Annual Report & Financial Statements 2006

F&C Asset Management plc

Investments

Expect excellence

Contents

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

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.

Key Highlights of 2006

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

Net revenue†

2006	£248.2m
2005	£267.2m

Basic loss per ordinary share

2006	(4.9)p
2005	(16.4)p

Loss before tax

2006	£(30.6)m
2005	£(106.3)m

Underlying earnings per ordinary share*

2006	12.8p
2005	15.9p

Underlying profit before taxation*‡

2006	£88.7m
2005	£107.8m

Interim dividend

2006	4.0p
2005	4.0p

Operating margin*

2006	36.5%
2005	44.1%

Proposed final dividend

2006	7.0p
2005	7.0p

Assets under management

31 December 2006	£104.1bn
31 December 2005	£131.0bn

Total dividends per ordinary share

2006	11.0p
2005	11.0p

* before amortisation and impairment of intangibles, BCP compensation receipt, restructuring costs and the cost of the Re-Investment Plan.
† excluding BCP compensation receipt.
‡ excluding minority interest.

2007 . . . the year of delivery

- Launch of a Liability Driven Investment (LDI) pooled solution
- Strengthening of our alternative investments propositions
- Launch of Collateralised Debt Obligations (CDO) platform
- Further development of our Private Equity Fund of Fund business
- Leverage our Global Tactical Asset Allocation (GTAA) skills with new products
- Development of our real estate activities
- Further expansion of our multi-manager capabilities, products and distribution
- Enhance cross-selling of products and skills into different markets

Chairman's Statement

Results

For the year 2006, the Company recorded underlying earnings per share of 12.8 pence. This compares with 15.9 pence per share achieved in 2005. The decline of approximately 3.0 pence per share is broadly equivalent to the impact of the loss of Resolution Life assets as forecast and described in these pages last year. Despite this reduction, the Company continued to operate at the higher end of industry margins. The basic loss for the year reduced from 16.4 pence in 2005 to 4.9 pence in 2006.

Net outflows were not, however, limited to those of Resolution Life. Outflows in our institutional client base more than offset the considerable institutional inflows and record net retail sales. These developments have been announced throughout the year and are detailed in the reports which follow.

Outlook and strategy

In light of the above and against a backdrop of accelerating change within the industry, the Board reassessed the three year outlook and the appropriate strategy for the Company. We remain committed to our model of a well diversified business with a pan-European focus. Execution of this strategy will, however, both require and warrant, accelerated investment in people, infrastructure, specialist product capability and distribution. The Board has therefore decided on an increase in investment expenditure to better position the Company for future growth. This will depress reported earnings in the short term but, we believe, create greater shareholder value in the medium term. Both Alain Grisay's Chief Executive's Report and the Business Review elaborate on specific goals and initiatives, some of which are well underway.

Dividend and dividend policy

For 2006, the Board has decided to maintain its recent dividend level. We have therefore recommended an unchanged final dividend of 7.0 pence, payable on 17 May 2007 to shareholders on the register at 13 April 2007.

Looking forward, and consistent with the above outlook and strategy, we have reviewed our dividend policy and will rebase this in 2007 to achieve cover of at least 1.5 times earnings. Thereafter it is our intention to pursue a policy of progressive dividend growth.

Board changes

The year began with the appointment of a new Chief Executive, Alain Grisay. In his first twelve months at the helm, Alain has streamlined management, placed investment performance at centre stage, and raised the bar across the Company. In short, Alain has been putting in place the building blocks for a return to growth. The Board's decision on strategy represents its confidence in Alain's ability to deliver.

In addition to the appointment of a new Chief Executive, the Company also recruited a new Chief Financial Officer, David Logan. David was previously a partner in the asset management practice of Deloitte. David joined the Board as an Executive Director in July 2006.

As previously announced, Howard Carter and Ian Paterson Brown, Chief Executive and Chief Financial Officer respectively, retired from the Board in May 2006. Additionally, Karen McPherson, an independent Non-executive Director and Chair of the Remuneration Committee, retired from the Board in the fourth quarter.

In July, the Board approved a detailed succession plan for Non-executives. The following changes reflect the implementation of that plan:

Keith Satchell, a Non-independent, Non-executive Director retired from the Board of F&C upon his retirement from Friends Provident.

Jim Smart, Group Finance Director of Friends Provident, joined the Board of F&C in January 2007 as a Non-independent, Non-executive Director.

Christopher Jemmett, Senior Independent Director, Deputy Chairman and Chairman of the Audit & Compliance Committee, reached the normal retirement age of 70 in 2006 and will therefore retire from the Board at the forthcoming Annual General Meeting.

David Gray, Independent Director and member of the Audit & Compliance and Nomination Committees, has served the Company for almost eight years and will retire from the Board at the forthcoming Annual General Meeting.

Nicholas MacAndrew will, on conclusion of the forthcoming Annual General Meeting, join the Board as an Independent Non-executive Director and become a member of the Audit & Compliance Committee. Nick has both a finance and asset management background. He currently serves on a number of boards and is Chairman of Save the Children.

We would like to thank all retiring Directors for their support and dedication over the years and extend a warm welcome to the Board to David, Jim and Nick.

Summary

We recorded major net outflows during the calendar year; despite this, the Company maintained an operating margin at the higher end of industry standards. Looking forward, and in order to better meet competitive challenges and more confidently exploit growth opportunities, we have decided to spend more in the short term to make more in the medium term. The new executive team now in place is already well advanced in the necessary initiatives.

On behalf of the Board, I would like to thank our employees for their tremendous effort over the last year and our shareholders for their support and confidence in the Company and its future.

Robert Jenkins
Chairman
15 March 2007

Chief Executive's Report

In last year's report, having just been appointed as Chief Executive, I set out our view that asset management is a service industry and therefore our business philosophy should be to seek to excel in everything that our clients expect from us.

I am pleased to report that over the last year this straightforward view has been embedded as the cornerstone of our corporate culture through our "Performance First" initiative. This entailed defining first quartile standards for all areas of activity and setting measurable objectives at both the department and the individual level. A winning organisational culture is the prerequisite to the successful implementation of strategy.

It is particularly pleasing to note the transformational impact of Performance First across many areas of the business. Importantly this focus on service has received external validation from clients. For example, we were awarded the following accolades for excellence in service:

- 2006 Gold Standard Award for Fund Management (Incisivemedia, UK)
- 2006 Four Star Award for Good Service (Financial Adviser, UK)
- 2006 Best Investment Trust Group (Professional Adviser, UK)
- 2006 Best Sales Support Award (Funds & Finance, Germany)

Critically, portfolio performance has improved across key asset classes and this is reflected in our decision to broadly retain the size of our bonus pool, despite a reduction in revenues, to ensure we incentivise, retain and attract talent. In our UK retail business 64 per cent of our actively managed open-ended funds beat their sector medians over the year and 37 per cent delivered first quartile performance. Fourteen of our funds have gained Standard & Poors Fund Research ratings and seven F&C managers achieved coveted Citywire ratings during 2006; more than we have ever had. Institutional performance has also improved with 53 per cent of accounts, representing 70 per cent of institutional assets, meeting or beating client objectives during 2006 compared to 46 per cent over three years.

The core of our business structure remains the development of a "multi-boutique" model. In essence this involves establishing a portfolio of centres of excellence where investment teams have a high degree of ownership and accountability over their processes and products, while the business provides them with a shared support platform to leverage our scale as a large asset manager. These teams are rewarded on the basis of their investment success. Further references to this model are made in the Business Review.

During the year, we upgraded and added significantly to our human capital. Market recognition coupled with strong performance brought immediate improvements in our retail open ended fund sales which saw a 98 per cent net increase on the previous year. The improvement in performance lays important foundations for organic growth in our institutional business, where significant inflows in our traditional asset classes will require sustained strong track records. Newer product areas, however, such as Liability Driven Investments, are already achieving consultant recognition.

Our support areas have also been strengthened, enabling the timely delivery of critical projects in Finance and IT.

In addition to the focus on investment performance and client servicing, the successful placement of an innovative £260 million subordinated debt has enabled the Company to refinance existing facilities while considerably strengthening its balance sheet. More detail is provided in the Business Review commencing on page 4.

Going forward, we will continue to focus on performance as the key foundation to generate shareholder value, and, to capitalise on our improving performance, we will strengthen our distribution capabilities.

As previously disclosed, over the course of 2006 we experienced significant outflows from the merger of Resolution Life Group Limited and Britannic Group plc in 2005 which resulted in the termination of our contract with Resolution. We suffered further losses as a result of poor investment performance in previous years and because of a trend in The Netherlands for pension funds to move from balanced to specialist mandates, irrespective of performance. We expect our 2007 earnings to be depressed by the full impact of these developments.

Our remaining maximum exposure to Dutch balanced mandates that are not under long term contracts is only 7 per cent of our total assets under management (excluding notified future withdrawals) and we have no reason to believe that this entire book of business is at risk. We continue to work closely with our Dutch balanced clients to ensure the delivery of good performance and client servicing.

Importantly, the rebuilding of performance is the first step towards the generation of new business. We also believe that trends in the industry provide us with opportunities to win new specialist mandates and we will therefore continue to target business and develop products in higher fee and specialist areas.

With the merger integration firmly behind us, the Board reviewed the Company's 2006 achievements and management's three year plans in January 2007 and, based on this review, has endorsed a strategy of accelerated investment in people and infrastructure to support the delivery of enhanced investment performance and a number of new product initiatives. These initiatives have the potential to generate significant organic growth and new, diverse revenue streams.

For example, during 2007 the accelerated growth plan includes:

- Launch of a Liability Driven Investment (LDI) pooled solution
- Strengthening of our alternative investments propositions
- Launch of Collateralised Debt Obligations (CDO) platform
- Further development of our Private Equity Fund of Fund business
- Leverage our Global Tactical Asset Allocation (GTAA) skills with new products
- Development of our real estate activities
- Further expansion of our multi-manager capabilities, products and distribution
- Enhance cross-selling of products and skills into different markets

In summary, I am very encouraged by the progress against our previously stated objectives and am confident in our plans for the future. We believe these will generate significant shareholder value and we are setting ourselves a target of increasing underlying earnings per share by 50 per cent from 2007 to 2009.

Alain L. Grisay
Chief Executive
15 March 2007

Business Review

The Board has prepared this report in accordance with the requirements of Section 234ZZB of the Companies Act 1985 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 auditors' opinion is included in their report on pages 38 and 39.

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.

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 multiple competitors, who differ by geography, product and asset class. While we operate across multiple locations, with a physical presence in eight 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 whilst leveraging our scale

Key risks – see pages 6 and 7

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 2007:

- Risk of poor historic investment performance, leading to mandate loss
- Market trends towards polarisation and fiduciary management
- Impact of EU and other regulatory developments
- Development of operational platforms
- Development of front office control processes

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 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.

Underlying earnings per ordinary share – see page 10

2006	12.8p
2005	15.9p

Basic loss per ordinary share

2006	(4.9)p
2005	(16.4)p

Assets under management – see page 8

2006	£104.1bn
2005	£131.0bn

Alain Grisay
Chief Executive

David Logan
Chief Financial Officer

Nick Criticos
Head of Global Retail & Investment Trusts

Fernando Ribeiro
Head of Investments

Our view of the market

In 2006 the asset management industry benefited from a year of positive returns in the major asset classes. Despite a sharp correction in equities in May, markets staged a remarkably rapid recovery. The outlook for 2007 is one of slowing economic growth and an easing of inflationary pressures. This benign backdrop should be broadly supportive of equities, although we believe that returns are unlikely to be as high as those experienced in 2006. A key risk is a more pronounced deterioration in the US than expected. We also anticipate that volatility will rise from the low levels seen in 2006.

Merger & Acquisition (M&A) activity was a significant feature of markets during 2006 as companies shifted their focus from balance sheet strengthening to aggressive growth. An injection of private equity cash has also helped fuel M&A activity, with deals increasingly taking place at the upper end of the market cap spectrum.

Indeed, the asset management industry itself was not immune to this upsurge in corporate activity with a number of sizeable transactions during 2006 and an expansion of the listed asset management sector. We envisage corporate activity remaining an industry trend, with drivers including the continued move towards "open architecture" by financial services institutions, notably banks, building societies and insurance companies. As these businesses re-focus on distribution, there is greater willingness to use multiple external asset managers in their product ranges.

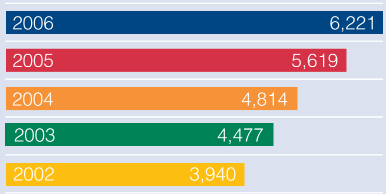
In the UK, firms of Independent Financial Advisers (IFAs) are also scaling up to meet the challenge of the new distribution landscape. This has led to both increasing sectoral consolidation and the emergence of new entrants. The top tier of investment advisers are increasingly developing discretionary services while the broad adviser market is making more use of multi-manager products. Fund supermarkets are now widely used by IFAs and we anticipate that the use of wrap accounts will gather pace. Access to the retail market is therefore about positioning on these platforms and servicing distribution relationships in addition to the prerequisites of strong investment performance supported by a credible brand.

The developments of the last few years in the institutional market continue to gather pace. The UK has seen a shift over a number of years away from balanced management towards the separation of "alpha" and "beta" and increasing use of specialist mandates and this continues. A comparable trend towards specialist mandates is now emerging in The Netherlands, Europe's second largest pensions market, with a number of schemes moving towards a fiduciary model where a third party manager determines asset allocation, risk budgeting and underlying manager selection. This development poses a significant risk to balanced management in The Netherlands. In addition, across a number of developed markets there is a much greater focus on ensuring that pension scheme assets are sufficient to match their liabilities. This is driving interest in Liability Driven Investment (LDI) and Asset Liability Management (ALM).

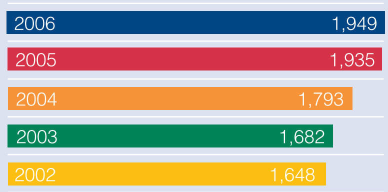
Together, these market changes are leading to demand for multi-management capabilities, LDI products, active added value "alpha" products and alternative investments. Many of these trends require asset managers to deepen their derivatives expertise.

This demand for more specialist products is prompting asset managers to evolve their business models accordingly. "House" processes and top down investment leadership through a Chief Investment Officer are giving way to "multi-boutique" investment models where investment teams have much greater accountability for specific products and processes, whilst leveraging off a common operational infrastructure. Likewise, remuneration is becoming more integrally linked to the performance of specific teams and the products that they manage.

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

How we are making our strategies work

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.

2006 Key points

- We launched the "Performance First" initiative to define top quartile performance standards for every area of activity and set clear and measurable departmental and individual goals.
- Strengthened the management team in the investment division and key infrastructure areas.
- Selectively upgraded human capital where necessary to support our objectives.
- Further reinforced our "multi-boutique" investment model.
- Revised incentives to reward superior performance.

Investment Performance

2006 Key points

Performance saw broad improvement during the year with some notable areas of strength:

- 64 per cent of actively managed UK retail funds delivered above median performance in their respective IMA sectors and 37 per cent were top quartile.
- Fourteen funds achieved Standard & Poors Fund Research ratings.
- Seven fund managers achieved Citywire ratings during 2006.
- 53 per cent of institutional accounts representing 70 per cent of institutional assets under management, met or exceeded their investment objectives during 2006 compared to 46 per cent over three years.
- 71 per cent of investment trusts met or exceeded their performance benchmarks.
- Outperformed in UK Equities, Continental European Equities, Euro and Global Credit, Euro High Yield, Emerging Market Debt, Asia ex-Japan and multi-manager.
- Improved performance in US large cap and Emerging Equities, areas of legacy weakness.

2007 Priorities

- Invest in front office decision, risk and dealing systems to support the delivery of portfolio performance and new product initiatives.
- Ensure stability of core investment teams following the changes implemented in 2006 while selectively continuing to upgrade personnel and optimising resource allocation.
- Continue momentum in the Performance First initiative.
- Increase product innovation and speed to market of new initiatives.

Key Performance Indicators

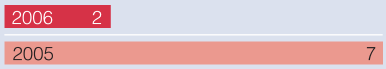
Corporate Health

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)



2006 Investment Performance awards included:

- Category Winners – F&C Strategic Bond Fund and F&C European High Yield Bond Fund (Lipper Fund Awards, UK)
- Category Winner – Smaller Companies (Moneywise, Best Investment Trust Awards, UK)
- Category Winner – F&C European High Yield Fund (Euro-FInanzen Awards, Germany)
- Manager of the Year – F&C Property (Moneymate Awards, Ireland)

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

Our distribution model is based on intermediaries and strategic partnerships. We are focused on the UK and Continental Europe. Our priority is to grow organically, however, we will take an opportunistic approach towards further acquisitions.

2006 Key points

- Third party distribution links in the UK established with Canada Life, Zurich International and L&G CoFunds.
- New white-label share class on emerging debt fund launched with Commerzbank in Germany.
- Won our first German *reo*® (the Group's responsible engagement overlay product) mandate.
- Launched SRI fund with Charities Aid Foundation and a Charities Managed Fund in Ireland.
- Expanded European distribution with the opening of a representative office in Switzerland.
- Net outflow of £278 million from sub-advisory clients primarily as a result of Portuguese investors switching into cash in 2H following equity market correction. Net inflows from sub-advisory relationships in the Netherlands were positive across the year.
- Net institutional outflows of £8 billion included £3.4 billion from one Dutch client, Vervoer, adopting a fiduciary model and also the loss of a £1 billion property mandate for the Electricity Supply Pension Scheme.

In addition, as highlighted in 2005, the remaining Resolution assets of £20.7 billion were withdrawn, following the completion of Resolution's merger with Britannic.

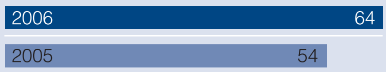
2007 Priorities

Our key priority remains organic growth founded on strong investment performance. We will achieve this by:

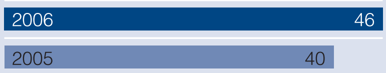
- Retaining our focus on the UK and Continental Europe.
- In the UK retail markets we will work closely with Friends Provident as they develop their wrap business and continue to strengthen our relationships with strategic distribution partners and IFAs through roadshows and sales and marketing campaigns.
- In Europe we will further develop sub-advisory and wholesale relationships with Friends First (Ireland), Millennium BCP (Portugal) and Achmea (The Netherlands) by ensuring we develop new products and deliver investment performance.
- In institutional markets we will continue to expand client coverage across Europe with increased resources focusing on both indirect sales through consultants and local partnerships and direct engagement with institutional investors, especially in non-consultant driven markets.

Key Performance Indicators

Percentage of Retail funds above median (1 year)



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



Key Risks

- **Risk of poor historic investment performance leading to the loss of key investment mandates.**
- During 2006 we have further strengthened investment teams and will continue to invest in new talent. While investment performance has improved across asset classes, this will take time to translate into the longer term track records, a key requirement of institutional investment consultants.

- **Market trends towards polarisation ("barbell") 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 also opens up new opportunities. The Group has established a project team to introduce a number of initiatives to manage this risk including our own fiduciary service and Liability Driven Investment and GTAA overlays for balanced and multi-asset portfolios.

- **Impact of EU and other regulatory developments.**
- The Markets in Financial Instruments Directive and Capital Requirements Directive present short to medium term challenges for asset management businesses. Programmes are in place to prepare for implementation.

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 such as emerging market debt, high yield and high alpha equities.

2006 Key points

- UK retail funds saw net inflows of £309 million, a 98 per cent increase on 2005. Key products were ethical, multi-manager, corporate bonds and UK equities.
- Launched three new UK equity retail funds at start of the year which accumulated £230 million assets under management.
- In Q4 launched Luxembourg registered LDI pooled funds on the back of the success in The Netherlands.
- Strong inflows in Germany for credit and emerging market debt.
- In November we launched an FX and forward rate volatility hedge fund.
- Appointed by Paternoster as their derivatives execution agent.
- Average basis points fees increased over calendar year 2005 and we earned performance fees of £9.5 million.

2007 Priorities

- Priority products in the UK institutional market will include LDI, *reo*® and higher margin products including UK equities, fund of hedge funds, single strategy hedge funds, private equity funds of funds GTAA products.
- In Continental Europe the product focus will vary from market to market but will include LDI, *reo*®, ethically-screened funds, high yield, emerging market debt, convertibles, real estate, GTAA and commodities.
- Priority retail products are UK equities, Stewardship, multi-manager, Life-style Funds, corporate bonds and cash-plus products.
- We will launch a fixed income hedge fund in Q1 2007 and a fund of hedge funds investment trust in 1H 2007.
- We will launch an ethically screened product into the US market.
- We will leverage our strength in credit by developing a CDO platform.

Key Performance Indicators

Average basis points earned on Assets Under Management

2006	22
2005	21

Maintain diversity of earnings whilst 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 market.

2006 Key points

- Continued to diversify distribution across Europe, with our German and French offices generating greater net inflows than 2005. We opened a representative office in Switzerland.
- Continued to develop the multi-boutique investment model, embedding the concept in our management structure and investment process.
- Progressed outstanding IT projects relating to the integration of F&C and ISIS in accordance with the timetable set.

2007 Priorities

- Broaden range of higher margin products with new initiatives in GTAA products, hedge funds and private equity fund of funds.
- Enhance marketability of SICAV range in Europe.
- Develop new products for our sub-advisory partners.
- Cross sell existing products, such as global real estate securities and ethical funds, into new markets.
- Continue to consider opportunities for bolt-on acquisitions, particularly those which bring added distribution.

Key Performance Indicators

Operating Margin (percentage)

2006	36.5%
2005	44.1%

- **Development of operational platforms.**
- In 2005 F&C terminated its negotiations with Mellon for the outsourcing of the back office operations within the ex-ISIS book of business. In 2006 the administrative operations continue to be run on two distinct platforms, one outsourced and one in-house. Senior management continue to keep the performance of both operational platforms under review by ensuring detailed service level agreements exist and key performance indicators are monitored. Management will, during 2007, be considering ways of enhancing the operational efficiency of these arrangements.

- **Development of front office control processes.**
- Progress has been made during 2006 in relation to the development and implementation of the front office dealing, decision support and pre and post execution monitoring systems. F&C continue to operate short term controls, albeit more manual in nature, to manage the risk. During 2007, significant milestones should be achieved in our strategic plans to replace and enhance these systems.

Business Review

Our trading performance and outlook

Overall, funds under management as at 31 December 2006 were £104.1 billion, compared with £131.0 billion at the end of 2005. During 2006 F&C experienced net outflows of £32.3 billion assets under management.

Insurance – The remaining Resolution Life assets were withdrawn during Q2 2006 and F&C received £27 million in compensation. F&C focused its attention during 2006 on exploiting opportunities within the emerging sector of annuity consolidators. The development of a dedicated Insurance and ALM capability has given F&C the ability to provide solutions to the specific issues facing insurance businesses.

Institutional – £8 billion of institutional net outflows were broadly related to four factors:

- An industry trend away from balanced to specialist mandates (including the migration of the £3.4 billion Vervoer mandate in the Netherlands to a fiduciary model).
- Loss of the £1 billion Electricity Supply Pension Scheme property mandate.
- A shift towards passive management by some schemes.
- Disappointing legacy investment performance in sovereign fixed income.

These factors may result in further institutional outflows in 2007. The impact that the consultant community has on our organic growth plans across Europe is significant, particularly in the UK and Ireland. Sales activity has therefore focused on extending investment consultant coverage. F&C has concentrated on promoting composite UK bonds, high alpha UK equities, LDI and alternatives. Changes in regulation and a greater awareness of governance and social issues have continued to create opportunities throughout Europe for the Governance and Sustainable Investment ("GSI") team.

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

Investment Trusts – 2006 was a period of considerable corporate activity within the investment trust sector. A £694 million net outflow of investment trust assets related to three factors:

- The loss of the F&C Emerging Markets due to corporate activity.
- The loss of the F&C Latin American and ISIS Smaller Companies trusts following manager departures.
- Share buy backs, discount controls and restructurings initiated by the trusts.

Our investment trusts savings products continued to account for approximately a third of all inflows, with our Child Trust Fund exceeding our targeted business volumes. The F&C UK Select Trust adopted a unique strategy among UK equity trusts ahead of its rollover. During 1H 07 we will look to expand our range of investment trusts with the launch of a listed fund of hedge funds vehicle.

UK Retail – 2006 was a strong year with net retail sales up 98%. This was ahead of the industry increase of 87.5%. Flows were spread across a range of key products including our ethical UK equities, corporate bonds and multi-manager funds. Relationships with key distribution partners have strengthened and we have extended access to our products on a number of platforms. Our focus in 2007 will remain on multi-manager, UK equities, ethical equities and corporate bonds. Additionally we are enhancing the marketing of our cash-plus product and will cross-sell our Luxembourg registered global real estate fund into the UK.

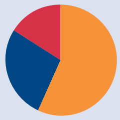
Continental European Retail – we saw positive progress in The Netherlands and a strong first half in Portugal. Following the sharp decline in equities in May, fund flows reversed in Portugal as retail investors switched into cash. This resulted in a net outflow of £278 million in our total sub-advisory business at year end. Retail flows were positive in Germany, where we established a white-labelled share class on our emerging debt fund for Commerzbank and reached a five year performance record on our flagship F&C HVB Stiftungsfonds product which is co-branded with HypoVereinsbank. We have now created a Euro denominated version of the Stewardship International fund and will seek ways to enhance the marketing of our SICAV range.

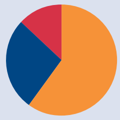
2006 fund flows

2006 fund flows	Outflows	Inflows
Insurance	£23,677m*	
Institutional	£10,944m	£2,941m
Retail	£4,165m	£3,555m
Net total	£32,290m	

*£20,751m related to Resolution Life

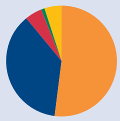
Assets Under Management by client category

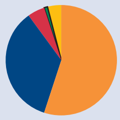




2006		2005	
Insurance	57%	Insurance	60%
Institutional	27%	Institutional	27%
Retail	16%	Retail	13%

Assets Under Management by asset class





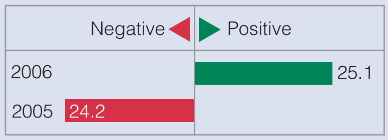
2006		2005	
Fixed Interest	52%	Fixed Interest	55%
Equities	37%	Equities	35%
Property	5%	Property	5%
Other Alternative Investments	1%	Other Alternative Investments	1%
Money Market	5%	Money Market	4%

Our financial performance

Total return

Our focus is the creation of shareholder value. The key indicator of our success is total shareholder return, measured as percentage growth in share price plus dividends. In the year ended 31 December 2006, our total shareholder return was 25.1 per cent. In the same period, the average total shareholder return on the FTSE250 index was 30.2 per cent and the FTSE100 was 14.4 per cent. During 2007, we have announced we will launch a series of business initiatives to accelerate revenue growth. We anticipate that, in the longer term, these should contribute significantly to the generation of shareholder value; however in the short term, as previously disclosed, these initiatives will require us to invest in people and infrastructure.

Total Shareholder Return



Financial results

IFRS requires our financial statements consolidate the results of our Managed Pension Fund business on a line-by-line basis. This impacts our Income Statement and Balance Sheet presentation.

Our Income Statement includes Re-Investment Plan costs of £12 million and impairment charges on intangible assets of £58 million. The Re-Investment Plan costs relate to the share scheme established at the time of the merger in 2004 to lock-in and incentivise senior staff. This is further commented on in the Directors' Remuneration Report. The impairment charges are detailed further in the intangible assets section below.

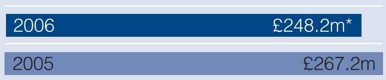
While the Income Statement shows a reported loss for the year, the Board measure financial progress principally by reference to ''underlying earnings'' which excludes both these charges, together with certain other costs.

Net revenue

Net revenue for the year, excluding the £2.6 million compensation received from Banco Commercial Português S.A. (BCP) for the loss of funds in 2005, was £248.2 million (2005: £267.2 million).

Investment management fees for the year were £258 million. Whilst new business of £6.5 billion was won during the year and rising markets added approximately £5.4 billion to our funds under management, our management fees were impacted by net business outflows totalling of £32.3 billion, together with the full year revenue effect of business outflows which arose in 2005. Included in the business outflows are outflows of £20.7 billion of Resolution assets, whose loss was reported in the 2005 Report and Financial Statements. The 2006 financial statements include cash compensation received from Resolution, however, this amount is not recognised within net revenues. In addition to the outflows noted, at 31 December 2006 we had also been informed of additional future outflows of some £5.16 billion which will take place beyond January 2007. A significant portion of these outflows arise from Dutch institutional business, where as previously set-out there has been an increasing trend from balanced mandates towards fiduciary management. Net fund flows are a key performance measure for us and are indicative of the growth of our business.

Net revenue



*excluding BCP compensation receipt

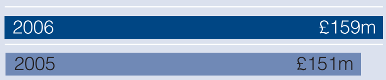
Revenue margins

Whilst our management fee income has declined, we are pleased to report that our revenue margin, measured as management fee income divided by average assets under management has increased from 21 basis points in 2005 to 22 basis points in 2006. 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 and exceeded our expectations for the year 2006. We will continue to focus on growing our revenue margin and many of the product initiatives that we plan to launch in 2007 will have a greater revenue margin than our current business mix.

Operating expenses

Operating expenses excluding the Re-Investment Plan costs, amortisation and impairment of intangible assets and restructuring costs were £159 million (2005: £151 million) . The largest component of this is staff related costs. Accordingly, managing our headcount and our remuneration policies is critical to effective cost control.

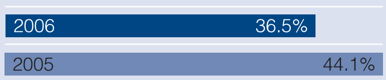
Operating expenses



Operating margin

Our operating margin for the year to 31 December 2006 was 36.5 per cent (2005: 44.1 per cent). Operating margin is used as a measure of the efficiency and progress of the business and forms one of the performance indicators reviewed by the Board. The decline in operating margin from 2005 to 2006 is due primarily to a combination of the impact of the Resolution revenue loss and increasing competition for management talent, resulting in our variable compensation, measured as a percentage of operating profit, increasing from its 2005 level although remaining stable in absolute terms. Due to our accelerated investment in 2007 we anticipate that our operating margin will fall from its current level, to approximately 30 per cent over the next year, as we invest in additional product and distribution personnel and infrastructure.

Operating margin



Our financial performance (continued)

Restructuring costs

The merger integration is now complete and, as set out in our interim results, we have achieved the forecast operating costs synergies of £33 million per annum. The aggregate one-off cost of achieving this annualised saving was some £50 million, in line with the financial target.

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 2006 was 12.8 pence (2005: 15.9 pence). The reduction principally reflects the loss of revenue from the client outflows discussed earlier.

Reconciliation of Earnings per share	2006 Pence
Loss per Ordinary Share	**(4.91)**
BCP compensation receipt	**(0.38)**
Amortisation of intangibles	**6.29**
Cost of the Re-Investment Plan	**1.81**
Restructuring costs post acquisition of F&CGH Group	**1.45**
Impairment of intangibles	**8.54**
Underlying earnings per share*	**12.80**

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

Dividends

The Board has declared an unchanged final dividend of 7.0 pence per share, which, subject to approval by shareholders, will be paid on 17 May 2007 to shareholders on the register at 13 April 2007. This dividend, when taken with the interim dividend of 4.0 pence per share, results in an unchanged total dividend for the year of 11.0 pence per share.

Given the accelerated investment in people and infrastructure planned for 2007, the Board believe it is appropriate to rebase the level of dividend in 2007 to allow at least 1.5 times cover of underlying earnings and pursue a progressive growth policy thereafter.

Capital resources

During the course of 2006, we issued £260m of subordinated loan notes, redeemable in 2026, which carry a fixed coupon rate of 6.75 per cent until 2016. These loan notes, while treated as debt under IFRS, have strengthened the Group's capital position and provide long term flexible funding. Part of the proceeds from these notes were used to redeem the £180 million term loan from Friends Provident, which fell due during 2006. We have also redeemed a further £34 million of subordinated loans from Friends Provident and Eureko.

During 2006 we obtained from the FSA a waiver from meeting any minimum capital requirements under the consolidated supervision rules of the Capital Requirements Directive. Further, in early 2007 the Group's holding company, F&C Asset Management plc, was deregulated.

Intangible assets

Under IFRS when an acquisition is made, there is a requirement to separately recognise 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, such as greater than anticipated fund losses occurs, we are required to review the carrying value of these contracts. The level of fund losses in institutional and investment trust categories during 2006 and resultant impact on future revenues was significant enough to be considered an indicator of potential impairment. Accordingly, impairment reviews of these assets were completed. These reviews indicated that the recoverable amount was less than the carrying value by some £58.5 million and accordingly an impairment charge was 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

Whilst we have debt on our balance sheet, we also have significant cash resources of some £214 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. We did, however, raise approximately £40 million in our debt issue in excess of financing requirements, to provide us with cash for general corporate purposes.

Pension funds

Our pension fund deficits have fallen from £48 million at 31 December 2005 to £45 million at 31 December 2006, primarily as a result of an increase in the discount rate and increase in asset valuations. We are currently investigating a number of mechanisms to assist in managing the deficits. These include changes to the investment policies of the schemes and a potential merger of the legacy ISIS and legacy F&C schemes and we continue a dialogue with the trustees on these matters.

Our approach to Corporate Responsibility ("CR")

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.

The full CR Report can be viewed on our website. The CR Report and Annual Report and Financial Statements together provide a comprehensive review of our economic, social and environmental performance.

F&C's CR principles

The Board of F&C has adopted a statement of principles in relation to all governance and corporate responsibility matters.

Areas of Influence

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

Ethically screened funds

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

Stakeholder engagement

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

Engagement on governance, social, environmental and ethical issues

As a major asset management group investing over £104 billion on behalf of our clients, our most significant contribution continues to be through our ability to influence the behaviour of companies in which we invest on our clients' behalf. This ability – and the associated responsibilities – are greatest in respect of the £21.9 billion (2005: £27.1 billion) of equity shares we manage on behalf of our clients under our responsible engagement overlay ("*reo*®") service. The *reo*® service is also extended to certain clients where we do not manage the underlying investments. In these cases, the service extends to either engagement alone or engagement and voting on clients' behalf. At 31 December 2006 we provide such services to a further £42.6 billion of assets. We continue to be a leading force for influencing the way the companies in which we invest are run and their approach to longer-term issues such as human rights and climate change.

At 31 December 2006 the Governance & Sustainable Investment (GSI) team comprised 15 staff. During 2006, the GSI team engaged globally with 640 companies and achieved 268 milestones representing significant change by companies.

CR governance structure, risk and management systems

The Board is ultimately responsible for corporate governance and CR within the Group. Development of F&C's policies on CR and their implementation throughout the Group are co-ordinated by a CR Committee chaired by David Logan, an Executive Director of the Company. Fernando Ribeiro, Head of Investments, chairs the Corporate Governance Committee, which review the standards of corporate governance we expect from the companies in which we invest. Details of proxy votes cast on the retail funds managed by F&C, together with the Group's corporate governance policies applied to investee companies, are published on the Company's website.

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

F&C also continues to work closely with its majority shareholder, Friends Provident plc, on CR policies and practices throughout the wider Friends Provident group. F&C has in place a CR management system which complements the database currently in place for the management and reporting of F&C's indirect impacts relating to engagement and governance of the companies in which it invests. At each meeting of the CR Committee, progress against the annual targets and objectives set by the Board is reviewed with reference to key performance indicators derived from the CR management system. Further detail of the CR targets and objectives are contained in the CR report published on the Company's website.

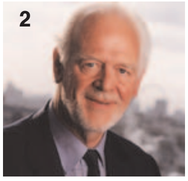
CR performance indicators

F&C has established key performance indicators (KPIs) for economic, environmental and social performance in relation to our direct and indirect impacts. A full report on performance against the KPIs can be found in our Annual CR Report published on the Company's website.

Alain Grisay
19 March 2007

David Logan
19 March 2007

Non-executive Directors



1. Robert Jenkins[‡], BA, MA

Age 56 *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 joined F&CGH in 1997 and served as Chief Executive from January 1998 to October 2004. Mr Jenkins is currently a member of the Board of the Investment Management Association in the UK and will assume the chair, subject to members' ratification, in May 2007.

2. Christopher Jemmett[†]

Age 70 *Deputy Chairman and Senior Independent Director*

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

* Member of the Remuneration Committee

† Member of the Audit & Compliance Committee

‡ Member of the Nomination Committee

3. Keith Bedell-Pearce[*†], LLB, MSc

Age 61 *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).

4. Dick de Beus[‡]

Age 60 *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.

5. David Gray[†‡], CA

Age 55 *Independent Director*

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

6. John Heywood[*†], LLB

Age 69 *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.

7. Brian Larcombe[*‡],

Age 53 *Independent Director*

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

8. Jim Smart, B.Com, CPFA, FCCA, MBA

Age 47

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.

9. Jeff Medlock, B.Sc(Econ), F.I.A.
Age 66

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

10. Philip Moore*‡, TD, MA, F.I.A.
Age 47

Mr Moore joined the Board in January 2005. He joined Friends Provident plc on 1 July 2003 and was appointed Group Finance Director of Friends Provident plc on 1 September 2003 and became Group Chief Executive on 1 January 2007. Mr Moore was previously at AMP (UK) where he was Corporate Director of Finance and Head of Mergers and Acquisitions, having been Finance Director and actuary of NPI on its acquisition by AMP. Prior to joining NPI in 1998 he spent 9 years at PricewaterhouseCoopers, initially in London and then based in Hong Kong as the partner responsible for the firm's East Asia Insurance Consultancy Practice.

Executive **Directors**

11. Alain Grisay, LLM, MA
Age 52, *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.

12. David Logan, BA, CA
Age 37, *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 2006 are shown in the Consolidated Income Statement on page 40. A business review of the year ended 31 December 2006 and future developments are covered on pages 4 to 11. This review forms part of the Report of the Directors.

The Group loss for the year, after tax, amounted to £22,526,000.

The Directors recommend a final ordinary dividend of 7.0 pence per share, amounting to £33,761,000, resulting in a total of 11.0 pence and £52,949,000 for the year. Preference dividends of £54,000 were also incurred during the year.

The final ordinary dividend, if approved, will be paid on 17 May 2007 to ordinary shareholders whose names are on the register on 13 April 2007. No liability for the proposed dividends has been recognised as at 31 December 2006, 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 1985 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.

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 2006, 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 note 19 to the Consolidated Financial Statements. The financial risk management objectives and policies of the Group are contained in note 35.

Share capital and directors' interests

During the year the Company issued 1,341,353 ordinary shares in respect of options granted under the 2002 Share Option Scheme. Details of shares under option at 31 December 2006 are shown on pages 90 to 101. Details of all shares issued during the year ended 31 December 2006, are given in note 30. The Directors who held office at the year end and their interests in the share capital of the Company are shown below:

		31 December 2006 Ordinary Shares	31 December 2005** Ordinary Shares
Robert Jenkins	Beneficial	200,000	100,000
	Non Beneficial*	665,111	890,200
Christopher Jemmett	Beneficial	24,881	24,476
Dick de Beus	Beneficial	Nil	Nil
Keith Bedell-Pearce	Beneficial	51,285	51,285
David Gray	Beneficial	5,000	5,000
Alain Grisay	Beneficial†	326,153	726,297
John Heywood	Beneficial	4,326	4,326
	Non Beneficial*	665,111	Nil
Brian Larcombe	Beneficial	Nil	Nil
David Logan	Beneficial	Nil	Nil
Jeff Medlock	Beneficial	10,000	10,000
Philip Moore	Beneficial	2,163	2,163
Keith Satchell	Beneficial	14,326	14,326

* Robert Jenkins and John Heywood 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.

** Or date of appointment if later.

† These shares represent the extent of Alain Grisay's participation in the Re-Investment Plan and Purchased Equity Plan. Further details of these plans are set out in the Remuneration Report on pages 26 to 36.

No other changes to Directors' interests have occurred.

Howard Carter, Ian Paterson Brown and Karen McPherson resigned as Directors during 2006.

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 2006 Ordinary Shares	31 December 2005 Ordinary Shares
Christopher Jemmett	Beneficial	2,655	2,655
Philip Moore	Beneficial	53,063	1,332
Keith Satchell	Beneficial	207,814	63,528

Directors' and officers' insurance

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

Charitable and political contributions

During the year the Group made contributions to charity of £94,000 (2005 – £75,000). No political donations were made during the year (2005 – £nil). Further details on the criteria for charitable giving are contained within the Group's Corporate Responsibility Report.

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 2006, trade creditors represented the equivalent of 13 days (2005 – 15 days) of the annual purchases invoiced by the suppliers to the Group.

Substantial interests in share capital

The Company has been informed of the following substantial interests as at 19 March 2007. No other person has notified an interest in the ordinary shares of the Company required to be disclosed to the Company in accordance with sections 198 to 208 of the Companies Act 1985.

	Ordinary Shares	Percentage
Friends Provident plc	253,082,077	52.2
Eureko B.V.	95,128,190	19.6
Fidelity International Ltd	36,198,923	7.5

Employees

At 1 February 2007 there were 750 full-time employees and 52 part-time employees within the Group (1 February 2006 – 713 full-time employees and 45 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 26 to 36 or the notes to the Consolidated Financial Statements on pages 90 to 101.

Annual General Meeting (AGM)

The Company will hold its AGM on Thursday, 10 May 2007 at Butchers Hall, 87 Bartholomew Close, London EC1. The meeting will start at 12 noon. Details of all resolutions being put to shareholders are set out in the Notice of Annual General Meeting commencing on page 142.

Relationship agreement

The relationship agreement formalises the ongoing relationship between the Company and its parent, Friends Provident plc, and Friends Provident plc's subsidiaries. The relationship agreement contains provisions which permit the Friends Provident group to participate in future issues of equity shares by the Company not made to existing shareholders in proportion to their existing holdings in order to maintain its percentage shareholding in the Company. Your Directors are recommending that the relationship agreement be re-approved and the authority be renewed at this year's AGM pursuant to resolution 10. Members of the Friends Provident group will abstain from voting on such ordinary resolution.

Report of the Directors

Board changes

On 16 May 2006, Howard Carter and Ian Paterson Brown, both of whom were Executive Directors of the Company retired from the Board and left the Company. David Logan, an Executive Director joined the Board on 31 July 2006.

On 7 November 2006, Karen McPherson, an independent Non-executive Director retired from the Board.

In November 2006, the Company announced that Keith Satchell, a Non-executive Director would retire from the Board on 1 January 2007 and would be replaced on the same date by Jim Smart, a Non-executive Director.

Having reached the age of 70 during 2006, Christopher Jemmett, the Company's Senior Independent Non-executive Director and Deputy Chairman, will retire from the Board and relevant Board Committees on conclusion of this year's Annual General Meeting.

David Gray, an independent Non-executive Director, will in 2007, enter his ninth year of service with the Company and as such has indicated his intention to retire from the Board and relevant Board Committees on conclusion of this year's AGM.

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

Ordinary resolution 11 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 160,848,751 unissued ordinary shares, being up to an aggregate maximum nominal amount of £160,848.75. 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 2,375,113 ordinary shares in treasury at the date of this report. This amount represents 0.49 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 2008.

Special resolution 13 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 £160,848.75 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 10 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 £24,248.48, 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 11 and the power proposed to be granted by resolution 13 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 14 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 14 the maximum aggregate number of ordinary shares which may be purchased pursuant to the authority shall be 48,259,451 (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 21,508,060 options to subscribe for ordinary shares outstanding (representing 4.46 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 2007 AGM and is then utilised in full, the options outstanding at the date of this report would represent 4.95 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 first anniversary of the passing of this resolution and the conclusion of the Annual General Meeting of the Company to be held in 2008.

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 things in respect of its own ordinary shares which it buys back and does not immediately cancel but, instead, holds "in treasury":

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

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

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

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 2006, the Group purchased 563,205 ordinary 0.1 pence shares (2005 the Group acquired 104,780 ordinary 0.1 pence shares) representing 0.1 per cent. of the ordinary Shares in issue at 31 December 2006 pursuant to this authority. The aggregate consideration paid for own share purchases in 2006 was £1,076,000 (2005: £223,000).

Executive Director Remuneration Plan (EDRP)

Through 2006, succession plans were successfully executed for the positions of Chief Executive and Chief Financial Officer.

In January 2007, the Board reassessed the achievements of the Group in 2006 and management's three year plans to enhance investment performance and establish a number of new product initiatives. The Board has now endorsed a strategy of accelerated investment in people and infrastructure to support these initiatives. The key now is in the execution. Accordingly, the Remuneration Committee and the Board's focus is to retain the Executive Directors tasked with the execution of the three year plans, to motivate them to achieve the potential of generating significant organic growth over the term and to reward them accordingly.

The Remuneration Committee and the Board are therefore recommending to shareholders the introduction of a new Executive Director Remuneration Plan ("EDRP") at this year's Annual General Meeting. This EDRP is an arrangement tailored to address the retention and incentive required during the term of the three year business plan. The introduction of the EDRP will complete the review of the Group's remuneration arrangements following the shareholder approved amendments to the Long Term Remuneration Plan, covering senior executives below Board level, at the 2006 AGM.

The summary of principal terms of the proposed arrangements are set out in an appendix to the Notice of AGM on page 144 Shareholders will have the opportunity of expressing their views through a separate vote on the plan's adoption. The principal features and design principals of the EDRP are summarised below:

- significant retention value established to secure the Executive Directors through a challenging three year growth period;
- payment entirely in shares to maximise the alignment between the Executive Directors and shareholders;
- maximum potential rewards only available for achievement of genuinely stretching performance targets;
- overall potential rewards established by reference to upper quartile market competitive compensation data, reflecting the challenge in delivering the targeted growth;
- performance targets aligned with improvements in underlying financial performance of the business;
- change of control provisions aligned with the maximisation of value for shareholders;
- compliance with the existing 10 per cent. dilution limit over any rolling ten year period.

The EDRP will comprise two components: Deferred Share Awards and Restricted Share Awards. The Restricted Share Award for 2007 is a one-off award linked to the three year growth plan for the Group. On participation in the new EDRP, Alain Grisay will forgo his May 2006 LTRP award, which consequently will be cancelled. The Board will however continue to include the 2006 LTRP in the dilution limits associated with any of the Company's long term incentive schemes. The cancellation of the 2006 LTRP award and subsequent issuance of awards under the new EDRP will enable the Remuneration Committee and the Board to place a more concentrated reward structure on the specific measures and timescales for the three year plan.

Deferred share award

- Award of shares, which is forfeitable on resignation prior to the vesting date.
- Vests after a period of normally three years provided the Executive Director remains employed at that time.
- There is no vesting of awards on change of control. On change of control prior to vesting, awards continue to vest in line with the original vesting timetable, and are rolled over into stock in the acquiring company or cash as appropriate.

Restricted share award

- Award of shares, which is forfeitable on resignation prior to the vesting date.
- Vests after a period of three years provided the Executive Director remains employed at that time and provided that stretching performance targets are met.
- No shares vest if 2009 Underlying Earnings Per Share (EPS) do not equal or exceed a specified EPS level (Threshold Performance Requirement) set by the Board. 100 per cent. of the award vests on achievement of the Threshold Performance Requirement. The EPS Threshold Performance Requirement is appropriately challenging at not less than 18.0 pence per share, representing growth in excess of 40 per cent. from the 2006 achieved EPS. This is more stretching than the growth of approximately 33 per cent. over three years (assuming 3 per cent. inflation per annum) required for full vesting under the existing Long Term Remuneration Plan. The award is increased pro-rata to the extent that 2009 EPS level exceeds the Threshold Performance Requirement. For example, if 2009 EPS is 10 per cent. above Threshold, then 110 per cent. of the target award would vest. The maximum award that can be made under the plan is 140 per cent. of the target award, and accordingly is achieved when 2009 EPS is 40 per cent. or more above the Threshold Performance Requirement.
- 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.
- There is no vesting of awards on change of control. On change of control prior to vesting, awards continue to vest in line with the original vesting timetable, at which point the Remuneration Committee will determine the extent to which performance conditions have been met, making such adjustments to the performance conditions as they deem appropriate given the nature of the transaction.

If the EDRP is approved by shareholders then the 2007 awards will be determined and made as soon as practicable following the AGM and will vest three years thereafter in line with the normal award cycle. The award levels, which are yet to be finalised, will reflect the Remuneration Committee's desire to establish an immediate and strong incentive for the Executive Directors to deliver on the Group's three year growth plans. In future years, awards may be made under both the Deferred Share Award element of the EDRP and the Restricted Share Award element of the existing LTRP, as deemed appropriate by the Remuneration Committee in order to deliver appropriate market positioning of total compensation. Award levels and mix will be set in the context of the Committee's objective of delivering upper quartile total remuneration potential (subject to performance) over the three year growth period, including these initial awards. The performance conditions for the Restricted Share Awards for 2007 are linked to the three year growth plans. Where Restricted Share Awards are used in future years, the Remuneration Committee will attach performance conditions appropriate to the Company's circumstances at the time.

The Board believes that these arrangements are in the best interests of shareholders in retaining our highly talented senior management team and motivating them to deliver against extremely challenging turnaround targets.

Auditors

Following a competitive tender exercise, further details of which are set out on page 20, Ernst & Young LLP resigned as auditors in October 2006 and KPMG Audit Plc were appointed. A resolution formalising KPMG's appointment and for the Directors to determine their fees will be submitted at the AGM.

The Board would like formally to record their appreciation of the services provided by Ernst & Young LLP in their capacity as the Group's auditors.

Details of the auditors' remuneration is provided in note 4 to the financial statements and further detail on how the Board ensures the independence of the auditors is detailed on page 25 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
19 March 2007

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 2006 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 Thursday, 10 May 2007.

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. Christopher Jemmett is the Deputy Chairman and Senior Independent Director. The biographies of the Directors appear on pages 12 and 13. 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, Keith Satchell (FP Executive Director, retired 1 January 2007) and Philip Moore (FP Executive Director), served as Non-executive Directors of the Company during the year. Jim Smart (FP Executive Director) joined the Board as a Non-executive Director on 1 January 2007. Howard Carter, formerly an Executive Director and Alain Grisay, the Company's Chief Executive, served as Executive Directors of FP during the year. Mr Carter retired from the Board in May 2006 and received no remuneration or benefits from FP during his term of office. No remuneration or benefits are paid to Mr Grisay in respect of his services as an Executive Director of FP. In addition, Christopher Jemmett is an independent Non-executive Director of both FP and the Company. The Board considers Mr Jemmett to be independent in character and judgement and that this independence is demonstrated in the integrity, objectivity and professionalism displayed by Christopher Jemmett's contributions to Board and Audit & Compliance Committee discussions and debates. The Board acknowledges and respects that some parties may hold a different view of Mr Jemmett's independence as a consequence of his being an independent Non-executive Director of FP.

The other Non-executive Directors of the Company are Robert Jenkins (Chairman), Keith Bedell-Pearce, Dick de Beus, David Gray, John Heywood, Brian Larcombe and Jeff Medlock. With the exception of Jeff Medlock, who in 2004 retired as Chief Financial Officer of Eureko, a 19 per cent. shareholder in the Company, all of the Non-executive Directors listed above, other than the Chairman, meet the criteria of independence as set out in the accepted guidance. 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 of each Committee 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 procedure exists in the appointment process to ensure that all appointments are appropriate to the needs of the Group and complement the balance of the Board.

Membership and attendance

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

Throughout 2006 the Committee met formally on four occasions. In addition, the Committee or its members had many other occasions to meet informally or with advisers and candidates. None of these sessions are reflected in the numbers shown on page 22.

On 7 November 2006 Karen McPherson retired from the Board and stood down as a member of the Committee. Brian Larcombe was appointed as a member of the Committee at the same date.

On 1 January 2007 Keith Satchell retired from the Board and stood down as a member of the Committee. Philip Moore replaced Mr Satchell as a member of the Committee at the same date.

Members of the Nomination Committee: Robert Jenkins (Chairman), Dick de Beus, David Gray, Brian Larcombe and Philip Moore.

Activities and work of the Committee

In May 2006, Howard Carter, an Executive Director, and Mr Paterson Brown, the then Chief Financial Officer, retired from the Board. The Committee, assisted by external independent search consultants, undertook a recruitment programme to identify a suitable candidate to succeed Mr Paterson Brown. David Logan was appointed as Chief Financial Officer and joined the Board in July 2006.

In November 2006, the Company announced that Keith Satchell, a Non-executive Director, would retire from the Board on 1 January 2007 and would be replaced on the same date by Jim Smart.

The Committee, assisted by an external search agency, also successfully undertook a search for an independent Non-executive Director. Nicholas MacAndrew will join the Board on conclusion of the forthcoming Annual General Meeting. The Committee is currently undertaking, assisted by external search agencies, searches for an additional independent Non-executive Director.

The Committee also revisited during the year, as part of a review of succession planning, 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
19 March 2007

Directors' Report on Corporate Governance

(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 ("SEE") matters, internal control and adherence to policies and procedures.

Membership and attendance

The Committee is chaired by Christopher Jemmett. The Committee comprises solely independent Non-executive Directors.

The Committee usually meets at least four times a year to review the integrity of the Interim Report and 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 Friends Provident plc (FP), given the enlarged group's governance requirements, attend as required. These meetings are also attended by senior members of the Group's auditors.

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

Members of the Audit & Compliance Committee: Christopher Jemmett (Chairman), Keith Bedell-Pearce, David Gray and John Heywood. Brian Larcombe will join the Committee on conclusion of the Annual General Meeting. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience, a position that should continue throughout 2007.

Activities and work of the Committee

As highlighted earlier, the Committee normally discharges its responsibilities, as allocated by its terms of reference, within a schedule of four meetings. Two meetings are held early in the year, one to deal with matters of governance (for example, compliance with the Code, the Financial Services Act, the effectiveness of internal controls and risk management systems, monitoring and reviewing the internal Audit Risk & Compliance department and monitoring and reviewing the independence, objectivity and effectiveness of the external audit process) and the other to consider the integrity of the year end financial statements and any formal announcements relating to the Company's 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. 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.

During the year, the Committee, in conjunction with the Audit and Compliance Committee of the Company's ultimate parent FP, considered the benefits to the enlarged group of the appointment of a single group auditor. A tender process was undertaken between the then auditors of the Company and the then auditors of FP. Following completion of this process, the Committee made a recommendation to the Board to appoint KPMG Audit Plc as auditors of the Company. In October 2006, Ernst & Young LLP resigned as auditors and KPMG Audit Plc were appointed as auditors on the same date.

For the Board
Christopher Jemmett
Chairman, Audit & Compliance Committee
19 March 2007

(c) The Remuneration Committee

Purpose and Terms of Reference

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

Membership

The Chairman of the Committee is John Heywood. Karen McPherson, the Committee's former Chairman retired from the Board in November 2006. The Committee comprises solely independent Non-executive Directors.

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

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 26 to 36). 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 26.

For the Board
John Heywood
Chairman, Remuneration Committee
19 March 2007

Directors' Report on Corporate Governance

Attendance at meetings

The following table identifies the number of Board and formal committee meetings held in 2006 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.

Director	Board	Non-executive Director meetings without management present	Remuneration Committee	Audit & Compliance Committee	Nomination Committee
Number of meetings held in 2006(2005)	7(7)	2 (2)	6(8)	7(7)	4(3)
Robert Jenkins	7	1	–	–	4
Christopher Jemmett	7	2	–	7	–
Alain Grisay	7	–	–	–	–
Keith Bedell-Pearce	7	2	5	7	–
Dick de Beus	6	2	–	–	4
Howard Carter(1)	3	–	–	–	–
David Gray	7	2	–	7	4
John Heywood	7	2	6	6	–
Brian Larcombe(2)	6	2	5	–	1
David Logan(3)	3	–	–	–	–
Karen McPherson(4)	7	2	5	–	3
Jeff Medlock	5	2	–	–	–
Philip Moore	7	2	–	–	–
Ian Paterson Brown(1)	2	–	–	–	–
Keith Satchell(5)	7	2	–	–	4

(1) Resigned as a member of the Board on 16 May 2006.
(2) Appointed as a member of the Nomination Committee on 7 November 2006.
(3) Appointed as a member of the Board on 31 July 2006.
(4) Resigned as a member of the Board and relevant Board Committees on 7 November 2006.
(5) Resigned as a member of the Board and relevant Board Committees 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 2006 was reviewed by the Non-executive Directors in a meeting chaired by Christopher Jemmett, the Deputy Chairman and 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 12. Mr Jenkins is expected to assume the Chair of the Investment Management Association of the UK in May 2007. This is a Non-executive, part-time role. Mr Jenkins has no other significant commitments at this time.

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, Gray, Heywood, Jemmett, Larcombe, Medlock, Moore 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) and taking a prime role in appointing and where necessary removing Executive Directors; setting the

Company's values and standards to ensure its obligations to its stakeholders are understood and met; and reviewing communication with shareholders.

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 external consultants and was led by the Chairman. The procedure adopted was for each Director to complete a detailed questionnaire, on a non-attributable basis on his/her perception of the composition, operation and effectiveness of the Board and its Committees. Each Director was then interviewed by the external consultants 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 led to a number of recommended actions covering the Board and senior management succession, the balance of strategic versus operational debate and greater exposure of the Board to the next layer of management. 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.

The Chairman, in consultation with the Nomination Committee, has also during the year 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 2006, the Board made site visits to the Company's offices in London, Edinburgh, Dorking, Dublin and Frankfurt. These visits not only afforded an opportunity to meet with senior staff but, in the case of Dublin, to be better acquainted with our local strategic partners (Friends First). 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 2006 are as shown in the Directors' Remuneration Report on page 32. Details of the Executive Directors' service contracts and Non-executive Directors' letters of appointment can be found on page 31.

David Logan, an Executive Director, was appointed on 31 July 2006 and Jim Smart, a Non-executive Director, was appointed on 1 January 2007. As such, both Directors retire at the Annual General Meeting and, being eligible, are offering themselves for election.

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 Grisay, Larcombe and Moore 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. 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-executives 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 12 and 13.

Board succession planning

In the second quarter, the Nomination Committee drew up 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 was approved by the Board in July. The Board changes consistent with that plan are detailed in the Chairman's Statement. The Committee appointments which flow from these changes and which were envisaged by the succession plan include the following:

- Upon the retirement of Christopher Jemmett, Keith Bedell-Pearce will assume both Chair of the Audit and Compliance Committee and the role of Senior Independent Director.
- Upon the retirement of David Gray, Brian Larcombe will join the Audit and Compliance Committee.
- Nicholas MacAndrew will join the Audit and Compliance Committee.

Note that upon her retirement from the Board in late 2006, Karen McPherson's role as Chairperson of the Remuneration Committee was assumed by John Heywood.

The Nomination Committee is currently conducting a search for an additional independent Non-executive Director.

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

Directors' Report on Corporate Governance

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 Thursday, 10 May 2007 can be found in the notice of the meeting commencing on page 142.

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.

In addition the Company's registrar, Lloyds TSB, offers a Shareview service enabling you to have more control over your shares and other investments:

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

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

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

Electronic communications

The Company Law Reform Bill was enacted in November 2006 and the Government's intention is to accelerate the use of electronic communication with shareholders so that it becomes a default option from January 2007. This means that listed companies only have to send paper versions of documents such as statutory reports to shareholders who explicitly request them. As a result, and consistent with the Board's commitment to reducing its environmental impact, shareholders will find enclosed with this Annual Report a form of election and further information on the Company's Registrar's Shareview service. Please note that if shareholders do not positively elect to receive hard copy documents and return their election to the Company's Registrars by 30 April 2007, they will no longer receive any hard copy Annual or Interim Reports from the Company.

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, Lloyds TSB Registrars at www.sharevote.co.uk. Shareholders can use this service to vote or appoint a proxy online. The same voting deadline (12 noon on 8 May 2007) applies as if you were using your Personalised Voting Form to vote or appoint a proxy by post to vote for you. You will need to use the unique personal identification details (Reference Number, Card ID and Account Number) that are printed on your Personalised Voting Form.

CREST members

Registered shareholders who are CREST members and who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 10 May 2007, or any adjournment of it, by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST Sponsored Members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a ''CREST Proxy Instruction'') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent, Lloyds TSB Registrars (ID 7RA01), by 12 noon on 8 May 2007. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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 2006.

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 19 March 2007, 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 including the Group's overseas locations in The Netherlands, Portugal, Germany, Ireland, Switzerland, France and the U.S. The quarterly reports include issues of material business risk. These reports are discussed in detail by the Management Committee which includes all 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 pages 6 and 7.

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 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 2006 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 audit-related and 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 audit-related and 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 Board's recommendation to shareholders under resolution 9 contained in the Notice of the Meeting on page 142 to appoint KPMG Audit Plc as the Company's auditor.

During the year, Deloitte, Ernst & Young, and PricewaterhouseCoopers, who are independent of KPMG, the external auditors, provided non-audit related services to the Group. Details of fees paid to accounting firms during 2006 are disclosed in note 4 on pages 57 and 58 of the notes to the Consolidated Financial Statements.

Future developments

The Board believes that the controls in place during 2006 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
19 March 2007

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 issued by the Financial Reporting Council in July 2003 (''the Code''), Schedule 7A to the Companies Act 1985 and the FSA Listing Rules. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

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

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 John Heywood, an independent Non-executive Director, (the Committee was chaired by Karen McPherson, an independent Non-executive Director until her retiral from the Board in November 2006). Its other members are Keith Bedell-Pearce, and Brian Larcombe, both of whom are independent Non-executive Directors.

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.

Advice

During the year, the Remuneration Committee sought and received independent remuneration research undertaken by Mclagan & Partners, Towers Perrin, DLAMCG Consulting, Deloitte, and Mercer Human Resource Consulting, 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 2006 the Remuneration Committee also received advice from PricewaterhouseCoopers (''PwC'') 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 ownership; and
- clarity, transparency, and fairness of process.

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

(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 superior 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:

- 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 will be required to defer one third of the element exceeding £75,000 into shares (''Compulsory Purchased Equity'') for three years; and
- as and when determined by the Board, eligible employees may be invited to elect to defer into shares any remaining proportion of their gross cash bonus not subject to deferral on a compulsory basis for three years (subject to a minimum deferral of £1,500) (''Voluntary Purchased Equity'').

During 2006, the Remuneration Committee and the Board resolved to widen the investment choices available under the Compulsory Purchased Equity arrangements of the plan to include a number of investment products managed by the Company. The widened investment choice was offered to participants who receive bonuses in March 2007 in respect of their performance in 2006.

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 2006, the Compulsory Purchased Equity element of the Purchased Equity Plan was applied to 57 employees (2005: 30 employees) in respect of their performance in 2005: 857,462 of the Company's Ordinary 0.1 pence Shares (2005: 750,091) were acquired under the Compulsory Purchased Equity element of the Purchased Equity Plan. 60,284 shares were forfeited during the year.

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 and will exclude amortisation and impairment of intangible assets, BCP compensation receipt, restructuring costs, and the cost of the Re-Investment Plan.

(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 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. Details of all ''options'' held by Directors under the Share Save Scheme are contained on page 35.

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. 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 2006, 321 employees (31 December 2005: 327 employees) participated in Share Save and 426 employees (31 December 2005: 548 employees) participated in the SIP.

Shares under option within Share Save are detailed below:

Number of options	Term (years)	Exercise price
March 2003 Participation		
285,574	5	114.0 pence
March 2004 Participation		
153,435	3	181.0 pence
114,045	5	181.0 pence
March 2005 Participation		
241,141	3	186.6 pence
143,444	5	186.6 pence
March 2006 Participation		
335,898	3	171.0 pence
175,215	5	171.0 pence

213,109 shares (2005: 165,391 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.

Adjustments to Earnings per Share (EPS) performance condition within the Company's long term incentive schemes

Withdrawal of Resolution Life funds

In May 2006, shareholders overwhelmingly supported an ordinary resolution to make a one off adjustment of up to 3.0 pence per share to the 2006 earnings for the purposes of measuring the performance conditions attached to the Company's long term incentive schemes. This adjustment recognised the exceptional circumstances surrounding the loss of the Resolution Life assets and the fact that the loss was in no way attributable to weaknesses in the services provided to Resolution as a client.

The Remuneration Committee and the Board have quantified the adjustment at 2.74 pence per share.

International Financial Reporting Standards (IFRS)

In the 2005 Annual Report & Financial Statements, the introduction of IFRS and the requirement to ensure a fair and consistent comparison between the base year and the final year for share-based awards were highlighted.

Accordingly, growth over the 2003 – 2006 performance period has been measured on a consistent set of accounting standards. Growth from 2003 to 2004 has been measured using underlying EPS figures calculated under UK GAAP, and growth for each subsequent year has been measured using figures calculated under IFRS compared with 2004 underlying EPS restatement under IFRS.

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

Achievement of performance conditions

During 2006 the growth in the Group's EPS (as amended for the adjustment in relation to the loss of the Resolution assets) underperformed the growth in the RPI 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 2006, the Company's TSR ranked 163rd out of a FTSE 250 Index comparator group of 213 companies* in the period from 1 January 2006 to 31 December 2006.

In respect of awards made in 2004, the Company's TSR ranked 149th out of a FTSE 250 Index comparator group of 173 companies* in the period from award to 31 December 2006.

* 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 2006. Only companies appearing in the index on both dates are included for the purposes of the analysis.

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

At the Annual General meeting held in 2006, shareholders approved amendments to the LTRP, providing the Remuneration Committee and management with the authority to award shares under the LTRP, the vesting of which is contingent solely on the continued employment of the relevant participant over a three year period.

During the year, 3,634,418 deferred awards were made under the LTRP (2005: Nil). Deferred awards were made to 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 total shareholder return (''TSR'') and 50 per cent. of the award relates to real earnings per share growth as set out below.

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

EPS target (applying to 50 per cent. of any award) Growth in Group's EPS over three year performance period	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 1,482,046 restricted awards were made under the LTRP (2005: Nil). Restricted awards were made to 20 staff.

During the year, 184 staff received a combination of restricted and deferred awards.

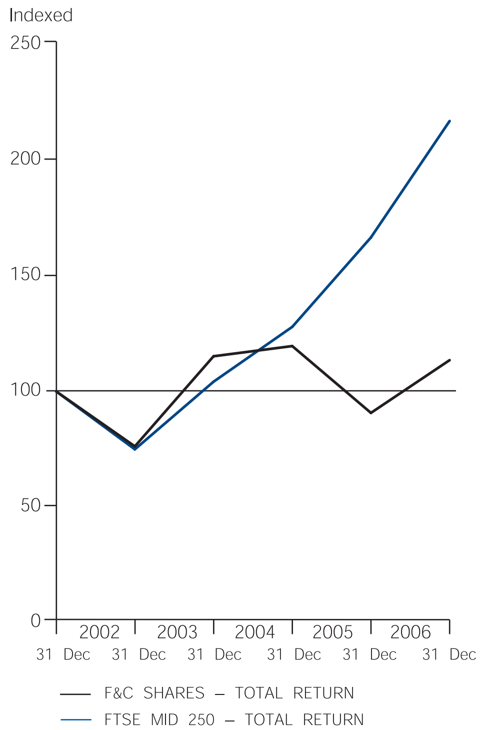
Policy on grants and awards under the share incentive schemes

The Company's policy for the granting of awards under the LTRP is that awards and grants are based on an assessment of individual contribution to the business and independent advice obtained on current remuneration practices. Each year the Remuneration Committee will recommend to the Board the individuals to whom LTRPs should be awarded. Award levels will be determined by the Remuneration Committee with reference to 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 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.

Directors' Remuneration Report

Performance graph for the share incentive schemes

The graph below compares the performance of the Company for the five financial periods ending 31 December 2006 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

(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 2006 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.

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

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

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

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

Messrs 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.

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 2007	Provision for compensation payable by the Company on early termination £000
Robert Jenkins	16 May 2006	None	twenty six months	Nil
Keith Bedell-Pearce	16 May 2006	None	twenty six months	Nil
Dick de Beus	16 May 2006	None	twenty six months	Nil
David Gray	30 Apr 2004	None	one month	Nil
John Heywood	26 Apr 2005	None	thirteen months	Nil
Christopher Jemmett	30 Apr 2004	None	one month	Nil
Brian Larcombe	26 Apr 2005	None	thirteen months	Nil
Jeff Medlock	26 Apr 2005	None	thirteen months	Nil
Philip Moore	24 Jan 2005	None	ten months	Nil
Jim Smart	1 Jan 2007	None	n/a	Nil

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

Directors retiring and seeking election/re-election

The names of those Directors proposed for re-election are contained in the Directors' Report on Corporate Governance on page 23.

Directors' Remuneration Report

Statement on Directors' remuneration (audited)

The remuneration of the Chairman and the other Directors who held office during the year ended 31 December 2006 is set out below:

	Salary and fees 2006 £000	Bonus 2006 £000	Benefits and allowances 2006 £000	Total 2006 (excluding pension contribution) £000	Total 2005 (excluding pension contribution) £000	Pension contributions 2006 £000	Total 2006 £000	Total 2005 £000
Executive Directors								
Howard Carter[1]	–	–	–		1,885	–	–	1,958
Alain Grisay	325	1,358*	6	1,689	1,096	685**	2,374	1,114
David Logan[2]	105	450	1	556	–	11	567	–
Ian Paterson Brown[1]	–	–	–	–	1,774	–	–	1,774
Chairman and Non-executive Directors								
Robert Jenkins (Chairman)	100	–	2	102	102	–	102	102
Christopher Jemmett	55	–	–	55	55	–	55	55
Dick de Beus	35	–	–	35	35	–	35	35
Keith Bedell-Pearce	48	–	–	48	48	–	48	48
David Gray	45	–	–	45	65	–	45	65
John Heywood	48	–	–	48	48	–	48	48
Brian Larcombe	38	–	–	38	35	–	38	35
Philip Moore	–	–	–	–	–	–	–	–
Karen McPherson[3]	44	–	–	44	48	–	44	48
Jeff Medlock	30	–	–	30	30	–	30	30
Keith Satchell	–	–	–	–	–	–	–	–
Total	873	1,808	9	2,690	5,221	696	3,386	5,312

* In addition, Alain Grisay received £642,000, 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 page 27.

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

[1] Resigned as a Director on 16 May 2006. The 2005 remuneration includes the total payments due for compensation for loss of office, no additional payments were made in 2006.

[2] Appointed as a Director on 31 July 2006.

[3] Resigned as a Director on 7 November 2006.

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

The Company received £Nil (2005: £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 and Keith Satchell, which would have been payable to Friends Provident plc, were waived in 2006 by Friends Provident in lieu of the services provided by Howard Carter and Alain Grisay to their Board in their capacity as Directors 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:

	2006 Number	2005 Number
Members of money purchase pension scheme	2	1
Members of defined benefit scheme	2	2

	2006 £000	2005 £000
Company contributions paid to money purchase pension schemes		
Alain Grisay	2,018*	275
David Logan (from appointment on 31 July 2006)	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 £88,000 (2005: £85,000) in respect of the pension benefits which had accrued to a former chairman.

The following Directors were members of defined benefit schemes provided by the Group during the year and up to the date of their retirement in May 2006. Pension entitlements and corresponding transfer values increased as follows during the year.

	(1) Gross increase in accrued pension	(2) Increase in accrued pension net of inflation	(3) Total accrued pension at 16/05/2006	(4) Transfer value of net increase in accrual over period	(5) Total change in value during period	(6) Value of accrued pension at 16/05/2006	(7) Value of accrued pension at 31/12/2005
Howard Carter	£1,700	£1,100	£18,100	£16,600	£47,000	£296,500	£248,400
Ian Paterson Brown	£1,300	(£1,400)	£77,900	(£35,900)	(£26,900)	£1,990,100	£2,014,000

Notes

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

(b) The value of net increase (4) represents the incremental value to the Director of his service during the year. It is based on the accrued pension increase (2) and is net of Director contributions for the period and therefore represents the notional Company "cost".

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

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

(e) Pensionable Salary for I Paterson Brown was not subject to the Earnings Cap. Pensionable Salary for Mr Carter was subject to the Earnings Cap.

(f) Mr Carter left employment with F&C during 2006. The value of net increase (4) represents the incremental value to the Director in relation to service to 11 September 2006. It is based on the accrued pension increase (2).

(g) Mr Paterson Brown left employment with F&C during 2006. The value of net increase (4) represents the incremental value to the Director in relation to service to 1 June 2006. It is based on the accrued pension increase (2).

(h) The value of accrued pension at 16/05/2006 (6) for Mr Paterson Brown has been calculated assuming an unreduced pension is payable from 1 June 2006. The value in (6) does not represent the actual transfer value available to Mr Paterson Brown from the ISIS Asset Management plc Pension Fund were he to transfer his benefits to another arrangement, as this is not at option for members in respect of benefits.

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 31/12/2006	(4) Transfer value of net increase in accrual over period	(5) Total change in value during period	(6) Value of accrued pension at 31/12/2006	(7) Value of accrued pension at 31/12/2005
Robert Jenkins	£3,700	£0	£106,400	£0	£109,000	£1,903,600	£1,794,600

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.

Directors' Remuneration Report

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 2006 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.

Long Term Remuneration Plan awards

Details of the Long Term Remuneration Plan are set out on page 29.

During the year, Alain Grisay received a restricted share award of 956,937 shares. No awards were made to Executive Directors under the Long Term Remuneration Plan in 2005, no awards were exercised by Executive Directors or former Executive Directors and no awards held by Executive Directors lapsed.

Date of Grant	Alain Grisay	Share price on award date
2006		
17 May	956,937	209.0p
2005		
No awards made	–	N/A
2004		
15 November	208,333	240.25p

Total awards oustanding	31 December 2006	31 December 2005
Howard Carter	416,667	416,667
Alain Grisay	1,165,270	208,333
Ian Paterson Brown	143,750	143,750

Re-Investment Plan

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

Forfeiture table in relation to "Investment Shares".

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

On 11 October 2004, 11,021,991 Investment Shares were awarded to 119 employees in the plan. During the period ended 31 December 2006, 169,199 (2005: 836,054) Investment Shares held in the Re-Investment Plan were forfeited and 4,408,520 (2005: 5,560,311) Investment Shares were released from the plan.

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

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

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

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

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

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

Investment shares	31 December 2005	Second release from Re-Investment Plan	31 December 2006
Alain Grisay	597,818	597,818	Nil

Share options

Details of the share option schemes are set out on pages 90 and 100. No options have been granted to Directors or former Directors since 2003.

	16 May 2006	31 December 2005	16 May 2006 Share Save*	31 December 2005 Share Save*
Howard Carter	363,553	525,423	6,915	6,915
Ian Paterson Brown	297,170	297,170	6,915	6,915

* Options held at an exercise price of 114 pence by saving up to £120 per month in the F&C Asset Management plc Share Save Scheme for five years (6,915).

Options granted under the 1995 & 2002 Executive Share Option Schemes

Date of Grant	Howard Carter	Ian Paterson Brown*	Option price	Share price on date of exercise	Gain on exercise (£)
1995 Executive Share Option Scheme					
9 June 1998	194,036	55,331	203.8p	–	–
16 July 1999	48,437	83,095	232.5p	–	–
28 April 2000	76,580	47,830	214.0p	–	–
1 March 2001	44,500	3,000	455.8p	–	–
Opening position at 1 January 2006	363,553	189,256	–	–	–
Options exercised during the year	–	–	–	–	–
Options lapsed during the year	–	–	–	–	–
Options remaining at 16 May 2006	363,553	189,256	–	–	–
2002 Executive Share Option Scheme					
19 March 2003	161,870	107,914	139.0p	–	–
Opening position at 1 January 2006	161,870	107,914	–	–	–
Options exercised during the year	161,870	–	139.0p	215.0p	123,000
Options lapsed during the year	–	–	–	–	–
Options remaining at 16 May 2006	–	107,914	–	–	–

* All of Ian Paterson Brown's options granted under the 1995 Executive Option Scheme were awarded prior to his appointment as a Director on 1 July 2002. Accordingly, at 16 May 2006 Ian Paterson Brown had received 107,914 options for "qualifying services" as a Director.

Since 16 May 2006 Messrs Carter and Paterson Brown, former Directors of the Company, have exercised 194,036 and 107,914 options respectively realising gains on exercise of £22,000 and £73,000 respectively.

The share price at 31 December 2006 was 211.0 pence. During the year the highest price was 232.0 pence per share and the lowest price was 176.0 pence.

Directors' Remuneration Report

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 2006 (excluding pension contribution)'' within the Statement on Directors' remuneration on page 32.

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) 2006	Number of senior executives (excluding Executive Directors) 2005
100-125	56	54
126-150	39	32
151-175	18	13
176-200	13	17
201-225	6	17
226-250	13	6
251-300	19	19
301-400	12	3
401-500	4	4
501-600	2	–
601-700	3	–
>700	1	–

By order of the Board,

W Marrack Tonkin, FCCA
Secretary

80 George Street
Edinburgh EH2 3BU
19 March 2007

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 (''IFRSs'') 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 IFRSs 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 IFRSs 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 Auditors’ 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 2006 which comprise the Consolidated Income Statement, the Consolidated and Parent 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 37.

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

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors’ Remuneration Report to be audited. It also includes an assessment of the significant estimates and 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 2006 and of its loss 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 2006;
- 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

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh

19 March 2007

Consolidated Income Statement
for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Revenue			
Investment management fees	2	**257,667**	277,356
Other income	2	**3,677**	691
Total revenue		**261,344**	278,047
Fee and commission expenses	2	**(10,530)**	(10,895)
Net revenue	2	**250,814**	267,152
Movements on unit-linked assets	3(a)	**106,700**	162,605
Movements on unit-linked liabilities	3(b)	**(105,007)**	(161,321)
Operating expenses			
Operating expenses	4(b)	**(159,397)**	(150,695)
Re-Investment Plan costs		**(11,593)**	(22,162)
Impairment of intangible assets – management contracts	13	**(58,478)**	(111,500)
Amortisation of intangible assets – management contracts	13	**(43,046)**	(55,801)
Total operating expenses before restructuring costs		**(272,514)**	(340,158)
Operating loss before restructuring costs		**(20,007)**	(71,722)
Restructuring costs:			
– Reorganisation costs post acquisition of F&CGH Group	6(a)	**(9,704)**	(22,405)
– Operations outsourcing	6(b)	**–**	(2,235)
Operating loss after restructuring costs		**(29,711)**	(96,362)
Finance revenue	7	**20,614**	15,570
Finance costs	8	**(22,077)**	(19,495)
Impairment in associates and other financial investments	14	**(764)**	(5,026)
Loss on disposal of subsidiaries and associates	16(b)	**(61)**	(672)
Share of profit/(loss) of associates	15	**1,445**	(339)
Loss before tax		**(30,554)**	(106,324)
Tax – Policyholders		**(836)**	(118)
Tax – Shareholders		**8,864**	29,169
Tax income	9	**8,028**	29,051
Loss for the year		**(22,526)**	(77,273)
Attributable to:			
Equity holders of the parent		**(23,525)**	(77,273)
Minority interests		**999**	–
Loss for the year		**(22,526)**	(77,273)
Basic loss per share	11	**(4.91)p**	(16.36)p
Diluted loss per share	11	**(4.91)p**	(16.36)p
Memo – dividends proposed	10(a)	**33,761**	33,381
– dividends paid	10(a)	**52,660**	51,817

Consolidated Balance Sheet
as at 31 December 2006

	Notes	As at 31 December 2006 £000	As at 31 December 2005 £000
Assets			
Non-current assets			
Property, plant and equipment	12	**12,799**	11,242
Intangible assets:			
– Goodwill	13	**569,846**	577,946
– Management contracts	13	**284,315**	416,141
– Other intangible assets	13	**1,131**	1,641
	13	**855,292**	995,728
Other financial investments	14,19	**2,074**	3,397
Trade and other receivables	21	**2,500**	2,500
Investment in associates	15	**1,406**	335
Deferred acquisition costs	17	**7,863**	8,342
Deferred tax assets	18(a)	**33,445**	34,083
Total non-current assets		**915,379**	1,055,627
Current assets			
Financial investments	19	**1,128,841**	982,943
Reinsurance assets	20	**2,345**	2,617
Stock of units and shares	19	**740**	676
Trade and other receivables	21	**86,224**	92,858
Deferred acquisition costs	17	**3,367**	3,018
Cash and cash equivalents:			
– Policyholders	22	**53,272**	28,152
– Shareholders	22	**214,311**	118,045
	22	**267,583**	146,197
Total current assets		**1,489,100**	1,228,309
Total assets		**2,404,479**	2,283,936
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	23	**258,511**	34,800
Trade and other payables	24	**3,984**	–
Provisions	25	**9,148**	12,960
Pension deficit	26(a)	**45,403**	48,032
Deferred income	27	**13,733**	14,351
Deferred tax liabilities	18(a)	**86,079**	125,295
Total non-current liabilities		**416,858**	235,438
Current liabilities			
Investment contract liabilities	28	**1,175,105**	1,006,928
Insurance contract liabilities	29	**2,345**	2,617
Interest bearing loans and borrowings	23	**5,000**	185,000
Trade and other payables	24	**62,220**	58,724
Provisions	25	**9,317**	6,463
Employee benefits		**32,815**	29,954
Deferred income	27	**4,242**	3,679
Current tax payable		**12,817**	9,713
Total current liabilities		**1,303,861**	1,303,078
Total liabilities		**1,720,719**	1,538,516
Equity attributable to equity holders of the parent			
Share capital	30, 31	**485**	484
Share premium account	31	**32,594**	30,730
Merger reserve	31	**520,677**	606,146
Other reserves	31	**(2,708)**	52,179
Retained earnings	31	**132,282**	56,379
Total equity attributable to equity holders of the parent		**683,330**	745,918
Minority interests	31	**430**	(498)
Total equity	31	**683,760**	745,420
Total liabilities and equity		**2,404,479**	2,283,936

The financial statements were approved by the Board of Directors and authorised for issue on 19 March 2007. 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 2006

	Notes	2006 £000	2005 £000
Loss for the year		**(22,526)**	(77,273)
Foreign exchange movements on translation of foreign operations		**(4,422)**	(4,246)
Actuarial gain/(loss) on defined benefit pension schemes	26(a)	**2,483**	(30,734)
Gain on available for sale financial investments		**1,887**	893
Fair value gains transferred to the Income Statement		**(2,382)**	(1,120)
Tax (expense)/income on items taken directly to equity	9(a)	**(761)**	8,597
Other		**98**	449
Net expense recognised directly in equity		**(3,097)**	(26,161)
Total recognised income and expense for the year	31	**(25,623)**	(103,434)
Attributable to:			
Equity holders of the parent		**(26,622)**	(103,434)
Minority interests		**999**	–
		(25,623)	(103,434)

Consolidated Cash Flow Statement
for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Cash flows from operating activities			
Operating loss before restructuring costs		**(20,007)**	(71,722)
Cash outflow relating to restructuring costs		**(11,282)**	(24,913)
Adjustments for non-cash items	32	**119,364**	195,298
Changes in working capital and provisions	32	**40,879**	(54,299)
Cash generated from operating activities		**128,954**	44,364
Income tax paid		**(18,293)**	(14,359)
Net cash inflow from operating activities		**110,661**	30,005
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1**	94
Acquisition of property, plant and equipment		**(4,077)**	(3,701)
Payment to increase investment in associate		**–**	(485)
Compensation receipt from Resolution plc	13	**27,000**	–
Purchase of intangibles – management contracts		**–**	(1,249)
Purchase of intangibles – software		**(701)**	(989)
Return of capital from investments		**97**	132
Proceeds from disposal of subsidiaries		**–**	10
Cash transferred on disposal of subsidiary		**–**	(824)
Payments to acquire investments		**(1,815)**	(35)
Proceeds from disposal of investments		**165**	–
Loan to associate (ISIS EP LLP)		**–**	(2,500)
Expenses of F&CGH Group acquisition		**(207)**	(624)
Capital distributions received from associates		**374**	–
Investment income – investments		**6,416**	5,840
Investment income – interest		**5,741**	3,472
Investment income – dividends		**10**	32
Net cash inflow/(outflow) from investing activities		**33,004**	(827)
Cash flows from financing activities			
Proceeds from issue of share capital	31	**1,865**	1,776
Repayment of loan from Eureko B.V.		**(9,000)**	–
Repayment of loans from FP Group		**(205,000)**	–
Proceeds from long-term borrowings		**260,000**	–
Payments in respect of expenses for long-term borrowings		**(2,095)**	–
Interest paid on loans		**(14,045)**	(13,498)
Other interest paid		**(568)**	(392)
Equity dividends paid	10(a)	**(52,660)**	(51,817)
Interest on Preference Shares		**(53)**	(47)
Purchase of own shares		**(684)**	(87)
Net cash outflow from financing activities		**(22,240)**	(64,065)
Net increase/(decrease) in cash and cash equivalents		**121,425**	(34,887)
Effect of exchange rate fluctuations on cash held		**(39)**	–
Cash and cash equivalents at 1 January		**146,197**	181,084
Cash and cash equivalents at 31 December	22	**267,583**	146,197
Cash and cash equivalents			
Shareholders	22	**214,311**	118,045
Policyholders	22	**53,272**	28,152
	22	**267,583**	146,197

Accounting Policies

Basis of preparation

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 (IFRS) as adopted by the European Union and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Consolidated Financial Statements are presented in pounds Sterling, rounded to the nearest thousand, except where otherwise indicated.

The Group has adopted the following standards and interpretations during 2006:

Amendments to IAS 39 and IFRS 4: Financial Guarantee Contracts.
IFRIC 8 Scope of IFRS 2.
IFRIC 9 Reassessment of Embedded Derivatives.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with IFRS, as adopted by the European Union (EU) as they apply to financial statements of the Group for the year ended 31 December 2006, and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

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 123 to 141.

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 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 assumptions concerning the future are disclosed, where appropriate, in the following notes to the Consolidated Financial Statements:

(a) Property, plant and equipment

The amortisation periods used on property, plant and equipment, as disclosed in the Accounting Policies. Property, plant and equipment is disclosed in note 12.

(b) Amortisation periods used on intangible assets

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

(c) 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.

(d) Fair values of Available For Sale assets

Valuation methodologies are used to determine certain fair values of Available for Sale assets, which are disclosed in note 14.

(e) Deferred acquisition costs and deferred income

The deferred acquisition costs, disclosed in note 17, are amortised over the same period as the related OEIC income, as disclosed in note 27.

(f) 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.

(g) Provisions

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

(h) Pension assumptions

The mortality assumptions, expected rates of return, discount rates, rates of salary increases and rate of inflation increases are disclosed in note 26(a).

(i) 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 are disclosed in note 26 (b).

(j) Insurance contract liabilities

The mortality and discount rates used on insurance contract liabilities, as disclosed in note 29.

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 2006 and 31 December 2005.

(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 also recognises directly in equity its share of post-acquisition gains and losses which the associate has recognised directly in equity, which are presented in the Statement of Recognised Income and Expense (SORIE). 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 Consolidated Financial Statements are presented in pounds Sterling, the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured in that functional currency.

(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; acquired intangible assets denominated in foreign currencies are retranslated at the exchange rate at the balance sheet date. 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. Conversely, 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 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 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 assessed 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 the gaining of 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, then expenditure in relation to that strategic project is separately recognised on the face of the Income Statement as 'Restructuring costs'.

(g) Finance revenue

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

Accounting Policies

(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

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, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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.

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. After an appropriate period, an assessment is made as to whether either 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

The fair value of instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices 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.

(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:

- Trade and other receivables

Current assets:

- 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
- Trade and 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 yield 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.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 current market rate of return for a similar financial asset.

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 profit or loss, 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 reversed 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 profit or loss.

(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 the 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 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.

Vesting of 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 remeasured 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 involuntary redundancies.

The dilutive effect of outstanding options is reflected as additional 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 treasury shares. Dividends on Ordinary Shares are recognised on the date of payment, or if subject to approval, the date approved by the shareholders.

(u) Accounting for ESOP Trusts

The Group has several Employee Share Ownership Plan (ESOP) Trusts which own shares in the Company to enable it to satisfy certain future exercises of share-based awards. The ESOPs 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)	
IFRS 7 Financial Instruments: Disclosures	1 January 2007
IAS 1 Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007

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 and additional disclosures. The Group plans to apply the standards in the reporting period when they become effective.

Under IFRS 7, the Group will be required to disclose additional information on its financial instruments, their significance, and the nature and extent of their related risks. In particular, more detailed disclosures will be required in connection with the fair values of financial instruments and the Group's risk exposures. As the changes only concern disclosures to be provided, there will be no effect on reported income or net assets.

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 only monitor profitability of the business 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 current and previous year, impairment losses have been 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 year is shown in part (a).

1. Segment reporting (cont'd)

(a) Geographical segments – by location of assets

	The United Kingdom		The Netherlands		Portugal		Republic of Ireland		Other		Eliminations		Consolidated	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Revenue														
External clients (including Friends Provident)	**194,444**	205,066	**47,135**	52,716	**11,878**	12,618	**3,601**	3,444	**4,286**	4,203	**–**	–	**261,344**	278,047
Inter-segment sales	**17,025**	195	**27**	–	**–**	1,584	**3**	–	**–**	–	**(17,055)**	(1,779)	**–**	–
Segment revenue	**211,469**	205,261	**47,162**	52,716	**11,878**	14,202	**3,604**	3,444	**4,286**	4,203	**(17,055)**	(1,779)	**261,344**	278,047
Segment result	**(40,596)**	(79,573)	**(7,104)**	(15,387)	**1,242**	(710)	**(613)**	(2,603)	**1,912**	1,966	**15,448**	(55)	**(29,711)**	(96,362)
Operating loss after restructuring costs													**(29,711)**	(96,362)
Finance revenue													**20,614**	15,570
Finance costs													**(22,077)**	(19,495)
Impairment in associates and other financial investments													**(764)**	(5,026)
Loss on disposal of associate/subsidiary													**(61)**	(672)
Share of profit/(loss) of associates	**1,445**	(339)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1,445**	(339)
Tax income													**8,028**	29,051
Loss for the year													**(22,526)**	(77,273)
Other information														
Segment assets	**1,636,490**	1,498,111	**130,906**	155,348	**41,570**	44,651	**16,272**	16,643	**7,455**	12,026	**(39,749)**	(62,054)	**1,792,944**	1,664,725
Investment in associates	**1,406**	335	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1,406**	335
Unallocated corporate assets													**610,129**	618,876
Consolidated total assets													**2,404,479**	2,283,936
Segment liabilities	**(1,356,489)**	(1,198,671)	**(31,461)**	(36,225)	**(2,532)**	(3,840)	**(7,558)**	(7,019)	**(21)**	(6)	**39,749**	62,054	**(1,358,312)**	(1,183,707)
Unallocated corporate liabilities													**(362,407)**	(354,809)
Consolidated total liabilities													**(1,720,719)**	(1,538,516)
Capital expenditure (exc. goodwill)	**3,062**	6,296	**1,642**	6	**–**	–	**70**	29	**–**	–	**–**	–	**4,774**	6,331
Depreciation and amortisation	**(32,590)**	(42,823)	**(9,948)**	(11,661)	**(2,508)**	(3,058)	**(767)**	(955)	**(893)**	(900)	**–**	–	**(46,706)**	(59,397)
Impairment of intangible assets	**(35,693)**	(70,866)	**(16,053)**	(28,626)	**(4,045)**	(7,522)	**(1,226)**	(2,272)	**(1,461)**	(2,214)	**–**	–	**(58,478)**	(111,500)
Non-cash expenses other than depreciation, impairment and amortisation	**(123,507)**	(52,010)	**(2,166)**	(976)	**(82)**	(296)	**(430)**	(87)	**(11)**	(1,865)	**–**	–	**(126,196)**	(55,234)

There were no discontinued operations in 2005 or 2006.

(b) Revenue by location of clients

	2006 £000	2005 £000
The United Kingdom	**136,319**	154,540
The Netherlands	**58,125**	62,048
Portugal	**24,103**	23,898
The Republic of Ireland	**19,518**	13,901
Other	**23,279**	23,660
Consolidated total revenue	**261,344**	278,047

2. Net revenue

	2006 £000	2005 £000
Investment management fees	**248,143**	264,403
Performance related management fees	**9,524**	12,953
Investment management fees	**257,667**	277,356
Compensation received from BCP in respect of withdrawal of funds under management*	**2,595**	–
Other income	**1,082**	691
Total other income	**3,677**	691
Renewal commission on open-ended investment products	**(7,620)**	(7,911)
Other selling expenses	**(2,910)**	(2,984)
Fee and commission expenses	**(10,530)**	(10,895)
Total net revenue	**250,814**	267,152

* During 2006 the Group received £2,595,000 from Banco Commercial Português S.A. (BCP) as compensation following the withdrawal during 2005 of some €2 billion of assets which were managed by the Group under long-term contractual arrangements. This matter was previously disclosed as a contingent asset.

3. Movements on unit-linked assets and liabilities

(a) Movements on unit-linked assets

	2006 £000	2005 £000
Interest revenue	**14,183**	10,370
Dividend revenue	**23,190**	18,548
Movements in fair values of unit-linked assets	**69,327**	133,687
	106,700	162,605

(b) Movements on unit-linked liabilities

	2006 £000	2005 £000
Movements in fair values of unit-linked liabilities	**(105,007)**	(161,321)

4. Expenses

(a) Total expenses

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

	2006 £000	2005 £000
Staff related and employee benefit expenses	**118,553**	123,903
Premises expenses	**8,966**	16,788
Communication and information technology expenses	**13,732**	13,587
Third party administration expenses	**13,267**	14,038
Promotional and client servicing expenses	**6,635**	7,437
Depreciation and amortisation expenses	**46,706**	59,397
Impairment expenses	**58,478**	111,500
Other expenses	**15,881**	18,148
	282,218	364,798

(b) Operating expenses

Operating expenses include the following:

	2006 £000	2005 £000
Depreciation of owned tangible property, plant and equipment	**2,995**	3,176
Amortisation of intangible assets – software	**665**	420
Auditors' remuneration – audit of these financial statements	**494**	729
Auditors' remuneration – audit of financial statements of subsidiaries pursuant to legislation	**136**	606
Auditors' remuneration – other services	**722**	887
Operating lease rentals – land and buildings (head leases)	**9,463**	10,573
Operating lease rentals – vehicles	**418**	530
Operating lease rentals – other*	**2,023**	819
Rentals receivable – operating leases	**(2,336)**	(2,257)
Loss/(gain) on disposals of tangible fixed assets	**21**	(73)
Foreign exchange losses	**705**	926

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

Sub-lease rentals of £2,336,000 (2005: £2,257,000) were received during the year of which £2,176,000 (2005: £2,134,000) relates to guaranteed payments and £160,000 (2005: £123,000) relates to contingent payments.

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

4. Expenses (cont'd)

(c) 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		Ernst & Young LLP	
	2006 £000	2005 £000	2006 £000	2005 £000
Annual audit fees – 2006	494	–	–	–
Annual audit fees – 2005	–	–	–	449
Annual audit fees – 2004	–	–	–	280
Audit of these financial statements	494	–	–	729
Audit of financial statements of subsidiaries pursuant to legislation	136	–	–	606
Total audit fees of the Group	630	–	–	1,335
Other services supplied pursuant to such legislation	74	–	–	125
Other services relating to taxation	81	–	–	527
Services relating to information technology	839	–	–	451
Internal audit services	–	–	–	167
Services relating to recruitment and remuneration	80	–	–	–
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the company	–	–	–	537
All other services	147	–	–	1,889
Total auditors' remuneration*	1,851	–	–	5,031

* Includes £499,000 of KPMG fees (2005: £2,309,000 of Ernst & Young fees) which are included within restructuring costs (see note 6a).

During the year to 31 December 2006 non-audit fees of £nil (2005: £500,000 paid to Ernst & Young LLP) were paid to the auditors for services relating to acquisitions. These fees have been capitalised and form part of the initial cost of goodwill.

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:

	2006 £000	2005 £000
KPMG	–	3,441
Ernst & Young	969	–
PricewaterhouseCoopers	703	1,383
Deloitte & Touche	3	17
	1,675	4,841

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:

	2006 £000	2005 £000
PricewaterhouseCoopers	272	334

5. Employee benefits expenses

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

	Note	2006 £000	2005 £000
Short-term employee benefits:			
Salaries and related benefits		**47,714**	44,674
Bonus		**24,082**	21,770
Wages and salaries		**71,796**	66,444
Social Security costs		**9,374**	9,687
		81,170	76,131
Post-employment benefits:			
Defined contributions scheme expenses		**2,951**	3,107
Defined benefits scheme expenses		**3,841**	3,419
		6,792	6,526
Total of wages and salaries, Social Security costs and post-employment benefits		**87,962**	82,657
Other long-term employee benefits		**(8)**	60
Termination benefits		**5,082**	7,627
Share-based payment expenses	26(b)	**18,365**	26,344
Total employee benefits expenses		**111,401**	116,688

Included within the above employee benefits expenses is £5,263,000 (2005: £6,330,000) related to restructuring costs as disclosed within note 6a.

The monthly average number of employees (including Executive Directors) of the Group during 2006 was 855 (2005: 863).

6. Restructuring costs

(a) 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 had on the management and operational structure of the enlarged Group:

	2006 £000	2005 £000
Termination and related employee benefits	**5,263**	6,330
Premises costs	**249**	2,514
Information technology and related costs	**3,735**	6,081
Re-branding, administration and client servicing	**325**	2,335
Consultancy and other costs supporting the restructuring process	**132**	5,145
Restructuring costs	**9,704**	22,405
Tax income in respect of restructuring costs	**(2,729)**	(6,721)
Net effect of restructuring costs	**6,975**	15,684

This restructuring continued during 2005 and 2006 and is now complete.

6. Restructuring costs (cont'd)

(b) Operations outsourcing

The Directors consider that the following restructuring costs associated with the operations outsourcing project should be separately disclosed:

	2006 £000	2005 £000
Information technology and related costs	–	366
Consultancy and other costs supporting the restructuring process	–	1,869
Operations outsourcing costs	–	2,235
Tax income in respect of outsourcing costs	–	(671)
Net effect of operations outsourcing costs	–	1,564

7. Finance revenue

	Note	2006 £000	2005 £000
Investment income receivable		**6,416**	5,840
Bank interest receivable		**5,640**	3,365
Fair value adjustments through Income Statement in respect of investments		**449**	–
Other interest receivable		**331**	1
Dividends receivable		**10**	32
		12,846	9,238
Expected return on pension plan assets	26(a)	**7,768**	6,332
		20,614	15,570

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

8. Finance costs

	Note	2006 £000	2005 £000
Interest expense on £260m Subordinated Notes		**577**	–
Interest expense payable to Friends Provident group:			
– £180m term loan		**10,317**	10,642
– £50m revolving credit facility		**404**	434
– £25m subordinated loan		**1,378**	1,466
– Cumulative Preference Shares	10(b)	**54**	53
Interest expense on £9m subordinated loan from Eureko		**507**	428
Bank charges		**128**	175
Other interest payable		**440**	217
		13,805	13,415
Unwinding of discount rate on onerous provisions		**136**	–
Interest cost on pension obligations	26(a)	**8,136**	6,080
		22,077	19,495

9. Income tax

(a) Analysis of tax income in the year

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

Consolidated income statement	2006 £000	2005 £000
Current income tax:		
UK	**18,460**	13,281
Double tax relief in UK on overseas earnings	**(5,315)**	(2,606)
Overseas	**9,032**	10,391
Adjustments in respect of previous years	**519**	(1,640)
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(28,928)**	(49,810)
Adjustments in respect of previous years	**(1,796)**	1,333
Tax income reported in the consolidated income statement	**(8,028)**	(29,051)

Consolidated statement of changes in equity	2006 £000	2005 £000
Deferred and current income tax related to items charged or credited directly to equity:		
Share-based payments	**–**	672
Loss on financial investments	**(148)**	(68)
Unremitted earnings	**(14)**	–
Actuarial gain/(loss) on defined benefit pension schemes	**923**	(9,201)
Tax expense/(income) recognised directly in equity	**761**	(8,597)

(b) Factors affecting the tax income for the year

A reconciliation between the actual tax income and the accounting loss multiplied by the Group's domestic tax rate for the years ended 31 December 2006 and 2005 is as follows:

	2006 £000	2005 £000
Loss before tax	**(30,554)**	(106,324)
At the Group's statutory income tax rate of 30.0% (2005: 30.0%)	**(9,166)**	(31,897)
Adjustments in respect of previous years	**(1,277)**	(307)
Disallowed expenses	**1,185**	1,917
Non-taxable income	**(399)**	(265)
Overseas tax at differing tax rates	**642**	634
Utilisation of unrecognised losses	**(302)**	(1,309)
Share-based payments	**1,289**	2,176
Tax income reported in the consolidated income statement	**(8,028)**	(29,051)

Deferred tax assets and liabilities are shown in note 18.

Notes to the Consolidated Financial Statements

10. Dividends

(a) Ordinary dividends

	2006 £000	2005 £000
Declared and paid during the year		
Equity dividends on Ordinary Shares:		
Final dividend for 2005: 7.0p (2004: 7.0p)	**33,472**	32,952
Interim dividend for 2006: 4.0p (2005: 4.0p)	**19,188**	18,865
	52,660	51,817
Proposed for approval at the Annual General Meeting		
Equity dividends on Ordinary Shares:		
Final dividend for 2006: 7.0p (2005: 7.0p)	**33,761**	33,381

The entitlement to receive dividends (on its holding of F&C shares) held by the Group's ESOPs has been waived by the Trustees. This has resulted in the following dividends being waived:

	Shares	£000
2005 Dividends		
2004 Final	11,635,406	815
2005 Interim	6,681,830	268
2006 Dividends		
2005 Final	6,155,096	431
2006 Interim	2,338,653	94

(b) Non-equity dividends on Cumulative Preference Shares

	2006 £000	2005 £000
Interest expense during the year	**54**	53

11. Earnings per Share

Basic earnings per share amounts are calculated by dividing net 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 net profit/(loss) for the period 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 profit before amortisation and impairment of intangibles, the BCP compensation receipt, restructuring costs and the cost of the Re-Investment Plan more accurately reflects the underlying earnings performance of the Group.

Reconciliation of Earnings per Share	2006 Basic p	2006 Diluted p	2005 Basic p	2005 Diluted p
Loss per Ordinary Share	**(4.91)**	**(4.91)**	(16.36)	(16.36)
BCP compensation receipt, net of tax	**(0.38)**		–	
Amortisation of intangibles, net of tax	**6.29**		8.27	
Cost of the Re-Investment Plan, net of tax	**1.81**		3.82	
Restructuring costs, net of tax:				
– Reorganisation post acquisition of F&CGH Group	**1.45**		3.32	
– Operations outsourcing	**–**		0.33	
Impairment of intangibles, net of tax	**8.54**		16.52	
Underlying earnings per share*	**12.80**		15.90	

* Defined as earnings per Ordinary Share before amortisation and impairment of intangibles, BCP compensation receipt, restructuring costs and the cost of the Re-Investment Plan.

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:

Income	Notes	2006 £000	2005 £000
Loss attributable to ordinary equity holders of the parent for basic loss per share		**(23,525)**	(77,273)
BCP compensation receipt, net of tax		**(1,817)**	–
Amortisation of intangibles, net of tax		**30,132**	39,061
Cost of the Re-Investment Plan, net of tax		**8,668**	18,025
Restructuring costs, net of tax:			
– Reorganisation post acquisition of F&CGH Group	6a	**6,975**	15,684
– Operations outsourcing	6b	**–**	1,564
Impairment of intangibles, net of tax		**40,935**	78,050
Underlying profit attributable to ordinary equity holders of the parent**		**61,368**	75,111

** Defined as profit attributable to ordinary equity holders of the parent before amortisation and impairment of intangibles, BCP compensation receipt, restructuring costs and the cost of the Re-Investment Plan.

Share capital	2006 No.	2005 No.
Weighted average number of Ordinary Shares (excluding treasury shares) for basic loss per share	**479,285,850**	472,408,007
Dilutive potential Ordinary Shares:		
Weighted average number of 1995 ESOS options exercisable	**–**	3,105
Weighted average number of 2002 ESOS options exercisable	**475,912**	880,389
Weighted average number of Share Save Scheme options exercisable	**193,233**	278,082
Weighted average number of The Re-Investment Plan options exercisable	**9,820,735**	15,210,652
Weighted average number of The Long Term Remuneration Plan options exercisable	**1,995,924**	986,064
Weighted average number of Purchased Equity Plan options exercisable	**501,598**	206,945
Dilutive potential weighted average number of Ordinary Shares*	**492,273,252**	489,973,244

* 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 for each of the years presented.

Certain employees, who have left the Group, are entitled to exercise their 1995 or 2002 Executive Share Options for a defined period in accordance with scheme rules. 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: 194,036 share options (2005: 969,931) have been exercised during this period and have been 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. Note 26(b) discloses the number of awards which are outstanding for each scheme at 31 December 2006.

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 2006 the 2,031,927 (31 December 2005: 2,693,131) options outstanding, at exercise prices between 203.83 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 of the 2002 Executive Share Option Scheme had been met. The 1,071,011 (31 December 2005: 2,729,971) options outstanding, at an exercise price of 139.00p, are now potentially dilutive, as settlement would be made by the issue of new shares.

12. Property, plant and equipment

	Leasehold improvements £000	Motor vehicles £000	Office furniture and equipment £000	Computer equipment £000	Total £000
Cost:					
At 1 January 2005	10,986	101	4,361	9,780	25,228
Additions	1,388	85	153	1,901	3,527
Disposals	(3,423)	(23)	(2,057)	(2,668)	(8,171)
Foreign exchange losses	–	(10)	–	(39)	(49)
At 31 December 2005	8,951	153	2,457	8,974	20,535
Additions	3,069	54	278	1,208	4,609
Disposals	(49)	(3)	(51)	(519)	(622)
Foreign exchange losses	(7)	(4)	(1)	(42)	(54)
At 31 December 2006	**11,964**	**200**	**2,683**	**9,621**	**24,468**
Depreciation and impairment:					
At 1 January 2005	4,010	35	2,423	7,848	14,316
Depreciation charge for the year	975	57	615	1,529	3,176
Disposals	(3,423)	(14)	(2,054)	(2,666)	(8,157)
Foreign exchange gains	–	(6)	–	(36)	(42)
At 31 December 2005	1,562	72	984	6,675	9,293
Depreciation charge for the year	1,144	39	368	1,444	2,995
Disposals	(29)	–	(49)	(516)	(594)
Foreign exchange gains	–	(1)	(3)	(21)	(25)
At 31 December 2006	**2,677**	**110**	**1,300**	**7,582**	**11,669**
Net book values:					
At 31 December 2004	6,976	66	1,938	1,932	10,912
At 31 December 2005	7,389	81	1,473	2,299	11,242
At 31 December 2006	**9,287**	**90**	**1,383**	**2,039**	**12,799**
Cumulative impairment losses:					
At 31 December 2005	1,988	–	–	–	1,988
At 31 December 2006	**1,988**	**–**	**–**	**–**	**1,988**

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 2006 is £7,939,000 (31 December 2005: £4,185,000).

13. Goodwill and other intangible assets

	Goodwill £000	Management contracts £000	Other intangible assets – software and licences £000	Total £000
Cost:				
At 1 January 2005	577,946	626,230	4,979	1,209,155
Additions	–	1,249	1,555	2,804
Disposals	–	–	(2,359)	(2,359)
Foreign exchange losses	–	(7,630)	(91)	(7,721)
At 31 December 2005	577,946	619,849	4,084	1,201,879
Additions	–	–	165	165
Disposals	(8,100)	(43,200)	(76)	(51,376)
Foreign exchange losses	–	(3,302)	(22)	(3,324)
At 31 December 2006	**569,846**	**573,347**	**4,151**	**1,147,344**
Amortisation and impairment:				
At 1 January 2005	–	36,407	4,473	40,880
Amortisation charge for the year	–	55,801	420	56,221
Disposals	–	–	(2,359)	(2,359)
Impairment losses	–	111,500	–	111,500
Foreign exchange gains	–	–	(91)	(91)
At 31 December 2005	–	203,708	2,443	206,151
Amortisation charge for the year	–	43,046	665	43,711
Disposals	–	(16,200)	(66)	(16,266)
Impairment losses	–	58,478	–	58,478
Foreign exchange gains	–	–	(22)	(22)
At 31 December 2006	**–**	**289,032**	**3,020**	**292,052**
Net book values:				
At 31 December 2004	577,946	589,823	506	1,168,275
At 31 December 2005	577,946	416,141	1,641	995,728
At 31 December 2006	**569,846**	**284,315**	**1,131**	**855,292**

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. From 1 January 2004, the Group's date of transition to IFRS, goodwill is no longer amortised but subject to annual impairment testing. Goodwill has been tested for impairment at the balance sheet date, as described below. The accumulated impairment losses at 31 December 2006 relating to goodwill were £nil (2005: £nil).

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 2006			31 December 2005		
	Net book values £000	Remaining amortisation period (years)	Estimated useful life (years)	Net book values £000	Remaining amortisation period (years)	Estimated useful life (years)
RSAI insurance contracts	**3,740**	**5**	**10**	32,500	6	10
RSAI retail contracts	**29,865**	**5**	**10**	35,295	6	10
F&C insurance contracts	**94,084**	**8**	**10**	108,465	9	10
F&C institutional contracts (non-fixed/fixed)	**57,425**	**4/8**	**4/10**	105,963	9	10
F&C investment trust contracts	**30,422**	**9 ½**	**10**	55,713	19	20
F&C advisory and sub-advisory contracts	**54,018**	**8**	**10**	61,631	9	10
F&C OEICs	**13,615**	**8**	**10**	15,366	9	10
	283,169			414,933		

The balance of management contracts relates to a private equity book of business acquired during 2005, and has a carrying value of £1,146,000, with 18 years amortisation period remaining out of an estimated useful life of 20 years (2005: £1,208,000 and 19 years remaining).

The accumulated impairment losses at 31 December 2006 relating to management contracts were £169,978,000 (2005: £111,500,000). Details of impairment recognised in the year relating to F&C institutional and investment trust contracts, and changes to their estimated remaining useful lives, are discussed below.

As indicated in the 2005 annual report and financial statements, Resolution plc withdrew the majority of its assets in the first quarter of 2006. The agreed compensation of £27,000,000 received from Resolution during the year has been recognised as proceeds in respect of the deemed disposal of intangible assets. The cost, with respect to the original valuation, of the assets disposed of was £43,200,000 and the related cumulative amortisation amounted to £16,200,000. Therefore the carrying value of the disposed asset equalled the proceeds received giving rise to neither a gain nor a loss. The £8,100,000 disposal of goodwill in the year is in respect of the remaining deferred tax relating to the £27,000,000 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 8.9% (2005: 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 relative risks associated with the Group's various revenue streams.

Projected revenues for the first year are based on the Board-approved budget. Beyond this, revenues assume growth of 5.75% per annum (2005: 6%) 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 2007. Thereafter costs assume growth of a minimum of 3.75% per annum (2005: 3.5%), to accord with anticipated future inflation and salary increases, with the margin capped at 45% (2005: 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 (2005: £nil).

	31 December 2006 £000	31 December 2005 £000
Carrying amount of goodwill	**569,846**	577,946

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

	2006	2005
Discount rate	**8.9%**	8.9%
Revenue growth rate	**5.75%**	6.0%
Cost inflation rate	**3.75%**	3.5%
Capped operating margin	**45.0%**	45.0%

In order to assess the sensitivity of the key assumptions on the carrying value of goodwill, analysis was conducted to ascertain the change that would be required to derive a recoverable amount which approximated 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 and carrying value of goodwill were 12.6%, 4.05% and 6.15% respectively (2005: 11.8%, 4.1% and 5.7%).

Intangible assets with finite lives

During 2006 the business continued to experience a level of fund outflows which was higher than anticipated. This level of lost business will impact future revenues and was significant enough to be considered an indicator of potential impairment of certain intangible assets, namely the related investment management contracts.

In accordance with IAS 36 ''Impairment of Assets'', an impairment review of these assets was undertaken. The review resulted in impairment losses being recognised in respect of management contracts as follows:

	2006 £000	2005 £000
F&C investment trust contracts	**22,194**	56,100
F&C institutional contracts	**36,284**	55,400
Total impairment recognised in the Income Statement	**58,478**	111,500

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 have been determined based on value in use calculations using cash flow projections based on the latest annual financial budget approved by the Board.

The discount rate applied to the cash flow projections is 9.4% (2005: 9.4%) for investment trust contracts, 9.4% (2005: 9.4%) for institutional contracts with no fixed term, and 8.4% (2005: 8.4%) for fixed term institutional contracts. 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%, (2005: 8.9%) as a benchmark.

The revenue projections assume growth of 5.75% (2005: 6%) 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 are derived using the estimated useful lives of the underlying contracts and assume a constant loss of revenues over the projection periods.

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

Impairment has been determined by comparing the results of the value in use calculations in respect of the remaining contracts at the year end to the carrying value (cost less aggregate amortisation and prior impairment) of the assets at 31 December 2006, with any deficits arising constituting impairment to be recognised for the year.

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

Having continued to lose contracts at a higher than anticipated rate, 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 the year, the Board revisited the useful life estimates of the affected assets at the year end and as a result, with effect from 1 January 2007, the remaining life of non-fixed term institutional contracts is now assessed as 4 years.

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 remain unchanged.

The revised useful lives represent a change in accounting estimate and accelerate 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 £1,686,000, and the charge in future years will be increased by £2,555,000 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 2006 £000	31 December 2005 £000
Quoted	**49**	27
Unquoted	**2,025**	3,370
	2,074	3,397

Unquoted investments include the Group's direct investment, co-investments and carried interest entitlement in private equity limited partnerships. These are designated as available for sale investments, as disclosed in note 19(a)(iii).

Included within the unquoted financial investments at 31 December 2006 are £436,000 (31 December 2005: £1,285,000) of equity instruments measured at the price of recent investments.

The Group received distributions totalling £4,116,000 (2005: £4,836,000) which comprised £4,019,000 (2005: £4,704,000) of investment income and £97,000 (2005: £132,000) return of capital in respect of investments measured at cost.

Included in the movement in unquoted investments during the year is an impairment charge of £764,000 (2005: £469,000). Taken together with the impairment losses in respect of associates of £nil (2005: £4,557,000), as shown in note 15 below, this gives a total impairment in investments of £764,000 in 2006 (2005: £5,026,000).

15. Investment in associates

The Group has an investment in an associate limited liability partnership, ISIS EP LLP, which acquired the private equity business previously owned by the Group; F&C has a 19.99% stake in this business. The Group also held an investment in an associate alternative investment business involved in hedge funds, Cardinal Capital Partners Limited (Cardinal). F&C acquired a 15% stake in this business in 2004 but disposed of it during 2006. Details of investments in associates held in 2006 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
Cardinal Capital Partners Limited	The Republic of Ireland	15%	15%	Equity method

15. Investment in associates (cont'd)

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

	2006 £000	2005 £000
At 1 January	335	4,767
Additions in the year	–	509
Disposals in the year	(4,048)	–
Share of profit/(loss) for the year – current year profit allocation	1,406	(339)
– prior year profit allocation	39	–
Distributions of profits received in the year	(374)	–
Foreign exchange losses	–	(45)
Impairment losses	–	(4,557)
Reversal of impairment losses previously recognised on investments disposed of in the year	4,048	–
At 31 December	1,406	335

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

	2006 £000	2005 £000
Share of associates' balance sheet:		
Current assets	4,246	1,509
Non-current assets	1	121
Current liabilities	(850)	(795)
Non-current liabilities	(1,991)	(500)
Net assets	1,406	335
Share of the associates' revenues and losses:		
Revenues	2,988	1,490
Profit/(loss)	1,406	(339)
The Group's investment in associates comprises:		
Group share of net assets	1,406	335
Loan to associate	2,500	2,500
	3,906	2,835

(a) Investment in ISIS EP LLP

Prior to June 2005, the Group's private equity operation comprised a team of fund managers operating a number of management contracts of limited partnerships and VCTs within the statutory entity ISIS Equity Partners plc (ISIS), a 100% owned subsidiary of the Group. ISIS was also the parent of a number of limited companies which acted as Founder Partner (FP) and General Partners (GP) to these private equity limited partnerships. Neither F&C nor ISIS had any interest in the limited partnerships other than as FP or GP and at no point was either party an investor in the limited partnerships.

In June 2005, the ISIS private equity operation comprising net assets of £223,000 was sold to ISIS EP LLP. The fund management team formerly employed by the F&C Group left to form ISIS EP LLP. Those former employees that did not become members of ISIS EP LLP became employees of the partnership. As well as acquiring the companies that acted as GP and FP, all investment management contracts relating to the limited partnerships and VCTs were transferred to ISIS EP LLP.

The consideration received was a nominal amount of cash plus 19.99% of ISIS EP LLP's voting A class ordinary capital. In addition, F&C subscribed £2.5 million 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 are maintained in a designated bank account by ISIS EP LLP and any bank interest earned on that account accrues to F&C as profit entitlement. This investment is classed as a loan to associate.

Despite the fact that the other 80.01% of the A voting capital is held by five ISIS EP LLP members, one of whom holds 40.1% of ISIS EP LLP and has significant contractual powers over ISIS EP LLP, the Board consider ISIS EP LLP to be an associate as there is ability to exert significant influence and affect policy and decision making through the appointment of one out of six members of the Management Board.

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

15. Investment in associates (cont'd)

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

The investment in ISIS EP LLP reflects the share of profit entitlement not yet received.

ISIS EP LLP is required to maintain sufficient capital resources to meet the minimum capital resources requirements under the applicable rules of the Financial Services Authority. As such, any distribution of profit share to investors can only be executed if sufficient regulatory capital will remain after the distribution has been made.

(b) Investment in Cardinal Capital Partners Limited

The group held a 15% interest in Cardinal a hedge fund manager based in Ireland, until the investment was disposed of in 2006 for nil proceeds. Cardinal is a private Limited Liability Partnership which is not listed on any public exchange. While the Group held only 15% of the share capital of Cardinal, it was considered that it was possible to exercise significant influence in the operations of the partnership, as the Group had entitlement to board membership. Consequently the investment was accounted for as an associate.

As disclosed in last year's Annual Report and Financial Statements, the investment in Cardinal had been written down to nil as at 31 December 2005 after recognising an impairment loss of £4,048,000. As such, its disposal in 2006 would not have given rise to a gain or loss were it not for the following items related to the investment, which had been taken directly to equity and therefore recycled through the 2006 Income Statement on disposal:

	£000
Accumulated foreign currency gains taken to the foreign currency translation reserve	37
Share of associate's costs charged to non-distributable reserves	(98)
Loss on disposal of investment in associate	**(61)**

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 agreement with Eureko B.V. regarding 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 £2,942,000 payable at 31 December 2006 (31 December 2005: £2,942,000).

(b) Disposal of subsidiaries and associates

The Group incurred the following losses on disposal:

	2006 £000	2005 £000
Loss on disposal of Cardinal Capital Partners Limited	**(61)**	–
Loss on disposal of Baronsmead Ventures Limited	**–**	(449)
Loss on sale of subsidiaries to ISIS EP LLP	**–**	(223)
Loss on disposal of subsidiaries and associates	**(61)**	(672)

17. Deferred acquisition costs

	2006 £000	2005 £000
At 1 January	**11,360**	10,374
Costs deferred in the year	**2,450**	3,167
Amortisation in the year	**(2,580)**	(2,181)
At 31 December	**11,230**	11,360

	2006 £000	2005 £000
Split as follows:		
Non-current assets	**7,863**	8,342
Current assets	**3,367**	3,018
At 31 December	**11,230**	11,360

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 27.

18. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

(a) Recognised deferred assets and liabilities

	31 December 2006			31 December 2005		
	Assets £000	Liabilities £000	Net £000	Assets £000	Liabilities £000	Net £000
Employee benefits*	**14,642**	**–**	**14,642**	17,127	–	17,127
Share-based payments	**12,641**	**–**	**12,641**	9,141	–	9,141
Unused tax losses and unused tax income	**2,498**	**–**	**2,498**	4,723	–	4,723
Property, plant and equipment	**1,848**	**–**	**1,848**	1,633	–	1,633
Receivables, payables & provisions	**1,816**	**–**	**1,816**	1,459	–	1,459
Intangible assets	**–**	**(84,951)**	**(84,951)**	–	(124,480)	(124,480)
Revaluation of unrealised fair value gains on available for sale assets	**–**	**(567)**	**(567)**	–	(625)	(625)
Unremitted earnings	**–**	**(561)**	**(561)**	–	(190)	(190)
Net deferred tax assets/(liabilities)	**33,445**	**(86,079)**	**(52,634)**	34,083	(125,295)	(91,212)

* Includes £12,841,000 (2005: £14,410,000) relating to deferred tax on defined benefit pension obligations.

(b) Movement in temporary differences during the year

	1 January 2006 £000	Recognised in income £000	Recognised in equity £000	Revaluation in year £000	Transferred to goodwill £000	31 December 2006 £000
Employee benefits	**17,127**	**(1,048)**	**(1,437)**	**–**	**–**	**14,642**
Share-based payments	**9,141**	**3,500**	**–**	**–**	**–**	**12,641**
Unused tax losses and unused tax income	**4,723**	**(2,225)**	**–**	**–**	**–**	**2,498**
Property, plant and equipment	**1,633**	**215**	**–**	**–**	**–**	**1,848**
Receivables, payables & provisions	**1,459**	**357**	**–**	**–**	**–**	**1,816**
Intangible assets	**(124,480)**	**30,445**	**–**	**984**	**8,100**	**(84,951)**
Revaluation of unrealised fair value gains on available for sale assets	**(625)**	**(135)**	**193**	**–**	**–**	**(567)**
Unremitted earnings	**(190)**	**(385)**	**14**	**–**	**–**	**(561)**
	(91,212)	**30,724**	**(1,230)**	**984**	**8,100**	**(52,634)**

	1 January 2005 £000	Recognised in income £000	Recognised in equity £000	Revaluation in year £000	Sold in year £000	31 December 2005 £000
Employee benefits	9,447	1,428	6,252	–	–	17,127
Share-based payments	2,862	6,950	(671)	–	–	9,141
Unused tax losses and unused tax income	13,441	(8,718)	–	–	–	4,723
Property, plant and equipment	2,223	(590)	–	–	–	1,633
Receivables, payables & provisions	2,250	(791)	–	–	–	1,459
Intangible assets	(176,948)	50,178	–	2,290	–	(124,480)
Revaluation of unrealised fair value gains on available for sale assets	(693)	–	68	–	–	(625)
Unremitted earnings	–	(190)	–	–	–	(190)
Other short term timing differences	(322)	210	–	–	112	–
	(147,740)	48,477	5,649	2,290	112	(91,212)

The Directors believe it is appropriate to recognise a deferred tax asset because it is considered that it is 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.

(c) Unrecognised deferred tax assets and liabilities

The Group has unrecognised tax losses which arose in the UK of £126,000 (2005: £1,352,000) 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 been loss making 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 at 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

	31 December 2006 £000	31 December 2005 £000
Financial investments in respect of unit linked contracts	**1,125,030**	980,777
Other financial investments	**3,811**	2,166
	1,128,841	982,943

19. Financial instruments (cont'd)

Financial investments in respect of unit linked contracts:

	31 December 2006 £000	31 December 2005 £000
Equity securities		
Listed	772,872	721,192
Unit trusts and OEICs	3,693	1,260
Total equity securities	776,565	722,452
Debt and fixed income securities		
Government bonds	111,592	81,780
Other listed fixed interest securities	132,064	94,687
Index linked gilts	35,504	21,225
Participation in pooled investments	69,305	60,633
Total debt and fixed income securities	348,465	258,325
Total financial investments designated as fair value through profit or loss	1,125,030	980,777

Other financial investments comprise:

	31 December 2006 £000	31 December 2005 £000
Investments – NIC hedge	2,799	2,166
Investments – bonuses	1,012	–
	3,811	2,166

Investments – 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. The provision for NIC is separately recognised.

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

19. Financial instruments (cont'd)

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 also 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 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.

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

	31 December 2006 £000	31 December 2005 £000
Listed equity securities	**772,872**	721,192
Unit trusts and OEICs	**3,693**	1,260
Debt and other fixed income securities	**279,160**	197,692
Participation in pooled investments	**69,305**	60,633
Deferred acquisition costs	**634**	634
Trade and other receivables	**552**	77
Cash and cash equivalents	**53,272**	28,152
Trade and other payables	**(4,383)**	(2,712)
Total unit linked assets less liabilities	**1,175,105**	1,006,928

These unit linked assets are matched by the associated insurance contract liabilities disclosed in note 28.

(ii) Held for trading

	31 December 2006 £000	31 December 2005 £000
Stock of units and shares	**740**	676

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.

19. Financial instruments (cont'd)

(iii) Designated as available for sale investments

	31 December 2006 £000	31 December 2005 £000
Shares – unlisted	**2,025**	3,370
Shares – listed	**49**	27
	2,074	3,397

Available for sale financial assets consist of investments in ordinary shares and private equity investments.

The fair value of the unlisted available for sale 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 unlisted 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. These investments have no fixed maturity date or coupon rate.

Certain unlisted equity instruments are measured at the price of a recent investment as the fair value of these equity instruments cannot be measured reliably. Details of these investments are disclosed in note 14.

Listed shares, which are stated at market value, include:

2006 £000	2005 £000	Fixed coupon rate	Maturity date
24	25	4.875%	2007
23	–	3.20%	2011

(iv) Classified as loans and receivables

	31 December 2006 £000	31 December 2005 £000
Cash and cash equivalents	**267,583**	146,197
Trade and other receivables:		
Trade debtors	**10,147**	24,203
Amounts owed by ISIS EP LLP	**1,318**	–
Amounts owed by Eureko Group	**4,766**	3,583
Loan to associate	**2,500**	2,500
	286,314	176,483

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 2006	**31 December 2005**	**31 December 2006**	**31 December 2005**
Financial assets				
Other financial investments	**2,074**	3,397	**2,074**	3,397
Loan to associate	**2,500**	2,500	**2,500**	2,500
Financial investments at fair value through profit or loss	**1,128,841**	982,943	**1,128,841**	982,943
Reinsurance assets	**2,345**	2,617	**2,345**	2,617
Stock of units and shares	**740**	676	**740**	676
Cash and cash equivalents	**267,583**	146,197	**267,583**	146,197
Financial liabilities				
Interest bearing loans and borrowings:				
Fixed/Floating Rate Subordinated Notes	**(257,711)**	–	**(258,317)**	–
Preference Shares (classified as liabilities)	**(800)**	(800)	**(740)**	(744)
Revolving credit facilities	**(5,000)**	(5,000)	**(5,000)**	(5,000)
Floating rate borrowings	**–**	(34,000)	**–**	(34,000)
Fixed rate borrowings	**–**	(180,000)	**–**	(181,080)
Investment contract liabilities	**(1,175,105)**	(1,006,928)	**(1,175,105)**	(1,006,928)
Insurance contract liabilities	**(2,345)**	(2,617)	**(2,345)**	(2,617)

The fair values of short-term trade receivables and 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 borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The valuations have considered similar issues available in the market and the liquidity of 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 2006 £000	31 December 2005 £000
Reinsurers' share of annuities	**2,345**	2,617
Total reinsurance assets – current assets	**2,345**	2,617

The reinsurance assets relate to annuity business reinsured with FP Pensions Limited.

21. Trade and other receivables

	31 December 2006 £000	31 December 2005 £000
Current:		
Trade debtors	**10,147**	23,615
Accrued income	**36,314**	43,232
Other debtors	**25,503**	16,520
Prepayments	**8,176**	5,186
Amounts owed by ISIS EP LLP	**1,318**	722
Amounts owed by Eureko group	**4,766**	3,583
	86,224	92,858

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

Non-current:		
Loan to associate	**2,500**	2,500

As set out in note 15, the Group subscribed £2,500,000 for non-voting, non-participating B class capital in ISIS EP LLP, an associate company. The loan is redeemable on the withdrawal by the Group from ISIS EP LLP and therefore, there is no fixed redemption date for this loan. The Group retains the right to withdraw from the LLP and to require other members of the LLP to immediately purchase all of the Group interest in the LLP.

Notes to the Consolidated Financial Statements

22. Cash and cash equivalents

	31 December 2006 £000	31 December 2005 £000
Policyholders		
Cash at bank and in hand	**21,708**	4,047
Short-term deposits	**31,564**	24,105
	53,272	28,152
Shareholders		
Cash at bank and in hand	**20,038**	17,675
Short-term deposits	**194,273**	100,370
	214,311	118,045
Total cash and cash equivalents	**267,583**	146,197

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 no longer than 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 2006 is £267,583,000 (31 December 2005: £146,197,000).

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 2006 this amounted to £53,272,000 (31 December 2005: £28,152,000) of the total cash and cash equivalents balance.

Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at the year-end in respect of which all conditions precedent had been met at that date are as follows:

	31 December 2006 £000	31 December 2005 £000
Expiring in one year or less:		
Revolving credit facility with Friends Provident	**45,000**	45,000
Bank overdraft facilities	**2,000**	2,000
	47,000	47,000

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 2006 £000	31 December 2005 £000
(i) Cumulative Preference Shares: – Dividends are set at LIBOR + 2% and are payable each half-year in arrears. – Preference Shares' rights are fully described in note 30.	**800**	800
(ii) £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 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.	**257,711**	–
(iii) £180m term loan with Friends Provident Life and Pensions Limited, a subsidiary of Friends Provident plc: – Fixed rate of 5.9125%. – Wholly repayable on 1 November 2006 but repaid on 20 December 2006.	**–**	180,000
(iv) £50m revolving credit facility with Friends Provident plc: – £5m drawn down, at 3 month Sterling LIBOR plus 0.6% margin. – Any drawdown under this facility is repayable within 3 months but can be rolled over by the borrower into a subsequent drawdown. This option remains until 30 May 2007.	**5,000**	5,000
(v) £25m subordinated loan with Friends Provident Life and Pensions Limited: – At 6 months LIBOR + 1.05%. – Wholly repayable on 11 October 2009 but repaid on 20 December 2006.	**–**	25,000
(vi) £9m subordinated loan with Eureko B.V.: – At 6 months LIBOR + 1.05%. – Wholly repayable on 11 October 2009 but repaid on 20 December 2006.	**–**	9,000
	263,511	219,800

	31 December 2006 £000	31 December 2005 £000
Repayment periods		
Amounts repayable:		
In one year or less, or on demand	**5,000**	185,000
In more than one year but not more than two years	**–**	–
In more than two years but not more than five years	**–**	34,000
In more than five years	**258,511**	800
	263,511	219,800

The £180,000,000 loan fell due for repayment on 1 November 2006. The Board refinanced this loan by raising £260,000,000 in the external market from the issue of Subordinated Notes.

The £180,000,000 term loan was bridged between 1 November 2006 to 20 December 2006 with the prior agreement of Friends Provident Life and Pensions Limited. This enabled F&C Asset Management plc time to complete fund raising for the Subordinated Notes. The interest rate during this period remained unchanged at 5.9125%. As a result of raising £260,000,000 by way of Subordinated Notes, the Group was able to repay the loans set out below on 20 December 2006:

– £180,000,000 term loan

– £25,000,000 subordinated loan

– £9,000,000 subordinated loan

For more information about the Group's exposure to interest risk, see note 35.

Notes to the Consolidated Financial Statements

24. Trade and other payables

	31 December 2006 £000	31 December 2005 £000
Amounts due within one year:		
Trade creditors	**4,412**	5,150
Amounts owed to Friends Provident group	**105**	1,900
VAT	**243**	1,479
Social Security and PAYE	**884**	1,292
Other creditors	**35,056**	25,119
Group relief payable to subsidiary of ISIS EP LLP	**–**	378
Accruals	**21,520**	23,406
	62,220	58,724
Amounts due outwith one year:		
Accruals	**2,410**	–
Other creditors	**1,574**	–
	3,984	–

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

25. Provisions

	Premises – onerous contracts £000	Guaranteed product £000	NIC on share options £000	Long-term sickness £000	Long-term service award £000	Total £000
At 1 January 2005	10,147	457	330	1,751	171	12,856
Provided during the year	5,139	14	4,452	–	–	9,605
Utilised during the year	(2,195)	(178)	(507)	–	(1)	(2,881)
Reversed during the year	–	–	–	(91)	(66)	(157)
At 31 December 2005	13,091	293	4,275	1,660	104	19,423
Provided during the year	512	–	2,983	371	–	3,866
Utilised during the year	(3,566)	(14)	(840)	–	(2)	(4,422)
Reversed during the year	(316)	(44)	–	–	(42)	(402)
At 31 December 2006	**9,721**	**235**	**6,418**	**2,031**	**60**	**18,465**
At 31 December 2006						
Non-current	**6,635**	**182**	**440**	**1,831**	**60**	**9,148**
Current	**3,086**	**53**	**5,978**	**200**	**–**	**9,317**
At 31 December 2005						
Non-current	9,750	227	1,387	1,492	104	12,960
Current	3,341	66	2,888	168	–	6,463

Onerous contracts

The Group holds all properties under operating leases. This includes a number of vacant and sub-let properties which were either previously occupied by the Group or are 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 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.

25. Provisions (cont'd)

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 death of investors. The underlying investment plan was closed to new investors during 2004.

NIC on share options

The provision for National Insurance Contributions (NIC) on share options 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 movements in the Company's share price, the extent to which options lapse and, where eligible, the timing of when employees choose to exercise options. The current element of the provision for NIC on share options relates to awards which are expected to vest within one year. As disclosed in note 19, other financial investments of £2,799,000 at 31 December 2006 (31 December 2005: £2,166,000) will partially fund the NIC liability on the Deferred Investment Plan.

Long-term sickness

The Group has long-term sickness insurance arrangements which would 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.

Long-term service award

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

26. Employee benefits

(a) Pension scheme obligations

The Group operates two defined benefit schemes in the United Kingdom, one in The Netherlands, and participates in one in Portugal. Both of the UK schemes are 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.

Prior to the merger in 2004, employee benefits in the Netherlands were provided through the Achmea pension plan. Post-merger, a separate pension plan was established, with all assets and liabilities in respect of the F&C employees transferring to the new contract. Existing benefits of the employees participating in the scheme have not been altered as a result of the transfer.

Where the Group is unable to separately identify its share of assets and liabilities in overseas multi-employer defined benefit schemes, these schemes are accounted for as defined contribution arrangements. F&C employee benefits in Ireland have been provided through a multi-employer arrangement. A process is underway to identify and transfer assets and liabilities from this multi-employer plan to a new F&C plan in Ireland, but this process had not been completed at 31 December 2006. The new plan will maintain the existing benefits currently enjoyed by employees in Ireland. A separate exercise is being 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.

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 2006 by qualified independent actuaries.

Notes to the Consolidated Financial Statements

26. Employee benefits (cont'd)

The pension deficits of the Group are summarised as follows:

	31 December 2006 £000	31 December 2005 £000
F&C Management Pension Fund	**21,848**	23,034
ISIS Asset Management Pension Fund	**18,313**	22,364
F&C Portugal pension obligation	**227**	364
F&C Netherlands pension obligation	**2,581**	–
R W Jenkins pension obligation	**2,434**	2,270
	45,403	48,032

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 2006 £000	%	31 December 2005 £000	%
Equities	**92,542**	**69**	85,942	74
Gilts	**17,258**	**13**	14,767	13
Corporate bonds	**13,154**	**10**	12,682	11
Other	**7,412**	**5**	–	–
Cash	**3,986**	**3**	2,706	2
Total fair value of plan assets	**134,352**	**100**	116,097	100

Plan assets include £77,356,000 (2006: £64,794,000) 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 consists of assets held in insurance contracts in respect of The Netherlands scheme and property.

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 rate of return	31 December 2006	31 December 2005
Equities	**7.00%**	7.00%
Gilts	**5.00%**	5.00%
Corporate bonds	**5.00%**	4.70%
Other	**7.00%**	–
Cash	**4.50%**	4.00%

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.

26. Employee benefits (cont'd)

(2) Major assumptions used by schemes' Actuaries

(i) Mortality assumptions

The mortality assumptions used for both of the main UK defined benefit schemes at 31 December are:

	31 December 2006	31 December 2005
Mortality table for males retiring in the future	**PMA92B1965MC – 1**	PMA92B1965MC – 1
Mortality table for females retiring in the future	**PFA92B1965MC – 1**	PFA92B1965MC – 1
Mortality table for current male pensioners	**PMA92B1935MC – 1**	PMA92B1935MC – 1
Mortality table for current female pensioners	**PFA92B1935MC – 1**	PFA92B1935MC – 1

(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 2006 Years	31 December 2005 Years
Expected age at death for a male retiring in the future at age 60	**88**	88
Expected age at death for a female retiring in the future at age 60	**91**	91
Expected age at death for a current male pensioner aged 60	**86**	86
Expected age at death for a current female pensioner aged 60	**89**	89

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 as at 31 December:

(iii) Cost of annuities

	2006 £	2005 £
Male annuity	**24.50**	24.70
Female annuity	**25.00**	25.20

These rates assume a monthly payments model with a discount rate of 5.0% (2005: 4.70%) based on the iBoxx over 15 year AA corporate bond index of 5.12% (2005: 4.73%). 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 3.00% (2005: 2.75%) per annum.

The UK pension schemes strengthened their mortality assumptions to the medium cohort basis during 2005. The mortality assumptions have been projected forward, to take account of future improvements in mortality, using a 'typical' year of birth of 1965 for all future pensioners and 1935 for all current pensioners, rather than on an individual basis. The Directors believe that the strengthened mortality assumptions more accurately reflect the liabilities of the schemes and have adopted the same assumptions for both of the main UK defined benefit schemes.

The cost of strengthening the mortality during 2005 was approximately £18,000,000.

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

	31 December 2006	31 December 2005
Discount rate	**4.60% – 5.00%**	4.25% – 4.70%
Rate of salary increase	**2.50% – 4.25%**	2.75% – 4.00%
Rate of inflation increase	**1.75% – 3.00%**	1.75% – 2.75%

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

	2006	2005
Discount rate	**4.25 – 4.70%**	5.25 – 5.30%
Expected long-term return on plan assets	**5.50 – 6.50%**	5.50 – 6.60%
Rate of inflation increase	**1.75 – 2.75%**	1.75 – 2.75%
Rate of salary increase	**2.75 – 4.00%**	2.75 – 4.00%

26. Employee benefits (cont'd)

(iv) 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 1.9%
Salaries	Increase/decrease by 0.1%	Increase/decrease by 0.4%
Pensions	Increase/decrease by 0.1%	Increase/decrease by 1.0%
Discount rate	Increase/decrease by 0.1%	Decrease/increase by 2.3%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 2.6%

(3) Profile of Schemes' Membership

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

	31 December 2006		31 December 2005	
	% of total membership	Average age	% of total membership	Average age
Active members	**21%**	**42**	22%	42
Deferred members	**69%**	**42**	68%	41
Pensioners	**10%**	**65**	10%	64
	100%		100%	

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

	31 December 2006 £000	31 December 2005 £000
Active members	**56,825**	51,514
Deferred members	**83,349**	75,876
Pensioners	**39,581**	36,739
Benefit obligation at 31 December	**179,755**	164,129

(4) Aggregate disclosure obligations

	2006 £000	2005 £000
Change in benefit obligation		
Benefit obligation at 1 January	**164,129**	114,471
Foreign exchange movements	**(43)**	(28)
Current service cost	**3,578**	2,905
Past service cost*	**263**	514
Interest cost on pension liabilities	**8,136**	6,080
Members' contributions	**155**	173
Actuarial (gains)/losses	**(4,243)**	42,270
Transfer in respect of The Netherlands scheme	**10,652**	–
Net transfers in/(out)	**5**	(196)
Benefits paid	**(2,877)**	(2,060)
Benefit obligation at 31 December	**179,755**	164,129

*The past service cost relates to the augmentation of pension entitlements for certain employees.

	31 December 2006 £000	31 December 2005 £000
Analysis of defined benefit obligation		
Plans that are wholly or partly funded	**177,321**	161,859
Plans that are wholly unfunded	**2,434**	2,270
	179,755	164,129

26. Employee benefits (cont'd)

	2006 £000	2005 £000
Change in plan assets		
Fair value of plan assets at 1 January	116,097	96,764
Foreign exchange movements	(38)	(27)
Expected return on plan assets	7,768	6,332
Actuarial gains	2,141	11,536
Transfer in respect of The Netherlands scheme	6,751	–
Net transfers in/(out)	5	(196)
Employer contributions	4,350	3,575
Member contributions	155	173
Benefits paid	(2,877)	(2,060)
Fair value of plan assets at 31 December	134,352	116,097

	31 December 2006 £000	31 December 2005 £000
Funded status	(45,403)	(48,032)
Net deficit recognised	(45,403)	(48,032)

	2006 £000	2005 £000
Components of pension cost		
Current service cost	3,578	2,905
Past service cost	263	514
Interest cost on pension liabilities	8,136	6,080
Expected return on pension plan assets	(7,768)	(6,332)
Total pension cost recognised in the Income Statement	4,209	3,167

	2006 £000	2005 £000
Pension costs are included in the Income Statement as follows:		
Operating expenses	3,841	3,419
Finance revenue	(7,768)	(6,332)
Finance costs	8,136	6,080
Total pension cost recognised in the Income Statement	4,209	3,167

	2006 £000	2005 £000
Actuarial (gains)/losses immediately recognised in the SORIE*	(2,483)	30,734
The cumulative actuarial losses recognised in the SORIE	31,160	33,643

* The actuarial (gains)/losses includes the transfer into The Netherlands scheme of plan assets and benefit obligations when the scheme was established.

	2006 £000	2005 £000
Actual return on plan assets	9,909	17,868

26. Employee benefits (cont'd)

Five year history

	2006 £000	2005 £000	2004 £000	2003* £000	2002* £000
Benefit obligations at 31 December	**(179,755)**	(164,129)	(114,471)	(37,453)	(33,364)
Fair value of plan assets at 31 December	**134,352**	116,097	96,764	29,655	24,833
Deficit	**(45,403)**	(48,032)	(17,707)	(7,798)	(8,531)
Difference between expected and actual return on plan assets					
Amount (£000)	**2,141**	11,536	1,730	2,168	(9,116)
Percentage of plan assets	**2%**	10%	2%	7%	(37%)
Experience gains and losses on benefit obligations					
Amount (£000)	**(1,570)**	(413)	(500)	22	1,265
Percentage of benefit obligations	**1%**	–%	–%	–%	4%
Total gains and losses					
Amount (£000)	**2,483**	(30,734)	(2,909)	753	(8,012)
Percentage of benefit obligations	**1%**	(19%)	(3%)	2%	(24%)

* On an FRS17: Retirement Benefits basis.

(5) Pension schemes' details

ISIS Asset Management plc Pension Fund ('ISIS Fund')

Date of last actuarial valuation	31 March 2005
Scheme Actuary	Mercer Human Resource Consulting 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 has paid contributions at the rate of £100,000 per month during 2006 with an additional £1,093,000 employer contribution during the year. The Company has 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. The minimum estimated contribution expected to be paid into the scheme during the current financial year is £1,200,000.

As explained in section (6) below, it is intended that the ISIS Fund will merge with the F&C Management Pension Fund (F&C Fund) during 2007. This may impact future contributions to the scheme.

As the ISIS Fund is a closed scheme, under the projected unit method the current service cost will tend to increase as a percentage of pensionable salaries as the average age of members increases.

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 ISIS Fund

The appointment of Trustees is determined by the Fund's trust documentation. The Trustee board currently consists of 3 employer-appointed Trustees and 2 member-selected Trustees. All of the current Trustees are employees of F&C and are active members of the ISIS Fund.

26. Employee benefits (cont'd)

Relationship between F&C and the Trustees of the ISIS Fund

The ISIS Fund'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 Fund are required to act in the best interests of the Fund's beneficiaries.

F&C Fund

Date of last actuarial valuation	31 March 2003
Scheme Actuary	Hewitt, Bacon & Woodrow
Method of valuation	Projected Unit
Market value of assets at last valuation date	£37,300,000
Level of funding	63%

A contribution schedule was agreed by the participating Company and Trustees in December 2003. The Company has agreed to contribute 22.8% of pensionable salary to the pension fund until June 2007, when a revised schedule of contributions will be agreed. These contributions are subject to review at future actuarial valuations. The actuarial valuation at 31 March 2006 is still ongoing.

Note that, as explained in section (6) below, it is intended that the ISIS Fund will merge with the F&C Fund during 2007. This may impact future contributions to the scheme.

As the F&C Fund is a closed scheme, under the projected unit method the current service cost will tend to increase as a percentage of pensionable salaries as the average age of members increases.

The scheme's assets, which are administered 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 F&C Fund

The appointment of Trustees is determined by the Fund's trust documentation. The Trustee board consists of six individual trustees as follows:

- Two independent Trustees, appointed by F&C, whose remuneration is paid from the assets of the Fund;
- One Trustee is a director and employee of F&C Asset Management plc and was appointed by F&C;
- One Trustee is a former chairman of F&C and was appointed by F&C; and
- Two member-nominated Trustees (one current employee, one current pensioner).

Relationship between F&C and the Trustees of the F&C Fund

The Fund'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 Fund are required to act in the best interests of the Fund's beneficiaries.

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 multi-employer plans. Under the terms of the Sale and Purchase Agreement, the Group has a contractual protection such that there is a maximum pension deficit it could inherit upon the set-up of the non-UK plans. A separately identifiable plan has been set up in The Netherlands. F&C Ireland is in the process of setting up a new pension scheme.

F&C Portugal

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 of the scheme.

26. Employee benefits (cont'd)

F&C Netherlands BV

Prior to the merger with the F&C Group, employee benefits in The Netherlands were provided through the Achmea pension plan. Post-merger, a separate pension scheme has been set up, with all assets and liabilities in respect of the F&C employees transferring to the new contract. Existing benefits of the employees participating in the scheme have not been altered as a result of the transfer.

The Group insures the scheme liabilities with an insurance company. There are no Trustees, but the Works Council does have input into negotiations into potential changes to the plan.

Multi-employer defined benefit scheme – F&C Ireland Limited

Employee benefits in Ireland are provided through the Friends First Retirement and Death Benefits Plan, in which F&C participates together with Friends First. F&C has set up a separate new defined benefit plan and a process is under way to calculate the assets and liabilities that will transfer from the multi-employer plan to the new F&C plan. This process had not been completed at 31 December 2006. As the assets and liabilities are not separately identifiable at 31 December 2006, pension benefits provided through the Friends First plan have been accounted for as a multi-employer plan on a defined contribution basis.

Once the transfer of assets and liabilities to the new F&C plan is complete, they will be separately identifiable and defined benefit accounting will be possible. This new scheme's trustee board consists of four trustees, two of whom are employer-appointed and two of whom are member-selected.

Details of contributions into the Friends First Retirement and Death Benefits Plan and the overall Plan deficit are:

	31 December 2006		31 December 2005	
	£000	€000	£000	€000
Plan deficit	**3,436**	**5,100**	4,672	6,800

	2006		2005	
	£000	€000	£000	€000
F&C contributions	**117**	**174**	69	101

(6) Future funding requirements

UK schemes

The Trustees of the ISIS Fund and F&C Fund have agreed to merge the schemes. This is targeted to occur during 2007 and will be achieved by the transfer of all of the defined benefit assets and liabilities from the F&C Fund into the ISIS Fund. The assets and liabilities will be merged on a co-mingled basis (i.e. they will not be separately identifiable into F&C Fund or ISIS Fund sections). In conjunction with this merger, special employer contributions totalling £8m will be paid into the ISIS Fund around the time of the merger with a view to improving the funding level of the merged scheme.

Following the merger, it is intended that a formal actuarial valuation will be performed. 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 following this valuation, it is anticipated that employer contributions will continue initially at 25% of pensionable salaries for ex-ISIS Fund members and at 29.9% of pensionable salaries for ex-F&C Fund members.

Overseas schemes

Given possible changes in overseas pension provisions (for example the 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 2006 continue for the overseas schemes.

26. Employee benefits (cont'd)

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	£000
2005	3,575
2006	**4,350**

Contributions expected to be paid	£000
2007	11,529
2008	3,529
2009	3,529
2010	3,529
2011	3,529

(7) Risk management

(a) UK schemes

The Trustees of each scheme 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 schemes' 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 schemes are on track to meet their long term objectives.

In conjunction with F&C, the Trustees have recently conducted an asset-liability review of the schemes. 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.

Asset allocation

Following the asset-liability review, both the trustees of the F&C Fund and ISIS Fund have agreed with F&C that they will shortly implement a Liability Driven Investment (LDI) approach to their investment strategy. This will involve the use of pooled LDI products managed by F&C. The exact details of the investment strategy and asset allocation for the merged ISIS Fund are still being considered.

Interest rate and inflation risk

The LDI pools are intended to help provide a degree of matching to the inflation linked and nominal sensitivities of the liabilities of schemes. 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 will be valued using the market values of the underlying securities.

The assets are ring fenced from F&C's creditors and therefore transferable.

Currency risk

In order to increase the diversification of the equity portfolio, the schemes invest in overseas assets. However, the schemes' liabilities are entirely in Sterling and therefore there is a risk that the appreciation of Sterling against other currencies will reduce the return from overseas equities.

26. Employee benefits (cont'd)

Operational risk

The investment managers do not directly hold any of the schemes' securities. These are held by an external custodian.

(b) Overseas schemes

The plan in The Netherlands is insured. The value of the plan assets is the value of the statutory reserves which the insurance company is required to hold to back the 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 is invested using the same asset allocation as the overall plan assets. The assets for the overall plan are managed by F&C Portugal. At 31 December 2006, the scheme assets were invested in a diversified portfolio that consisted primarily of debt and equity securities.

(8) Cost of defined contribution plans (including restructuring costs)

	2006 £000	2005 £000
Group personal pension plans	**2,158**	2,030
Other defined contribution schemes	**793**	1,077
	2,951	3,107

The Group had £61,000 of pension contributions outstanding as at 31 December 2006 (31 December 2005: £163,000).

(b) Share-based payments

The Group operates several share-based payment arrangements as part of its total employee remuneration package. The details of each scheme are disclosed below.

Details of option pricing models and key assumptions used to obtain the fair value of goods or services received, or the fair value of the equity instruments granted, have been disclosed only for awards granted during the year ended 31 December 2006.

Details of awards granted in previous accounting periods are disclosed in the notes of previous financial statements.

The weighted average share price during 2006 was £2.01 (2005: £2.12).

(i) 2002 Executive Share Option Scheme

The 2002 Executive Share Option Scheme was activated in March 2003. For each award, the exercise price is equal to the average quoted market price of the Company's shares on the three days immediately preceding the date of grant. 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 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.

26. Employee benefits (cont'd)

The number and weighted average exercise prices (WAEP) of share options are as follows:

	2006 No.	2006 WAEP £	2005 No.	2005 WAEP £
Outstanding at 1 January	**4,000,302**	**1.71**	5,411,679	1.67
Forfeited during the year	**(778,573)**	**2.01**	(258,640)	2.31
Exercised during the year	**(1,341,353)**	**1.39**	(1,152,737)	1.39
Outstanding at 31 December	**1,880,376**	**1.83**	4,000,302	1.71
Exercisable at 31 December	**1,122,876**	**1.44**	305,142	1.90

The 19 March 2003 award vested on 19 March 2006. The options exercised during 2006 and 2005 relate to a mixture of "good leavers" and vested options.

At 31 December 2006 the following options granted under the 2002 Executive Share Option Scheme to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date (assuming performance criteria satisfied)	Exercisable before	Exercise price (p)
19 March 2003	1,071,011	19 March 2006	19 March 2013	139.00
9 March 2004	809,365	9 March 2007	9 March 2014	240.83

The options outstanding at 31 December 2006 have a weighted average outstanding term of 6.7 years (2005: 7.6 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 (10 years) is used as an input to this model. Expectations of early exercise are incorporated into the model. 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 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 6 months after the date on which the participant first becomes entitled to repayment of his or her savings contributions plus bonus. The option will 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.

26. Employee benefits (cont'd)

The number and WAEP of share options are as follows:

	2006		2005	
	No.	**WAEP £**	**No.**	**WAEP £**
Outstanding at 1 January	**1,398,425**	**1.55**	1,345,745	1.41
Granted during the year	**564,830**	**1.71**	527,374	1.87
Forfeited during the year	**(236,933)**	**1.70**	(363,458)	1.56
Exercised during the year	**(277,570)**	**1.19**	(111,236)	1.30
Outstanding at 31 December	**1,448,752**	**1.66**	1,398,425	1.55
Exercisable at 31 December	**6,730**	**1.51**	19,574	1.75

The options exercised during 2006 relate to both the vesting of the 9 May 2003 (3 year award) and "good leavers". All options exercised in 2005 relate to "good leavers".

At 31 December 2006 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 (assuming performance criteria satisfied)	Exercisable before	Exercise price (p)
9 May 2003 (5 year)	285,574	9 May 2008	9 Nov 2008	114.0
19 April 2004 (3 year)	153,435	19 April 2007	19 Oct 2007	181.0
19 April 2004 (5 year)	114,045	19 April 2009	19 Oct 2009	181.0
29 April 2005 (3 year)	241,141	29 April 2008	29 Oct 2008	186.6
29 April 2005 (5 year)	143,444	29 April 2010	29 Oct 2010	186.6
18 April 2006 (3 year)	335,898	18 April 2009	18 Oct 2009	171.0
18 April 2006 (5 year)	175,215	18 April 2011	18 Oct 2011	171.0

The options outstanding at 31 December 2006 have a weighted average outstanding term of 2.6 years (2005: 2.8 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.

26. Employee benefits (cont'd)

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

	2006 grant (3 year)	2006 grant (5 year)
Fair value at measurement date (per option)	54.0p	54.0p
Number of options granted	381,707	183,123
Share price at grant date	215.5p	215.5p
Exercise price	171.0p	171.0p
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)	4.5%	4.5%
Expected dividend yield	5.5%	5.5%
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 and the underlying EPS achieved.

(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 merger to voluntarily re-invest one half of their entitlement under the 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 carry forfeiture provisions, after three years participants will receive up to one Matching Share for each Investment Share (subject to continued employment and achievement of performance conditions). One third of Matching Shares have no performance criteria, while the remaining two-thirds vest in line with the following schedule.

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 (RPI)).

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

26. Employee benefits (cont'd)

The number of Investment Shares and Matching Share awards are as follows:

	2006 Investment Shares No.	2006 Matching Shares No.	2005 Investment Shares No.	2005 Matching Shares No.
Outstanding at 1 January	**4,625,626**	**9,533,741**	11,021,991	11,021,991
Forfeited during the year	**(169,199)**	**(1,144,760)**	(836,054)	(955,538)
Exercised during the year	**(4,408,520)**	**(485,821)**	(5,560,311)	(532,712)
Outstanding at 31 December	**47,907**	**7,903,160**	4,625,626	9,533,741

During 2006 the second tranche of the Investment Shares vested. During 2005 the first tranche of the Investment Shares vested. All Matching Shares exercised during 2006 and 2005 related to "good leavers".

At 31 December 2006 the following awards granted under the Re-Investment Plan were outstanding:

Grant date	No. of awards outstanding	Earliest vesting date (assuming performance criteria satisfied)	Exercise price (p)
11 Oct 2004 Investment Shares	47,907	11 October 2006	0.0
11 Oct 2004 Matching Shares	7,903,160	11 October 2007	0.0

The awards outstanding at 31 December 2006 have a weighted average outstanding term of 0.8 years (2005: 1.5 years).

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 will be 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.

(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 (RPI)).

26. Employee benefits (cont'd)

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:

	2006 No.	**2005 No.**
Outstanding at 1 January	**5,952,988**	6,375,904
Granted during the year	**1,482,046**	–
Forfeited during the year	**(928,275)**	(422,916)
Outstanding at 31 December	**6,506,759**	5,952,988

No awards were exercised during 2006 or 2005, nor were any exercisable at 31 December 2006 or 31 December 2005..

At 31 December 2006 the following restricted share awards granted under the LTRP were outstanding:

Grant date	**No. of awards outstanding**	**Earliest exercise date (assuming performance criteria satisfied)**	**Exercise price (p)**
15 Nov 2004	5,024,713	15 Nov 2007	0.0p
17 May 2006	1,482,046	17 May 2009	0.0p

The awards outstanding at 31 December 2006 have a weighted average outstanding term of 1.2 years (2005: 1.9 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. Monte Carlo Simulation is used to value the TSR criteria. The contractual life of the award (3 years) is used as an input to this model. The value of dividend payments has been separated as these are settled in cash.

Notes to the Consolidated Financial Statements

26. Employee benefits (cont'd)

The key assumptions which have been used in the models to ascertain the fair value of 2006 awards are as follows:

	2006 grant – TSR		2006 grant – EPS	
	Equity	**Cash**	**Equity**	**Cash**
Fair value at measurement date (per award)	108.0p	19.0p	177.0p	32.0p
Number of awards granted	741,023		741,023	
Share price at grant date	208.5p		208.5p	
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)	4.80%		N/A	
Expected dividend yield	5.5%		N/A	
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.

(b) Deferred share awards

As ratified at the 2006 AGM, the Long Term Remuneration Plan was amended to allow 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:

	2006 No.	2005 No.
Outstanding at 1 January	–	–
Granted during the year	3,634,418	–
Forfeited during the year	(187,794)	–
Outstanding at 31 December	**3,446,624**	–

No awards were exercised during 2006 or exercisable at 31 December 2006.

26. Employee benefits (cont'd)

At 31 December 2006 the following awards granted under the LTRP (deferred) were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price (p)
17 May 2006	3,349,655	17 May 2009	0.0p
1 September 2006	96,969	1 September 2009	0.0p

The awards outstanding at 31 December 2006 have a weighted average 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 the fair value of awards granted is measured at full market value and no valuation model is used. The contractual life of the award (3 years) is used as an input to this model. The value of dividend payments has been separated 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 2006 are as follows:

	17 May 2006		1 September 2006	
	Equity	Cash	Equity	Cash
Fair value at measurement date (per award)	177.0p	32.0p	175.0p	31.0p
Number of awards granted	3,537,449		96,969	
Share price at grant date	208.5p		206.25p	
Exercise price	0.0p		0.0p	
Vesting period	3 years		3 years	
Full term of award	3 years		3 years	
Expected dividend yield	5.5%		5.5%	
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.

(v) Share Incentive Plan

During 2005, 100 "free" Share Incentive Plan shares were awarded to all employees of the Group who applied for them. 795 employees were granted 100 free shares, without conditions. Awards therefore vested immediately as they did not have a vesting period.

Awards were granted on 21 June 2005 at a share price of £1.95.

The total expense of £155,000 associated with this award was recognised in 2005.

(vi) Purchased Equity Plan

The Purchased Equity Plan operates in conjunction with the discretionary bonus scheme and is intended to encourage shareholding by management and employees of the Group by providing for:

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

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

- On an annual basis, eligible employees who are awarded in a financial year an aggregate bonus in excess of a threshold level of £75,000 will be required to defer one third of the element exceeding £75,000 (prior to 24 February 2006: one third of aggregate bonus) into shares (Compulsory Purchased Equity) subject to continued service 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).

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. No Voluntary Purchased Equity awards have been granted.

26. Employee benefits (cont'd)

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:

	2006 Awards No.	2005 Awards No.
Outstanding at 1 January	**684,425**	–
Granted during the year	**857,462**	750,091
Forfeited during the year	**(60,284)**	(35,688)
Exercised during the year	**(80,491)**	(29,978)
Outstanding at 31 December	**1,401,112**	684,425

No awards were exercisable at 31 December 2006 or 31 December 2005.

The awards exercised during 2006 and 2005 relate to "good leavers".

At 31 December 2006 the following awards granted under the Purchased Equity Plan to acquire Ordinary Shares were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date (assuming performance criteria satisfied)	Exercise price (p)
24 March 2005	556,826	24 March 2008	0.0p
24 March 2006	844,286	24 March 2009	0.0p

The awards outstanding at 31 December 2006 have a weighted average outstanding term of 1.9 years (2005: 2.3 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.

The key assumptions which have been used to ascertain the fair value of awards made during 2006 are as follows:

	2006 award Compulsory Purchased Equity	
	Equity	Cash
Fair value at measurement date (per award)	**182.0p**	**33.0p**
Number of awards granted	**857,462**	
Share price at grant date	**215.0p**	
Exercise price	**0.0p**	
Vesting period	**3 years**	
Full term of award	**3 years**	
Expected forfeiture rate (per annum)	**5.0%**	

26. Employee benefits (cont'd)

(vii) Deferred Share Award

A deferred share award, made in 2006, is not subject to ongoing performance conditions, but has a time-vesting period of three years.

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:

	2006 No.	2005 No.
Outstanding at 1 January	–	–
Granted during the year	154,838	–
Forfeited during the year	–	–
Outstanding at 31 December	**154,838**	–

No awards were exercisable at 31 December 2006.

At 31 December 2006 the following award granted under the Deferred Share Award was outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price (p)
9 August 2006	154,838	9 August 2009	0.0p

The award outstanding at 31 December 2006 has an 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 the fair value of awards granted is measured at full market value and no valuation model is used. The contractual life of the award (3 years) is used as an input to this model. The value of dividend payments has been separated as these are settled in cash.

The key assumptions which have been used in the valuation to ascertain the fair value of awards are as follows:

	2006 Equity	2006 Cash
Fair value at measurement date (per award)	163.0p	29.0p
Number of awards granted	154,838	
Share price at grant date	193.75p	
Exercise price	0.0p	
Vesting period	3 years	
Full term of awards	3 years	
Expected dividend yield	5.5%	
Expected forfeiture rate (per annum)	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.

26. Employee benefits (cont'd)

(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 yet vested before 1 January 2005 (i.e. the effective date of IFRS 2).

The 1995 Executive Share Option Scheme 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 Executive Share Option Scheme 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 10 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 EPS percentage increase in each 3 consecutive years exceeds the RPI by at least 2% per annum.

The number and WAEP of share options are as follows:

	2006		2005	
	No.	WAEP £	No.	WAEP £
Outstanding at 1 January	**2,693,131**	**2.64**	3,612,317	2.58
Forfeited during the year	**(661,204)**	**2.67**	(757,817)	2.46
Exercised during the year	–	–	(81,369)	2.14
Expired during the year	–	–	(80,000)	2.31
Outstanding at 31 December	**2,031,927**	**2.63**	2,693,131	2.64
Exercisable at 31 December	**2,031,927**	**2.63**	343,257	2.29

The options exercised during 2005 relate to "good leavers".

At 31 December 2006 the following options granted under the 1995 Executive Share Option Scheme to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Date vested	Exercisable before	Exercise price (p)
9 June 1998	647,259	24 March 2006	9 June 2008	203.83
16 July 1999	490,762	24 March 2006	16 July 2009	232.50
28 April 2000	481,666	24 March 2006	28 April 2010	214.00
20 October 2000	18,740	24 March 2006	20 October 2010	320.17
1 March 2001	393,500	24 March 2006	1 March 2011	455.83

The options outstanding at 31 December 2006 have a weighted average outstanding term of 2.7 years (2005: 3.8 years).

26. Employee benefits (cont'd)

Summary of share-based payment schemes

The Group recognised total expenses, excluding National Insurance Contributions, related to share-based payment schemes as follows:

	Note	2006 £000	2005 £000
2002 ESOS		546	1,172
2002 Share Save scheme		172	154
The Re-investment Plan		10,581	21,328
The Long-Term Remuneration Plan (restricted shares)		4,682	3,099
The Long-Term Remuneration Plan (deferred shares)		1,336	–
Purchased Equity Plan		1,006	436
Deferred Share Award		42	–
Share Incentive Plan – 100 free shares		–	155
Total share-based payment expenses	5	18,365	26,344

	31 December 2006 £000	31 December 2005 £000
Total carrying amount of cash-settled liabilities	3,233	3,214

The total expense recognised during the year in respect of share-based payment schemes is as follows:

	2006 £000	2005 £000
Equity – settled	15,690	21,822
Cash – settled	2,675	4,522
Total share-based payment expenses	18,365	26,344

27. Deferred income

	2006 £000	2005 £000
At 1 January	18,030	15,751
Income deferred in the year	3,942	4,924
Amortisation in the year	(3,997)	(2,645)
At 31 December	17,975	18,030

	31 December 2006 £000	31 December 2005 £000
Split as follows:		
Non-current liabilities	13,733	14,351
Current liabilities	4,242	3,679
	17,975	18,030

Deferred income primarily comprises initial fees arising on investments made by OEIC unit holders. These fees are initially recognised as deferred income and released to income over the estimated period (2006: 7 years; 2005: 7 years) of which the investment is made.

28. 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 set out below:

	2006 £000	2005 £000
Liability as at 1 January	**1,006,928**	862,308
Contributions received	**198,718**	170,529
Investment return applied	**106,700**	162,605
Charges levied	**(5,663)**	(4,260)
Repayments	**(140,250)**	(192,140)
Movement in reinsurance ceded	**8,672**	7,886
Liability as at 31 December	**1,175,105**	1,006,928

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 fair value of unit linked investment contracts is the number of units allocated to policyholders in each of the unit linked funds multiplied by the unit price of those funds at the balance sheet date.

The fund assets and liabilities used to determine the unit prices at the balance sheet date are valued on a basis that is consistent with their measurement basis in the Consolidated Balance Sheet.

29. 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 set out below:

	2006			2005		
Insurance contract liabilities	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
At 1 January	**2,617**	**2,617**	**–**	2,352	2,352	–
Claims paid	**(147)**	**(147)**	**–**	(152)	(152)	–
Change in economic assumptions	**(130)**	**(130)**	**–**	125	125	–
Change in mortality assumptions	**–**	**–**	**–**	194	194	–
Unwind interest rate at start of year	**105**	**105**	**–**	104	104	–
Other changes in year	**(100)**	**(100)**	**–**	(6)	(6)	–
At 31 December	**2,345**	**2,345**	**–**	2,617	2,617	–

A liability adequacy test was carried out at policy level and resulted in no additional provision for either 2006 or 2005. No significant gain or loss arose on reinsurance contracts incepted in 2006 or 2005.

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	2006	2005
Annuities in payment	**67-95% PXA92**	70-101% PXA 92

(i) Projected thereafter using 95% of the average of medium cohort improvement factors for males (71.25% for females) subject to a minimum annual rate of improvement of 0.5%.

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 4.56% (2005: 4.02%) based on current fixed interest gross redemption yields, with a prudent adjustment for risk.

30. Share capital

(a) Ordinary share capital of 0.1p

	31 December 2006 Number of shares	31 December 2006 £000	31 December 2005 Number of shares	31 December 2005 £000
Authorised:				
Equity interests				
Ordinary Shares of 0.1p	**800,000,000**	**800**	800,000,000	800
Allotted, called up and fully paid:				
Equity interests				
Ordinary Shares of 0.1p	**484,775,590**	**485**	483,434,237	484

	No. of Ordinary Shares 2006	2005
Issued at 1 January	**483,434,237**	482,200,131
Share options exercised during the year	**1,341,353**	1,234,106
Issued at 31 December	**484,775,590**	483,434,237

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 (p)
23 January 2006	2002	38,591	139.00
27 March 2006	2002	651,735	139.00
30 March 2006	2002	92,693	139.00
31 March 2006	2002	186,912	139.00
11 April 2006	2002	153,543	139.00
25 April 2006	2002	10,791	139.00
3 May 2006	2002	43,420	139.00
16 May 2006	2002	34,172	139.00
21 September 2006	2002	107,914	139.00
13 October 2006	2002	21,582	139.00
		1,341,353	

The Group held the following shares in Employee Share Option Plan (ESOP) trusts. These are categorised as treasury shares, and are deducted from shareholders' funds:

	31 December 2006 No.	31 December 2005 No.
ISIS Employee Benefit Trust (Abacus Trust)	**1,467,551**	5,673,904
F&C Group ESOP Trustee Limited	**665,111**	890,200
F&C Management Limited Employee Benefit Trust	**339,840**	–
	2,472,502	6,564,104

The aggregate nominal value of own shares held by ESOPs at 31 December 2006 was £2,000 (31 December 2005: £7,000). The market value of these shares at 31 December 2006 was £5,217,000 (31 December 2005: £11,635,000).

30. Share capital (cont'd)

During the year, the Group purchased 563,205 of its own Ordinary Shares (2005: 104,780) of 0.1p to satisfy the exercises of awards granted under the share save scheme in respect of "good leavers" and to hold in treasury. The cost of this to the Group, after exercise price monies paid by the former employees, was £684,000 (2005: £87,000). The consideration paid for the shares was £1,076,000 (2005: £223,000).

(b) Cumulative Preference Shares of £1 each

	31 December 2006		31 December 2005	
	Number of shares	£000	Number of shares	£000
Authorised, allotted, called up and fully paid	**800,000**	**800**	800,000	800

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 fixed dividend.
- Holders of Cumulative Preference Shares are entitled to one vote in instances where the fixed dividend is six months in arrears or in the event that a resolution put to the meeting varies or impacts the rights and privileges attached to these shares.

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

31. Reserves

Reconciliation of movement in reserves

	Ordinary share capital £000	Share premium account £000	Merger reserve £000	Foreign currency translation reserve[1] £000	Fair value reserve[1] £000	Special distributable reserve[1] £000	Other reserves[1] £000	Retained earnings £000	Minority interests £000	Total equity £000
Balance at 1 January 2005	482	28,956	749,754	4,846	1,618	102,033	(96)	(9,935)	–	877,658
Items reported in the Consolidated Statement of Recognised Income and Expense	–	–	449	(4,246)	(159)	–	–	(99,478)	–	(103,434)
Realised element of merger reserve to offset amortisation and impairment of intangible assets	–	–	(144,057)	–	–	–	–	144,057	–	–
Share capital allotted on exercise of options	2	1,774	–	–	–	–	–	–	–	1,776
Purchase of own shares	–	–	–	–	–	–	–	(87)	–	(87)
Final dividend 2004 paid	–	–	–	–	–	–	–	(32,952)	–	(32,952)
Interim dividend 2005 paid	–	–	–	–	–	–	–	(18,865)	–	(18,865)
Transfer from special distributable reserve in relation to dividends	–	–	–	–	–	(51,817)	–	51,817	–	–
Share-based payment charges credited to equity	–	–	–	–	–	–	–	21,822	–	21,822
Partners' capital injected	–	–	–	–	–	–	–	–	2	2
Partners' drawings in advance of profits	–	–	–	–	–	–	–	–	(500)	(500)
Balance at 31 December 2005	484	30,730	606,146	600	1,459	50,216	(96)	56,379	(498)	745,420
Items reported in the Consolidated Statement of Recognised Income and Expense	**–**	**–**	**–**	**(4,422)**	**(347)**	**–**	**98**	**(21,951)**	**999**	**(25,623)**
Realised element of merger reserve to offset amortisation and impairment of intangible assets	**–**	**–**	**(85,469)**	**–**	**–**	**–**	**–**	**85,469**	**–**	**–**
Share capital allotted on exercise of options	**1**	**1,864**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,865**
Purchase of own shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(684)**	**–**	**(684)**
Cash received into Treasury as settlement of options	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**252**	**–**	**252**
Final dividend 2005 paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(33,472)**	**–**	**(33,472)**
Interim dividend 2006 paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(19,188)**	**–**	**(19,188)**
Transfer from special distributable reserve in relation to dividends	**–**	**–**	**–**	**–**	**–**	**(50,216)**	**–**	**50,216**	**–**	**–**
Share-based payment charges credited to equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,690**	**–**	**15,690**
Distribution to minority interest in excess of profits	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(429)**	**429**	**–**
Partners' drawings	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(500)**	**(500)**
Balance at 31 December 2006	**485**	**32,594**	**520,677**	**(3,822)**	**1,112**	**–**	**2**	**132,282**	**430**	**683,760**

Cumulative defined pension scheme actuarial losses recognised as at 31 December 2006 are £31,160,000 which are included in retained earnings (31 December 2005: £33,643,000). See note 26(a).

(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 debit of £2,708,000 (2005: credit of £52,179,000).

31. Reserves (cont'd)

Nature and purpose of reserves

Share premium account

The share premium account is used to record the issue of share capital above 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.

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. This reserve may be used by the Group for the purchase of its own shares or to fund future dividend payments.

Other reserves:

– **Capital redemption reserve**
  The capital redemption reserve was created on cancellation of share capital.

– **Non-distributable reserve – associate**
  Comprises 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 in the pension liability;
– deferred tax on actuarial gains and losses;
– transactions relating to equity-settled share-based payments, and all deferred tax movements on share-based payments reflected through equity; and
– the purchase and sale of own shares.

32. Notes to the Cash Flow Statement

(a) Analysis of cash flow statement movements

	2006 £000	2005 £000
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**2,995**	3,176
Amortisation of intangible assets	**43,711**	56,221
Impairment of intangible assets	**58,478**	111,500
Loss/(gain) on sale of property, plant and equipment	**27**	(73)
Loss on disposal of investments	**61**	–
Share-based payment expenses	**14,092**	24,474
	119,364	195,298
Changes in working capital and provisions:		
Decrease/(increase) in trade and other receivables	**6,189**	(40,757)
Increase in trade and other payables	**5,204**	5,014
Increase in other assets (stock of units and shares)	**(64)**	(120)
Increase/(decrease) in other liabilities	**353**	(488)
Increase in investment contract liabilities	**168,177**	157,389
Increase in investment contract reinsurance	**(8,672)**	(23,686)
(Decrease)/increase in insurance contract liabilities	**(272)**	899
Increase/(decrease) in employee benefits	**2,861**	(5,377)
Decrease/(increase) in deferred acquisition costs	**130**	(986)
(Decrease)/increase in deferred income	**(55)**	1,564
Pension contributions paid less pension operating profit charge	**(509)**	156
Increase in provisions for liabilities and charges	**1,045**	5,823
Increase in financial investments	**(133,508)**	(153,730)
	40,879	(54,299)

(b) Disposal of subsidiaries

	2006 £000	2005 £000
Proceeds from disposals (settled in cash)	**–**	10
Net assets/(liabilities) of subsidiaries disposed of:		
Investments	**–**	3
Trade and other receivables	**–**	1,762
Current tax recoverable	**–**	221
Cash and cash equivalents	**–**	824
Trade and other payables	**–**	(2,577)
Goodwill	**–**	449
	–	682
Loss on disposal of subsidiaries	**–**	672

(c) Property, plant and equipment

During the period the Group acquired property, plant and equipment with an aggregate cost of £4,609,000 (2005: £3,527,000). Cash payments of £4,077,000 (2005: £3,701,000) were made to purchase property, plant and equipment during the year.

(d) Cash and cash equivalents

See note 22 for details of cash and cash equivalent balances, a description of cash and cash equivalents, restrictions on use of cash, and details of borrowing facilities.

Notes to the Consolidated Financial Statements

33. Contingencies

Contingent liabilities:

(a) Shareholding in F&C Group Management Limited

In December 2000, Eureko B.V. agreed to acquire 90% of the issued share capital of F&C Group (Holdings) Limited from Hypo Vereinsbank. Approximately 73% of the ordinary issued shares of F&C Group Management Limited, a subsidiary company of F&C Group (Holdings) Limited, were held in the form of two bearer share warrants which could not be located (the "old Share Warrants").

Since a bearer share warrant issued by a company entitles the bearer to the shares specified therein, there is a risk that a third party holding the old Share Warrants may claim it is entitled to the specified shares in F&C Group Management Limited. If a third party were successful in establishing a claim in relation to the old Share Warrants, F&C Group (Holdings) Limited could be liable to indemnify F&C Group Management Limited under the indemnity arrangements, which could have a material adverse effect on the Group's business, results of operations and/or financial condition.

Under the terms of the Merger, Eureko Holdings has given a specific indemnity (guaranteed by Eureko B.V.) to the Group in respect of losses arising in relation to the old Share Warrants in F&C Group Management Limited (including in respect of the indemnity granted by F&C Group (Holdings) Limited to F&C Group Management Limited) which is capped at approximately £432 million.

While there is a possibility that a third party may seek to establish that it is entitled to the shares specified in the old Share Warrants, the Group has been informed that Eureko B.V. was advised at the time of the Merger that the prospect of a third party succeeding in such a claim is remote.

(b) VAT Tribunal Appeal – VAT on investment trust management fees

In a current UK Value Added Tax (VAT) tribunal appeal, a UK investment trust is seeking to establish that management services to UK investment trusts should be a VAT exempt supply, rather than a taxable supply in accordance with current UK VAT law. If this case were successful, a number of Group companies, in common with other fund managers in the UK, would face claims from those investment trusts to which they have supplied services for repayment of the VAT they have charged to them. The Association of Investment Companies ("The AIC") (a party to the above litigation) has indicated that it believes claims dating back as far as 1990 may be lodged with fund managers by investment trusts. Under current VAT law, companies in the Group can submit repayment claims to HM Revenue and Customs (HMRC), but only dating back as far as 2001, being the maximum time period permitted. However, separate legal proceedings have challenged the validity of how the 'capping rules' introduced by HMRC in 1997 are applied. If this case is successful AND it is held that VAT should not be charged on investment trust management fees, then the Group may be eligible to reclaim VAT from HMRC in respect of the period between 1990 and 1996, which would be used to partially fund the repayment back to investment trusts. The Group has begun to receive protective claims from a number of its investment trust clients and has lodged protective claims with HMRC. On 1 March 2007 the Advocate General issued an opinion on the case which is in favour of investment trusts. However, until the decision of the European Court of Justice and the subsequent UK VAT tribunal decision are known, the Directors are not able to judge the likelihood that the investment trusts and The AIC will be successful, nor are they able to quantify the claims that may be received or the extent to which such claims could be mitigated and therefore, are not able to quantify the potential liability.

Contingent assets:

(a) European court case – Management services to authorised unit trusts and OEICs

Following a recent European court case ("the Abbey National case"), it has been ruled that certain services provided for the management of authorised unit trust and Open Ended Investment Companies should be exempt from VAT. As a result of certain outsourced arrangements, certain services provided to the Group are now exempt and the Group may recover VAT erroneously paid in respect of previous periods. This VAT was previously treated as irrecoverable from the Group's perspective. HMRC set 1 October 2006 as the date from which changes arising from this court case were to be implemented. The Group is currently working with suppliers to establish the potential quantum of historic output VAT which may be recovered by the Group, as it is linked to the extent of protective claims submitted by our suppliers.

The Directors are not able to calculate an accurate monetary estimate of any financial benefit arising until they know the extent of cash receivable from suppliers, the extent to which some of this may be repayable to clients' funds which bore the original cost, and the extent of any sums repayable to HMRC, as these were originally the subject of "partial exemption" rules and hence the Group may have already received some of the input VAT.

(b) Compensation from Eureko defined pension deficit

Under the terms of the Sale and Purchase Agreement relating to the merger in 2004, the Group has contractual protection such that it will be reimbursed for the quantum of the pension deficit (at the date of the merger) in respect of overseas defined benefit pension arrangements. The execution of this contractual arrangement is ongoing and the quantum payable to the Group can only be finalised once certain employees have taken a decision whether to transfer their historic pension benefits into the new scheme. As a result, it is not yet possible to determine the extent of any amount receivable by the Group.

34. 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 2006 £000	31 December 2005 £000	31 December 2006 £000	31 December 2005 £000
Within one year	**9,488**	9,456	**4,309**	2,333
After one year but not more than five years	**40,944**	39,742	**2,339**	3,068
More than five years	**72,863**	80,352	**–**	–
	123,295	129,550	**6,648**	5,401

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 2006 £000	31 December 2005 £000
Within one year	**2,242**	2,088
After one year but not more than five years	**5,489**	5,025
More than five years	**8,877**	10,021
	16,608	17,134

One property receives a contingent lease payment based on a percentage of revenue in addition to a minimum lease payable. The maximum amount receivable under this arrangement is £572,000 (2005: £216,000) per annum.

Capital commitments

The amounts contracted for in terms of capital expenditure, but not provided for in the financial statements at 31 December 2006, amount to £565,000 (31 December 2005: £266,000).

35. Financial risk management objectives and policies

(a) Strategy in using financial instruments

The Group's risk management framework and the processes for identifying risks across the Group, including strategic and operational risks, are described in the Directors' Report on Corporate Governance on pages 18 to 25. These processes include identification and control of financial risks.

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.

Shareholder 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, our interests are aligned to those of our clients.

35. Financial risk management objectives and policies (cont'd)

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 performance of investment professionals. This ongoing process will, where considered necessary, include the selective upgrade of the quality of our investment teams.

The key components of financial risk to which our clients are exposed are:

– *Market risk* – the risk of loss arising from changes in the values of, or income from, assets. Market risks include equity and property risk, currency risk and interest rate risk.
– *Credit risk* – the risk of loss due to the default of a company, individual or country, or a change in investors' risk appetite.
– *Liquidity risk* – the risk of loss because a firm, although solvent, either does not have sufficient financial resources available to it in order to meet its obligations as they fall due, or can secure them only at excessive cost.

The Group does not hedge its revenue exposure to market risks arising from movements in the value of client assets.

Corporate financial risk strategy

F&C adopts a low risk approach to treasury management and financial risks in relation to shareholder equity, endeavouring to ensure that its capital is managed and preserved and financial risks are managed as appropriate.

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 is 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:

- The Board Reserved List prohibits the establishment of borrowing facilities without the prior approval of the Board.
- Placing of funds on deposit will be short term (maximum term 90 days) to ensure such balances are eligible for inclusion as regulatory capital.
- Deposits may only be placed with counterparties approved by the F&C Credit Committee and the Board sets the appropriate limit of exposure to any one counterparty.
- The Group does not 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 own funds, without prior Board approval.
- Foreign currency exposure is managed to reduce the risk and impact of movements in exchange rates by the repatriation of surplus foreign currency into Sterling. Surplus currency balances are defined as being the level of cash which exceeds the regulatory capital and working capital requirements of the relevant foreign operations.

The Directors give careful consideration to the appropriate funding structure for financing all acquisitions including the capacity to fund anticipated restructuring activity.

The overall objective of shareholder liquidity risk management is to ensure that there is sufficient liquidity over short (up to one year) and medium time horizons to meet the needs of the business. This includes liquidity to cover, among other things, operating expenses, servicing debt and equity capital as well as working capital to fund the Group's day-to-day requirements.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial assets which are exposed to interest rate movements.

(b) Analysis of financial risks

The Group's direct exposure to each category of financial risk is given below. As the financial risks and rewards of the assets attributable to the unit linked investment contracts fall to be borne by, or to the benefit of, policyholders rather than the equity holders of the Company, no further risk disclosures are given.

(i) Market risks

Equity risk

The Group has exposure to the movements in the market value of equities and property funds held by the Group's defined benefit pension schemes. In addition, the value of gilts and corporate bonds held by the schemes are impacted by movements in interest rates. The value of pension plan assets, which are subject to market risks, is disclosed in note 26.

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.

The only other assets where any direct market risk arises is in relation to the stock of units and shares held in open ended funds managed by the Group. The Group's box management policy specifically limits the overall magnitude of the box and the amount which may be held in any single fund to £1,500,000 and £50,000 respectively.

35. Financial risk management objectives and policies (cont'd)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's objective is to minimise the impact of exchange rate movements by repatriation of excess funds to Sterling. The following monetary assets and liabilities of the Group were exposed to currency movement at 31 December:

	Net foreign currency monetary assets/(liabilities)			
	Euro	US Dollar	Other	Total
Functional currency of Group operations	**£000**	**£000**	**£000**	**£000**
2006 Sterling				
– equity holder	**253,430**	**1,339**	**(13)**	**254,756**
2005 Sterling				
– equity holder	256,522	1,220	43	257,785

Interest rate risk

Year ended 31 December 2006

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

Fixed rate	**Within 1 year £000**	**1-2 years £000**	**2-3 years £000**	**3-4 years £000**	**4-5 years £000**	**More than 5 years £000**
Financial investments – quoted	24	–	–	–	23	–
£260,000,000 fixed/floating Subordinated Notes 2026	–	–	–	–	–	(257,711)

Floating rates	**Within 1 year £000**	**1-2 years £000**	**2-3 years £000**	**3-4 years £000**	**4-5 years £000**	**More than 5 years £000**
Trade and other receivables	2,500	–	–	–	–	–
Cash and cash equivalents	267,583	–	–	–	–	–
£50,000,000 revolving credit loan	(5,000)	–	–	–	–	–
£800,000 Cumulative Preference Shares	–	–	–	–	–	(800)

35. Financial risk management objectives and policies (cont'd)

Year ended 31 December 2005

Fixed rate	Within 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000
Financial investments – quoted	–	25	–	–	–	–
£180,000,000 Term Loan	(180,000)	–	–	–	–	–

Floating rates	Within 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000
Trade and other receivables	2,500	–	–	–	–	–
Cash and cash equivalents	146,197	–	–	–	–	–
£50,000,000 revolving credit loan	(5,000)	–	–	–	–	–
£25,000,000 subordinated loan	–	–	–	(25,000)	–	–
£9,000,000 subordinated loan	–	–	–	(9,000)	–	–
£800,000 Cumulative Preference Shares	–	–	–	–	–	(800)

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk. The rates applicable to interest bearing loans and borrowings are given in note 23.

(ii) Credit risk

Credit risk includes investment credit risk, counterparty risks, deposit and loan risks and country risk. As an asset management business which derives revenues that are based on a percentage of client assets under management, our exposure to default of clients is considered to be relatively low. However, due to the scale of some of our larger clients, the Group is exposed to a concentration of credit risk to the extent of the timing difference between the recognition of income for services rendered and the timing of receipt of management fees from clients. The quantum of accrued revenue and trade debtors at each balance sheet date is given in note 21. The specific concentration of risk from clients where trade debtors and accrued income for any one client or group of connected clients is £1,000,000 or more at either 31 December 2005 or 2006 is given below.

	31 December 2006 £000	31 December 2005 £000
Included in trade debtors and accrued income:		
– Amounts due from Friends Provident plc Group	**590**	1,964
– Amounts due from the Achmea Group	**3,632**	6,047
– Resolution Life plc	**–**	3,283
– RSA plc	**908**	1,000
– OEICs : Management fees	**3,277**	3,140
Other debtors:		
– OEICs : Debtor in respect of liquidated units	**9,347**	6,950
Trade and other receivables:		
– Loan to associate	**2,500**	2,500
	20,254	24,884

The Board treasury policy limits the exposure to any one counterparty (in respect of cash and cash equivalents) to £25 million, recognising that each counterparty used has been approved by the F&C Credit Committee. There is no net credit risk in relation to client assets as this risk is borne fully by the clients concerned.

35. Financial risk management objectives and policies (cont'd)

(iii) Liquidity risk

The treasury policy set by the Board only allows financial assets attributable to equity holders to be invested in low risk deposits or money market instruments where the risk of capital loss is extremely low.

The Group utilises the experience and skills of its dealing team to obtain the best interest rate, recognising the expected maturity dates are aligned to the Group's working capital requirements and that no deposit can be placed for a period of 90 days or more, as this would not be eligible to count towards the regulatory capital of the entity to which it relates.

The Group also has various borrowing facilities available to it. The undrawn committed facilities available at 31 December 2006 and 2005 are given in note 22.

The Group has issued fixed rate subordinated Loan Notes repayable in 2016, with the option of extending the term to 2026 (at a floating rate). This has provided the Group with long-term flexible funding at a fixed rate of interest.

36. 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 (£2,345,000 at 31 December 2006; £2,617,000 at 31 December 2005) this is not considered significant.

37. 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 (formerly ISIS Investment Trusts 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
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 holding 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
F&C Partners LLP(10)	60	England	Hedge fund investment management
F&C Private Equity Nominees Limited(11)	100	England	Investment holding company

37. Subsidiary undertakings (cont'd)

	Percentage interest and voting rights	Country of registration or incorporation	Nature of business
(ii) Overseas			
Ivory & Sime (Japan) KK[(1)]	100	Japan	Investment management
Ivory & Sime (Bermuda) Limited[(1)]	100	Bermuda	Investment management
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

The above information has been supplied only for undertakings principally affecting the results and assets of the Group.

38. 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 37 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:

	2006 £000	2005 £000
Short-term employee benefits	**6,447**	7,828
Post-employment benefits	**1,024**	1,299
Termination benefits	**413**	2,256
Share-based payments:		
– recurring arrangements	**458**	–
– Re-Investment Plan	**5,599**	7,002
Total	**13,941**	18,385

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

Company dividends paid to key management are as follows:

	2006 £000	2005 £000
Ordinary dividends paid	**39**	60

38. Related party transactions (cont'd)

(c) Transactions and balances with related parties

Transactions with related parties during 2006 and 2005 and outstanding balances with these parties as at 31 December 2006 and 31 December 2005 are given below, by each group of related parties.

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 if Friends Provident's shareholding in the Company were to fall below 50%.

	Total invoiced and accrued during 2006 £000	Outstanding at 31 December 2006 £000	Total invoiced and accrued during 2005 £000	Outstanding at 31 December 2005 £000
Management fees				
Management fees invoiced to the FP Group	**33,424**	**(594)**	35,085	1,964
Amounts outstanding at 31 December are included within other creditors or trade debtors and accrued income as appropriate				
Shared services and administration services				
Shared service fees billed and accrued by the FP Group	**339**	**32**	589	10
Administration service fees billed and accrued by the FP Group	**683**	**57**	842	–
Amounts outstanding at 31 December are included within accruals				
Other recharges				
Other recharges to the FP Group	**481**	**–**	46	–
Other recharges from the FP Group during the year	**103**	**–**	439	–
Other recharges includes charges made to or from the FP Group for premises, staff costs and other related expenditure				
Dividends and interest payable				
Ordinary dividends	**27,643**	**–**	27,268	–
Dividends on Preference Shares	**54**	**27**	53	27
Loan interest	**12,099**	**–**	12,542	1,317
Amounts outstanding at 31 December are included within amounts owed to FP Group				
Other transactions				
Net investment in property funds	**159**	**–**	925	–
Annuity reinsurance	**147**	**(9)**	152	(15)

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.

Inter-company balances with the FP Group

In addition to the above, at 31 December 2006, the Group owed £105,000 (2005: £1,900,000) to the FP Group.

38. Related party transactions (cont'd)

OEICs and private equity SPVs

Where the FP Group controls an F&C managed OEIC or private equity SPV, 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 2006 £000	Outstanding at 31 December 2006 £000	Total invoiced and accrued during 2005 £000	Outstanding at 31 December 2005 £000
Investment management fees	**8,511**	**724**	9,653	794
Carried interest receipts	**495**	**–**	1,120	–

Loans due to the FP Group

Details of loans due to the FP Group are shown in note 23.

Related party transactions with Eureko B.V.

Following the acquisition of F&C Group (Holdings) Limited in 2004, Eureko holds in excess of 19% of the Ordinary Shares of the Company and is entitled to Board representation. Consequently, transactions between the F&C Group and Eureko or its subsidiary companies 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.

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 2006 £000	Outstanding at 31 December 2006 £000	Total invoiced and accrued during 2005 £000	Outstanding at 31 December 2005 £000
Shared services and administrative services received from:				
Friends First	**79**	**62**	178	10
Achmea Group	**1,317**	**–**	1,948	202
Amounts outstanding at 31 December are included within trade creditors and accruals				
Management fees invoiced and accrued by the Group during the year:				
Achmea Group	**29,105**	**3,632**	31,926	6,047
Friends First	**4,145**	**372**	4,070	766
Imperio	**365**	**62**	325	29
Interamerican	**–**	**–**	85	–
Amounts outstanding at 31 December are included within trade debtors and accrued income				
Dividends and loan interest payable to Eureko B.V.:				
Ordinary dividends	**10,921**	**–**	10,921	–
Loan interest	**507**	**–**	428	122

Subordinated loan due to Eureko B.V.

Details of loans due to Eureko B.V. are shown in note 23.

Amounts owed from/to Eureko

At 31 December 2006, the Group was owed £4,766,000 (31 December 2005: £3,583,000) from Eureko B.V. and its subsidiaries.

38. Related party transactions (cont'd)

Related party transactions with associates

ISIS EP LLP

Amounts charged by the Group to ISIS EP LLP	Total invoiced and accrued during 2006 £000	Outstanding at 31 December 2006 £000	Total invoiced and accrued during 2005 £000	Outstanding at 31 December 2005 £000
Shared service costs	**1,050**	**1,234**	500	588
Other recharges	**239**	**84**	136	134
Profit share receivable	**1,445**	**1,406**	335	335
Group relief payable to subsidiary of ISIS EP LLP	**–**	**–**	(378)	(378)

During 2005 the Group subscribed for £2,500,000 of non-voting, non-participating B class capital in ISIS EP LLP. This is disclosed as a loan, and full details of the terms and conditions are disclosed in note 21.

Post-employment benefit plans

The Group operates and participates in several post-employment benefit plans as detailed in note 26(a).

The Group contributed amounts to the defined benefit plans and had amounts outstanding at 31 December each year as follows:

	2006		2005	
	Employer contributions £000	Outstanding at 31 December £000	Employer contributions £000	Outstanding at 31 December £000
F&C Management Limited Pension Fund	**1,210**	**–**	1,579	–
ISIS Asset Management plc Pension Fund	**2,293**	**–**	1,200	–
F&C Portugal(1)	**300**	**–**	796	–
F&C Netherlands	**547**	**–**	639	–
F&C Ireland(2)	**117**	**–**	69	–

(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 addition to the above, the Group has an unfunded obligation to provide the Chairman, R W Jenkins, with a pension as detailed in note 26(a).

The Group manages the assets of the F&C Management Limited Pension Fund and the ISIS Asset Management plc Pension Fund. The assets of these schemes totalled £124,802,000 at 31 December 2006 (31 December 2005: £114,144,000). In addition, the Group manages £779,135,000 (31 December 2005: £698,135,000) of investments in respect of Friends Provident's main defined benefit pension scheme. The Group received the following investment management fees from these schemes:

	2006		2005	
	Fees receivable £000	Outstanding at 31 December £000	Fees receivable £000	Outstanding at 31 December £000
F&C Management Limited Pension Fund	**230**	**58**	105	33
ISIS Asset Management plc Pension Fund	**181**	**–**	157	–
Friends Provident Pension Scheme	**853**	**239**	736	193

39. Consolidated supervision

The Group is not subject to the regulatory consolidated capital requirements of the Financial Services Authority (FSA), having taken advantage of the available exemption up to 31 December 2006.

In November 2006, the Group obtained a waiver from the FSA from meeting any minimum capital requirements under the consolidated supervision rules of the Capital Requirements Directive effective from 1 January 2007.

40. 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

IFRS has been adopted for the years ending 31 December 2004, 2005 and 2006. For the years ending 31 December 2002 and 2003 the Group Financial Statements have been prepared under UK GAAP. The five year historical summaries are not directly comparable. The main changes which would be required for the years ended 31 December 2002 and 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 accounts	UK GAAP 2002 £000	UK GAAP 2003# £000
Turnover		
Group and share of joint venture	90,041	110,629
Share of joint venture	(721)	–
Group turnover	89,320	110,629
Selling expenses	(1,744)	(2,735)
Net revenue	87,576	107,894
Administrative expenses		
Expenses, excluding amortisation of goodwill	(64,101)	(73,513)
Amortisation of goodwill	(15,280)	(22,153)
Total administrative expenses	(79,381)	(95,666)
Other operating income	1,241	1,081
Group operating profit	9,436	13,309
Share of operating loss in joint venture	(33)	(15)
Total operating profits of the group and share of joint venture	9,403	13,294
Exceptional costs	(19,169)	(12,334)
Gain on disposal of subsidiary undertaking	–	1,000
Other finance income/(expenditure)	351	(174)
Interest and investment income receivable	2,473	1,006
Interest payable	(5,924)	(11,359)
Loss on ordinary activities before taxation	(12,866)	(8,567)
Tax on loss on ordinary activities	(286)	(3,154)
Loss on ordinary activities after taxation	(13,152)	(11,721)
Dividend on Cumulative Preference Shares	(26)	(19)
Loss attributable to ordinary shareholders	(13,178)	(11,740)
Interim dividend	(5,996)	(5,994)
Final dividend	(10,494)	(10,485)
Transferred from reserves	(29,668)	(28,219)
Earnings per Ordinary Share before amortisation of goodwill, gain on disposal of subsidiary undertaking and exceptional costs	10.36p	12.04p
Loss per Ordinary Share	(8.80)p	(7.83)p
Diluted loss per Ordinary Share	(8.80)p	(7.83)p
Dividends		
Interim dividend per Ordinary Share	4.00p	4.00p
Final dividend per Ordinary Share	7.00p	7.00p
	11.00p	11.00p
Dividend cover	(0.80)	(0.71)
Dividend cover before amortisation of goodwill, gain on disposal of subsidiary undertaking and exceptional costs	0.94	1.10

The accounts for the year ended 31 December 2003 have been restated in order to comply with UITF 38 'Accounting for ESOP Trusts'.

Five Year Record

Historical summaries (cont'd)

Consolidated Income Statements	IFRS* 2004 £000	IFRS 2005 £000	IFRS 2006 £000
Revenue			
Investment management fees	154,507	277,356	**257,667**
Other income	3,249	691	**3,677**
Total revenue	157,756	278,047	**261,344**
Fee and commission expenses	(5,837)	(10,895)	**(10,530)**
Net revenue	151,919	267,152	**250,814**
Movements on unit-linked assets	93,585	162,605	**106,700**
Movement on unit-linked liabilities	(92,437)	(161,321)	**(105,007)**
Operating expenses			
Operating expenses	(101,367)	(150,695)	**(159,397)**
Re-Investment Plan costs	(5,428)	(22,162)	**(11,593)**
Impairment of intangible assets – management contracts	–	(111,500)	**(58,478)**
Amortisation of intangible assets – management contracts	(20,762)	(55,801)	**(43,046)**
Total operating expenses before restructuring costs	(127,557)	(340,158)	**(272,514)**
Operating profit/(loss) before restructuring costs	25,510	(71,722)	**(20,007)**
Restructuring costs:			
– Reorganisation costs post acquisition of F&CGH Group	(18,332)	(22,405)	**(9,704)**
– Operations outsourcing	(932)	(2,235)	**–**
Operating profit/(loss) after restructuring costs	6,246	(96,362)	**(29,711)**
Finance revenue	4,641	15,570	**20,614**
Finance costs	(14,983)	(19,495)	**(22,077)**
Impairment in associates and other financial investments	–	(5,026)	**(764)**
Loss on disposal of subsidiaries and associates	–	(672)	**(61)**
Share of (loss)/profit of associates	(318)	(339)	**1,445**
Loss before tax	(4,414)	(106,324)	**(30,554)**
Tax – Policyholders	(445)	(118)	**(836)**
Tax – Shareholders	1,318	29,169	**8,864**
Tax income	873	29,051	**8,028**
Loss for the year	(3,541)	(77,273)	**(22,526)**
Attributable to:			
Equity holders of the parent	(3,541)	(77,273)	**(23,525)**
Minority interests	–	–	**999**
Loss for the year	(3,541)	(77,273)	**(22,526)**
Earnings per Ordinary Share before amortisation and impairment of intangibles, BCP compensation receipt, restructuring costs, and the cost of the Re-Investment Plan	12.76p	15.90p	**12.80p**
Loss per Ordinary Share	(1.60)p	(16.36)p	**(4.91)p**
Diluted loss per Ordinary Share	(1.60)p	(16.36)p	**(4.91)p**
Dividends			
Memo			
Final dividend for 2003, 2004 and 2005	10,487	32,952	**33,472**
Interim dividend for 2004, 2005 and 2006	5,993	18,865	**19,188**
	16,480	51,817	**52,660**
Final dividend per Ordinary Share for 2003, 2004 and 2005	7.0p	7.0p	**7.0p**
Interim dividend per Ordinary Share for 2004, 2005 and 2006	4.0p	4.0p	**4.0p**
Dividend cover†	(0.21)	(1.58)	**(0.45)**
Dividend cover before amortisation and impairment of intangibles, BCP compensation receipt, restructuring costs and the cost of the Re-Investment Plan†	1.72	1.45	**1.17**

* as restated for IFRS.
† based on the dividends paid during 2004, 2005 and 2006.

F&C Asset Management plc
Company Financial Statements

for the year ended 31 December 2006

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 40 to 119, have been prepared in accordance with IFRS.

Company Balance Sheet

	Notes	As at 31 December 2006 £000	As at 31 December 2005 (as restated) £000
Fixed assets			
Intangible fixed assets	5	**1,146**	1,208
Tangible fixed assets	6	**4,252**	4,189
Investments in subsidiaries	7	**1,092,081**	1,076,891
Other investments	8	**1,591**	2,086
		1,099,070	1,084,374
Current assets			
Debtors – amounts falling due:			
Within one year	9	**239,345**	67,047
Outwith one year	9	**3,168**	2,926
Cash and short-term deposits		**132**	100
		242,645	70,073
Creditors (amounts falling due within one year)	10	**(22,504)**	(31,045)
Net current assets		**220,141**	39,028
Total assets less current liabilities		**1,319,211**	1,123,402
Creditors (amounts falling due outwith one year)	10	**(258,511)**	(65,800)
Provisions for liabilities	11	**(5,821)**	(2,813)
Net assets excluding pension deficit		**1,054,879**	1,054,789
Pension deficit	14	**(12,819)**	(15,655)
Net assets including pension deficit		**1,042,060**	1,039,134
Capital and reserves			
Called up ordinary share capital	15, 16	**485**	484
Share premium account	16	**32,594**	30,730
Merger reserve	16	**912,674**	912,674
Other reserves	16	**45,364**	80,237
Profit and loss account	16	**50,943**	15,009
Total shareholders' funds	16	**1,042,060**	1,039,134

The financial statements were approved by the Board of Directors and authorised for issue on 19 March 2007. 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.

Comparatives have been restated after the adoption of the following UITF Abstract which is not yet mandatory but has been early adopted during the year:

UITF Abstract 41 (IFRIC Interpretation 8); Scope of FRS 20 (IFR 2) Share-based payments.

The financial impacts of the related adjustments are shown in note 1.

The Company has early adopted the amendment to FRS 17 'Retirement Benefits' during the year.

The Company has taken advantage of the exemption in FRS 25 'Financial Instruments: Disclosure and Presentation' and has not disclosed the information required by paragraphs 51 to 95 of that standard because the Company is included in the Consolidated Financial Statements which are publicly available and include disclosures given under IAS 32.

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 payments', where no cash contributions are made by the subsidiaries. The uplift is credited to a capital contribution reserve in equity.

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.

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. After an appropriate period, an assessment is made as to whether either 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 Profit and Loss Account. The following assets are classified as *Available for sale:*

- Fixed assets
  - Other investments

The fair value of instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

(ii) *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:*

- Non-current assets:
  - Loan to investee company due outwith one year
- Current assets:
  - Debtors due within one year
    - Trade debtors
    - Amounts owed by subsidiary undertakings
    - Loans to subsidiary undertakings

(iii) The following liabilities are classified as *Financial liabilities:*

- Creditors (amounts falling due within one year)
  - Trade creditors
  - Bank overdrafts
  - Amounts owed to subsidiary undertakings
  - Loans from subsidiary undertakings
- Creditors (amounts falling due outwith one year)
  - Preference share capital
  - Loans from subsidiary undertakings and Friends Provident Group
  - Fixed/Floating Rate Subordinated Notes

Financial liabilities (amounts falling due outwith one year) 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.

Investments in subsidiaries are carried at cost less any impairment.

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 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 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.

Assets carried at cost

If there is objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 current market rate of return for a similar financial asset.

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 equity 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 reversed 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 Share Option Plan (ESOP) Trusts

UITF38 requires that own shares arising through an ESOP trust 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 ESOP trusts are recognised as assets and liabilities of the sponsoring Company.

Equity of the Company is held by ESOP trusts 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 treasury 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 ESOP trusts have waived their right to the dividend entitlement on 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 operates a pension scheme providing benefits on final pensionable salary. The pension scheme assets are measured using market value. Pension scheme liabilities are 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 arise when the Company makes a commitment to provide a higher level of benefit than previously promised. Past service costs are recognised in the Profit and Loss Account on a straight line basis over the period in which the increases in benefit vest.

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

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

The increase in the present value of the liabilities of the Company's defined benefit pension scheme expected to arise from employee service in the period is 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 are included in other finance income or expenditure. Actuarial gains and losses are 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.

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 Group financial statements of F&C Asset Management plc.

Notes to the Company Financial Statements

1. Restatement of prior year

F&C Asset Management plc has early adopted the draft Urgent Issues Task Force Abstract 41 (IFRIC Interpretation 8) Scope of FRS 20 (IFRS 2) Share-based payments.

The Company has granted rights to its equity instruments to a subsidiary entity's employees. All share-based payment transactions in which a parent entity grants rights to its equity instruments to a subsidiary entity's employees shall be accounted for as equity-settled transactions.

The Company has therefore recognised further investment in subsidiaries and created a capital contribution reserve in accordance with the requirement to account for the grant of rights to its subsidiaries as equity-settled transactions.

The adoption of this abstract has resulted in a prior year adjustment to the Company's Balance Sheet.

Impact on Balance Sheet at 31 December 2004:

	£000
Investment in subsidiaries	6,740
Capital contribution reserve	(6,740)

Impact on Balance Sheet at 31 December 2005:

	£000
Investment in subsidiaries	28,562
Capital contribution reserve	(28,562)

2. Auditors' remuneration

KPMG Audit Plc replaced Ernst & Young LLP as the Group's auditors on 20 October 2006.

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.

3. Directors' remuneration

Details of Directors' remuneration are as follows:

	2006 £000	2005 £000
Aggregate emoluments	**2,690**	3,238
Aggregate compensation paid to Directors for loss of office	**–**	1,995
Company contributions paid to defined contribution pension scheme	**696**	293
Aggregate value of gains made by Directors on exercise of share options	**196**	–

A total of 194,036 options (31 December 2005: 161,870 options) has been exercised by a former Director since the year-end, realising a gain of £22,000 (2005: £123,000).

	2006 Number	2005 Number
Members of defined contribution pension scheme	**2**	1
Members of defined benefits pension scheme	**2**	2

Full disclosure of Directors' remuneration is shown on page 32.

The Company has no employees (including Directors) under contract of employment, all F&C Group employees being employed by several subsidiary companies.

Notes to the Company Financial Statements

4. Dividends

Details of dividends are disclosed in note 10 to the Consolidated Financial Statements on page 62.

5. Intangible fixed assets

	Management contracts £000
Cost:	
At 1 January 2005	–
Additions	1,249
At 31 December 2005	1,249
Additions	–
At 31 December 2006	**1,249**
Amortisation:	
At 1 January 2005	–
Amortisation for the year	41
At 31 December 2005	41
Amortisation for the year	62
At 31 December 2006	**103**
Net book value:	
At 31 December 2006	**1,146**
At 31 December 2005	1,208

6. Tangible fixed assets

	Leasehold Improvements £000	Office furniture and equipment £000	Computer equipment £000	Total £000
Cost:				
At 1 January 2006	2,972	469	5,671	9,112
Additions	885	149	442	1,476
Disposals	–	–	(129)	(129)
At 31 December 2006	**3,857**	**618**	**5,984**	**10,459**
Depreciation:				
At 1 January 2006	874	327	3,722	4,923
Depreciation charge for the year	355	100	922	1,377
Disposals	–	–	(93)	(93)
At 31 December 2006	**1,229**	**427**	**4,551**	**6,207**
Net book value:				
At 31 December 2006	**2,628**	**191**	**1,433**	**4,252**
At 31 December 2005	2,098	142	1,949	4,189

7. Investments in subsidiaries

	£000
Cost:	
At 1 January 2006 (as previously stated)	1,050,691
Prior year adjustment	28,562
At 1 January 2006 (as restated)	1,079,253
Additions in respect of share-based payment awards	15,690
Disposals	(500)
At 31 December 2006	**1,094,443**
Amounts written off:	
At 1 January 2006 and 31 December 2006	**(2,362)**
Net book amounts:	
At 31 December 2006	**1,092,081**
At 31 December 2005 (as restated)	1,076,891

Details of subsidiary undertakings are set out in note 37 of the Consolidated Financial Statements on pages 113 and 114.

ISIS Unit Trust Managers Limited and ISIS Trustlink Limited, both dormant subsidiary undertakings, were placed in liquidation on 8 November 2006. The share capital, totalling £500,000 was returned to the Company and was used to repay the loans due to these subsidiary undertakings (see note 12).

Included within the above is £44,252,000 (31 December 2005: £28,562,000) in respect of equity settled share-based payment awards made by subsidiary undertakings.

8. Other investments

The following investments are classified as *available for sale:*

	Other investments – quoted £000	Other investments – unquoted £000	Total £000
At 1 January 2006	2	2,084	2,086
Adjustment to fair value of investments	–	(495)	(495)
At 31 December 2006	**2**	**1,589**	**1,591**

The cost of quoted investments as at 31 December 2006 was £2,000 (31 December 2005 – £2,000).

The valuation of quoted investments as at 31 December 2006 was £2,000 (31 December 2005 – £2,000).

During the year, the Company disposed of its investment in Cardinal Capital Partners Limited (Cardinal), a private limited liability partnership hedge fund manager based in Ireland, for nil proceeds. At 31 December 2005 the investment had been written down to nil.

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.

Notes to the Company Financial Statements

9. Debtors

	Note	31 December 2006 £000	31 December 2005 £000
Amounts due within one year			
Trade debtors		**1,853**	1,285
Accrued income		**4,946**	4,233
Amounts owed by subsidiary undertakings		**17,554**	34,994
Loans to subsidiary undertakings		**209,988**	20,886
Prepayments		**2,945**	1,057
VAT recoverable		**263**	200
Group relief receivable		**–**	2,810
Other debtors		**1,796**	1,582
		239,345	67,047
Amounts due outwith one year			
Loan to investee company		**2,500**	2,500
Deferred tax	13	**668**	426
		3,168	2,926

The Company subscribed £2,500,000 for non-voting, non-participating B class capital in ISIS EP LLP (LLP), an investee company, in order to ensure that LLP has sufficient regulatory capital. These proceeds are held in a designated bank account by LLP and all bank interest earned on that account accrues to the Company as investment income. The loan is redeemable on the withdrawal by the Company from LLP and therefore there is no fixed redemption date for this loan. The Company retains the right to withdraw from the LLP and to require other members of the LLP to immediately purchase all of the Company interest in the LLP.

10. Creditors

	Note	31 December 2006 £000	31 December 2005 £000
Amounts due within one year:			
Trade creditors		**2,098**	1,666
Bank overdrafts		**307**	–
Accruals		**4,584**	5,667
Corporation tax payable		**1,168**	–
Amounts owed to subsidiary undertakings		**7,438**	5,834
Other creditors		**4,848**	5,029
Loans from subsidiary undertakings	12	**2,061**	12,849
		22,504	31,045
Amounts due outwith one year:			
Preference share capital		**800**	800
Loans from subsidiary undertakings and Friends Provident Group	12	**–**	65,000
Fixed/Floating Rate Subordinated Notes 2026	12	**257,711**	–
		258,511	65,800

Other creditors at 31 December 2006 includes £2,942,000 (31 December 2005: £2,942,000) of estimated further consideration payable in respect of the acquisition of F&C Group (Holdings) Limited on 11 October 2004.

11. Provisions for liabilities

	Premises – onerous contracts £000	Deferred tax £000	Total £000
At 1 January 2005	1,309	694	2,003
Provided during the year	1,512	–	1,512
Utilised during the year	(634)	(68)	(702)
At 31 December 2005	2,187	626	2,813
Lease obligation transferred from subsidiary company	3,510	–	3,510
Provided during the year	382	–	382
Utilised during the year	(691)	(193)	(884)
At 31 December 2006	**5,388**	**433**	**5,821**

Onerous contracts

The Company holds all properties under operating leases. This includes a number of vacant and 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 arrangements. The remaining terms are for up to 14 years. Assumptions have been made as to whether each leasehold property may be sub-let or assigned in the future. All leases and subleases are for fixed guaranteed rentals. The provision is subject to uncertainties over time including market rent reviews and break-options within the lease arrangements.

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 equity.

For further details see note 13.

12. Loans

	31 December 2006 £000	31 December 2005 £000
Amounts repayable:		
£260,000,000 Fixed/Floating Rate Subordinated Notes 2026 (v)	**257,711**	–
US $4,000,000 loan; wholly repayable on demand (i)	**2,061**	2,349
£10,000,000 subordinated loan, at 6 month Sterling LIBOR +1%, wholly repayable on 4 June 2006 (ii)	**–**	10,000
£25,000,000 subordinated loan, at 6 month Sterling LIBOR +1.05%, wholly repayable on 11 October 2009 (iii)	**–**	25,000
£15,000,000 subordinated loan, at 6 month Sterling LIBOR +1.05%, wholly repayable on 31 December 2009 (ii)	**–**	15,000
£25,000,000 subordinated loan at 6 month Sterling LIBOR + 1%, wholly repayable on 14 March 2007 (ii)	**–**	25,000
£500,000 loans from subsidiary undertakings, wholly repayable on demand (iv)	**–**	500
	259,772	77,849

(i) The US $4,000,000 subordinated 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.

(ii) The £25,000,000, £15,000,000 and £10,000,000 subordinated loans were all with F&C Treasury Limited, a subsidiary undertaking and were repaid on 20 December 2006.

(iii) The £25,000,000 subordinated loan was with Friends Provident Life and Pensions Limited, a subsidiary of Friends Provident plc and was repaid on 20 December 2006.

(iv) The £500,000 loans related to two loans of £250,000 from subsidiary undertakings which were placed in liquidation on 8 November 2006 and the loans were repaid.

(v) The £260,000,000 Fixed/Floating Rate Subordinated Notes 2026 bear interest at 6.75% per annum for period 20 December 2006 – 19 December 2016 payable annually in arrears and at 2.69% above 3 month LIBOR for period 20 December 2016 – 20 December 2026 payable quarterly in arrears.

	Note	31 December 2006 £000	31 December 2005 £000
Amounts repayable:			
In one year or less, or on demand	10	**2,061**	12,849
In more than one year but not more than two years	10	**–**	25,000
In more than two years but not more than five years	10	**–**	40,000
In more than five years	10	**257,711**	–
		259,772	77,849

13. Deferred taxation

	2006 £000	2005 £000
At 1 January	**(200)**	106
Adjustments in respect of previous periods	**95**	(351)
Provided during the year	**340**	45
At 31 December	**235**	(200)

	Note	31 December 2006 £000	31 December 2005 £000
Deferred taxation provided in the accounts is as follows:			
Other timing differences		**432**	313
Revaluation of available for sale assets		**(433)**	(626)
Depreciation in advance of capital allowances		**236**	113
		235	(200)
Disclosed in the accounts as follows:			
Debtors	9	**668**	426
Provision for liabilities	11	**(433)**	(626)
Net deferred tax asset/(liability)		**235**	(200)

Notes to the **Company Financial Statements**

14. Pension commitments

The ISIS Asset Management plc Pension Fund ('ISIS Fund')

The Company continues to operate a defined benefit scheme ("The ISIS Asset Management plc Pension Fund") in the UK which provides benefits based on final pensionable salary. This scheme was closed to new entrants from 31 December 1995. The assets of the scheme are held separately from those of the Company but are managed by the Company. The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the attained age method, since the scheme is now closed to new members. The most recent triennial valuation was at 31 March 2005.

The results of the full actuarial valuation carried out at 31 March 2005 were updated to 31 December 2006 by a qualified independent actuary for the purposes of FRS17: Retirement Benefits.

Date of last actuarial valuation	31 March 2005
Scheme actuary	Mercer Human Resource Consulting 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 has paid contributions of £100,000 per month during 2006 with an additional £1,093,000 employer contribution during the year. The Company has 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. The minimum estimated contributions expected to be paid into the scheme during the current financial year are £1,200,000. It is the intention that the ISIS Asset Management plc Pension Fund will merge with the F&C Management Limited Pension Fund during 2007. This may impact on the above contribution figures.

As the ISIS Fund is a closed scheme, under the projected unit method the current service cost will tend to increase as a percentage of pensionable salaries as the average age of members increases.

The Company is considered to be the sponsor of the scheme as it is the principal employing company in respect of this scheme. While the Company itself has no employees, there are 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 Fund's trust documentation. The Trustee board currently consists of 3 employer-appointed Trustees and 2 member-selected Trustees. All of the current Trustees are employees of F&C and are active members of the ISIS Fund.

The ISIS Fund'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 Fund are required to act in the best interests of the Fund's beneficiaries.

The major assumptions used by the actuaries for the purposes of FRS 17 were:

	31 December 2006	**31 December 2005**	**31 December 2004**
Rate of increase in salaries	**4.25%**	4.00%	4.00%
Rate of increase of pensions in payment (range)	**3.00% – 3.50%**	2.75% – 3.50%	2.75% – 3.50%
Discount rate	**5.00%**	4.70%	5.30%
Inflation assumption	**3.00%**	2.75%	2.75%

14. 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 2006	31 December 2005	31 December 2004
Equities	**7.00%**	7.00%	7.00%
Gilts	**5.00%**	5.00%	5.00%
Corporate bonds	**5.00%**	4.70%	5.30%
Cash	**4.50%**	4.00%	4.00%

(ii) Value of assets in the scheme

	31 December 2006 £000	31 December 2005 £000	31 December 2004 £000
Equities	**34,227**	30,758	25,776
Gilts	**6,510**	6,026	4,477
Corporate bonds	**3,267**	2,304	2,337
Cash	**1,029**	724	370
Total market value of scheme assets	**45,003**	39,812	32,960
Actuarial value of scheme liabilities	**(63,346)**	(62,176)	(42,243)
Deficit in the scheme	**(18,313)**	(22,364)	(9,283)
Deferred tax asset on deficit	**5,494**	6,709	2,785
Net pension deficit	**(12,819)**	(15,655)	(6,498)

(iii) Analysis of amount recognised in reserves

		2006 £000	%	2005 £000	%
Actual return less expected return on assets	(a)	**1,235**	**3**	3,610	9
Experience gains and losses on liabilities	(b)	**(653)**	**(1)**	(1,805)	(3)
Changes in assumptions		**2,452**		(14,760)	
Actuarial gain/(loss) recognised in reserves	(b)	**3,034**	**5**	(12,955)	(21)

Included within the changes in assumptions above is £nil (2005: £6,662,000) relating to the strengthening of the mortality assumptions.

The percentages shown for each year are calculated as follows:

(a) Percentage of the scheme assets at the balance sheet date.

(b) Percentage of the present value of the scheme liabilities at the balance sheet date.

14. Pension commitments (cont'd)

(iv) Movement in deficit during the year

	2006 £000	2005 £000
Deficit in scheme at 1 January	**(22,364)**	(9,283)
Movements in year:		
Current service costs	**(892)**	(766)
Past service costs	**(95)**	(514)
Contributions	**2,293**	1,200
Expected return on pension scheme assets	**2,632**	2,209
Interest on pension liabilities	**(2,921)**	(2,255)
Actuarial gain/(loss) recognised in reserves	**3,034**	(12,955)
Deficit in scheme at 31 December	**(18,313)**	(22,364)

(v) History of experience gains and losses

	2006	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets:					
amount (£000)	**1,235**	3,610	260	2,168	(9,116)
percentage of scheme assets	**3%**	9%	1%	7%	(37%)
Experience gains and losses on scheme liabilities:					
amount (£000)	**(653)**	(1,805)	231	22	1,265
percentage of the present value of the scheme liabilities	**(1%)**	(3%)	1%	–%	4%
Total amount recognised in reserves:					
amount (£000)	**3,034**	(12,955)	(1,675)	753	(8,012)
percentage of the present value of the scheme liabilities	**5%**	(21%)	(4%)	2%	(24%)

15. Ordinary share capital

(a) Ordinary share capital of 0.1p

	31 December 2006		31 December 2005	
	Number of shares	£000	Number of shares	£000
Authorised:				
Equity interests				
Ordinary Shares of 0.1p	**800,000,000**	**800**	800,000,000	800
Allotted, called up and fully paid:				
Equity interests				
Ordinary Shares of 0.1p	**484,775,590**	**485**	483,434,237	484

	No. of Ordinary Shares 2006	2005
Issued at 1 January	**483,434,237**	482,200,131
Share options exercised during the year	**1,341,353**	1,234,106
Issued at 31 December	**484,775,590**	483,434,237

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 30 of the Consolidated Financial Statements on page 103.

The consideration received in respect of the Ordinary Share capital issued during the year ended 31 December 2006 was £1,865,000 (year ended 31 December 2005: £1,776,000).

The F&C Asset Management plc Group operates several share-based payment schemes which have a contingent right to the allotment of shares in the Company.

15. Ordinary share capital (cont'd)

At 31 December 2006 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	1,071,011	139.00	1 January 2007 – 19 March 2013
2002 Executive Share Option Scheme	809,365	240.83	9 March 2007 – 9 March 2014
2002 Share Save Scheme	285,574	114.00	9 May 2008 – 9 November 2008
2002 Share Save Scheme	267,480	181.00	19 April 2007 – 19 October 2009
2002 Share Save Scheme	384,585	186.60	29 April 2008 – 29 October 2010
2002 Share Save Scheme	511,113	171.00	18 April 2009 – 18 October 2011
Re-Investment Plan	47,907	0.00	From 1 January 2007 – 11 October 2007
Re-Investment Plan	7,903,160	0.00	11 October 2007
Long-Term Remuneration Plan (performance)	6,506,759	0.00	From 15 November 2007 – 17 May 2009
Long-Term Remuneration Plan (deferred)	3,446,624	0.00	From 17 May 2009 – 1 September 2009
Purchased Equity Plan	1,401,112	0.00	From 24 March 2008 – 24 March 2009
Deferred Share Award	154,838	0.00	9 August 2009
1995 Executive Share Option Scheme	647,259	203.83	1 January 2007 – 9 June 2008
1995 Executive Share Option Scheme	490,762	232.50	1 January 2007 – 16 July 2009
1995 Executive Share Option Scheme	481,666	214.00	1 January 2007 – 28 April 2010
1995 Executive Share Option Scheme	18,740	320.17	1 January 2007 – 20 October 2010
1995 Executive Share Option Scheme	393,500	455.83	1 January 2007 – 1 March 2011

The following shares are held in Employee Share Option Plan (ESOP) trusts. These are categorised as own shares, and deducted from shareholders' funds:

	31 December 2006 Number	31 December 2005 Number
F&C Group ESOP Trustee Limited	**665,111**	890,200
ISIS Employee Benefit Trust (Abacus Trust)	**1,467,551**	5,673,904
	2,132,662	6,564,104

The aggregate nominal value of own shares held by ESOPs at 31 December 2006 was £2,000 (31 December 2005: £7,000). The market value of these shares at 31 December 2006 was £4,500,000 (31 December 2005: £11,635,000).

During the year, the Company purchased 60,629 of its own Ordinary Shares (2005: 104,780) of 0.1p to satisfy the exercises of awards granted under the share save scheme in respect of 'good leavers'. The cost of this to the Company, after exercise price monies paid by the former employees was £42,000 (2005: £87,000). The consideration paid for the shares was £125,000 (2005: £223,000).

(b) Cumulative Preference Shares of £1 each

Details of Cumulative Preference Shares are disclosed in note 30 to the Consolidated Financial Statements on page 104.

Notes to the **Company Financial Statements**

16. Reserves

Reconciliation of movement in reserves

	Ordinary share capital £000	Share premium account £000	Merger reserve £000	Fair value reserve[1] £000	Special distri-butable reserve[1] £000	Capital contribution reserve[1] £000	Profit and loss account £000	Total share-holders' funds £000
Balance at 31 December 2004 (as previously reported)	482	28,956	912,674	1,618	102,033	–	(13,142)	1,032,621
Equity settled share-based payment grants	–	–	–	–	–	6,740	–	6,740
Balance at 1 January 2005 (as restated)	482	28,956	912,674	1,618	102,033	6,740	(13,142)	1,039,361
Share capital allotted on exercise of options	2	1,774	–	–	–	–	–	1,776
Purchase of own shares	–	–	–	–	–	–	(87)	(87)
Actuarial loss, net of deferred tax	–	–	–	–	–	–	(9,069)	(9,069)
Retained loss for the year	–	–	–	(159)	–	–	(14,510)	(14,669)
Transfer from special distributable reserve in relation to dividends	–	–	–	–	(51,817)	–	51,817	–
Equity settled share-based payment grants	–	–	–	–	–	21,822	–	21,822
Balance at 31 December 2005 (as restated)	484	30,730	912,674	1,459	50,216	28,562	15,009	1,039,134
Share capital allotted on exercise of options	1	1,864	–	–	–	–	–	1,865
Purchase of own shares	–	–	–	–	–	–	(42)	(42)
Settlement proceeds received on exercise of share options	–	–	–	–	–	–	252	252
Actuarial gain, net of deferred tax	–	–	–	–	–	–	2,124	2,124
Retained loss for the year	–	–	–	(347)	–	–	(16,616)	(16,963)
Equity settled share-based payment grants	–	–	–	–	–	15,690	–	15,690
Transfer from special distributable reserve in relation to dividends	–	–	–	–	(50,216)	–	50,216	–
Balance at 31 December 2006	**485**	**32,594**	**912,674**	**1,112**	**–**	**44,252**	**50,943**	**1,042,060**

(1) Fair value reserve, and Special distributable reserve and Capital contribution reserve constitute 'Other reserves' as disclosed in the Balance Sheet and amount to £45,364,000 at 31 December 2006 (31 December 2005: £80,237,000).

The profit of the Company for the year, before dividends, was £36,044,000 (2005: £37,307,000).

17. Financial commitments

The Company had the following annual commitments in respect of non-cancellable operating leases and other contracts:

	Premises		Other contracts	
	31 December 2006 £000	31 December 2005 £000	**31 December 2006 £000**	31 December 2005 £000
Commitments expiring within one year	**–**	–	**–**	–
Commitments expiring within two to five years	**44**	–	**73**	37
Commitments expiring outwith five years	**4,625**	2,644	**–**	–
	4,669	2,644	**73**	37

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.

18. Capital commitments

The amounts contracted for in terms of capital expenditure, but not provided for in the financial statements at 31 December 2006, amount to £253,000 (31 December 2005: £90,000).

19. Subsidiary Undertakings

Details of the principal subsidiary undertakings are disclosed in note 37 to the Consolidated Financial Statements on pages 113 and 114.

20. Contingencies

Contingent liabilities:

Details of the following contingent liabilities are disclosed in note 33 to the Consolidated Financial Statements on page 108.

(a) Shareholding in F&C Group Management Limited

(b) VAT Tribunal Appeal – VAT on investment trust management fees

Contingent asset:

Compensation from Eureko defined pension deficit

Details of this contingent asset are disclosed in note 33 to the Consolidated Financial Statements on page 108.

21. Capital Adequacy Directive

The Company, part of the F&C Asset Management plc group, is not subject to the regulatory consolidated capital requirements of the Financial Services Authority (FSA), having taken advantage of the available exemption up to 31 December 2006.

In November 2006, the Company obtained a waiver from the FSA from meeting any minimum capital requirements under the consolidated supervision rules of the Capital Requirements Directive effective from 1 January 2007.

22. Parent undertaking and controlling party

The smallest group of which the Company is a member and for which Group 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-seventh Annual General Meeting of F&C Asset Management plc will be held at Butchers Hall, 87 Bartholomew Close, London EC1 on Thursday 10 May 2007 at 12 noon 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 2006.

2. To declare a final dividend of 7.0 pence per share on the ordinary shares of the Company.

3. Elect David Logan, who retires at the first Annual General Meeting following his appointment, as a Director.

4. Elect James Smart, who retires at the first Annual General Meeting following his appointment, as a Director.

5. Re-elect Alain Grisay, who retires by rotation, as a Director.

6. Re-elect Brian Larcombe, who retires by rotation, as a Director.

7. Re-elect Philip Moore, who retires by rotation, as a Director.

8. To approve the Directors' Remuneration Report for the year ended 31 December 2006.

9. 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:

10. 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 conclusion of the Annual General Meeting of the Company to be held in 2008 subject to future renewal.

11. 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 £160,848.75, such authority to expire on the conclusion of the Annual General Meeting of the Company to be held in 2008, 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.

12. THAT, the F&C Asset Management plc Executive Director Remuneration Plan (the ''EDRP''), constituted by the rules produced to this meeting and signed by the Chairman for the purposes of identification (the principal terms of which are summarised in the appendix accompanying this Notice) (the ''EDRP Rules''), be and are approved and the Directors be and are authorised to adopt the EDRP Rules, subject to such modifications as the Directors may consider necessary or desirable to take account of the requirements of the UK Listing Authority, and to do all acts and things necessary or desirable to operate the EDRP.

To be proposed as special resolutions:

13. 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 11 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 £160,848.75, such power to expire on the conclusion of the Annual General Meeting of the Company to be held in 2008, 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 10 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 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 £24,248.48;

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.

14. 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 48,259,451 (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 19 March 2007);

(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 first anniversary of the passing of this resolution and the conclusion of the Annual General Meeting of the Company to be held in 2008, 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
19 March 2007

Notes

(i) A member who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.

(ii) A Form of Proxy for use by Ordinary Shareholders in connection with the meeting is enclosed with these Accounts. To be valid, the Form of Proxy should be completed and sent, together with any power of attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or authority, so as to reach the Company's registrars, at the address stated thereon, not later than 12 noon on 8 May 2007.

(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 24.

(iv) Completing and returning a Form of Proxy will not prevent an Ordinary Shareholder from attending in person at the meeting referred to above and voting should he or she wish to do so.

(v) The Register of the Directors' and their families' interests in the Company's shares and a copy of the contract of service of each of the Directors of the Company will be available for inspection at the registered office of the Company during normal business hours on any week day (Bank Holidays excepted) from the date of this Notice until the date of the meeting, and at the place of the meeting from 15 minutes prior to and during the continuance of the meeting.

(vi) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Ordinary Shareholders entered on the Register of Members of the Company as at 12 noon on 8 May 2007 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to the entries on the Register of Members after 12 noon on 8 May 2007 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.

APPENDIX

Summary of the principal terms of the F&C Asset Management plc Executive Director Remuneration Plan

The following is a summary of the F&C Asset Management plc Executive Director Remuneration Plan (the "EDRP"). The EDRP will operate in conjunction with the F&C Management Limited Employee Benefit Trust (the "EBT").

1.1 Eligibility

Any Executive Director of the Company will be eligible to participate in the EDRP although actual participation will be at the absolute discretion of the Board of Directors of the Company (the "Board").

Awards are personal to the participant and, subject to the rights of a participant's personal representatives, may not be transferred.

1.2 Awards

The EDRP will provide for the grant of two different forms of award: "Restricted Share Awards" and "Deferred Share Awards" (together "Awards"). Both forms of Award will, however, be structured as conditional rights to acquire fully paid Ordinary Shares ("Plan Shares") which will be satisfied using Plan Shares subscribed for or purchased by the trustees of the EBT (the "Trustees").

1.3 Grant of Awards

Restricted Share Awards may be made under the EDRP within the period of 42 days commencing on the date on which the arrangement is first approved by Shareholders (the "Approval Date"). No further Restricted Share Awards will be granted under the EDRP after the expiry of this period.

Deferred Share Awards may normally be granted within the period of 42 days commencing on:

- the Approval Date; and
- the day immediately following the announcement of the Company's final or interim results.

Additionally, Deferred Share Awards may be granted on any day on which the Board resolves that exceptional circumstances exist which justify the making of such Awards.

No Deferred Share Awards will be granted more than three years after the Approval Date.

1.4 Vesting and holding periods

Awards will normally vest at the end of a three year period from grant (the "Vesting Period"). However, the extent to which an Award vests on this date will generally be dependent on the continued employment of the participant within the Group (in the case of both Restricted Share Awards and Deferred Share Awards) and the extent to which a pre-determined performance condition is satisfied during a pre-set performance period (in the case of Restricted Share Awards only).

When an Award vests, the participant becomes absolutely entitled to receive the Plan Shares in respect of which it has vested ("Vested Plan Shares"), as well as to all future rights attaching to those shares.

The Vested Plan Shares to which a participant becomes entitled under a Deferred Share Award will be transferred to him as soon as practicable following vesting.

In the case of a Restricted Share Award, Vested Plan Shares will be held by the Trustees, in a nominee capacity, throughout a fixed period (the "Holding Period") at the end of which they will be transferred to the participant in question. The Holding Period applicable to 50% of such Vested Plan Shares will normally end on announcement of the 2010 year end results; the balance of the Vested Plan Shares will be subject to a further six month holding period.

During the Holding Period, a participant will not be able to sell his Vested Plan Shares (other than for the purposes of funding any tax liabilities arising on the vesting of his Restricted Share Award) but will have the right to receive dividends and exercise voting rights.

1.5 Dividends

To the extent that participants meet the conditions to become entitled to Vested Plan Shares, they will also receive a payment in respect of the accumulated dividends that would have been paid on those shares since the date of award (as if such dividends had been reinvested in shares in the Company on the date that such dividend would otherwise have been paid).

1.6 Performance conditions applicable to Restricted Share Awards

The vesting of Restricted Share Awards will generally be dependent on the satisfaction of a performance condition relating to the Underlying Earnings Per Share ("EPS") performance of the Group measured over a period of three consecutive financial years, commencing with the financial year in which Awards are granted.

Under this condition, a Restricted Share Award will only vest if the Group's EPS over the performance period equals or exceeds a specified target in the year ending 31 December 2009. On achievement of the specified target 100% 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% 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%. 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% 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% and 140%.

1.7 Conditions of continued employment applicable to both forms of Award

As a general rule, if a participant ceases employment with the Group before his Award vests, it will lapse.

However, if such cessation occurs by reason of retirement; redundancy; the participant being employed by a company which ceases to be a member of the Group or being employed in an undertaking or part of an undertaking that is transferred to a person who is not a member of the Group; or any other reason at the discretion of the Board, his Awards will not lapse and will continue to vest at the end of the original Vesting Period (provided that, in the case of a Restricted Share Award, such vesting will only occur if, and to the extent that, the applicable performance condition has been satisfied). However, the amount of a Restricted Share Award which vests in these circumstances will normally be reduced in line with the proportion of the original Vesting Period that had elapsed at the time of cessation of employment.

Where, prior to the vesting of an Award, the participant dies or ceases employment due to ill-health or disability (evidenced to the reasonable satisfaction of the Board) then that Award will vest immediately (and, in the case of a Restricted Share Award, any outstanding performance condition will be waived). In these circumstances, no reduction will be made to the number of Plan Shares provided to a participant notwithstanding the fact the Award vested earlier than would otherwise have been the case. The Company maintains "key man insurance" to cover such events.

All Vested Plan Shares to which a participant (or his personal representatives) becomes entitled following his death or cessation of employment will be released to him immediately (i.e. the Holding Period requirement normally imposed on Restricted Share Awards will be disapplied). Similarly, the participant's death or cessation of employment in any of the above circumstances will also result in the immediate cessation of the Holding Period applicable to any Vested Plan Shares previously acquired by him.

1.8 Winding up

If, prior to the vesting of an Award, a resolution for the voluntary winding-up of the Company is passed then that Award will vest immediately (although, in the case of a Restricted Share Award, such vesting will only occur if, and to the extent that, the Board deems it appropriate in the circumstances).

All Vested Plan Shares to which a participant becomes entitled on the passing of a winding-up resolution will be released to him immediately (i.e. the Holding Period requirement normally imposed on Restricted Share Awards will be disapplied). Similarly, a winding-up resolution will also result in the immediate cessation of the Holding Period applicable to any Vested Plan Shares previously acquired by a participant.

1.9 Impact of change of control on Restricted Share Awards

If, prior to the expiry of the performance period applicable to a Restricted Share Award:

- a change of control occurs in relation to the Company (meaning a party other than Friends Provident either alone or in concert with other parties, gaining control of the Group as a result of making a general offer); or
- certain other major corporate events occur,

and the Board is of the view that, as a consequence of such an event, it will no longer be possible to measure the applicable performance condition on an ongoing basis, then that Restricted Share Award will vest in respect of such number of Plan Shares as the Board may deem appropriate in the circumstances. Such vesting will, however, continue to take place at the end of the original Vesting Period.

Where a change of control (or other major corporate event) occurs and the Board is of the view that it is still possible to measure any outstanding performance condition on an ongoing basis then that event will not, of itself, have any impact on the vesting of outstanding Restricted Share Awards, which will continue to be subject to the satisfaction of the condition measured over the duration of the original performance period.

Although a Restricted Share Award will continue to vest at the end of the original Vesting Period following a change of control (or other major corporate event), any Vested Plan Shares to which the participant becomes entitled will be released to him immediately (i.e. the Holding Period requirement will be disapplied). Similarly, a change of control (or other major corporate event) will also result in the immediate cessation of the Holding Period applicable to any Vested Plan Shares previously acquired by a participant.

1.10 Impact of change of control on Deferred Share Awards

The occurrence of a change of control (or other major corporate event) will not, of itself, have any impact on the vesting of outstanding Deferred Share Awards, which will continue to vest at the expiry of the original Vesting Period.

1.11 Delisting of Ordinary Shares following a change of control

If, following a change of control (or other major corporate event), Ordinary Shares will no longer be admitted to listing on the Official List then the Board may in its absolute discretion elect either that:

- participants exchange their outstanding Awards in whole or in part for an equivalent award relating to shares in a different company; or
- the Plan Shares to which the outstanding Awards relate be sold and the resulting cash be retained by the Trustees pending vesting at the end of the original Vesting Period, whereupon it will be released to the relevant participants (subject to the fulfilment of the applicable requirements of continued employment and, in the case of a Restricted Share Award that remains subject to the performance condition, to the satisfaction of that condition).

In the case of a Restricted Share Award that remains subject to the performance condition following a change of control (or other major corporate event), the Board may only elect for an exchange if the replacement award is capable of being granted subject to that same condition.

If an exchange of outstanding Awards is validly operated then Awards that are not exchanged shall lapse immediately.

1.12 Proscribed period

Plan Shares to be released following vesting of Awards will not be released at a time when such release is prohibited by the Model Code, the Criminal Justice Act 1993 or FSMA.

1.13 Variation of capital

The rights of a participant following any capitalisation issue, rights issue, sub-division, consolidation and division or reduction of the capital of the Company will be adjusted in such manner as the Board determines. The Board may obtain written confirmation from the Company's auditors that the adjustment is, in their opinion, fair and reasonable.

1.14 Sourcing of shares

Requirements to deliver Vested Plan Shares may be satisfied through newly issued Ordinary Shares, through the issue of new Ordinary Shares from treasury, or through Ordinary Shares acquired by the Trustees in the market. In all cases, the shares will be subscribed for or purchased by the Trustees and transferred to participants via the EBT.

1.15 Limits

In any 10-year period the aggregate number of Ordinary Shares which may be placed under award under the EDRP 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% of the Company's issued ordinary share capital at that time. The following shall be disregarded for the purpose of measurement against this limit:

- Ordinary Shares that the Trustees have purchased or determined that they shall purchase;
- Ordinary Shares subject to an award that has lapsed or otherwise become incapable of vesting; and
- "investment shares" under the F&C Asset Management plc Reinvestment Plan.

Ordinary Shares issued on the grant, vesting, and exercise of an award or option are to be taken into account once only.

1.16 Tax

Vested Plan Shares will only be released to eligible employees to the extent that appropriate arrangements have been made to deal with tax arising on vesting.

1.17 Amendments

The Board may, without Shareholder approval, make minor amendments to the EDRP to benefit its administration or which relate to any changes in legislation, or which will obtain or maintain favourable tax, exchange control, or regulatory treatment for any Group company or any participant. However, any other amendments to the EDRP which are to the advantage of participants will require prior Shareholder approval.

1.18 General

Awards under the EDRP are not pensionable. No payment will be required for an Award.

Corporate Information

Directors

Robert Jenkins, Chairman‡
Christopher Jemmett, Deputy Chairman and Senior Independent Non-executive†
Alain Grisay, Chief Executive
Dick de Beus, Non-executive‡
Keith Bedell-Pearce, Non-executive*†
David Gray, Non-executive†‡
John Heywood, Non-executive*†
Brian Larcombe, Non-executive*
David Logan, Chief Financial Officer
Jeff Medlock, Non-executive
Philip Moore, Non-executive‡
James Smart, Non-executive

* Member of Remuneration Committee
† Member of Audit & Compliance Committee
‡ Member of Nomination Committee

Head Office

Exchange House
Primrose Street
London
EC2A 2NY
Telephone 020 7628 8000
Facsimile 020 7628 8188
Email: enquiries@fandc.com

Secretary and Registered Office

W Marrack Tonkin, FCCA
80 George Street
Edinburgh
EH2 3BU
Telephone 0131 718 1000
Facsimile 0131 225 2375

Solicitors

Shepherd and Wedderburn LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2ET

Principal Bankers

The Royal Bank of Scotland plc
142-144 Princes Street
Edinburgh
EH2 4EQ

Stockbrokers

JPMorgan Cazenove
20 Moorgate
London
EC2R 6DA

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London
EC1A 1HQ

Auditors

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Registrar and Transfer Office

Lloyds TSB Registrars
PO Box 28448
Finance House
Orchard Brae
Edinburgh
EH4 1WQ

Corporate information

F&C Asset Management plc
Registered in Scotland
Company Registration Number 73508

Website

Shareholders are encouraged to visit our website www.fandc.com