideration paid for the shares was £2.4m (2006: £0.1m). The cost of this to the Company, after exercise price monies paid by the employees, was £2.2m (2006: credit of £0.3m).

(b) Cumulative Preference Shares of £1 each

Details of Cumulative Preference Shares are disclosed in note 31 to the Consolidated Financial Statements on page 118.

Notes to the Company Financial Statements

15. Reserves

Reconciliation of movement in reserves

	Ordinary share capital £m	Share premium account £m	Merger reserve £m	Fair value reserve(1) £m	Special distri-butable reserve(1) £m	Capital contribution reserve(1) £m	Profit and loss account £m	Total share-holders' funds £m
Balance at 1 January 2006	0.5	30.7	912.7	1.4	50.2	28.6	15.0	1,039.1
Share capital allotted on exercise of options	–	1.9	–	–	–	–	–	1.9
Settlement proceeds received on exercise of share options	–	–	–	–	–	–	0.3	0.3
Actuarial gain, net of deferred tax	–	–	–	–	–	–	2.1	2.1
Retained loss for the year	–	–	–	(0.3)	–	–	(16.7)	(17.0)
Transfer from special distributable reserve in relation to dividends	–	–	–	–	(50.2)	–	50.2	–
Equity settled share-based payment grants	–	–	–	–	–	15.7	–	15.7
Balance at 31 December 2006	0.5	32.6	912.7	1.1	–	44.3	50.9	1,042.1
Share capital allotted on exercise of options	–	1.2	–	–	–	–	–	1.2
Purchase of own shares	–	–	–	–	–	–	(2.4)	(2.4)
Settlement proceeds received on exercise of share options	–	–	–	–	–	–	0.2	0.2
Actuarial gain, net of deferred tax	–	–	–	–	–	–	1.5	1.5
Retained loss for the year	–	–	–	–	–	–	(1.8)	(1.8)
Fair value gain	–	–	–	1.8	–	–	–	1.8
Corporation tax rate change	–	–	–	0.1	–	–	–	0.1
Tax on fair value gain	–	–	–	(0.5)	–	–	–	(0.5)
Equity settled share-based payment grants	–	–	–	–	–	13.0	–	13.0
Transfer of employee benefit trust own shares from subsidiary undertaking	–	–	–	–	–	–	(0.7)	(0.7)
Balance at 31 December 2007	**0.5**	**33.8**	**912.7**	**2.5**	**–**	**57.3**	**47.7**	**1,054.5**

(1) The Fair value reserve, Special distributable reserve and Capital contribution reserve constitute 'Other reserves' as disclosed in the Balance Sheet and amount to £59.8m at 31 December 2007 (31 December 2006: £45.4m).

The profit after tax of the Company for the year, before dividends, was £41.7m (2006: £36.0m).

16. Financial commitments

The Company had the following annual commitments in respect of non-cancellable operating leases and other contracts:

	Premises		Other contracts	
	31 December 2007 £m	31 December 2006 £m	**31 December 2007 £m**	31 December 2006 £m
Commitments expiring within one year	**–**	–	**–**	–
Commitments expiring within two to five years	**–**	–	**0.1**	0.1
Commitments expiring outwith five years	**4.6**	4.7	**–**	–
	4.6	4.7	**0.1**	0.1

The premises financial commitments disclosed above do not include any sub-leasing arrangements which the Company may have in place. The amounts shown reflect gross commitments at the balance sheet dates.

17. Capital commitments

The amounts contracted for in terms of capital expenditure, but not provided for in the financial statements at 31 December 2007, amount to £nil (31 December 2006: £0.3m).

18. Subsidiary Undertakings

Details of the principal subsidiary undertakings are disclosed in note 39 to the Consolidated Financial Statements on pages 135 and 136.

19. Contingencies

Contingent asset:

On disposal of the Company's investment in ISIS EP LLP, the Company has potential entitlement to contingent distributions from this former investment. Details of this contingent asset are given in note 15 to the Consolidated Financial Statements.

Contingent liabilities:

In the normal course of its business, the Company is subject to matters of litigation or dispute. While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Company.

20. Post Balance Sheet events

On 31 January 2008, Friends Provident plc, the Company's 52 per cent majority shareholder, announced the results of its strategic review. Among the conclusions announced by Friends Provident was that wealth management was no longer core to its strategy and as a result it may seek to divest of its shareholding in F&C. The F&C Board is working with Friends Provident to find a solution which will meet the needs of all parties.

The Directors do not believe this announcement has any material financial impact on the financial position of the Company at 31 December 2007, as reported herein. Whilst no certainty exists as to the potential outcome, it is possible that a course of action could trigger change of control clauses which exist within a number of the contractual arrangements of the Company and its subsidiaries.

21. Parent undertaking and controlling party

The smallest group of which the Company is a member and for which Consolidated Financial Statements are prepared is F&C Asset Management plc.

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.

Notice of Annual General Meeting

Notice is hereby given that the twenty-eigth Annual General Meeting of F&C Asset Management plc will be held at Butchers Hall, 87 Bartholomew Close, London EC1 on Tuesday 13 May 2008 at 12 noon (UK time) for the following purposes:

Ordinary Business

To be proposed as ordinary resolutions:

1. To receive the Financial Statements and the Reports of the Directors and the Independent Auditors for the year ended 31 December 2007.

2. To declare a final dividend of 4.0 pence per share on the ordinary shares of the Company.

3. Elect Nick MacAndrew, who retires at the first Annual General Meeting following his appointment, as a Director.

4. Elect Gerhard Roggemann, who retires at the first Annual General Meeting following his appointment, as a Director.

5. Elect Sir Adrian Montague, who retires at the first Annual General Meeting following his appointment, as a Director.

6. Re-elect Keith Bedell-Pearce, who retires by rotation, as a Director.

7. Re-elect Dick de Beus, who retires by rotation, as a Director.

8. Re-elect Jeff Medlock, who retires by rotation, as a Director.

9. To approve the Directors' Remuneration Report for the year ended 31 December 2007.

10. Appoint KPMG Audit Plc as auditors to the Company to hold office until the conclusion of the next General Meeting at which Financial Statements are laid before the Company and to authorise the Directors to determine their remuneration.

Special Business

To be proposed as ordinary resolutions:

11. 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 the earlier of (i) the conclusion of the Annual General Meeting of the Company to be held in 2009 or (ii) Friends Provident's interest in the ordinary shares of the Company falling below 30 per cent.

12. 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 £164,074.92 such authority to expire on the conclusion of the Annual General Meeting of the Company to be held in 2009, 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.

13. THAT the proposed amendments to the rules of The F&C Asset Management plc Long Term Remuneration Plan summarised in the appendix to this notice be and are hereby approved and the Directors be and are hereby authorised to do all such things as may be necessary to carry the same into effect.

To be proposed as special resolutions:

14. That the Articles of Association be amended by making the alterations marked on the print of the Articles of Association produced to the meeting marked "A" and initialled by the chairman of the meeting for the purpose of identification.

15. That, with effect from 1 October 2008 or such later date as section 175 of the Companies Act 2006 shall be brought into force, the Articles of Association be amended by making the alterations relating to Directors' interests marked on the print of the Articles of Association produced to the meeting marked "B" and initialled by the chairman of the meeting for the purpose of identification.

16. 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 12 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 £164,074.92, such power to expire on the conclusion of the Annual General Meeting of the Company to be held in 2009, 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 11 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) in order to satisfy options or awards under any share scheme for employees or share incentive plan approved by the Company in general meeting;

(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

Notice of Annual General Meeting

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 £24,785.28;

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.

17. 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 49,227,399 (being approximately 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 20 March 2008);

(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 the date falling 15 months after the date of the passing of this resolution and the conclusion of the Annual General Meeting of the Company to be held in 2009, 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

20 March 2008

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 speak and vote on his/her behalf. A member may appoint more than one proxy provided that each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. 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 signed and sent or delivered, 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, in accordance with the instructions contained therein, so as to reach the Company's registrars, at the address stated thereon, not later than 12 noon (UK time) on 11 May 2008.

(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 38.

(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) 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 p.m. (UK time) on 11 May 2008 or, in the event that the meeting is adjourned, on the register of members at 6 p.m. (UK time) on the day falling two days before the date 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 p.m. (UK time) on 11 May 2008 or, on the event that the meeting is adjourned, on the register of members at 6 p.m. (UK time) on the day falling two days before the date 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.

(vi) If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint a proxy. See note (vii) below.

(vii) If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights:

- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (Relevant Member) to be appointed or to have someone else appointed as a proxy for the meeting.
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.

(viii) In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting instructions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

(ix) As at 20 March 2008 (being the latest practicable date prior to publication of this notice) the Company's issued share capital consisted of 492,273,990 ordinary shares of 0.1 pence each, carrying one vote each and 800,000 cumulative preference shares of £1 each, carrying no right to attend or vote at the meeting which is the subject of this notice. Therefore, total voting rights in the Company as at 20 March 2008 are 492,273,990.

(x) Copies of the following documents will be made available for inspection at the registered office of the Company and at the Company's head office during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) from the date of this notice until the close of the meeting, and at the place of the meeting from 15 minutes prior to and during the continuance of the meeting:

(a) the amended rules of the F&C Asset Management plc Long Term Remuneration Plan;

(b) the articles of association of the Company marked "A";

c) the articles of association of the Company marked "B"; and

(d) the executive Directors' service contracts and non-executive Directors' letters of appointment.

APPENDIX

Summary of the proposed amendments to The F&C Asset Management plc Long Term Remuneration Plan

1. Introduction

Under the rules of the LTRP, the Board can grant two different forms of awards, namely:

(i) awards that are subject to performance targets which must be satisfied if they are to vest ("Performance Awards"); and

(ii) awards that are not subject to such performance targets ("Deferred Awards").

Under the rules of the LTRP, no Deferred Awards can be granted to F&C's executive directors.

2. Current LTRP provisions relating to cessation of a participant's employment

Currently, the provisions of the LTRP relating to the cessation of a participant's employment with the F&C Group can be summarised as follows:

(i) If a participant leaves the F&C Group's employment for any reason (other than as specified below) prior to the vesting of any award (which will normally take place on the third anniversary of grant) then his awards will lapse immediately.

(ii) If, prior to vesting, the participant dies or ceases employment by reason of injury, ill-health or disability then his awards will vest immediately (provided that, in the case of a Performance Award, such vesting will only occur if, and to the extent that, the applicable performance targets have been satisfied at that time).

(iii) If, prior to vesting, the participant ceases employment by reason of redundancy, retirement at normal retirement age or because the participant's employing company or part of the business in which he is employed is transferred out of the F&C Group, or any other reason at the discretion of the Board, then his awards will continue to vest on the third anniversary of grant. In the case of a Performance Award, such vesting will only occur if, and to the extent that, the applicable performance conditions have been satisfied. In addition, the amount of an award which vests in these circumstances will normally be reduced in line with the proportion of the vesting period that had elapsed at the time the participant ceased to be employed by the F&C Group.

3. Proposed amendments to provisions relating to cessation of a participant's employment

The provisions summarised at paragraph 2 above will be amended so as to provide that if, prior to vesting, a participant ceases employment with the F&C Group:

(i) by reason of redundancy; or

(ii) in any other circumstance which the Board considers makes it appropriate for the following provisions to be applied,

then any Deferred Awards subject to these amended provisions (see below) which are held by that participant will vest immediately in full and the Ordinary Shares to which he becomes entitled as a result of such vesting will be released to him as soon as reasonably practicable thereafter. For the avoidance of doubt, any Performance Awards held by a participant who ceases employment in the above circumstances will continue to vest on the third anniversary of grant (if and to the extent that the applicable performance targets have been satisfied) and will normally be reduced to reflect the fact that the individual ceased employment during the vesting period.

For the avoidance of doubt, no other amendments will be made to the provisions summarised at paragraph 2 above.

4. Application of proposed amendments

The amendments summarised at paragraph 3 above will apply to all Deferred Awards granted on or prior to 31 December 2008. Deferred Awards granted after 31 December 2008 will normally be subject to the provisions summarised at paragraph 2 above. The Board will, however, have the discretion to specify (at the date of grant) that a Deferred Award granted after 31 December 2008 will instead be subject to the amended provisions described at paragraph 3.

Defined terms

In this appendix, the following words and expressions bear the following meanings unless the context requires otherwise:

"Board" the board of directors of F&C, or a duly authorised committee thereof;

"F&C" F&C Asset Management plc;

"F&C Group" the group of companies of which F&C is the holding company;

"LTRP" The F&C Asset Management plc Long Term Remuneration Plan; and

"Ordinary Shares" ordinary shares of 0.1p each in the capital of F&C.

Corporate Information

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Dick de Beus, Non-executive‡

Keith Bedell-Pearce, Senior Independent Non-executive*†

John Heywood, Non-executive*†

Brian Larcombe, Non-executive*†‡

David Logan, Chief Financial Officer

Nick MacAndrew, Non-executive†

Jeff Medlock, Non-executive

Sir Adrian Montague, Non-executive‡

Gerhard Roggemann, Non-executive

Jim Smart, Non-executive

*Member of Remuneration Committee
†Member of Audit & Compliance Committee
‡Member of Nomination Committee

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