F&C Asset Management plc

Annual Report and Financial Statements 2008

Investments

Expect excellence

Forward-looking statements

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

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

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

Contents

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

"F&C REIT" F&C REIT Asset Management LLP and its subsidiaries

"REIT" REIT Property Asset Management Group

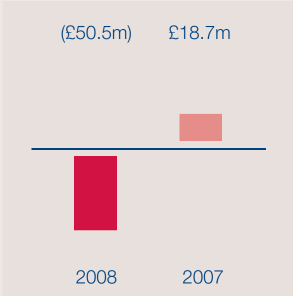
Trusted for **over a century**

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

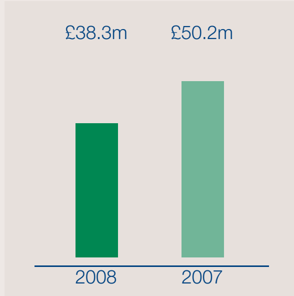
Key highlights of 2008

Net revenue

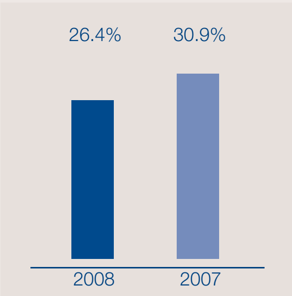
Statutory reported (loss)/profit after tax



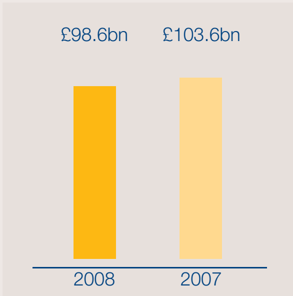
Underlying profit after taxation*‡



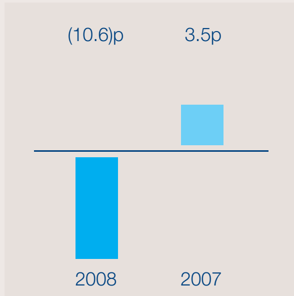
Group operating margin*#



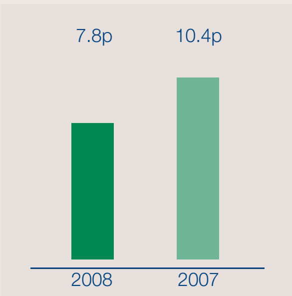
Assets under management (at 31 December)



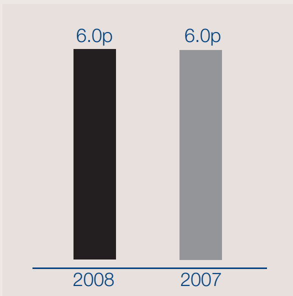
Basic (loss)/earnings per ordinary share



Underlying earnings per ordinary share*‡



Total dividends per ordinary share



Reconciliations between reported earnings and underlying earnings and between basic (loss)/earnings per share and underlying earnings per share are given in note 10 to the Consolidated Financial Statements.

* before amortisation and impairment of intangibles, unrealised losses on forward currency contracts, loss on partial disposal of property business and other exceptional costs.

‡ excluding minority interest.

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

Chairman's **Statement**

Results

For the year 2008, the Company recorded an *underlying* profit after tax attributable to shareholders of £38.3 million. This compares to underlying profit after tax of £50.2 million in 2007. *Underlying* earnings per share were 7.8 pence versus the 10.4 pence reported in 2007. The movement in underlying profit primarily reflects the impact that lower market levels have had on the Group's revenues, the effect of which has been partially offset by the benefits of a series of cost reduction initiatives. *Reported* earnings by contrast show a loss. As a result of severe market declines, we have taken an impairment charge of £48.3 million on the value of management contracts acquired by the Company in 2002 and 2004, in addition to an amortisation charge of £48.9 million for the year. These are non-cash items which, together with a number of other exceptional charges taken at year end, result in an after tax loss on a reported basis of £50.5 million. More details are of course given in the accompanying CEO report.

Strategy and Corporate Developments

In 2008, the Company was to have focused on "year two" of its previously detailed three-year plan. Although the plan objectives remain valid, the original timetable for their achievement does not. Two major events have impacted the trajectory.

The first event was the continuous dislocation within the global financial market. Stock market declines and liquidity constraints have lowered client portfolio values and sapped investor confidence. The result for the industry generally is lower asset levels and consequently reduced revenue streams. Given the certainty of lower revenue short-term and market uncertainties longer term, our management quite rightly cut back, first on planned expenditure and subsequently on absolute levels of costs.

The second factor has been the corporate uncertainty surrounding our ownership structure. In January 2008, our majority shareholder Friends Provident (FP) completed its strategic review and concluded that wealth management was no longer core to its business. FP has been and remains supportive. However, in exploring alternatives, F&C found itself technically in an "offer period" which lasted more than 12 months. The question marks surrounding the shareholding inevitably had some adverse impact on our asset gathering efforts, and therefore new revenue generation. FP has reconfirmed its intention to distribute its shareholding in F&C to the FP shareholder base. The result will be a broader shareholder base and a truly independent listed F&C.

Market Outlook

There has never been a credit crunch without an economic downturn. There has never been an economic downturn without rising unemployment, higher default rates, and stock market declines. The credit bubble which has now burst represented one of the larger in history. Bubbles are not new, but this particular excess was distinguished by unprecedented levels of leverage. We are now well into the "great unwind". Since we do not know how much leverage there was in the system to begin with, no one can know for sure when the de-leveraging process will end. At times like these it is important to remember there have always been times like these. But end they will. Markets can go up as well as down.

Dividend

The Board is recommending an unchanged final dividend of 4.0 pence, payable on 28 May 2009 to shareholders on the register at 17 April 2009.

Board Developments

Jim Smart, formerly Chief Financial Officer of FP, stepped down from the Board in August 2008 upon leaving the Board of FP. We thank Jim for his contribution during his tenure and wish him well. Trevor Matthews, Chief Executive Officer of FP, replaced Jim Smart on the Board of F&C in August 2008. He joined as a non-Executive, non-Independent Director.

Dick de Beus, an Independent non-Executive Director, has indicated his intention to retire from the Board on conclusion of the Annual General Meeting in May 2009. Dick has served on the Board since the merger in 2004 and his experience, particularly relating to our business interests in The Netherlands, has been invaluable. Dick will be missed and we wish him well.

I have commented earlier on FP's continued intention to divest its 52 per cent. interest in the Company's shares. As and when that divestment takes effect, Sir Adrian Montague and Trevor Matthews, FP's nominated shareholder representatives on the Board, will retire from the Board. We thank both for their guidance and support in their capacity as directors and shareholder representatives and look forward to a continued close relationship in their capacity as client.

With ownership issues likely to be resolved shortly and the offer period at an end, I have decided to take the opportunity to retire as Chairman of the Company at the end of the AGM in May. Nick MacAndrew, Independent non-Executive director since May 2007 has been chosen by the Board to succeed me as Chairman. He is an outstanding choice. As you will note from his biography in the Annual Report, Nick is both an experienced Chairman and an experienced financier. There will be no change to the Chairs of either Audit or Remuneration Committee, nor to the Senior Independent Director thereby ensuring continuity and a smooth transition.

I would like to thank my colleagues, our clients and the many other supporters in the industry for the kindness, help and guidance they have extended to me and this great institution over the years.

Robert Jenkins
Chairman
10 March 2009

Chief Executive's **Report**

2008 was a year which saw unprecedented volatility and asset class correlation in the markets as confidence in the banking system evaporated and major financial institutions across the globe required government-led bail-outs. Credit markets were paralysed for much of the year, with spreads on investment grade bonds widening significantly. Equity volatility reached record levels as the process of de-leveraging gathered pace and investors sought refuge in government bonds. Most markets suffered from an extreme lack of liquidity.

All major equity indices ended the year sharply lower, with the FTSE 100 Index posting a total return decline of 28.3 per cent., its worst year since inception, and the US market experiencing the second biggest decline in its history. Meanwhile, as the tightening of credit impacted consumer spending and business finance, the global economy slipped into recession during the fourth quarter. In the UK this prompted the Bank of England to reduce interest rates to their lowest level in three centuries and to vastly expand its provision of liquidity.

The rapid deterioration in prospects for global growth prompted a sharp reversal in commodity prices after they soared to new highs in the first half of 2008. Having peaked at $142 a barrel in July, crude oil ended the year at $36 while copper prices halved in less than six months.

The financial crisis is profoundly reshaping the banking and financial services industries. The traditional Wall Street investment banking model has disappeared with Lehman Brothers filing for bankruptcy, Bear Stearns and Merrill Lynch being absorbed by other banks and both Goldman Sachs and Morgan Stanley converting their status to that of bank holding companies.

Around the world, governments have been forced to either nationalise or take significant stakes in banks to prevent a complete meltdown of the financial system. In the United Kingdom, Bradford & Bingley and Northern Rock have been nationalised and the UK government has taken major stakes in Royal Bank of Scotland and Lloyds Group. The UK government now has a substantial equity stake in the banking sector. Similar government-led actions have taken place in the US and across Europe.

2008 was also the worst year on record for the alternative investment industry. The average hedge fund produced negative returns with the CS Tremont Hedge Fund Index down 18.3 per cent. (GBP). The alternatives industry has experienced significant redemptions resulting in many hedge funds erecting 'gates' to prevent further outflows. These problems have been compounded by the revelations of an alleged major fraud by US-based firm Madoff.

Financial Results

Against such a stark market backdrop, asset managers have had their business models thoroughly stress tested. F&C has, however, demonstrated that it is a robust business.

We have benefited from our strategy of diversification by asset class, client type and geographic exposure. We ended the year with assets under management of £98.6 billion, down less than 5 per cent. from the prior year. This resilience was underpinned by the stability provided by our exposure to fixed income assets and our management of Euro-denominated portfolios. These factors helped mitigate the impact of the sharp decline in equities and of Sterling against other major currencies.

Revenues also proved robust with net investment management fees, being base management fees less fee and commission expenses, of £220.9 million down 5.2 per cent. from 2007. Non-investment management fees declined by £22.4 million as a result of reduced performance fees and a fall in non-recurring sources of other income. The reduction in revenues was partly offset by a £12.9 million decline in the cost base, partially reflecting the benefit of actions taken by management.

The group made an underlying profit after tax of £38.3 million (2007: £50.2 million) with underlying earnings per share of 7.8 pence (2007: 10.4 pence).

However, the company incurred a number of exceptional, non-recurring items. These related to implementing cost reduction measures, corporate advisory costs and a £12.3 million charge on open forward currency contracts.

Additionally, as a result of severely reduced market levels, we have taken an impairment charge of £48.3 million on the value of intangible management contracts that were acquired as a result of the merger of F&C Group and ISIS Asset Management in 2004 and the acquisition of RSAI Investments in 2002. This impairment charge does not affect cash, covenants or gearing.

As a result of these exceptional items and non-cash charges, the group made a loss after tax and non-recurring items of £50.5 million.

Distribution and Business Flows

Twelve-months ago we reported that having invested in products, people and infrastructure during 2007, our intention was to focus on distribution during 2008.

The group made progress in enhancing our distribution capabilities during the year. We have established a distribution presence in Asia through the opening of an office in Hong Kong, signed new distribution agreements, added funds to new platforms and have won our first mandate in Canada. However, given the severity of market events during the year, new business generated has not met initial targets.

The three-year growth plan launched in 2007 was predicated on benign markets and stable ownership. Given the turbulent market conditions and uncertainty resulting from Friends Provident announcing that it wished to divest its 52 per cent. shareholding in F&C, our focus shifted to managing the business through the current turbulence rather than achieving targets developed in a radically different environment.

Notwithstanding this, we believe the enhancements to our infrastructure, product range and distribution capabilities that were implemented as part of the three-year plan do leave the business better positioned to grow once markets have stabilised. We continued to focus on generating inflows in higher margin areas, a key tenet of our strategy, with the average fee rate on new institutional business 30.0 per cent. higher than fees earned on institutional outflows.

We generated £2.4 billion of institutional new business during the year, some 51 per cent. of which came in the fourth quarter. However, our ability to generate new institutional business was constrained by the uncertainty over our ownership. Despite having 28 ratings by investment consultants at the end of 2008, a record level for our business, a number of these ratings have been placed on hold.

Given the challenging headwinds, we made good progress in the higher margin client categories. We had record inflows into our SICAV funds with net sales rising 102 per cent. to £225 million. Net sales of our UK Retail funds were broadly flat which is a satisfactory outturn given that many of our peers experienced substantial retail outflows. Our relative success in mutual fund flows was based on a combination of solution-driven products and funds targeted at consolidating existing assets. We also made good progress during 2008 in adding our funds to new product platforms which will better position us to win new business in the future.

Investment Performance

Overall relative investment performance was solid. On an asset weighted basis we outperformed on 62 per cent. of equities managed and 46 per cent. of fixed income. Three year track records remain competitive on the majority of investment desks. Reflecting our broad, all-weather product set, relative performance of individual fund products was mixed. Some of our more actively managed high alpha strategies were severely constrained by the illiquid trading conditions.

Two of our three single strategy hedge funds delivered positive absolute returns, with F&C Zircon Fund posting a 19 per cent. return during its first year and being short-listed in its category in the EuroHedge Awards.

We earned £7.9 million in performance fees during the year. In line with previous guidance, these were down from the record levels we achieved in 2007.

Creation of F&C REIT Asset Management

An important development during the year was the merger of our property business in the UK and Ireland with REIT Asset Management. This transaction completed in September. The combined business, F&C REIT, is an autonomous global property asset manager with £7.9 billion under management. F&C REIT is 70 per cent. owned by the F&C group with the founders of REIT Asset Management holding a 30 per cent. interest with the potential to increase it to 40 per cent. over time on achieving agreed financial performance targets. The achievement of these targets would be value-enhancing for the F&C group.

The integration of the two property businesses has gone well. F&C REIT has already made its presence felt in the market having successfully bid for a portfolio of 221 property assets formerly owned by the Dawnay Day group.

Although the outlook for the commercial property market remains tough, the management team at F&C REIT has considerable experience of investing in downturns and sees opportunities to acquire high quality properties from forced sellers. During 2009 the group plans to bring new products to the market, including a UK Opportunities Fund.

Outlook

The outlook for the asset management industry remains challenging. Until the extent of bank losses is fully disclosed, the financial system stabilises and the process of de-leveraging plays out, markets will remain febrile and investor confidence will be weak.

Given this outlook, we have been proactive in adjusting our cost base to the tougher operating environment and we anticipate continuing to reduce costs through 2009. On 17 December 2008 we announced a £15 million cost reduction programme which will impact the 2009 cost base.

While the performance of the majority of our investment desks has met or exceeded relative benchmarks or peers, we are acutely aware that in absolute terms the sharp declines in market levels have resulted in significant value destruction for many of our clients. Our focus will be to help our clients rebuild their capital.

Although the banking system is at the epicentre of the global financial crisis, there has been collective failure across the financial system with lessons for regulators, rating agencies and institutional investors. In particular, asset managers need to assess whether they could have done more to exert influence over the banks in areas such as board effectiveness and executive remuneration. F&C continues with an active programme of engaging with companies and exercising shareholder rights and we report separately on this activity.

We believe that clients will expect to see tangible evidence that asset managers are effectively engaging with companies, including the use of votes, to protect and enhance shareholder value. F&C has a market leading franchise in corporate governance and shareholder engagement and during the year we won a number of new mandates for our *reo*® (responsible engagement overlay) service. We also anticipate greater scrutiny of the robustness of an asset manager's own risk-management culture, financial position and business model. We believe that F&C is well positioned in all of these areas.

We note the announcement by Friends Provident that it intends to distribute its shareholding in F&C to its own shareholders by mid-2009. We welcome the lifting of the uncertainty over our ownership and the opportunity to broaden our shareholder base. We are working closely with Friends Provident towards an orderly divestment and the extension of our investment management agreements with Friends Provident under terms and conditions that are in line with commercial best practice and take into account the interests of stakeholders in both companies. Following the proposed distribution of Friends Provident's shareholding, F&C will remain a separately listed public company with its own independent Board and governance structure.

With uncertainties regarding our ownership resolved and the strength of our diversified business model demonstrated through some of the worst market conditions in history, during 2009 we will renew our focus on asset gathering and continue to engage with investment consultants.

While our focus remains on organic growth, we will continue to take a pragmatic approach to non-organic opportunities, as we did with our acquisition of REIT Asset Management, which fit with our multi-specialist model and have minimal disruption for our existing business.

Alain Grisay

Alain L. Grisay
Chief Executive
10 March 2009

Business Review

Business Review

The Board has prepared this review on pages 10 to 23 in accordance with the requirements of Section 417 of the Companies Act 2006 and it forms part of the Directors' Report. The law requires the Company's auditors to report on whether the information given in the Directors' Report and Business Review is consistent with the financial statements. The auditor's opinion is included in their report on page 53.

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 a range of competitors, who differ by geography, product and asset class. While we operate across multiple locations, with a physical presence in twelve 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 performance to deliver client satisfaction
- Seek and develop distribution opportunities in key markets to deliver organic growth
- Focus on higher margin and specialist areas for new business
- Maintain diversity of revenues while leveraging our scale

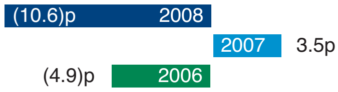
Key risks – see page 16

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

- Continued deterioration in the world economies
- Failure of the Group's operational platforms
- Weaknesses within the front office control processes
- Risk of poor historic investment performance leading to loss of key investment mandates
- Increased levels of counterparty risk arising from current market conditions

Underlying earnings per ordinary share – see page 20

Basic (loss)/earnings per ordinary share



Executive Directors and the Executive Committee

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

Alain Grisay
Chief Executive

David Logan
Chief Financial Officer

Nick Criticos
Chief Executive, F&C REIT Asset Management

Fernando Ribeiro
Head of Advisory and Strategic Relationships

Cristobal Mendez de Vigo
Head of Distribution and Business Development

Our view of the market

The financial crisis which began in 2007 with problems in the US sub-prime mortgage market gathered momentum in 2008, culminating in a near meltdown of the global banking system and the start of a world-wide recession in the fourth quarter. These events prompted interventions by governments and central banks on an unprecedented scale including the nationalisation and recapitalisation of major financial institutions, fiscal stimulus measures and the injection of vast amounts of liquidity into the financial system.

The de-leveraging and de-risking process has resulted in a high degree of correlation across major asset classes with sharp declines in risk-assets.

Credit markets have experienced severe dislocation as liquidity evaporated and reliable pricing has disappeared within many areas of the credit markets. Spreads on investment grade credits have widened significantly, while yields on government bonds have fallen as investors seek out safe havens.

The equity markets have been characterised by extreme levels of volatility, with the VIX index, a measure of volatility, hitting a record high, and some of the sharpest declines in equity market levels seen in over a century. The MSCI World Index was down over 40 per cent. in US Dollar terms and the FTSE 100 Index posted a total return decline of more than 28 per cent. in 2008. The US stock market experienced its second worst year ever.

Against a backdrop of significant capital losses and continued uncertainty about the stability of the banking system, investor sentiment remains fragile. We anticipate continued weak retail investor sentiment during 2009 and high levels of market volatility as negative economic and corporate data flows through and rights issues and other re-financings pre-occupy investor attention during the first half of 2009.

The operating environment will remain extremely challenging for asset managers, particularly for those firms that are heavily exposed to equities and retail assets or those with highly geared balance sheets. Personnel and other expense reductions will remain a feature of the asset management industry as firms adjust their cost bases to reflect lower revenues.

We anticipate a marked deceleration in the rate of new fund launches across the industry as investor appetite for complex products wanes and firms seek to reduce costs by rationalising their existing product ranges, closing or merging those funds which are either subscale or unmarketable for the foreseeable future. For example, in the UK market some 38 per cent. of all OEIC funds are now less than £30 million in size, a level broadly regarded as subscale.

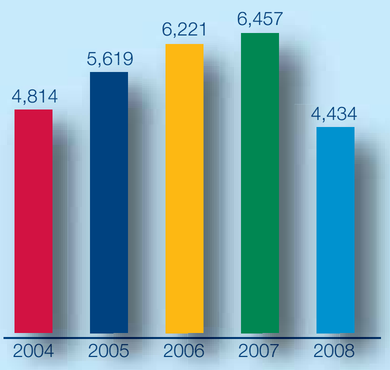
One of the areas where we expect significant contraction – possibly by as much as half – is the hedge fund industry, an area which in recent years had enjoyed rapid growth in assets, products and participants. 2008 was the worst year on record for average hedge fund returns and many funds have erected 'gates' in an attempt to stem the pace of outflows. Disappointing returns coupled with concerns generated by alleged frauds in the industry are adding to severe pressure on historic fee levels and the prospect of increased regulation and disclosure requirements.

Consolidation will be a major theme in the asset management sector as banks and other financial institutions seek to restructure and those firms with weak business models or insufficient diversification seek merger partners or are acquired. In this environment we see a shift in client and market sentiment away from small, niche managers in favour of those with sufficient scale. With our infrastructure and capacity to manage additional assets, we are well placed to participate in this consolidation.

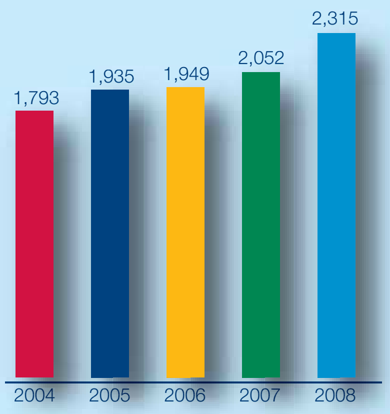
As investors focus on the road to recovery and rebuilding their capital, we also expect a rehabilitation of traditional products and increased demand for income-generating funds, particularly among retail investors.

Across all client segments, we believe that investors will more closely scrutinise the risk-management processes of asset managers.

UK Equity Market Performance – FTSE 100 Index



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



All graphs at 31 December.

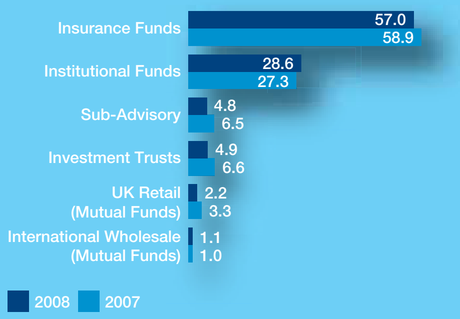
Business Review

Our view of the market *continued*

With regulators and legislators assessing the root causes of the financial crisis and the weaknesses that have been exposed across the system, asset managers face increased scrutiny along with regulators, credit agencies and governments. In particular, we see renewed attention on the extent to which institutional investors are engaging with companies on issues such as board effectiveness, remuneration and capital structures and exercising voting rights to protect and enhance shareholder value.

Assets under management

Assets under management by client category (£bn)



Assets under management by asset class (£bn)

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.

2008 Key points

- In line with the growth initiatives identified in 2007, we strengthened our property asset management capabilities by merging our existing property business with REIT Asset Management to create F&C REIT
- We enhanced our distribution and client servicing footprint and registered funds in new territories and on new product platforms
- We integrated our operational processes on a single in-house platform in order to deliver consistent standards for all clients
- We won the Gold Standard Award for Fund Management for the third year in succession in recognition of excellence for our overall capabilities, client service, trust and value for money

2009 Key priorities

- Focus on helping clients rebuild their capital after market declines of 2008
- Improve performance in certain areas (Euro/Global Credit and European Equities)
- Rationalise product range to provide greater focus for investment teams
- Retain key investment personnel

Key Performance Indicators

Corporate Health

The Board considers a report on the Group's Operations and IT systems, Human Resources, and Audit, Risk and Compliance functions at each Board Meeting.

Investment Performance

On 1 January 2009 the Company amended its management structure to improve efficiency and strengthen accountability. With effect from that date the heads of both the Fixed Income and Equities desk report directly to the Chief Executive. As a result of these changes, the Board believe that the following KPI's are the most appropriate measure of the investment team's performance.

Percentage of Fixed Income assets above benchmark or peer group on an asset weighted basis (3 years)

2008 38%

Percentage of Equity assets above benchmark or peer group on an asset weighted basis (3 years)

2008 59%

Investment Performance

2008 Key points

- Illiquidity in credit markets and extreme equity volatility presented a challenging environment for active asset managers
- £7.9 million performance fees earned
- 62 per cent. of equity assets ahead of benchmark or peer group
- 46 per cent. of fixed income assets ahead of benchmark or peer group
- Strong out-performance in Global Convertibles, High Yield Bonds, Emerging Market Debt, UK Small Cap Equities, Quantative Equity Strategies, US Equities, US Small Cap Equities and Indirect Real Estate
- Satisfactory performance in Euro Government Bonds, UK Credit, UK Equities, Japanese Equities and Emerging Equities
- Eleven UK Retail funds achieved Standard & Poors ratings
- Two out of three single strategy hedge funds delivered positive returns with F&C Zircon returning 19 per cent. during its first year

2008 Investment Performance awards included

- Category winner – Overall Group Award, Lipper Fund Awards (UK)
- Product of the Year – F&C Diversified Growth Fund, European Pensions Awards
- Category winner – F&C HVB Stiftungsfonds, Lipper Fund Awards (Germany)
- Category runner-up – F&C Global Real Estate Securities, Geld Magazine Alternative Investment Awards (Austria)
- Category short-listed – F&C Zircon Fund, EuroHedge Awards

Business Review

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

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

2008 Key points

- Institutional new business of £2.4 billion with new mandates won in the US, Canada, Germany, UK, The Netherlands and Nordic region, despite being constrained by our ownership uncertainty
- Strong progress in winning new *reo*®, shareholder engagement mandates, with £12.3 billion new assets under engagement added during 2008
- Record year for International Wholesale business with net sales of £225 million, up 102 per cent. on 2007
- Net sales in UK Retail were broadly flat in a market when many competitors saw substantial outflows
- Expanded our distribution footprint into Asia, opening an office in Hong Kong
- Executed new distribution agreements with a range of banks, intermediaries and product platforms

2009 Key priorities

- Accelerate insitutional inflows
- Establish joint venture fund management company in China with Hua Xia Bank
- Access Middle Eastern market with the launch of a Sharia compliant fund

Key Performance Indicators

- Net sales in UK Retail

2008 £(4) million

- Net sales in International Wholesale

2008 £225 million

- Institutional new business

2008 £2.4 billion

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.

2008 Key points

- Average fee rate improved from 22.5 basis points to 22.9 basis points
- Average fee on institutional new business 30.0 per cent. higher than fees on outflows
- Increased scale and expertise in real-estate asset management through the acquisition of REIT Asset Management
- Launched F&C Zircon Fund, a European long/short systematic trading hedge fund
- Launched F&C Active Return Fund, a derivative strategy SICAV fund

2009 Key priorities

- Institutional product priorities vary depending on the market but broadly fall into three themes:
  - Liability management solutions
  - Diversification tools (Diversified Growth, Global Convertibles, High Yield Bonds, Emerging Market Debt, Private Equity, Real-Estate and Fiduciary Management in The Netherlands)
  - Governance & Sustainable Investments (screened funds, overlays and climate change)
- In the UK retail market we will focus on multi-manager funds in the broad IFA market and specialist fixed income funds in the discretionary segment
- In International Wholesale we will focus on solutions driven products

Key Performance Indicators

Average basis points earned on assets under management

Maintain diversity of earnings while leveraging scale

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

2008 Key points

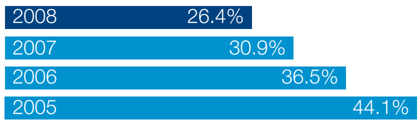
- Approximately 50 per cent. of revenues earned from non-UK clients with 59 per cent. of assets under management denominated in non-sterling currencies
- Closed year with 62 per cent. of assets under management in fixed income, 25 per cent. in equities, 8 per cent. in property, 3 per cent. in money markets and 2 per cent. in alternatives
- Acquisition of REIT Asset Management diversified property business and expanded capabilities beyond the UK and Ireland to Continental Europe and India
- Extended distribution activities into Chile, Canada, Hong Kong, Italy and Spain

2009 Key priorities

- Focus on client retention and investment performance
- Continue to consider opportunistic acquisitions which carry minimal risk of disruption and allow us to leverage on our existing platform

Key Performance Indicators

Operating Margin



Business Review

Key risks

- **Continued deterioration in the world economies**
  Further deterioration in the global economic environment is likely to adversely impact F&C's ability to attract and retain clients and maintain staff morale. Falling market levels and asset values have a direct impact on our revenues.

- **Failure of the Group's operational platforms**
  Failure in the operational platforms will, at least in the short term, adversely impact client service and the abiity to manage client assets.

  Following on from the in-sourcing of investment administration services from Mellon in 2007, F&C has, during 2008, run a programme to integrate the operational systems and processes. The areas covered include Reconciliations, Corporate Actions and Trade Processing. HiPortfolio, the previous in-house system, has been upgraded to version 3.5 and the first tranche of ex-Mellon portfolios transferred on to this platform at the end of January 2009.

- **Weaknesses within the front office control processes**
  Ineffective front office control processes could lead to inaccurate investment decision making and client errors.

  During 2008 considerable progress has been made in automating the pre and post trade checking of compliance with our clients' mandates.

- **Risk of poor historic investment performance leading to loss of key investment mandates**
  The challenges of volatile equity markets, illiquid credit conditions and a general decline in investor sentiment have impacted fund performance throughout 2008. Despite this, there is a continuing and ongoing focus on performance and the retention of key talent.

- **Increased levels of counterparty risk arising from current market conditions**
  There is an increased risk of counterparty default which could impact F&C and its clients. To address this risk, increased counterparty exposure reporting is in place and Group treasury exposure limits have been reduced.

Our trading performance and outlook

Overall, assets under management at 31 December 2008 were £98.6 billion, compared with £103.6 billion at the end of 2007.

Insurance

Insurance assets under management were £57.0 billion (2007: £58.9 billion). Net insurance outflows reduced to £4.4 billion (2007: £5.0 billion), representing a substantial proportion of all net outflows during the year. While the underlying books of our insurance clients remain open for business, the established trend of net outflows from our insurance clients in part reflects the maturity profile of their with-profits funds. We therefore anticipate further outflows from this client category.

Institutional

Institutional assets under management increased to £28.6 billion (2007: £27.3 billion). Net outflows of £5.2 billion during the year reflected the following factors:

- Inflows reduced to £2.4 billion (2007: £3.3 billion) as investment consultants put buy ratings on hold due to the uncertainty created by Friends Provident announcing that it intended to divest its interest in F&C. Furthermore, market volatility resulted in delays in funding newly won mandates.
- Outflows increased to £7.6 billion (2007: £6.1 billion), 50 per cent. of which occurred in the fourth quarter. These latter flows were largely represented by the maturity of a three-year fixed term index-linked bond mandate for a European government agency and the decision by a Dutch pension fund client to move to a fiduciary management model.

Average fee rates on institutional inflows were 30 per cent. higher than those earned on mandates lost during the year.

During 2008 we also won a number of new *reo*® (responsible engagement overlay) mandates representing new assets under engagement of £12.3 billion. These mandates are not reflected in our fund flows.

With 28 investment consultant buy-ratings, a record level for the business, and the uncertainty over Friends Provident's shareholding in F&C being resolved, our focus is to engage with consultants to reactivate suspended buy-ratings.

Sub Advisory

Sub-advisory assets under management decreased to £4.8 billion (2007: £6.5 billion) of which 13 per cent. represents Portuguese mutual funds. We continued to experience net outflows in sub-advisory funds as Portuguese investors migrated from money market mutual funds into banking products.

Investment Trusts

2008 was an important year for our investment trust business as the flagship Foreign & Colonial Investment Trust celebrated its 140-year anniversary and continued to expand its private shareholder base through our Child Trust Fund and other savings schemes.

Following on from the successful rollover of Investors Capital Trust in 2007, we continued to innovate in the investment trust market in 2008 with the launch of the F&C Managed Portfolio Trust. This vehicle introduced an innovative, flexible share structure to the market.

With the exception of F&C Event Driven, a small listed fund of hedge funds which voted to wind-up and return assets to shareholders, net outflows of £130 million principally related to a combination of share buybacks and changes in gearing levels by existing clients.

UK Retail

After record net sales in 2007 and a significant deterioration in investor sentiment, net sales of UK Retail funds were flat in 2008. In contrast many of our peers experienced substantial outflows during the year.

We continued to make progress during the year establishing distribution agreements with key adviser firms for our Lifestyle range of risk-rated multi-manager funds and securing access to a number of product platforms.

International Wholesale

We achieved strong progress growing SICAV fund sales with net sales of £225 million, more than 100 per cent. higher than the previous year. We had particular success marketing income products in Germany. We also benefited from measures taken to strengthen distribution, including the integration of wholesale and institutional distribution functions in a single team structure, gaining access to new platforms and the registration of funds in new territories.

Business Review

Our financial performance

Total return

We view share price total return as a key performance measure. Both the economic environment and other external influences have adversely impacted the Company's share price and hence the share price total return during 2008.

The wider impacts of the credit crunch and related economic turmoil are well documented. They also have a direct impact on our financial results. Our revenues are correlated to our assets under management, which in turn reflect market and foreign currency appreciation or depreciation together with the levels of net new business generated by the Group. During 2008, the FTSE 100 index, a key indicator of market appreciation, fell by some 28.3 per cent. in total return, and other major market indices also posted sharp declines. These market movements directly impacted our revenues and profitability. Additionally, our ability to gather new assets and hence generate revenues to replace outflows of assets was impacted by the corporate uncertainty arising from Friends Provident's intention to divest its 52 per cent. shareholding in your company. That uncertainty has prevailed throughout the year. Finally, our share price fell by approximately 30 per cent. in July 2008, after the forced sale of a stake representing approximately 60 per cent. of our shares in free float. This sale resulted from the financial distress of the underlying investor, the Dawnay Day group.

As a result of these and other factors, our total shareholder return for the year ended 31 December 2008 was (68.5) per cent. In the same period, average total shareholder return on the FTSE 250 index was (38.2) per cent. and the FTSE 100 was (28.3) per cent.

Strategic background

In our 2006 Report and Financial Statements, we set out details of a three-year plan. In last year's Report and Financial Statements we detailed the progress against the objectives previously set. Under the plan, the focus for 2008 was to enhance our distribution and accelerate asset gathering, building upon previous investments in our distribution resources and product range.

We have made good progress in a number of areas anticipated in the plan. However the extreme market conditions experienced during the year both impacted client demand and, as discussed further below, resulted in a review of our cost base and resources.

Accordingly, while we firmly believe that the strategic building blocks of the three year plan, together with its focus on seeking organic growth opportunities in higher revenue margin and specialist products, remain relevant, the rate of delivery has been impacted by the market environment and the corporate uncertainty referred to above.

During 2008, our net revenues were some 13 per cent. lower than the prior year and our underlying profits were some 24 per cent. lower, despite falls in equity market levels of between 30 and 40 per cent. This financial resilience represents a direct result of our previously articulated strategy of being a well diversified business.

Presentation of financial results

IFRS requires our Financial Statements to consolidate the results of our Managed Pension Funds business on a line-by-line basis, impacting both our Income Statement and Balance Sheet presentation.

In addition, during 2008, we acquired a number of new subsidiaries as a result of the merger of our real estate asset management activities in the UK and Ireland with those of the REIT Asset Management Group ("REIT"). These new subsidiaries are also included in our Consolidated Financial Statements from the date of their acquisition.

Net revenue

Net revenue for the year was £229.9 million (2007: £264.5 million). This included £7.9 million (2007: £20.8 million) of performance fee income and £1.1 million (2007: £10.6 million) of other non-management fee income. While new business of £3.9 billion was won during the year and a further £3.2 billion was added through the acquisition of REIT, this was more than offset by outflows of £10.2 billion and net insurance outflows of £4.4 billion. The combination of adverse market levels, offset by favourable exchange rates added a net £2.5 billion to assets under management, with much of that attributable to the strengthening Euro in the last quarter of the year.

Net fund flows and related annualised revenues represent a key performance indicator and are indicative of the growth of the business. Continuing the trend noted in prior years, our outflows have tended to be in lower fee margin areas, such as insurance and legacy institutional business, and our inflows have tended to be in higher fee margin areas, such as retail, international wholesale and specialist institutional mandates. For example, the fee margin on our institutional inflows during 2008 was approximately 30 per cent. greater than the fee margin on our institutional outflows in the same period.

During 2008, our performance fee income was £7.9 million, a reduction from the record 2007 level of £20.8 million. Clearly this reduction principally reflects our investment performance in those mandates in which we can earn a performance fee. However, it is also impacted by other factors, such as the contractual basis of calculation of the performance fees in such mandates. In 2007, we also earned some £10.6 million of other income. As many of the sources of that income were one-off in nature, other income for 2008 has fallen to £1.1 million.

Revenue margin

Our revenue margin, measured as our net management fee income divided by average assets under management, has increased from 22.5 basis points in 2007 to 22.9 basis points in 2008. This measure shows progress against our target of delivering net new business in higher margin products.

Operating expenses

Operating expenses, excluding amortisation and impairment of intangible assets, exceptional operating costs, corporate advisory fees and the impact of foreign currency hedges of future income, were £170.9 million (2007: £183.8 million). During periods of adverse market conditions, cost control remains critical to the continued success and viability of an asset management business. Accordingly, management has implemented a number of cost control initiatives, which we believe appropriate in light of market conditions.

In August, we indicated that we would reduce our spending from planned levels by £12 million per annum. The identified savings represented a combination of reduced discretionary expenditure, lower investment in the business and reductions in headcount. On 17 December 2008, we stated that we would further reduce our actual annualised cost base by an additional £15 million per annum. These savings were obtained from further cutbacks in discretionary spending and staff costs. To date, we have incurred exceptional employment costs of some £4.8 million to realise these savings and further exceptional costs will be incurred during the first half of 2009.

At 31 December 2007 our headcount (on a full-time equivalent basis) was 917; by 31 December 2008, this had reduced to 873, net of 60 personnel added on the REIT acquisition, and by the end of February, our headcount had fallen by a further 42. In addition, the profile of our variable remuneration has altered in line with market conditions and total variable remuneration for 2008 is some 33 per cent. lower than 2007.

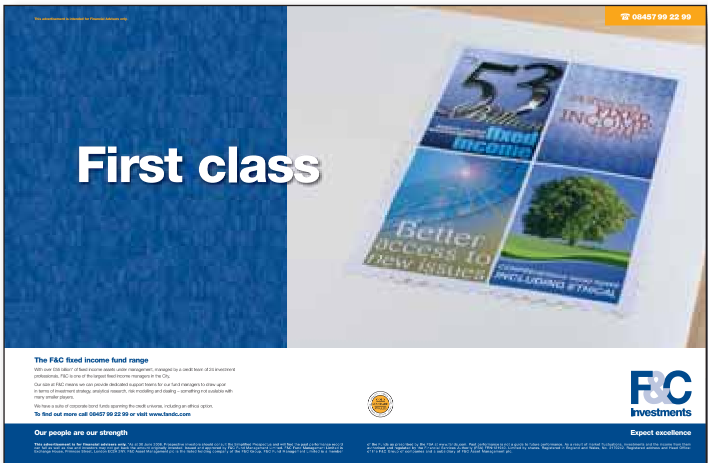
As previously set out, during 2008 Friends Provident announced its intention to divest its 52 per cent. shareholding in F&C. The Company subsequently appointed legal, commercial and corporate finance advisors to assist in identifying a solution which would both allow Friends Provident to meet its objective and allow the Company to continue with or accelerate the execution of its own strategy. Advisory and related costs incurred during 2008 total £4.4 million and these amounts have been classified as exceptional expenses and excluded from the calculation of underlying earnings.

During the prior year, we created a provision for amounts of VAT and interest which may be payable to investment trust clients. We have reviewed the amount of that provision during 2008 and continue to believe that it is appropriate and adequate. Accordingly, no similar charge has been incurred during 2008.

Operating margin

As a consequence of the changes in our net revenue and expense base, discussed above, and particularly the reduction in performance fee income, our operating margin for the year fell from 30.9 per cent. in 2007 to 26.4 per cent. for 2008.

Example of promotional activity.



Impairment of intangible assets

Under IFRS when an acquisition is made, there is a requirement to recognise separately the fair value attributed to intangible assets, in our case, management contracts. The excess of consideration over the fair value of net assets acquired represents the business value and infrastructure and is recognised as goodwill. During the year, additional management contract intangible assets of £71.3 million and goodwill of £56.0 million were recognised as a result of the acquisition of REIT.

Management contracts are then separated by client type and are amortised over their estimated useful lives and an amortisation charge of £48.9 million (2007: £42.4 million) was incurred in the year. Where an indicator of impairment occurs, the Group is then required to review the carrying value of these contracts. Historically, outflows of assets at significantly greater rates than originally forecast have been viewed as the sole indicator of impairment. However, during 2008, management determined that the significant falls in equity market levels and consequent reduction in management fee revenues arising from management contracts represented an indicator of impairment and conducted an impairment review across a variety of intangible asset categories. As a result of this review, an impairment charge of £48.3 million was incurred. This charge is non-cash in nature and does not impact the Group's underlying operating results or financial position.

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.

Foreign exchange hedging

A significant portion of the Group's assets under management and its revenues are denominated in Euros. During 2008, after a sharp strengthening of the Euro, the Company entered into a number of forward currency contracts to partially hedge Euro-denominated cash flows for the remainder of 2008 and beyond. While these contracts will mitigate the Company's future exposure to a significant fall in the Euro, accounting standards require that they are revalued at year end exchange rates. This revaluation results in a cost of some £12.3 million being recognised in the 2008 Income Statement in respect of forward currency contracts which mature in 2009 and beyond. As we currently hold significant Euro-denominated assets in our overseas subsidiaries, an offsetting gain on revaluation of Euro-denominated assets of some £15.1 million (excluding gains arising on intangible assets) is recognised in the statement of recognised income and expense. Accordingly, there has been no significant impact on the Company's net assets.

As the forward currency contracts protect 2009 Sterling cashflows, the unrealised losses have been excluded from the calculation of 2008's underlying earnings. On maturity of the contracts, the final gain or loss will be included in underlying earnings and matched against the hedged revenue streams.

Underlying earnings

The Board utilises underlying earnings per share as one of its key metrics in assessing financial performance. The table below sets out the reconciliation between underlying earnings and statutory earnings. Underlying earnings per share for the year ended 31 December 2008 were 7.8 pence (2007: 10.4 pence). The reduction principally reflects the reduced performance fee and other income discussed earlier in this report.

Reconciliation of Earnings per share (pence)	**2008 Basic**	**2007 Basic**
(Loss)/earnings per Ordinary Share	(10.64)	3.54
Amortisation of intangibles, net of tax	6.95	5.25
Impairment of intangibles, net of tax	7.00	–
Loss on partial disposal of property business, net of tax	0.83	–
Unrealised losses on forward currency contracts, net of tax	1.79	–
Other exceptional costs, net of tax	1.85	1.58
Underlying earnings per Ordinary Share	7.78	10.37

Dividends

In 2007 we reiterated our dividend policy, which is to achieve at least 150 per cent. cover on underlying earnings and, where possible, to grow the dividend. As set out above, our underlying earnings for the year were 7.8p per share. An interim dividend of 2.0p per share was paid during the year. After considering the results for the year, the Board has declared an unchanged final dividend of 4.0p per share. This dividend, together with the interim dividend, will result in a total dividend for the year of 6.0p per share. Subject to shareholder approval, the final dividend will be paid on 28 May 2009 to shareholders on the register at 17 April 2009. As a result of the extreme market conditions and the impact of corporate uncertainty, this has resulted in a 2008 dividend cover which is lower than our 150 per cent. target. The Board will review future dividend levels in light of financial results and the general economic environment and outlook.

Cash resources

The Company has gross debt of £295 million. This comprises £260 million of subordinated loan notes and £35 million of vendor loan notes issued in connection with the acquisition of REIT. The Company also has cash resources of £223 million. A significant part of that cash is held in our regulated subsidiaries against their capital requirements and is accordingly not available for corporate purposes. The subordinated loan notes are not repayable until 2016 and, at the Company's option, may be extended until 2026. These subordinated loan notes do not include any financial covenants but allow interest on these notes to be deferred in circumstances where no ordinary dividend is paid.

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.

Acquisition of REIT Asset Management

On 3 September 2008, the Group completed the merger of our property asset management activities with REIT to form F&C REIT. As a result of this transaction, the Company controls 70 per cent. of the merged property business and acquired its interest for a consideration comprising £25 million of cash, £35 million of loan notes and 30 per cent. of the existing F&C property asset management business. The remaining 30 per cent. of F&C REIT is owned by the vendors of REIT, two of whom continue to occupy key management roles in the business. They also have the opportunity to increase their ownership by a further 10 per cent. through the achievement of stretching financial targets over the next six years. For accounting purposes, the value of the option provided by the earn-out mechanism to increase their ownership is treated as a share-based payment expense and included in the Income Statement. During 2008, this cost was £1.4 million and, consistent with our previous treatment of share scheme costs of a capital nature associated with acquisitions, has been excluded from the calculation of underlying earnings.

Business Review

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

CR strategy

The Company has two overarching strategic ambitions:

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

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

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

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

External Validation	2007 Position	Existing Position	2010 Target
BITC Corporate Responsibility Index	Silver status	Gold status	Platinum status
EIRIS/FTSE4Good	Inclusion	Inclusion	Inclusion
UN Global Compact CCP	Member	Inclusion	Member
Carbon Disclosure Project	Member	Member	Member
Principles for Responsible Investment	Founding Signatory	Founding Signatory	Founding Signatory

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

CR categories supporting the strategic ambitions

F&C has established key performance indicators (KPIs) for each of the CR categories detailed below, details of which can be found on the Corporate Responsibility section of the Company's website. A summary of our objectives in each area is set out below.

Marketplace

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

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

Environment

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

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

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

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

Workplace

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

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

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

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

Community

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

F&C will target, by 2010, 75 per cent. of all employees dedicating at least one working day per year to a Charitable or community programme.

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

CR commitment

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

How is Corporate Responsibility implemented by F&C?

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

Alain Grisay
6 April 2009

David Logan
6 April 2009

Some of our 2008 charity events

In January, a group of F&C volunteers travelled to Hanworth Park, Hounslow to help out Trees for Cities, an independent charity working with local communities on tree-planting and landscaping projects.

Jennifer Read took part in the London Triathlon on 9th August with two friends. They raised £600 for B-eat, the eating disorders association.

In September Graham Brooks took part in a 130 km charity cycle ride down the east coast of Ireland along with 400 others. The aim was to raise funds for the homeless in Dublin, particularly those recovering and in rehabilitation from drug abuse.

Derek Mclean walked the Hadrian's Wall long distance footpath (84 miles) and raised a total of over £5,000 for Christian Aid.

Our people are our strength

Company Directors

Non-executive Directors

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 the former Chairman of The Student Loans Company Limited and is currently Chairman of the Norwich & Peterborough Building Society and Chairman of 4D Data Centres Ltd.

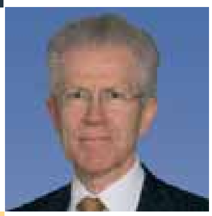
Keith Bedell-Pearce*†
LLB, MSc
Age 63

Senior Independent Director

Robert Jenkins§
BA, MA
Age 58

Chairman

Mr Jenkins joined the Board on completion of the merger in October 2004. Prior to his appointment Mr Jenkins was Chief Executive of F&CGH. Prior to joining F&CGH in 1997, Mr Jenkins spent over five years with Credit Suisse Asset Management ("CSAM") and 16 years with Citibank. At Citibank Mr Jenkins held senior assignments in Dubai, Bahrain, Zurich, New York and Tokyo. From 1992 until 1995 he was Chief Investment Officer and Head of Asset Management for CSAM in Japan. In 1995 he transferred to London where he was Chief Operating Officer for CSAM in the UK and Central and Eastern Europe. Mr Jenkins is Chairman of the Board of the Investment Management Association in the UK, Member of The Takeover Panel, Executive Fellow of the London Business School and Honorary Visiting Professor of Investment Management at City University London's Cass Business School.



Dick de Beus§
Age 62

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. during 1996-2007 (custodian services, Amsterdam). He is involved in several supervisory and advisor functions in non-listed companies and non-profit organisations. Mr de Beus served as a Non-executive Director of F&CGH since his appointment in February 2004.

Nick MacAndrew
FCA †*
Age 62

Independent Director

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

Brian Larcombe*†§
Age 55

Independent Director

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

Gerhard Roggemann,
Ass.iur.
Age 61

Independent Director

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

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

Jeff Medlock,
B.Sc(Econ), FIA
Age 68

Mr Medlock joined the Board on completion of the merger in October 2004. Mr Medlock, an actuary, was Chief Executive Officer of Eureko from its formation in 1992 until 1999 when he became Chief Financial Officer at Achmea. He returned to the board of Eureko in 2002 shortly after its merger with Achmea and Seguros e Pensoes as Chief Financial Officer. Mr Medlock retired from Eureko in 2004 but remains a director of Eureko's companies in Ireland and Cyprus. He is also a trustee of the children's charity Life Education Centres.

Sir Adrian Montague§,
CBE, MA, Solicitor,
Age 61

Sir Adrian joined the Board in November 2007. He was appointed chairman of Friends Provident in May 2005, having been appointed an independent director in October 2004. Sir Adrian is currently Chairman of Michael Page International plc and Cellmark Investments AB.

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

Trevor Matthews,
MA, FIA, FIAA, ASA
Age 57

Mr Matthews joined the Board in August 2008. He joined Friends Provident as Chief Executive Officer and director in July 2008. He is a Member of the Investment Committee and President of the Chartered Insurance Institute.

Mr Matthews was formerly Chief Executive of Standard Life Assurance Limited, the principal subsidiary of Standard Life plc. Prior to joining Standard Life in 2004, Mr Matthews held two key positions at Manulife Financial Corporation – Executive Vice President in Canada and subsequently President and Chief Executive, Japan. Prior to that, he held senior positions in National Australia Bank and Legal & General Australia.

Executive Directors

Alain Grisay, LLM, MA
Age 55

Chief Executive

Mr Grisay joined the Board on completion of the merger in October 2004 having previously been Deputy Chief Executive of F&CGH and head of the institutional business. Prior to joining F&C in April 2001, Mr Grisay was at JP Morgan for 20 years, serving as Managing Director responsible for the investment bank's market client business in Europe. Mr Grisay was appointed an Executive Director of Friends Provident plc on 1 January 2006.

David Logan, BA, CA
Age 39

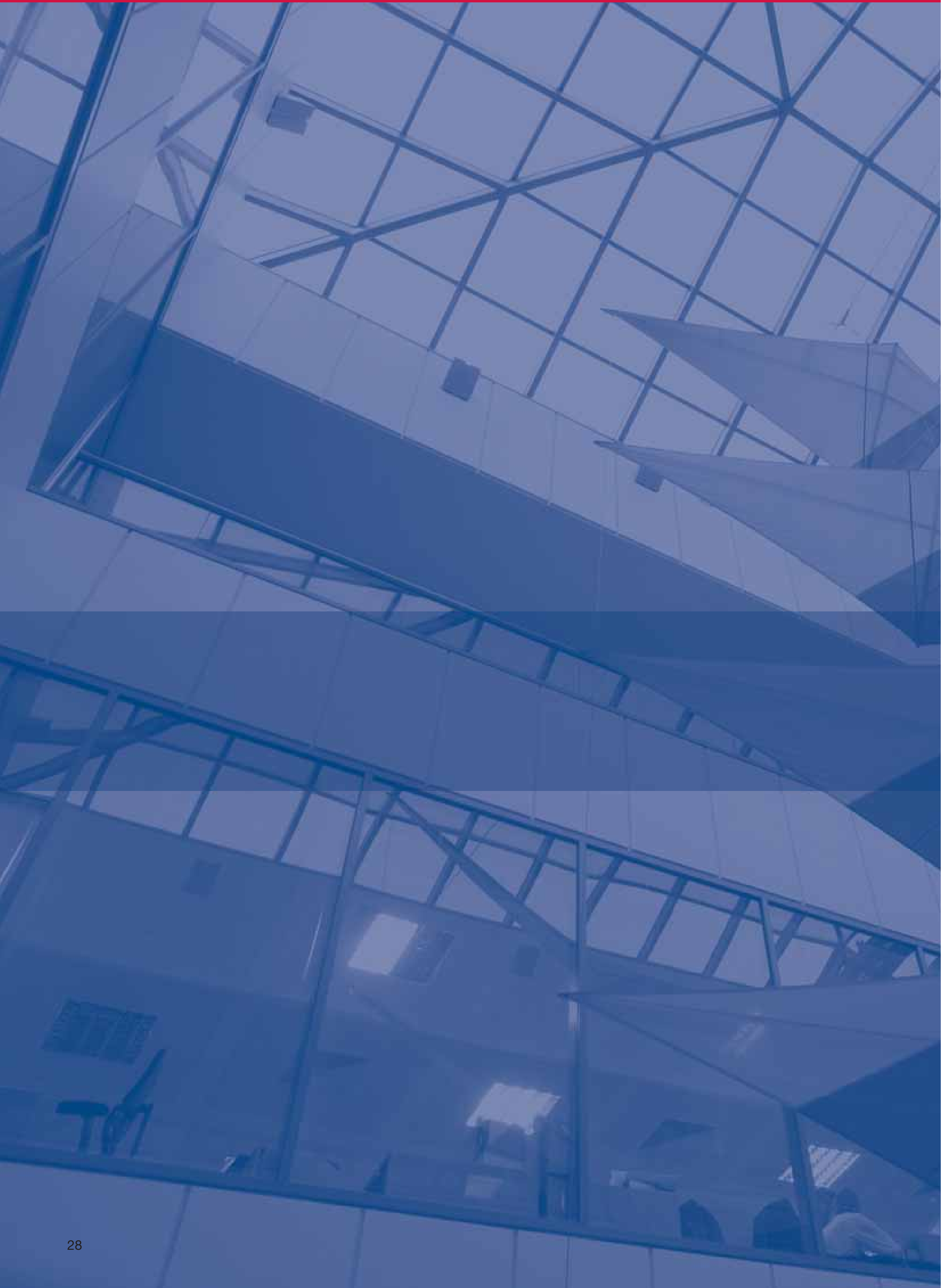
Chief Financial Officer

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.

* Member of the Remuneration Committee

† Member of the Audit & Compliance Committee

§ Member of the Nomination Committee



Report of the Directors

Report of the Directors

Results, business review and dividend

The Group's results for the year ended 31 December 2008 are shown in the Consolidated Income Statement on page 54. A business review of the year ended 31 December 2008 and future developments are covered on pages 10 to 23. This review forms part of the Report of the Directors.

The Group loss for the year, after tax, amounted to £50.5 million.

The Directors recommend a final ordinary dividend of 4.0 pence per share, amounting to £19.8 million, resulting in a total of 6.0 pence and £29.7 million for the year. Preference dividends of £0.1 million were also incurred during the year.

The final ordinary dividend, if approved, will be paid on 28 May 2009 to ordinary shareholders whose names are on the register on 17 April 2009. No liability for the proposed dividends has been recognised as at 31 December 2008, in accordance with IFRS.

Principal activity and status

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

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

Details of the principal entities within the Group are contained in note 41 to the Consolidated Financial Statements. There are also two branch offices in the Group outside the UK, one in The Netherlands and one in Germany.

Significant agreements

In addition to the significant management contracts with Friends Provident plc and the Achmea Group, details of which are contained in Note 42 to the Consolidated Financial Statements, F&C is party to the following significant contracts that take effect, alter or terminate upon a change of control of the Company.

Millennium BCP Group (BCP)

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

Royal Sun Alliance (RSA)

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

Foreign & Colonial Investment Trust Plc

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

F&C Commercial Property Trust Limited

The Investment Management Agreement in place with F&C Commercial Property Trust Limited can be terminated by the investment trust on not less than six months' notice. Early termination can be undertaken by the investment trust, but only subject to the payment of compensation to F&C based on revenue stream. Immediate termination is possible by the investment trust in the event that there is a change of control in F&C (as defined in Section 840 of ICTA 1988) which has not been consented to by its Board.

F&C Partners LLP (the "LLP")

The F&C Partners Limited Liability Partnership Agreement, dated 3 December 2004, is between F&C Alternative Investments (Holdings) Limited and the two individual Founder Members.

The LLP Agreement provides that in the event of a change of control of F&C, F&C Alternative Investments (Holdings) Limited has the right within three months of such change of control to declare to the individual members that such change of control is a trigger event. Upon the declaration of a trigger event, the individual members of the LLP have no right to require the Company to purchase their interests for a period of twelve months. Following the expiry of this twelve month period, the individual members have a period of three months during which they can choose to require the Company to purchase their interests.

F&C REIT Asset Management LLP

F&C REIT Asset Management LLP (the "LLP") Limited Liability Partnership Agreement, dated 21 July 2008, is between F&C Asset Management plc ("F&C"), the two individual members and a separate company controlled by discretionary trusts.

Where there is a change of control of F&C following 3 September 2011 or a second change of control during the first three years from 3 September 2008, F&C can elect to change the arrangements for voting at LLP members' meetings such that F&C's interests are represented by one vote and the REIT Parties' aggregate interests are represented by one vote. If F&C does not so elect, then F&C must offer to sell its interests to the other members of the LLP at a price determined by an independent valuer.

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 2008, there were no significant differences between the net book and market values of property, plant and equipment.

Financial instruments

Details of financial instruments are disclosed in notes 14 and 19 to the Consolidated Financial Statements. The financial risk management objectives and policies of the Group are contained in note 38.

Share capital and directors' interests

During the year the Company issued 19,784 ordinary shares in respect of vested awards or options under the Company's long term incentive schemes.

Details of shares under option at 31 December 2008 are shown on pages 110 to 121. Details of all shares issued during the year ended 31 December 2008, are given in note 33. The Directors who held office at the year end and their interests in the share capital of the Company are shown below:

		31 December 2008** Ordinary Shares	31 December 2007** Ordinary Shares
Robert Jenkins	Beneficial	200,000	200,000
	Non Beneficial*	64,176	562,857
Dick de Beus	Beneficial	Nil	Nil
Keith Bedell-Pearce	Beneficial	51,285	51,285
Alain Grisay	Beneficial†	1,386,094	1,438,676
Brian Larcombe	Beneficial	20,000	20,000
	Non Beneficial*	64,176	562,857
David Logan	Beneficial	2,218	990
Nick MacAndrew	Beneficial	25,000	25,000
Jeff Medlock	Beneficial	10,000	10,000
Sir Adrian Montague	Beneficial	Nil	Nil
Gerhard Roggemann	Beneficial	Nil	Nil
Trevor Matthews	Beneficial	Nil	Nil

*Robert Jenkins and Brian Larcombe are Directors of 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 include Mr Grisay's participation in the Purchased Equity Plan. Further details of this plan are set out in the Directors' Remuneration Report on pages 43 to 51.

No other changes to Directors' interests have occurred.

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

		31 December 2008 Ordinary Shares	31 December 2007 Ordinary Shares
Sir Adrian Montague	Beneficial	4,668	6,281
Gerhard Roggemann	Beneficial	Nil	Nil
Trevor Matthews	Beneficial	Nil	Nil

Directors' and officers' liability

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

The Directors have the benefit of the indemnity provision set out in the Company's Articles of Association at article 166 which is a qualifying third party indemnity provision as defined in the Companies Act 2006. During 2008, each Director of the Company has received a qualifying third party indemnity from the Company.

Charitable and political contributions

During the year, the Group made contributions to charity of £139,000 (2007: £117,000). No political donations were made during the year (2007: £nil). Further details on the criteria for charitable giving are contained on the Company's website.

Payment policy and practice

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

At 31 December 2008, trade creditors represented the equivalent of 5 days (2007: 10 days) of the annual purchases invoiced by the suppliers to the Group.

Substantial interests in share capital

The Company has been informed of the following substantial interests, above 3 per cent., as at 6 April 2009:

	Shares	Ordinary Percentage
Friends Provident plc	258,722,798	52.2
Eureko B.V.	51,128,190	10.3
Fidelity	23,869,618	4.8
Artemis	20,419,814	4.1

Employees

At 1 March 2009, there were 845 full-time employees and 73 part-time employees within the Group (1 February 2008: 869 full-time employees and 61 part-time employees).

Report of the Directors

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 43 to 51 or the notes to the Consolidated Financial Statements on pages 110 to 121.

Annual General Meeting (AGM)

The Company will hold its AGM on Thursday, 7 May 2009 at JPMorgan Cazenove, 20 Moorgate, London EC2R. The meeting will start at 12 noon (UK time). Details of all resolutions being put to shareholders are set out in the Notice of Annual General Meeting commencing on page 172.

Relationship agreement

The relationship agreement formalises the ongoing relationship between the Company and its parent, Friends Provident plc, and Friends Provident plc's subsidiaries. If renewed, the relationship agreement will remain in place until the next AGM or until Friends Provident's interest in the ordinary shares of the Company falls below 30 per cent. The relationship agreement contains provisions which permit the Friends Provident group to participate in future issues of equity shares by the Company not made to existing shareholders in proportion to their existing holdings in order to maintain its percentage shareholding in the Company. Your Directors are recommending that the relationship agreement be re-approved and the authority be renewed at this year's AGM pursuant to resolution 9. Members of the Friends Provident group will abstain from voting on such ordinary resolution.

Board changes

On 13 May 2008, John Heywood, an independent Non-executive Director, retired from the Board.

On 15 August 2008, Jim Smart, a Non-executive Director, retired from the Board and was replaced on the same date by Trevor Matthews, a Non-executive Director.

Robert Jenkins, the Company's Chairman, has indicated his intention to retire from the Board on conclusion of this year's Annual General Meeting. Nick MacAndrew will succeed Mr Jenkins as Chairman from that date.

Dick de Beus, an independent Non-executive Director, has indicated his intention to retire from the Board and relevant Board committees on conclusion of this year's Annual General Meeting.

Sir Adrian Montague and Trevor Matthews, Friends Provident's nominated shareholder representatives on the Board, will retire from the Board when Friends Provident distributes its shares in the Company later in the year.

As a result of the changes detailed above the Nomination Committee and the Board have commenced a search for two independent Non-executive Directors.

General Meeting.

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

Ordinary resolution 10 will be put to the AGM of the Company to renew the Directors' power to allot shares. The Directors currently have authority to allot relevant securities up to a maximum amount of £164,074.92. The Resolution proposes that a similar authority be granted in substitution of the existing authority to allot securities up to a maximum amount of £164,730.35, representing approximately 33.33 per cent. of the Company's total issued ordinary share capital (excluding treasury shares) as at the date of this report.

In addition, following guidance issued by the ABI in December 2008 the Company is seeking additional authority to allot securities in connection with a pre-emptive rights issue up to a maximum amount of £139,126.75, representing approximately 28.15 per cent. of the Company's total issued ordinary share capital (excluding treasury shares) as at the date of this report. The benefit to the Company of obtaining such authority on an annual basis is that it would allow the Company to implement a rights issue of an amount equal to approximately 61.48 per cent. of the issued ordinary share capital without the need to call an additional general meeting. This would shorten the implementation timetable for such a rights issue.

The Directors have no present intention of exercising this authority. The authority will expire at the end of the AGM to be held in 2010, unless previously cancelled or varied by the Company in general meeting. It is the intention of the Directors to renew this authority annually at each AGM.

As at the date of this report the Company holds 1,902,428 ordinary shares in treasury. This represents approximately 0.4 per cent. of the Company's ordinary share capital in issue (excluding treasury shares) as at the date of this report.

Special resolution 11 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 in proportion to their existing shareholdings.

Such power will apply to the allotment of unissued ordinary shares and treasury shares sold up to a maximum nominal amount of £24,807.145, representing approximately 5 per cent. of the Company's issued ordinary share capital as at the date of this report, except that:

(1) the maximum nominal amount of shares that can be allotted in connection with a pre-emptive rights issue is £303,857.10, representing approximately 61.48 per cent. of the Company's total issued ordinary share capital (excluding treasury shares) as at the date of this report; and

(2) the maximal nominal amount of unissued ordinary shares that can be allotted or treasury shares sold:
   (a) pursuant to any other pre-emptive offering (where legal or regulatory requirements prevent the issue of shares wholly on a pre-emptive basis);
   (b) in accordance with the relationship agreement referred to above (conditional upon the passing of the ordinary resolution 9 referred to above);
   (c) in order to satisfy options or awards under any share scheme for employees or share incentive plan approved by the Company in general meeting;

   is £164,730.35, representing approximately 33.33 per cent. of the Company's total issued ordinary share capital (excluding treasury shares) as at the date of this report.

The Directors consider that the authority proposed to be granted by resolution 10 and the power proposed to be granted by resolution 11 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 (2)(c) above.

Purchase of own shares

Special resolution 12 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 12 the maximum aggregate number of ordinary shares which may be purchased pursuant to the authority shall be 49,424,027 (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 27,842,633 options to subscribe for ordinary shares outstanding (representing 5.63 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 2009 AGM and is then utilised in full, the options outstanding at the date of this report would represent 6.26 per cent. of the issued ordinary share capital of the Company (excluding treasury shares). The power conferred by this resolution will expire on the earlier of the date falling 15 months after the date of the passing of this resolution and the conclusion of the Annual General Meeting of the Company to be held in 2010.

With the coming into force of the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (as amended); on 1 December 2003, the Company may do any of the following in respect of its own ordinary shares which it buys back and does not immediately cancel but, instead, holds "in treasury":

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

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

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

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

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

In 2008, the Group purchased 345,845 ordinary 0.1 pence shares (2007 the Group acquired 1,279,618 ordinary 0.1 pence shares) representing 0.3 per cent. of the ordinary Shares in issue at 31 December 2008 pursuant to this authority. The aggregate consideration paid for own share purchases in 2008 was £0.6 million (2007: £2.4 million). The maximum number of own shares held during the year was 3,431,540 representing 0.7 per cent. of the ordinary shares in issue. 2,008,691 own shares representing 0.4 per cent. of the ordinary shares in issue were transferred during the year pursuant to employee share schemes.

Report of the Directors

Notice of General Meetings

The Shareholder Rights Directive will be implemented in the UK in August this year. One of the requirements of the Directive is that all general meetings must be held on 21 days' notice unless shareholders agree to a shorter notice period. We are currently able to call general meetings (other than AGMs) on 14 days' notice. We are proposing special resolution 13 at the Meeting so that we can continue to be able to do so after the Directive is implemented.

The authority being sought pursuant to Special Resolution 13 will expire at the conclusion of the AGM to be held in 2010. It is the current intention of the Directors to renew this authority annually.

Auditors

KPMG Audit Plc have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment and for the Directors to determine their fees will be submitted at the AGM.

Details of the auditor's remuneration is provided in note 4(c) to the Consolidated Financial Statements and further detail on how the Board ensures the independence of the auditors is detailed on page 42 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

6 April 2009

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 2008 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, 7 May 2009.

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 Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 10 to 17. The financial position of the Group, its cash flows and liquidity position are described in the Business Review on pages 18 to 21. In addition note 38 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources together with long-term contracts with a number of clients across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

The Board

The Board of Directors currently comprises the Chairman, two Executive Directors and eight Non-executive Directors, five of whom the Board has identified as Independent Directors.

The biographies of the Directors appear on pages 26 and 27. These demonstrate a range of experience, skills and personal standing sufficient to bring independent judgement on issues of strategy, performance, resources and standards of conduct which are vital to the success of the Group. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board meets formally on a regular basis and is responsible for approving the Group's objectives and policies.

The Board focuses mainly on strategy, investment and financial performance, the Group's control environment and executive management and Board succession. To enable the Board to discharge its duties, all Directors receive appropriate and timely information ensuring that they are properly briefed on issues for consideration in advance of meetings. In addition, all Directors have access to senior management and can request, either during meetings or at other appropriate times, further explanation or written papers on matters as they see fit.

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

Board composition

F&C Asset Management plc is a quoted subsidiary of Friends Provident plc ("FP"), which owns 52 per cent. of the Company. There are, in addition to a formal agreement to manage funds on behalf of FP, various other arrangements in place between the Company and FP, all of which are governed by independent agreements, the terms of which are approved by the minority shareholders as appropriate. New business created by FP has a direct benefit to the Company and the Company's investment performance has a direct impact on FP and its ability to develop its business. Because of this relationship, close co-operation and understanding of each other's businesses and strategies is very important. To facilitate this, Sir Adrian Montague (FP Executive Chairman), Trevor Matthews and Jim Smart (FP Executive Directors) served as Directors of the Company during the year. Alain Grisay, the Company's Chief Executive, served as an Executive Director of FP during the year. No remuneration or benefits are paid to Mr Grisay in respect of his services as an Executive Director of FP. In addition, Gerhard Roggemann is an independent Non-executive Director of both FP and the Company. Mr Roggemann joined the Board as an independent Non-executive Director in June 2007. As part of the formal annual evaluation exercise, the Board assessed Mr Roggemann's ongoing independence in March 2009 and determined that Mr Roggemann continues to be independent in character and judgement. The Board's conclusion was based on the integrity, objectivity and professionalism displayed by Mr Roggemann's contribution to Board discussions and debates. The Board acknowledges and respects that some parties may hold a different view of Mr Roggemann's independence as a consequence of him being an independent Non-executive Director of FP.

Directors' Report on Corporate Governance

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

The composition of the Board is reviewed annually.

The Board committees

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

(a) Statement of the Nomination Committee Purpose and Terms of Reference

The Committee leads the process, and makes recommendations to the Board, for all new Board appointments and the appointment of Non-executive Directors to any Board Committee. It is responsible for evaluating the balance of skills, knowledge and experience on the Board and ensuring that a formal, rigorous and transparent appointment process exists.

Membership

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

Throughout 2008, the Committee met formally on two occasions.

On 13 May 2008, John Heywood retired from the Board and the Committee.

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

Activities and work of the Committee

On 13 May 2008, John Heywood, an independent Non-executive Director, retired from the Board.

On 15 August 2008, Jim Smart a Non-executive Director, retired from the Board and was replaced by Trevor Matthews, a Non-executive Director on the same day.

As an integral part of its succession planning, the Committee reviews the balance and composition of the Board including the number of Directors serving thereon. After due deliberation regarding the retirals and appointments detailed above 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

6 April 2009

(b) Statement of the Audit & Compliance Committee Purpose and Terms of Reference

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

Membership

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

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

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

Members of the Audit & Compliance Committee: Keith Bedell-Pearce (Chairman), Brian Larcombe, and Nick MacAndrew.

On 13 May 2008 Mr Heywood retired from the Board and the Committee. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience, a position that should continue throughout 2009.

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, with a final meeting taking place late in the year to consider any year end matters. The Committee also considers and reviews other risk management or control documentation including the Company's policy on whistleblowing, the results of internal and external audit and compliance reports or management letters and oversees the award of any non-audit related consultancy work. On an annual basis the Committee considers and makes a recommendation to the Board as to the appointment, re-appointment or removal of the external auditors and approves their remuneration and terms of engagement. Other meetings of the Committee are called at the request of the Chairman to consider ad hoc control issues that may emerge during the year as well as other matters that the Board has asked the Committee to consider or investigate.

For the Board

Keith Bedell-Pearce
Chairman, Audit & Compliance Committee

6 April 2009

(c) Statement of the Remuneration Committee Purpose and Terms of Reference

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

Membership

The Chairman of the Committee is Brian Larcombe.
The Committee comprises solely independent Non-executive Directors.

On 13 May 2008 Mr Heywood retired from the Board and the Committee. Nick MacAndrew replaced Mr Heywood as a member of the Committee on the same date.

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

Activities and work of the Committee

The Committee is responsible for reviewing the Group's remuneration policy (as set out in the Directors' Remuneration Report on pages 43 to 51). Within that policy, the Committee is responsible for determining the remuneration packages of the Executive Directors and making recommendations and monitoring the specific remuneration packages of senior management below Board level. It is also responsible for the Company's incentive schemes for employees, including the bonus scheme and the grant of awards under the long term incentive schemes. Further details of the objectives of the Committee are contained in the Directors' Remuneration Report on page 43.

For the Board

Brian Larcombe
Chairman, Remuneration Committee

6 April 2009

Directors' Report on **Corporate Governance**

Attendance at meetings

The following table identifies the number of Board and formal committee meetings held in 2008 and the attendance record of the individual Directors as members of committees of the Board. In addition to the meetings detailed below a number of sub-committees of the Board and Board Committees occurred.

	Board	Non-executive Director meetings without management present	Audit & Compliance Committee	Remuneration Committee	Nomination Committee
Number of meetings held 2008/(2007)	9(8)	2(2)	4(4)	4(5)	2(3)
Robert Jenkins	9	2	–	–	2
Alain Grisay	9	–	–	–	–
Keith Bedell-Pearce	9	2	4	4	–
Dick de Beus	8	2	–	–	2
John Heywood[1]	5	1	2	3	–
Brian Larcombe	9	2	4	4	2
David Logan	9	–	–	–	–
Jeff Medlock	9	2	–	–	–
Trevor Matthews[2]	3	1	–	–	–
Nick MacAndrew[3]	9	2	3	1	–
Sir Adrian Montague	6	1	–	–	1
Gerhard Roggemann	8	2	–	–	–
Jim Smart[4]	5	1	–	–	–

[1]Resigned as a member of the Board and relevant Board Committees on 13 May 2008.
[2]Appointed as a member of the Board on 15 August 2008.
[3]Appointed as a member of the Remuneration Committee on 13 May 2008.
[4]Resigned as a member of the Board on 15 August 2008.

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 an effective contribution from all Directors.

The performance of the Chairman during 2008 was reviewed by the Non-executive Directors in a meeting chaired by Keith Bedell-Pearce, the Senior Independent Director. The Non-executive Directors concluded at the meeting that Robert Jenkins displayed the characteristics expected of a Chairman including being appropriately independent of the management team.

Mr Jenkins' biography is set out on page 26. Mr Jenkins is Chairman of the Investment Management Association of the UK. This is a Non-executive, part-time role. Mr Jenkins also volunteers time to two London-based business schools with which he is affiliated.

Chief Executive

The Chief Executive of the Company is Alain Grisay. As Chief Executive, Mr 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 Committee.

Non-executive Directors

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

Board evaluation and professional development

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

One significant area identified for improvement in the year ahead is strengthened Executive Director succession planning. The Non-executive Directors also met separately, under the Chairmanship of the Senior Independent Director, to discuss the performance of the Chairman and provide him with collective feedback.

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

The Company has a full and formal induction process for all new appointments to the Board. The Chairman, in consultation with the Company Secretary and individual Directors, is responsible for assessing the professional development needs of each Director. The induction process and ongoing professional development is facilitated by the Company Secretary who, in consultation with the individual Director, identifies the most appropriate method of ensuring professional development. The Company Secretary also

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assists in organising attendance at internal or external courses of professional development to develop familiarity with the Company's business operations.

Directors conflicts of interest

From 1 October 2008, Directors have a statutory duty to avoid a situation in which they have or can have an interest that conflicts or possibly may conflict with the interests of the Company. A Director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association by the other Directors. The Articles of Association were amended to include the relevant authorisation for Directors to approve such conflicts by a resolution of shareholders at the AGM held on 13 May 2008.

Prior to 1 October 2008, the Board conducted a review of actual or possible conflicts in respect of each Director. At its meeting in September 2008, the Board approved a protocol for identifying and dealing with conflicts and resolved to review any authorised conflicts on an ongoing basis.

Directors and Directors' election and re-election

The Directors who served at any time during the year ended 31 December 2008 are as shown in the Directors' Remuneration Report on page 49. Details of the Executive Directors' service contracts and Non-executive Directors' letters of appointment can be found on page 48.

Trevor Matthews, a Non-executive Director, was appointed during the year. As such, he will retire at the Annual General Meeting and, being eligible, will offer himself 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 and Larcombe 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 confirms that all Directors offering themselves for re-election at the Annual General Meeting demonstrate commitment to their role and devote sufficient time to perform their roles as members of the Board and any Board Committee.

In accordance with the requirements of the Code, during 2008, the Nomination Committee gave more detailed consideration to the proposed re-election of Mr Bedell-Pearce, given that he is currently serving in his third three-year term of appointment. It has been agreed that Mr Bedell-Pearce will seek annual re-election from shareholders.

The Nomination Committee believes that all Directors submitting themselves for election and re-election should be re-elected and can confirm that all Non-executive Directors display the qualities expected of an effective Non-executive Director.

Details of the Directors offering themselves for election or re-election can be found on pages 26 and 27.

Board succession planning

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

Relations with shareholders

The Board as a whole acknowledges its responsibility for ensuring satisfactory dialogue with shareholders and that communications are given high priority. The Company welcomes the views of shareholders and, where practicable, enters into dialogue with institutional shareholders based on the need for mutual understanding of objectives. The Company's Chief Executive and Chief Financial Officer regularly meet the largest institutional shareholders and Company analysts following the announcement of the year-end and interim results; the Senior Independent Director and all other Non-executive Directors have the opportunity to attend these meetings. The Annual General Meeting of the Company provides a forum, both formal and informal, for investors to meet and discuss issues with Directors and senior management of the Company. Details of resolutions to be proposed at the Annual General Meeting on Thursday, 7 May 2009 can be found in the Notice of the meeting commencing on page 172.

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

The Non-executive Directors meet twice a year without management present. At these meetings, representatives from the Company's significant shareholders have the opportunity to express their views about the Company and consideration is given to any other relevant views expressed by other shareholders. Unattributed shareholder feedback on the Company, facilitated by the Company's brokers, is also presented to the Board following management's year end results presentations.

Shareview

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

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

On registration, shareholders can select their preferred format (post or e-mail) for shareholder communications. Shareholders selecting "e-mail" as their mailing preference will be sent shareholder communications, such as proxy forms and notice of Company results by e-mail instead of post, as long as this option is available. Shareholders selecting "post" as their preference will be sent paper documents as usual.

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

Electronic communications

Copies of the 2008 Annual Report and Financial Statements, the Notice of Annual General Meeting, other corporate publications, press releases and announcements are available on the Company's website. Shareholders are encouraged to take advantage of the provisions allowing the Company to communicate electronically.

Voting Online

In accordance with good governance practice the Company is offering shareholders use of an online voting service, "sharevote", offered by the Company's registrar, Equiniti, at www.sharevote.co.uk. Shareholders can use this service to vote or appoint a proxy online. The same voting deadline (12 noon (UK time) on 5 May 2009) applies as for the Personalised Voting Form to vote or appoint a proxy by post to vote. Shareholders need to use the unique personal identification details (Reference Number, Card ID and Account Number) that are printed on the Personalised Voting Form to use this service.

CREST members

Registered shareholders who are CREST members who are entitled to attend and vote at the meeting and who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 7 May 2009, or any adjournment of it, by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST Sponsored Members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made by means of the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy, or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent, Equiniti (ID 7RA01), by 12 noon (UK time) on 5 May 2009. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

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

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Internal control

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

The Company, as required by the FSA Listing Rules, complied with the Code provisions on internal control for the year ended 31 December 2008.

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 6 April 2009, the date of approval of the Annual Report and Financial Statements. A high-level

Directors' Report on Corporate Governance

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 area of the business, covering all locations. These quarterly reports include issues of material business risk which are discussed in detail by the Management Committee which includes both Executive Directors. All significant items identified are reported to the Board on a regular basis.

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

Monitoring and corrective action

There is a formal compliance function, which is integrated with the internal audit function and operational risk function, to form an Audit, Risk & Compliance department. The Audit, Risk & Compliance department conducts regular monitoring of various business areas and control procedures in line with a plan agreed annually with the Audit & Compliance Committee. Any issues of significance are brought to the attention of the Board by the 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 the award of non-audit work to the Group's auditors. The policy applied during 2008 is detailed below.

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

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

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

The performance, independence, competence and cost of the 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. The last competitive audit tender exercise was undertaken in 2006.

During the year, Deloitte, Ernst & Young, and PricewaterhouseCoopers, all of whom are independent of KPMG, the external auditors, provided non-audit related services to the Group. Details of fees paid to these accounting firms during 2008 are disclosed in note 4(c) on page 74 of the notes to the Consolidated Financial Statements.

Future developments

The Board believes that the controls in place during 2008 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

6 April 2009

Directors' Remuneration Report

In designing the total compensation arrangements for the Group and in preparing this report, the Board and the Remuneration Committee have complied with the provisions of the Combined Code ("the Code"), Schedule 992 to the Companies Act 2006 and the FSA Listing Rules. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

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

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

Introduction and objectives

The Remuneration Committee is a standing committee of the Board, chaired by Brian Larcombe, an independent Non-executive Director. Its other members are Keith Bedell-Pearce and Nick MacAndrew 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.

Research and advice

During the year, the Remuneration Committee sought and received independent remuneration research undertaken by McLagan & Partners, Deloitte, Kepler Associates, and PricewaterhouseCoopers, leading firms of executive remuneration consultants appointed by the Committee to assess comparability of the Group's remuneration policies to the marketplace and in particular the remuneration policies of the Group's competitors. The Committee approves all work undertaken by these specialist consultants and the Board is satisfied that its advisers in respect of remuneration matters are independent.

During 2008 the Remuneration Committee also received advice from PricewaterhouseCoopers, Shepherd and Wedderburn and Kepler Associates relating to the application of the rules and the operation of the Company's long term incentive plans.

Statement of the policy on Directors' remuneration

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

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

A total compensation approach is central to the operation of the Company's compensation philosophy, with a strong focus on variable compensation. The Board believes that shareholders' interests are best served by containing fixed costs and increasing the proportion of total compensation that is directly performance related and thus aligned with shareholders' interests. Total remuneration will comprise basic salary, pension provision, annual bonus, any awards under the long term share incentive schemes and all-employee share plans.

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

Policies on the individual elements of remuneration and employment

(a) Salaries

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

(b) Bonus

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

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

Directors' Remuneration Report

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 £100,000 will be required to defer one third of the element exceeding £100,000 into shares (comprising a range of investment products managed by the Company or the Company's shares) ("Compulsory Purchased Equity") for three years; and
- as and when determined by the Board, eligible employees may be invited to elect to defer into shares in the Company any remaining proportion of their gross cash bonus not subject to deferral on a compulsory basis for three years (subject to a minimum deferral of £1,500) ("Voluntary Purchased Equity").

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

In the year ended 31 December 2008, the Compulsory Purchased Equity element of the Purchased Equity Plan was applied to 55 employees (2007: 78 employees) in respect of their performance in 2008. Awards equivalent to £2.7 million (2007: £3.3 million) were acquired under the Compulsory Purchased Equity element of the Purchased Equity Plan.

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

Growth in the Group's earnings per share* over three-year period

Matching Purchased Equity award for each performance period

Voluntary Purchased	Equity share purchased
Below PI + 9%	1 for 5
PI + 9%	1 for 5
PI + 24% or higher	1 for 2

*Earnings per share (EPS) is calculated by reference to underlying earnings of the Group (where PI stands for an appropriate index of price inflation – the Retail Price Index (RPI)).

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

Invitations to participate in the Voluntary Purchased Equity element of the plan are at the discretion of the Board and will only be offered when the Board considers it appropriate to do so. To date no such invitations have been made.

(c) Savings-related share schemes

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

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

At 31 December 2008, 218 employees (31 December 2007: 332 employees) participated in the Share Save and 362 employees (31 December 2007: 413 employees) participated in the SIP.

Shares under option within the Share Save at 31 December 2008 are detailed below:

Number of options	Term (years)	Exercise price
March 2003 Participation		
3,053	5	114.0 pence
March 2004 Participation		
65,238	5	181.0 pence
March 2005 Participation		
913	3	186.6 pence
101,085	5	186.6 pence
March 2006 Participation		
178,113	3	171.0 pence
92,745	5	171.0 pence
March 2007 Participation		
289,893	3	144.3 pence
139,286	5	144.3 pence

At 31 December 2008 404,803 shares (31 December 2007: 290,089 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.

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

Achievement of performance conditions

During 2008, the growth in the Group's underlying EPS underperformed the growth in the RPI by 26.0 percentage points (2007: underperformed, by 22.8 percentage points), 2006: as amended for the adjustment in relation to the loss of Resolution assets (2.74 pence per share), underperformed by 6.7 percentage points, 2005: outperformed by 22.2 percentage points).

The Company's total shareholder return ("TSR") ranked 180 out of a FTSE 250 Index comparator group of 195 companies* in the period from 1 January 2008 to 31 December 2008.

In respect of awards made in 2007, the Company's total shareholder return ("TSR") ranked 154 out of a FTSE 250 Index comparator group of 175 companies* in the period from 1 January 2007 to 31 December 2008.

In respect of awards made in 2006, the Company's TSR ranked 140 out of a FTSE 250 Index comparator group of 151 companies* in the period from 1 January 2006 to 31 December 2008.

The share price at 31 December 2008 was 58.0 pence. During the year the highest price was 192.5 pence per share and the lowest price was 31.0 pence.

*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 2008. Only companies appearing in the index on both dates are included for the purpose of the analysis.

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

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

The EDRP comprises two components: Deferred Share Awards and Restricted Share Awards.

Deferred awards

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

During the year, 1,025,640 deferred awards were made under the EDRP (2007: 1,500,574 deferred awards).

Restricted awards

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

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

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

The EPS that will be required in order for a Restricted Share Award to vest is appropriately challenging at not less than 18.1 pence per share, representing growth in excess of 40 per cent. from the 2006 reported EPS.

In addition, and in order to ensure that the EDRP encourages and rewards exceptional performance over and above the stretching target which must be met in order for a Restricted Share Award to vest, the terms of the above performance condition will also provide that, where the Group's EPS over the performance period exceeds the specified target level, a participant will be given the opportunity to increase the percentage of the relevant award that vests, up to a maximum of 140 per cent. To achieve the maximum enhanced level of vesting an extremely stretching condition of EPS at not less than 25.2 pence per share, representing growth in excess of 95 per cent. from the 2006 reported EPS, is required.

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

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

Directors' Remuneration Report

During the year no restricted share awards (2007: 2,860,000 restricted awards (being 100 per cent. of the maximum 140 per cent. of the award)) were made under the EDRP.

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

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

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

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

Deferred awards

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

During the year, 10,216,710 deferred awards were made under the LTRP (2007: 5,911,422). Deferred awards were made to 260 staff (2007: 202 staff).

Restricted awards

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

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

TSR target (applying to 50 per cent. of any award)
Percentage of award vesting

The Group's TSR relative to FTSE 250

Below Median	Nil
Median	35%
Upper Quartile	100%

Underlying EPS target (applying to 50 per cent. of any award)
Percentage of award vesting

Growth in Group's EPS over three year performance period

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 depends on 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.

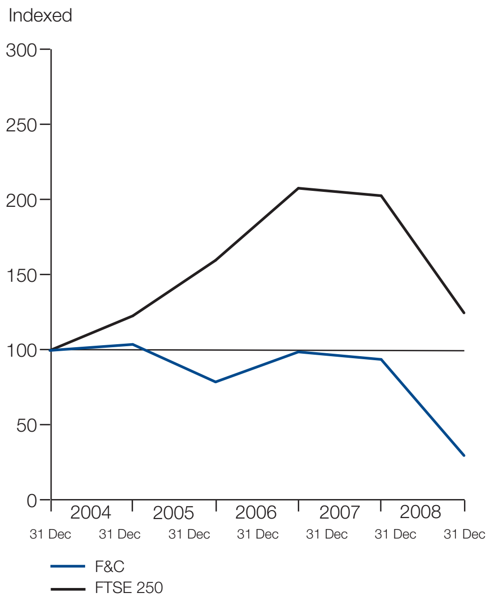
During the year no restricted awards were made under the LTRP (2007: 327,548 to 9 staff).

Policy on grants and awards under the share incentive schemes

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

Performance graph for the share incentive schemes

The graph below compares the performance of the Company for the five financial periods ending 31 December 2008 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 2008 are set out below. None of the Non-executive Directors have service contracts. Letters of appointment provide for an initial period of three years, subject to review. Non-executive Directors must submit to re-election at least every three years and are not eligible for bonuses or participation in savings related share schemes or share incentive schemes. Non-executive Directors are not eligible to join any of the Company's pension schemes. No pension contributions are made on their behalf and no Non-executive Director receives a salary from the Company. The remuneration of Non-executive Directors is determined by the Board as a whole within the limits stipulated in the Company's Articles of Association. All fees are reviewed annually.

Apart from the Chairman and the Senior Independent Director, Non-executive Directors are paid a basic fee. In the year ended 31 December 2008 the Non-executive base fee was £40,000 per annum. Non-executive Directors are separately remunerated for their services on Board Committees. In the year ended 31 December 2008 The Chairman of the Board, who chairs the Nomination Committee, received an annual all inclusive fee of £125,000 and the Senior Independent Director receives a £15,000 supplemental fee to the Non-executive base fee.

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

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

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

Directors' Remuneration Report

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

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

Executive Directors	Date of contract	Notice period	Unexpired term	Provision for compensation payable by the Company on early termination £000
Alain Grisay	11 Oct 2004	Twelve months	rolling twelve months	329
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 2009	Provision for compensation payable by the Company on early termination £000
Robert Jenkins	16 May 2006	None	two months	Nil
Keith Bedell-Pearce	13 May 2008	None	twenty six months	Nil
Dick de Beus	13 May 2008	None	twenty six months	Nil
Brian Larcombe	10 May 2007	None	fourteen months	Nil
Nick MacAndrew	13 May 2008	None	twenty six months	Nil
Trevor Matthews	15 Aug 2008	None	N/A*	Nil
Jeff Medlock	13 May 2008	None	twenty six months	Nil
Sir Adrian Montague	13 May 2008	None	twenty six months	Nil
Gerhard Roggemann	13 May 2008	None	twenty six months	Nil

* Appointed during 2008.

Directors retiring and seeking election/re-election

The names of those Directors proposed for election and re-election are contained in the Directors' Report on Corporate Governance on page 40.

Statement on Directors Remuneration (audited)

The remuneration of the Chairman and the other Directors who held office during the year ended 31 December 2008 is set out in the table below:

	Salary and fees 2008 £'000	Bonus 2008 £'000	Benefits and allowances 2008 £'000	Total 2008 (excluding pension contribution) £'000	Total 2007 (excluding pension contribution) £'000	Pension contributions 2008 £'000	Total 2008 £'000	Total 2007 £'000
Executive Directors								
Alain Grisay*	325	645	4	974	1,497	903**	1,877	2,389
David Logan*	250	283	2	535	570	25	560	765
Chairman and Non-executive Directors								
Robert Jenkins (Chairman)	125	–	3	128	102	–	128	102
Dick de Beus	45	–	–	45	35	–	45	35
Keith Bedell-Pearce(1)	78	–	–	78	59	–	78	59
John Heywood(2)	21	–	–	21	51	–	21	51
Brian Larcombe(3)	68	–	–	68	50	–	68	50
Nick MacAndrew(4)	55	–	–	55	26	–	55	26
Trevor Matthews(5)	–	–	–	–	–	–	–	–
Sir Adrian Montague(6)	–	–	–	–	–	–	–	–
Jeff Medlock	40	–	–	40	30	–	40	30
Gerrhard Roggemann(7)	40	–	–	40	16	–	40	16
Jim Smart(8)	–	–	–	–	–	–	–	–
Total	**1,047**	**928**	**9**	**1,984**	**2,436**	**928**	**2,912**	**3,523**

* In addition, Alain Grisay and David Logan received £380,000 and £92,000 respectively, 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 44.

** Includes the third and final installment of a pension commitment of £2,000,000 to Mr Grisay when he assumed the role of Chief Executive in 2006.

(1) Appointed Senior Independent Director on 10 May 2007.
(2) Resigned as a Director on 13 May 2008.
(3) Appointed to the Audit & Compliance Committee on 10 May 2007 and appointed Chairman of the Remuneration Committee on 27 November 2007.
(4) Appointed as a Director on 10 May 2007 and appointed to the Remuneration Committee on 13 May 2008.
(5) Appointed as a Director on 15 August 2008
(6) Appointed as a Director on 27 November 2007
(7) Appointed as a Director on 19 June 2007
(8) Resigned as a Director on 15 August 2008

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

The Company received £Nil (2007: £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 Trevor Matthews, Sir Adrian Montague and Jim Smart, which would have been payable to Friends Provident plc, were waived in 2008 by Friends Provident in lieu of the services provided by Alain Grisay to their Board in his capacity as a Director of Friends Provident, for which no fee is payable to F&C.

Statement on Directors' pensions (audited)

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

	2008 Number	2007 Number
Members of money purchase pension scheme	2	2

	2008 £000	2007 £000
Company contributions paid to money purchase pension schemes		
Alain Grisay	236	225
David Logan	25	195

During the year, the Company paid a widow's pension of £95,000 (2007: £91,000) in respect of the pension benefits which had accrued to a former Chairman.

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

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

	Gross increase in accrued pension	Increase in accrued pension net of inflation	Total accrued pension at 31/12/2008	Value of net increase in accrual over period	Total change in value during period	Value of accrued pension at 31/12/2008	Value of accrued pension at 31/12/2007
Robert Jenkins	£5,600	–	£116,100	–	£262,000	£2,645,000	£2,383,000

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 from the date of completion of the merger with ISIS Asset Management plc.

(b) Mr Jenkins became entitled to the benefit on 11 October 2004 following the completion of the deal to form F&C Asset Management plc.

(c) Transfer values have been calculated using the same method and basis as is set by the Trustees of the F&C Asset Management Pension Plan to be consistent with legislation and the rules of the Plan.

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

Statement on Directors' share incentive schemes (audited)

The Executive Directors who held office during the year and their awards under any of the Group's share incentive schemes at 31 December 2008 are shown below.

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

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

Executive Director Remuneration Plan (audited)

Details of the Executive Director Remuneration Plan are set out on pages 45 and 46.

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

Date of Grant	Nature of Award	Alain Grisay	David Logan	Share Price at date of award
21 May 2007	Deferred	1,300,000	200,574	193.0p
27 Mar 2008	Deferred	740,740	284,900	192.5p
Total Deferred Awards Outstanding		**2,040,740**	**485,474**	
21 May 2007	Restricted*	2,500,000	360,000	193.0p
Total Restricted Awards Outstanding		**2,500,000**	**360,000**	

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

Long Term Remuneration Plan awards (audited)

Details of the Long Term Remuneration Plan are set out on page 46.

At 31 December 2008 there are no awards outstanding to any Executive Director under the Long Term Remuneration Plan (31 December 2007: Nil).

Share options (audited)

Details of the share option schemes are set out on pages 110 to 121. No options have been granted to Directors or former Directors since 2003.

At 31 December 2008, David Logan held 6,548 options at an exercise price of 144.3 pence by saving £250 per month in the F&C Asset Management plc Share Save Scheme for 3 years.

Other senior executives

There are a number of senior executives who make a significant contribution to the Group. These senior executives directly support the Company's Executive Directors. The Remuneration Committee has regard to the remuneration of members of this group whose total remuneration including salary, bonus and benefits, but excluding pension contributions and share scheme participation, is summarised below. These numbers have been prepared on a comparable basis with the figures shown in the column headed "Total 2008 (excluding pension contribution)" within the Statement on Directors remuneration on page 49.

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) 2008	Number of senior executives (excluding Executive Directors) 2007
100-125	76	65
126-150	41	31
151-175	25	15
176-200	20	14
201-225	17	20
226-250	17	18
251-300	11	12
301-400	10	10
401-500	3	5
501-600	2	2
601-700	–	1
>700	–	1

By order of the Board,

W Marrack Tonkin, FCCA
Secretary
80 George Street
Edinburgh EH2 3BU

6 April 2009

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

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

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

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

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

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

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

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

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

Responsibility Statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Chairman's Statement, Chief Executive's Report and Business Review include a fair review of the development and performance of the business and the position of the issuer and the undertakings in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Robert Jenkins
Chairman

6 April 2009

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

We have audited the Consolidated and Company Financial Statements (the ''Financial Statements'') of F&C Asset Management plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Statement of Recognised Income and Expense, the Consolidated Cash Flow Statement and the related notes. These Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU, and for preparing the Company Financial Statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 52.

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Consolidated Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 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 2008;
- 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

6 April 2009

Consolidated Income Statement
for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Revenue			
Investment management fees	2	**244.2**	267.2
Other income	2	**1.1**	10.6
Total revenue		**245.3**	277.8
Fee and commission expenses	2	**(15.4)**	(13.3)
Net revenue	2	**229.9**	264.5
Net (losses)/gains and investment income on unit-linked assets	3	**(208.7)**	45.0
Movements in fair value of unit-linked liabilities		**210.5**	(43.9)
Operating expenses			
Operating expenses	4(b)	**(170.9)**	(183.8)
Amortisation of intangible assets – management contracts	13	**(48.9)**	(42.4)
Impairment of intangible assets – management contracts	13	**(48.3)**	–
Unrealised losses on forward currency contracts	6(a)	**(12.3)**	–
Other exceptional operating costs	6(b)	**(10.6)**	(10.6)
Total operating expenses	4(a)	**(291.0)**	(236.8)
Operating (loss)/profit		**(59.3)**	28.8
Finance revenue	7	**25.7**	23.8
Finance costs	8	**(29.4)**	(27.3)
Loss on partial disposal of property business	16(b)	**(4.1)**	–
Impairment of financial investments	14	**(0.1)**	–
Share of profit of associates	15	**–**	0.6
(Loss)/profit before tax		**(67.2)**	25.9
Tax – Policyholders		**(0.9)**	(0.6)
Tax – Shareholders		**17.6**	(6.6)
Tax income/(expense)	9	**16.7**	(7.2)
(Loss)/profit for the year		**(50.5)**	18.7
Attributable to:			
Equity holders of the parent		**(52.4)**	17.1
Minority interests		**1.9**	1.6
(Loss)/profit for the year		**(50.5)**	18.7
Basic (loss)/earnings per share	10	**(10.64)p**	3.54p
Diluted (loss)/earnings per share	10	**(10.64)p**	3.43p
		£m	£m
Memo – dividends paid	11(a)	**29.6**	43.5
Memo – dividends proposed	11(a)	**19.8**	19.7

Consolidated Balance Sheet
as at 31 December 2008

	Notes	As at 31 December 2008 £m	As at 31 December 2007 £m
Assets			
Non-current assets			
Property, plant and equipment	12	10.6	11.4
Intangible assets:			
– Goodwill	13	595.1	569.9
– Management contracts	13	266.9	253.7
– Software and licences	13	1.2	1.1
	13	863.2	824.7
Financial investments	14	2.1	3.8
Other receivables	21	0.6	0.8
Deferred acquisition costs	17	7.8	8.1
Deferred tax assets	18(a)	26.5	29.0
Total non-current assets		910.8	877.8
Current assets			
Financial investments	19(i)	718.0	1,042.8
Reinsurance assets	20	2.1	2.3
Stock of units and shares	19(ii)	0.3	0.8
Trade and other receivables	21	85.9	96.7
Deferred acquisition costs	17	3.3	3.8
Cash and cash equivalents:			
– Shareholders	22	223.1	216.2
– Policyholders	22	46.7	58.2
	22	269.8	274.4
Total current assets		1,079.4	1,420.8
Total assets		1,990.2	2,298.6
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	24	294.0	258.7
Other payables	25	7.1	7.2
Provisions	26	9.0	10.2
Pension deficit	27	21.8	26.8
Employee benefits		4.4	2.0
Deferred income	29	11.2	12.1
Other financial liabilities	30	68.4	–
Deferred tax liabilities	18(a)	77.0	73.4
Total non-current liabilities		492.9	390.4
Current liabilities			
Investment contract liabilities	31	753.1	1,090.1
Insurance contract liabilities	32	2.1	2.3
Trade and other payables	25	53.5	58.9
Provisions	26	9.0	10.1
Employee benefits		23.0	33.7
Deferred income	29	4.4	4.3
Other financial liabilities	30	9.9	–
Current tax payable		12.5	15.3
Total current liabilities		867.5	1,214.7
Total liabilities		1,360.4	1,605.1
Equity attributable to equity holders of the parent			
Ordinary Share capital	33, 34	0.5	0.5
Share premium account	34	33.8	33.8
Merger reserve	34	456.8	499.3
Other reserves	34	0.6	13.6
Retained earnings	34	119.4	145.2
Total equity attributable to equity holders of the parent		611.1	692.4
Minority interests	34	18.7	1.1
Total equity	34	629.8	693.5
Total liabilities and equity		1,990.2	2,298.6

The Financial Statements were approved by the Board of Directors and authorised for issue on 6 April 2009. 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 2008

	Notes	2008 £m	2007 £m
(Loss)/profit for the year		**(50.5)**	18.7
Foreign exchange movements on translation of foreign operations		**54.2**	14.9
Actuarial gains on defined benefit pension schemes	27	**2.5**	11.1
(Loss)/gain on available for sale financial investments		**(0.5)**	1.9
Fair value gains on available for sale financial investments transferred to the Income Statement		**(1.1)**	–
Tax expense on items recognised direct in equity	9(a)	**(0.3)**	(4.5)
Net income recognised directly in equity		**54.8**	23.4
Total recognised income and expense for the year	34	**4.3**	42.1
Attributable to:			
Equity holders of the parent		**2.4**	40.5
Minority interests		**1.9**	1.6
		4.3	42.1

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Cash flows from operating activities			
Operating (loss)/profit		**(59.3)**	28.8
Cash outflow relating to restructuring costs		**(1.0)**	(2.9)
Adjustments for non-cash items	35	**125.7**	59.9
Changes in working capital and provisions	35	**(13.1)**	(0.8)
Cash generated from operating activities		**52.3**	85.0
Income tax paid		**(14.6)**	(21.3)
Net cash inflow from operating activities		**37.7**	63.7
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(1.6)**	(2.2)
Proceeds from disposal of property, plant and equipment		**0.2**	–
Purchase of software and licences		**(1.1)**	(0.8)
Return of capital from investments		**–**	0.1
Loan repayment from former associate (ISIS EP LLP)		**1.0**	1.0
Payments to acquire investments		**(18.6)**	(2.0)
Proceeds from disposal of investments		**15.2**	–
Payment in respect of acquisition of REIT		**(25.0)**	–
Expenses of acquisitions		**(4.3)**	(0.1)
Fair value of cash acquired with REIT		**0.2**	–
Distributions received from former associate (ISIS EP LLP)		**0.1**	1.9
Investment income – investments		**2.1**	3.8
Investment income – interest and dividends		**10.2**	10.6
Net cash (outflow)/inflow from investing activities		**(21.6)**	12.3
Cash flows from financing activities			
Proceeds from issue of share capital		**–**	1.2
Repayment of loans from FP Group		**–**	(5.0)
Payments in respect of expenses for long-term borrowings		**–**	(0.3)
Interest paid on Loan Notes		**(18.2)**	(17.6)
Interest paid on other loans		**–**	(0.1)
Other interest paid		**(0.2)**	(0.2)
Equity dividends paid	11(a)	**(29.6)**	(43.5)
Interest on Preference Shares		**(0.1)**	(0.1)
Distributions to minority interests		**(1.6)**	(0.9)
Cash movements from purchases and disposals of own shares		**(0.3)**	(2.2)
Net cash outflow from financing activities		**(50.0)**	(68.7)
Net (decrease)/increase in cash and cash equivalents		**(33.9)**	7.3
Effect of exchange rate fluctuations on cash held		**29.3**	(0.5)
Cash and cash equivalents at 1 January		**274.4**	267.6
Cash and cash equivalents at 31 December	22	**269.8**	274.4
Cash and cash equivalents			
Shareholders	22	**223.1**	216.2
Policyholders	22	**46.7**	58.2
	22	**269.8**	274.4

Non-cash transactions

In addition to the above, a £35.0m secured loan note was issued as part of the acquisition of the REIT Property Asset Management Group. The fair value of non-cash assets and liabilities acquired as part of this acquisition are disclosed in note 16(a).

Accounting Policies

Basis of preparation and statement of compliance

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

The Group have early adopted the following standards and interpretations during 2008:

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

There was no significant impact from adoption of this interpretation in 2008.

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 154 to 171.

Accounting estimates, assumptions and judgements

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

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

(a) **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.

(b) **Pension assumptions**

The mortality assumptions, expected rates of return, discount rates, rates of salary increases and rate of inflation increases, as disclosed in note 27.

(c) **Minority interest put options**

The fair value of the F&C REIT minority interest put options is subject to uncertainties in respect of future performance and valuation of the F&C REIT Group. Details of these put options are disclosed in notes 16(a) and 30.

Summary of significant accounting policies

The accounting policies set out below have been applied consistently throughout the Group for the purposes of the Consolidated Financial Statements for the years ended 31 December 2008 and 31 December 2007.

(a) Consolidation

(i) Subsidiaries

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

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

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

(ii) Associates

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

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

(iii) Business combinations

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

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

(b) Foreign currencies

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

(i) Foreign currency transactions

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

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

(ii) Foreign operations

The functional currency of foreign operations is predominantly the Euro.

The assets and liabilities of, or relating to, foreign operations are translated to Sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Sterling at foreign exchange rates approximating to the rates ruling at the dates of the transactions. Foreign exchange differences arising on translation of foreign operations into Sterling, including related intangible assets, are recognised directly in the Group's Foreign Currency Translation Reserve ("FCTR"), which is a separate component of equity, and reported in the Statement of Recognised Income and Expense ("SORIE"). These exchange differences are recognised as income or expenses in the period in which the foreign operations are disposed of.

(c) Revenue recognition

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

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

The Group is entitled to earn performance fees from a number of clients if the actual investment performance of clients' assets exceeds defined benchmarks by an agreed level of outperformance, generally 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 "(t) – Provisions" discusses the recognition of provisions on onerous property leases when the leased space has ceased to be occupied by the Group.

(e) Fee and commission expenses

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

(f) Exceptional income and costs

Where the Group incurs significant non-recurring expenditure or earns significant non-recurring income in respect of items that arise outwith the Group's normal business activities and which are sufficiently material to warrant separate disclosure, then such items are separately or collectively recognised on the face of the Income Statement as exceptional items.

(g) Finance revenue

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

(h) Finance costs

Finance costs comprise interest payable on borrowing, interest on pension liabilities, amortisation of loan issue costs, unwinding of discount on provisions and dividends on Preference Shares. Borrowing costs are recognised in the Income Statement on an effective interest rate basis.

(i) Income taxes

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

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

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

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

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

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

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

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

(j) Property, plant and equipment

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

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

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

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

Separately purchased intangible assets have a finite life and are shown at cost less accumulated amortisation and impairment losses. Amortisation is charged to the Income Statement in equal annual instalments, based on the following useful economic lives:

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

Subsequent expenditure on capitalised intangible assets is expensed as incurred.

(l) Impairment of intangible assets

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

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

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

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

(m) Financial instruments

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

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

Financial instruments are classified into the categories described below:

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

Current assets:

- Financial investments
- Stock of units and shares

Current liabilities:

- . Investment contract liabilities

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

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

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

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

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

Non-current assets:

- Financial investments

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

Non-current assets:

- Other receivables

Current assets:

- Cash and cash equivalents
- Trade and other receivables

(iv) The minority interest put options and forward currency contracts are recognised at *fair value through profit or loss*, classified as other financial liabilities.

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

Non-current liabilities:
- Interest bearing loans and borrowings
- Other payables

Current liabilities:
- Trade and other payables

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

The Group has adopted "trade date" accounting for purchases or sales of financial assets under a contract whose terms require delivery of the asset within the time frame established in the marketplace concerned.

Accordingly, such financial instruments are recognised on the date the Group commits to the purchase of the investments, and are derecognised on the date it commits to their sale.

Minority interest put options

The minority interest put options, over equity in majority owned subsidiaries, are recognised at fair value at the balance sheet date. Upon initial recognition the fair value of the put option is debited to equity. Subsequent movements to the fair value are reflected in the Income Statement. Fair value is the amount at which a derivative could be exchanged in a transaction at the balance sheet date between willing parties.

Derecognition of financial assets and liabilities

Financial assets

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

Financial liabilities

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

Available for sale financial assets

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

(n) Non-current assets held for sale

Non-current assets acquired with the intention to subsequently dispose of them through sale are classified as "held for sale" and measured at the lower of their carrying amount and fair value less costs to sell.

Assets are only considered to be classified as held for sale if:

(i) the carrying amount will be recovered through a sale transaction rather than through continuing use;

(ii) management is committed to the sale within one year of acquisition;

(iii) the asset is available for immediate sale in its present condition;

(iv) the asset is marketed for sale at a price that is reasonable in relation to its current fair value.

Upon sale, pre-tax gains or losses on such assets are recognised in the Income Statement as investment income.

(o) 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.

(p) Investment contracts

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

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

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

(q) Insurance contract liabilities

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

(r) 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; and
- 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.

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.

(s) Share-based payments

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

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

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

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

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

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

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

Awards to employees treated as "good leavers" vest immediately and the remaining full expense of the awards is charged to the Income Statement at that time. Good leavers include retirees and involuntary redundancies.

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

(t) 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.

(u) 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 issue proceeds 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 on an accruals basis in the Income Statement as an interest expense.

Ordinary Share capital

When Ordinary Shares are repurchased, the amounts of consideration paid, including directly attributable costs, are recognised in the own share reserve included within retained earnings and are classified as deductions in equity. The Company's dealings in its own shares are reflected through equity. Dividends on Ordinary Shares are recognised on the date of payment, or if subject to approval, the date approved by the shareholders.

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

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

(w) New standards and interpretations not applied

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

		Effective Date
International Accounting Standards (IAS/IFRS)		
Endorsed and available for early adoption:		
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements – Comprehensive revision including a statement of comprehensive income.	1 January 2009
IAS 32	Financial Instruments Presentation – Disclosure of puttable financial instruments.	1 January 2009
IFRS 2	Share-based Payment – Amendments relating to vesting conditions and cancellations.	1 January 2009
IAS 23	Borrowing Costs – Capitalisation of borrowing costs attributable to the development of intangible assets.	1 January 2009
IAS 27	Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate.	23 January 2009
Not yet endorsed:		
IAS 27	Consolidated and Separate Financial Statements – Consequential amendments arising from changes to IFRS 3.	1 January 2010
IAS 39	Financial Instruments: Recognition and Measurement – Amendments resulting from Annual Improvements to IFRS.	1 January 2009
IFRS 3	Business Combinations – Comprehensive revision on applying the acquisition method.	1 July 2009

The Directors do not anticipate that the adoption of these standards will materially impact the Group's financial results in the period of initial application although there will be revised presentations to the primary financial statements and additional disclosures. No material impact on the Group is expected to arise from any other standards which are available for early adoption. Any future business combinations will be affected by the revisions to IFRS3. The Group intends to adopt the standards in the reporting period when they become effective.

Notes to the Consolidated Financial Statements

1. Segment reporting

Until 3 September 2008, the Group operated as a single asset management business, which did not comprise different business segments, and the Board viewed the business as a whole as the primary reportable entity. Following the acquisition of the REIT Property Asset Management Group ("REIT Group") on 3 September 2008 and the transfer of existing property asset management activities ino the new entity, F&C REIT, the Board considers F&C REIT to be a separate business segment. F&C REIT has a separate Board of Directors with considerable autonomy, and operationally, F&C REIT is managed separately from the rest of the F&C Group. The internal financial reporting which takes place within the Group reflects this revised organisational and management structure.

Therefore, the primary reporting format is by business segment, with the Group now comprising the following two business segments:

- Investment Management; and
- Property Asset Management.

While there are different sources of revenue within the Investment Management business segment 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 organisational structure, internal financial reporting and performance monitoring is not further segregated below this level.

In previous accounting periods, prior to the acquisition of the REIT Group, the Group reported segment information on a geographical basis by location of assets, and in the absence of business segments, disclosed the geographical segments as the primary reporting format. By default, primary segment disclosures were reported for what was the Group's single business segment – asset management – in the consolidated column of the primary segment table.

The change in segment reporting during 2008 has not arisen due to a change in accounting policy but rather, from the aforementioned business combination and it is the inherent corporate development which has driven the reporting changes; the reporting changes are necessary to ensure continued compliance with IAS 14 'Segment Reporting'. As such, prior period disclosures cannot be restated as the underlying information, and indeed the corporate circumstances, did not exist prior to the acquisition. Further, because geographical segments were previously given as the primary format reporting only because the Board considered the business as a whole to be the primary reportable 'segment', segment data for the old basis of segmentation has not been reported for the current period.

Therefore, the numerical analyses which follow have been given first for 2008, followed by those for 2007, as they were reported last year.

For 2008, secondary format disclosures are given on a geographical basis; segment revenue is based on geographical location of customers, whilst segment assets and capital expenditure are split by geographical location of assets.

The Group has identified three geographical areas:

- The United Kingdom
- Continental Europe*; and
- Rest of the World.

* Continental Europe is defined as being within the European Economic Area.

These areas present different risks to the Group, primarily of a legislative and regulatory nature. The Group has physical operations and statutory entities registered in each of these areas.

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.

1. Segment reporting (cont'd)

(a) 2008

Business segments (primary)

	Investment management 2008 £m	Property asset management 2008 £m	Eliminations 2008 £m	Consolidated 2008 £m
Revenue				
External clients	232.8	12.5	–	245.3
Inter-segment sales	0.6	–	(0.6)	–
Segment revenue	233.4	12.5	(0.6)	245.3
Segment result	(61.7)	2.4	–	(59.3)
Operating loss				(59.3)
Finance revenue				25.7
Finance costs				(29.4)
Loss on partial disposal of property business				(4.1)
Impairment of other financial investments				(0.1)
Tax income				16.7
Loss for the year				(50.5)
Other information				
Segment assets	1,741.0	215.6	(3.2)	1,953.4
Unallocated corporate assets				36.8
Consolidated total assets				1,990.2
Segment liabilities	(972.9)	(7.2)	3.2	(976.9)
Unallocated corporate liabilities				(383.5)
Consolidated total liabilities				(1,360.4)
Capital expenditure (inc. goodwill and intangibles)	2.0	128.2	–	130.2
Depreciation and amortisation	(49.4)	(3.5)	–	(52.9)
Impairment of intangible assets	(48.3)	–	–	(48.3)
Other non-cash expenses	(23.5)	(0.2)	–	(23.7)

There were no discontinued operations in 2008.

Geographical segments (secondary)

	Revenue by location of clients 2008 £m	Carrying amount of segment assets 2008 £m	Additions to property, plant, equipment and intangibles 2008 £m
The United Kingdom	108.5	1,087.8	24.6
Continental Europe	124.8	253.7	23.1
Rest of the World	12.0	29.2	26.5
Eliminations	–	(12.4)	–
Unallocated*	–	595.1	56.0
Consolidated	245.3	1,953.4	130.2

*Unallocated segment assets and additions relate to goodwill which is allocated to business segments but not geographical segments.

1. Segment reporting (cont'd)

(b) 2007

Geographical segments – by location of assets (primary)

	The United Kingdom 2007 £m	The Netherlands 2007 £m	Portugal 2007 £m	The Republic of Ireland 2007 £m	Other 2007 £m	Eliminations 2007 £m	Consolidated 2007 £m
Revenue							
External clients	202.8	54.1	12.3	4.2	4.4	–	277.8
Inter-segment sales	15.0	–	–	0.3	–	(15.3)	–
Segment revenue	217.8	54.1	12.3	4.5	4.4	(15.3)	277.8
Segment result	1.4	17.4	5.2	1.4	3.4	–	28.8
Operating profit after restructuring costs							28.8
Finance revenue							23.8
Finance costs							(27.3)
Share of profit of associates	0.6	–	–	–	–	–	0.6
Tax expense							(7.2)
Profit for the year							18.7
Other information							
Segment assets	1,520.2	145.3	41.8	11.1	8.0	(35.6)	1,690.8
Unallocated corporate assets							607.8
Consolidated total assets							2,298.6
Segment liabilities	(1,258.0)	(31.1)	(1.4)	(2.7)	–	35.6	(1,257.6)
Unallocated corporate liabilities							(347.5)
Consolidated total liabilities							(1,605.1)
Capital expenditure	2.8	0.1	–	0.1	–	–	3.0
Depreciation and amortisation	(29.9)	(12.2)	(2.8)	(1.0)	(1.0)	–	(46.9)
Impairment of intangible assets							–
Other non-cash expenses	(12.8)	(0.7)	(0.5)	(0.2)	–	–	(14.2)

There were no discontinued operations in 2007.

Revenue by location of clients (secondary)

	2007 £m
The United Kingdom	145.8
The Netherlands	61.3
Portugal	24.2
The Republic of Ireland	19.9
Other	26.6
Consolidated total revenue	277.8

Notes to the Consolidated Financial Statements

2. Net revenue

	Note	2008 £m	2007 £m
Base management fees		236.3	246.4
Performance related management fees		7.9	20.8
Total investment management fees		244.2	267.2
Other income	(a)	1.1	10.6
Total revenue		245.3	277.8
Renewal commission on open-ended investment products		(10.5)	(8.4)
Other selling expenses		(4.9)	(4.9)
Fee and commission expenses		(15.4)	(13.3)
Net revenue		229.9	264.5

(a) Other income in 2007 includes the following non-recurring amounts:

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

3. Net (losses)/gains and investment income on unit-linked assets

	Note	2008 £m	2007 £m
Interest income on policyholders' cash	7	2.0	2.6
Interest income on other financial instruments	7	12.1	12.0
Dividend revenue		21.5	20.6
Movements in fair values of unit-linked assets		(244.3)	9.8
		(208.7)	45.0

4. Expenses

(a) Total operating expenses

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

	2008 £m	2007 £m
Employee benefit and related expenses*	119.1	126.6
Premises expenses	9.0	10.3
Communication and information technology expenses	15.2	14.8
Third party administration expenses	6.6	9.7
Promotional and client servicing expenses	7.6	6.7
Depreciation and amortisation expenses	52.9	46.9
Impairment expenses	48.3	–
Other expenses	32.3	21.8
Total operating expenses	**291.0**	236.8

* This includes £7.1m (2007: £8.0m) of employment related expenses.

(b) Operating expenses

Operating expenses include the following:

	Notes	2008 £m	2007 £m
Depreciation of owned tangible property, plant and equipment	12	3.0	3.7
Amortisation of software and licences	13	1.0	0.8
Auditor's remuneration – audit of these financial statements		0.4	0.4
Auditor's remuneration – audit of financial statements of subsidiaries pursuant to legislation		0.3	0.2
Auditor's remuneration – other services		0.5	0.3
Operating lease rentals – land and buildings (head leases)		10.8	10.3
Operating lease rentals – vehicles		0.5	0.4
Operating lease rentals – other*		3.6	2.0
Rentals receivable – operating leases		(4.0)	(3.0)
Gain on disposal of property, plant and equipment		(0.1)	–
Foreign exchange gains		(1.3)	(0.6)

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

Sub-lease rentals of £4.0m (2007: £3.0m) were received during the year of which £3.8m (2007: £2.8m) relates to guaranteed payments and £0.2m (2007: £0.2m) relates to contingent payments.

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

(c) Auditor's remuneration

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

	KPMG Audit Plc 2008 £m	2007 £m
Annual audit fees – 2008	0.4	–
Annual audit fees – 2007	–	0.4
Audit of these financial statements	0.4	0.4
Audit of financial statements of subsidiaries pursuant to legislation	0.3	0.2
Total audit fees of the Group	0.7	0.6
Other services supplied pursuant to such legislation	0.1	0.1
Other services relating to taxation	0.1	0.1
Services relating to recruitment and remuneration	0.1	–
All other services	0.2	0.1
Total auditor's remuneration	1.2	0.9

4. Expenses (cont'd)

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

	2008 £m	2007 £m
Ernst & Young	**0.6**	0.3
PricewaterhouseCoopers	**0.5**	0.5
Deloitte & Touche	**0.2**	0.2
	1.3	1.0

During 2008, in addition to the above, £0.8m (2007: £nil) was paid to Deloitte & Touche for services relating to acquisitions. These fees have been capitalised and are included within expenses of acquisition (see note 16).

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:

	2008 £m	2007 £m
PricewaterhouseCoopers	**0.4**	0.3

5. Employee benefits expenses

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

	Notes	2008 £m	2007 £m
Short-term employee benefits:			
Salaries and related benefits		**58.6**	53.6
Bonus		**18.6**	26.7
Wages and salaries		**77.2**	80.3
Social Security costs		**7.9**	10.6
		85.1	90.9
Post-employment benefits:			
Defined contributions scheme expenses	27	**4.5**	4.4
Defined benefits scheme expenses	27	**3.5**	4.6
		8.0	9.0
Total of wages and salaries, Social Security costs and post-employment benefits		**93.1**	99.9
Termination benefits		**4.6**	2.3
Share-based payment expenses	28	**14.3**	16.4
Total employee benefits expenses		**112.0**	118.6

The monthly average number of employees (including Executive Directors) of the Group during 2008 was 1,052 (2007: 901). F&C Asset Management plc had no employees during either year.

The above table includes £4.8m (2007: £nil) of exceptional employment costs, as disclosed in note 6(b).

6. Exceptional costs

(a) Unrealised losses on forward currency contracts

	2008 £m	2007 £m
Unrealised losses on forward currency contracts	12.3	–

During 2008, the Group entered into a series of forward currency contracts to provide certainty to the Sterling value of a portion of the Group's Euro denominated cash flows. In line with accounting requirements, open contracts are carried in the Balance Sheet at their fair value. At 31 December 2008 an unrealised loss of £12.3m was recognised. These unrealised forward contracts were established to protect future Sterling values; the unrealised loss has been excluded from the calculation of underlying earnings. Realised gains or losses on such contracts are included in determining underlying earnings.

(b) Other exceptional operating costs

The Group has classified the following operating costs as exceptional:

		2008 £m	2007 £m
Corporate advisory fees	(i)	4.4	–
Exceptional employment costs	(ii)	4.8	–
F&C REIT variable minority interest SBP expense	(iii)	1.4	–
Investment Trust VAT expense	(iv)	–	4.2
Re-Investment Plan costs	(v)	–	6.4
		10.6	10.6

(i) Corporate advisory fees

	2008 £m	2007 £m
Corporate advisory fees	4.4	–

During 2008, Friends Provident announced its intention to divest of its 52 per cent. shareholding in F&C. The F&C Board subsequently appointed legal, commercial and corporate finance advisors to assist in identifying a solution which would meet the needs of both F&C and Friends Provident. A total of £4.4m of corporate advisory fees and related costs were incurred during the year. The Directors consider these corporate costs to be exceptional in nature and have therefore excluded this expense from the measurement of underlying earnings.

(ii) Exceptional employment costs

	2008 £m	2007 £m
Exceptional employment costs	4.8	–

As a result of the challenging and volatile market conditions experienced in 2008 and the adverse consequential impact on the Group's revenues, management has identified and initiated actions to achieve annualised cost savings. The annualised benefit of the savings is expected to be substantially realised during 2009 with the full benefit arising in 2010. Management has sought to avoid any cost saving initiative which would significantly impede the Group's distribution capabilities which are the key focus for business growth.

The Directors consider the one-off redundancy and related costs of achieving these savings to be exceptional in nature and have therefore excluded the employment costs of £4.8m incurred in achieving the annualised cost savings from the measurement of underlying earnings.

Notes to the Consolidated Financial Statements

6. Exceptional costs (cont'd)

(iii) F&C REIT variable minority interest share-based payment (SBP) expense

	2008 £m	2007 £m
F&C REIT variable minority interest SBP expense	**1.4**	–

Details of the acquisition of the REIT Property Asset Management Group during 2008 are given in note 16(a). As a result of this transaction, F&C controls 70 per cent. of the merged property business (F&C REIT) and the former owners of REIT, two of whom occupy key management roles within F&C REIT, hold a 30 per cent. stake.

The former owners have the opportunity to increase their ownership by a further 10 per cent. through the achievement of certain performance targets over the next six years. This earn-out mechanism meets the criteria of a share-based payment and results in a charge of £1.4m to the Income Statement in 2008. This expense has been excluded from underlying earnings as it is considered to be capital in nature, which is consistent with the treatment of share scheme costs associated with previous acquisitions. Full details of this arrangement are given in note 28(viii).

(iv) Investment Trust VAT expense

	2008 £m	2007 £m
Investment Trust VAT expense	**–**	4.2

During 2007, following the outcome of litigation, HMRC concluded that investment management fees paid by investment trusts were not subject to VAT.

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

Due to the non-recurring nature of this expense the Directors have excluded this from underlying earnings.

Details relating to the uncertainties in respect of this expense and the associated provision are given in note 26.

(v) Re-Investment Plan costs

	2008 £m	2007 £m
Re-Investment Plan costs	**–**	6.4

The Re-Investment Plan share-based payment arrangement was established in 2004 to act as a "lock-in" and incentivisation for former employees of F&C Group Holdings, which was acquired at that time. The final transfer of shares vesting under this scheme occurred in 2007 and the charge of £6.4m represents the final costs associated with this scheme. Details of this scheme are given in note 28(iii).

7. Finance revenue

	Note	2008 £m	2007 £m
Loans and receivables:			
Bank interest receivable		9.8	10.5
Other interest receivable		0.2	0.1
Designated as fair value through profit or loss:			
Movement in fair value of investments		3.9	0.5
Designated as available for sale:			
Investment income receivable		2.1	3.8
		16.0	14.9
Other finance revenue:			
Expected return on pension plan assets	27	9.7	8.9
Total finance revenue		25.7	23.8

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

	Notes	2008 £m	2007 £m
Bank interest receivable		9.8	10.5
Other interest receivable		0.2	0.1
Interest income on policyholders' cash	3	2.0	2.6
Interest income on other financial instruments	3	12.1	12.0
Total interest income		24.1	25.2

8. Finance costs

	Notes	2008 £m	2007 £m
Interest expense on financial liabilities recognised at cost using the effective interest rate method:			
Interest expense on £260m Subordinated Notes		17.6	17.6
Interest expense on £35m Secured Loan Notes		0.8	–
Interest expense payable to Friends Provident Group:			
– £50m revolving credit facility		–	0.1
– Cumulative Preference Shares	11(b)	0.1	0.1
Bank charges		0.1	0.1
Other interest payable		0.2	0.1
Total interest expense		18.8	18.0
Amortisation of Subordinated Notes issue costs		0.3	0.2
Unwinding of discount on onerous provisions		0.3	0.1
Interest cost on pension obligations	27	10.0	9.0
Total finance costs		29.4	27.3

9. Income tax

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

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

Consolidated Income Statement	2008 £m	2007 £m
Current income tax:		
UK	17.5	20.7
Double tax relief in UK on overseas earnings	(11.5)	(8.9)
Overseas	9.7	10.5
Adjustments in respect of previous years	(6.8)	0.3
Deferred income tax:		
Relating to origination and reversal of temporary differences	(27.8)	(10.1)
Adjustments in respect of previous years	2.2	(1.3)
Adjustments in respect of Corporation Tax rate change	–	(4.0)
Tax (income)/expense reported in the Consolidated Income Statement	(16.7)	7.2

Consolidated Statement of Changes in Equity	2008 £m	2007 £m
Deferred and current income tax related to items charged or credited directly to equity:		
(Loss)/gain on financial investments	(0.5)	0.6
Actuarial gains on defined benefit pension schemes	0.8	3.4
Adjustments in respect of Corporation Tax rate change	–	0.5
Tax expense recognised directly in equity	0.3	4.5

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

A reconciliation between the actual tax (income)/expense and the accounting (loss)/profit multiplied by the Group's domestic tax rate for the years ended 31 December 2008 and 2007 is as follows:

	2008 £m	2007 £m
(Loss)/profit before tax	(67.2)	25.9
At the Group's statutory income tax rate of 28.5% (2007: 30.0%)	(19.2)	7.8
Adjustments in respect of previous years	(4.6)	(1.0)
Disallowed expenses	3.0	2.7
Non-taxable income	(0.7)	(0.3)
Overseas tax	0.3	0.9
Utilisation of unrecognised losses	(0.1)	–
Share-based payments	4.6	1.1
Corporation Tax rate change	–	(4.0)
Tax (income)/expense reported in the Consolidated Income Statement	(16.7)	7.2

Deferred tax assets and liabilities are shown in note 18.

10. Earnings per Share

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

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

In the opinion of the Directors the "underlying earnings", quantified as in the "Earnings" table below, more accurately reflects the underlying earnings performance of the Group.

Reconciliation of Earnings per Share*	2008 Basic p	2008 Diluted p	2007 Basic p	2007 Diluted p
(Loss)/earnings per Ordinary Share	(10.64)	(10.64)	3.54	3.43
Amortisation of intangibles, net of tax	6.95		5.25	
Impairment of intangibles, net of tax	7.00		–	
Corporate advisory fees, net of tax	0.87		–	
Exceptional employment costs, net of tax	0.69		–	
F&C REIT variable minority interest SBP expense, net of tax	0.29		–	
Loss on partial disposal of property business, net of tax	0.83		–	
Unrealised losses on forward currency contracts, net of tax	1.79		–	
Investment Trust VAT expense, net of tax	–		0.60	
Cost of the Re-Investment Plan, net of tax	–		0.98	
Underlying earnings per share	**7.78**		10.37	

* Where the Group has incurred a basic loss per Ordinary Share, no dilution arises despite the 'dilutive potential weighted average number of Ordinary Shares' being greater than the 'weighted average number of Ordinary Shares used to determine the basic loss per share'. As a result, the reported basic and diluted loss per Ordinary Share are the same in 2008.

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

Earnings	2008 £m	2007 £m
(Loss)/earnings attributable to Ordinary equity holders of the parent for basic (loss)/earnings per share	(52.4)	17.1
Amortisation of intangibles, net of tax†	34.2	25.4
Impairment of intangibles, net of tax	34.5	–
Corporate advisory fees, net of tax	4.3	–
Exceptional employment costs, net of tax	3.4	–
F&C REIT variable minority interest SBP expense, net of tax	1.4	–
Loss on partial disposal of property business, net of tax	4.1	–
Unrealised losses on forward currency contracts, net of tax	8.8	–
Investment Trust VAT expense, net of tax	–	2.9
Cost of the Re-Investment Plan, net of tax	–	4.8
Underlying earnings attributable to ordinary equity holders of the parent	**38.3**	50.2

† excludes £0.7m (2007: £nil) of amortisation of intangibles (net of tax) which is attributable to minority interests.

10. Earnings per Share (cont'd)

Share capital	2008 No.	2007 No.
Weighted average number of Ordinary Shares (excluding own shares held by Employee Benefit Trusts) for basic (loss)/earnings per share	**492,685,954**	484,192,096
Weighted average dilutive potential Ordinary Shares exercisable:		
The Executive Director Remuneration Plan awards	**489,667**	–
2002 ESOS options	**–**	212,119
Share Save Scheme options	**9,105**	126,219
The Re-Investment Plan awards	**–**	6,109,672
The Long Term Remuneration Plan awards	**5,625,653**	8,915,722
Purchased Equity Plan awards	**1,390,522**	1,247,902
Discretionary awards	**1,133,495**	8,916
Dilutive potential weighted average number of Ordinary Shares	**501,334,396**	500,812,646

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

The F&C REIT variable minority interest SBP, details of which are disclosed in note 28(viii) gives the F&C REIT minority partners the opportunity to increase their holdings from 30% to 40% before 31 December 2014. This would potentially dilute the profits attributable to the equity holders of the parent. The potential effect of the dilution on the profits for the year are as follows:

	2008 £m	2007 £m
(Losses)/profits attributable to equity holders of the parent	**(52.4)**	17.1
Dilution of profits through increase in F&C REIT minority interest	**(0.3)**	–
(Losses)/profits attributable to equity holders of the parent after dilution	**(52.7)**	17.1

However, the principle of the incentive is that the incremental profits which would become attributable to minority interests as a result of achieving the performance criteria are funded from the increased level of absolute profits generated by F&C REIT for the year in which vesting arises, rather than diluting the current level of profits attributable to equity holders of the parent. There can be no guarantee that subsequent to vesting that the higher level of profits which met the vesting criteria would necessarily be sustainable.

417,586 share awards (2007: nil) vested, in respect of "good leavers" in the period between the reporting date and the approval of the Consolidated Financial Statements. These 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.

The share-based payment schemes with relevant performance criteria must meet such 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 granted under the 1995 Executive Share Option Scheme vested on 24 March 2006, as the performance criteria had been met. At 31 December 2008 the 884,182 (31 December 2007: 1,333,047) options outstanding, at exercise prices between 203.83p and 455.83p, are now potentially dilutive, as settlement would be made by the issue of new shares.

All options granted under the 2002 Executive Share Option Scheme vested on 24 March 2006, as the performance criteria had been met. The 1,082,028 (31 December 2007: 1,228,227) options outstanding, at exercise prices between 139.00p and 240.83p, are now potentially dilutive, as settlement would be made by the issue of new shares.

Details of other awards exercisable at 31 December 2008 and 31 December 2007 are disclosed in note 28, together with the total number of awards outstanding for each scheme.

11. Dividends

(a) Ordinary dividends

	2008 £m	2007 £m
Declared and paid during the year		
Equity dividends on Ordinary Shares:		
Final dividend for 2007: 4.0p (2006: 7.0p)	**19.7**	33.8
Interim dividend for 2008: 2.0p (2007: 2.0p)	**9.9**	9.7
	29.6	43.5
Proposed for approval at the Annual General Meeting		
Equity dividends on Ordinary Shares:		
Final dividend for 2008: 4.0p (2007: 4.0p)	**19.8**	19.7

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

	Shares	£m
2008 Dividends		
2007 Final	**2,612,286**	0.1
2008 Interim	**2,522,040**	0.1
2007 Dividends		
2006 Final	**3,162,392**	0.2
2007 Interim	**3,095,242**	0.1

(b) Non-equity dividends on Cumulative Preference Shares

	Note	2008 £m	2007 £m
Interest expense during the year	8	**0.1**	0.1

12. Property, plant and equipment

	Leasehold improvements £m	Motor vehicles £m	Office furniture and equipment £m	Computer equipment £m	Total £m
Cost:					
At 1 January 2007	12.0	0.2	2.7	9.6	24.5
Additions	0.3	0.1	0.5	1.3	2.2
Disposals	–	(0.1)	(0.4)	(0.4)	(0.9)
Foreign exchange gains	0.1	–	–	0.1	0.2
At 31 December 2007	12.4	0.2	2.8	10.6	26.0
Fair value of additions arising on business combinations	–	0.4	0.1	0.1	0.6
Additions	0.1	0.2	0.1	0.8	1.2
Disposals	(0.1)	(0.1)	(0.5)	(0.8)	(1.5)
Foreign exchange gains	0.6	–	0.1	0.1	0.8
At 31 December 2008	**13.0**	**0.7**	**2.6**	**10.8**	**27.1**
Depreciation and impairment:					
At 1 January 2007	2.7	0.1	1.3	7.6	11.7
Depreciation charge for the year	1.4	0.1	0.9	1.3	3.7
Disposals	–	(0.1)	(0.4)	(0.4)	(0.9)
Foreign exchange losses	–	–	–	0.1	0.1
At 31 December 2007	4.1	0.1	1.8	8.6	14.6
Depreciation charge for the year	1.3	0.1	0.3	1.3	3.0
Disposals	(0.1)	(0.1)	(0.4)	(0.8)	(1.4)
Foreign exchange losses	0.2	–	–	0.1	0.3
At 31 December 2008	**5.5**	**0.1**	**1.7**	**9.2**	**16.5**
Net book values:					
At 31 December 2006	9.3	0.1	1.4	2.0	12.8
At 31 December 2007	8.3	0.1	1.0	2.0	11.4
At 31 December 2008	**7.5**	**0.6**	**0.9**	**1.6**	**10.6**
Cumulative impairment losses:					
At 31 December 2007	2.0	–	–	–	2.0
At 31 December 2008	**2.0**	**–**	**–**	**–**	**2.0**

There are no restrictions on the Group's title to the above assets and none are pledged as security for liabilities, other than the security over FCAM's holding in F&C REIT which effectively yields beneficial entitlement to some of the Group's property, plant and equipment. Details of this security are given in note 24.

The cost of fully depreciated property, plant and equipment which is still in use at 31 December 2008 is £10.9m (31 December 2007: £7.5m).

13. Goodwill and other intangible assets

	Goodwill £m	Management contracts £m	Software and licences £m	Total £m
Cost:				
At 1 January 2007	569.9	573.3	4.2	1,147.4
Additions	–	–	0.8	0.8
Disposals	–	–	(0.2)	(0.2)
Foreign exchange gains	–	11.8	0.1	11.9
At 31 December 2007	569.9	585.1	4.9	1,159.9
Fair value of additions arising on business combinations	–	71.3	–	71.3
Additions	56.0	–	1.1	57.1
Disposals	(30.8)	–	(0.1)	(30.9)
Foreign exchange gains	–	39.1	–	39.1
At 31 December 2008	**595.1**	**695.5**	**5.9**	**1,296.5**
Amortisation and impairment:				
At 1 January 2007	–	289.0	3.1	292.1
Amortisation charge for the year	–	42.4	0.8	43.2
Disposals	–	–	(0.1)	(0.1)
At 31 December 2007	–	331.4	3.8	335.2
Amortisation charge for the year	–	48.9	1.0	49.9
Disposals	–	–	(0.1)	(0.1)
Impairment losses	–	48.3	–	48.3
At 31 December 2008	**–**	**428.6**	**4.7**	**433.3**
Net book values:				
At 31 December 2006	569.9	284.3	1.1	855.3
At 31 December 2007	569.9	253.7	1.1	824.7
At 31 December 2008	**595.1**	**266.9**	**1.2**	**863.2**

Goodwill

Goodwill arose on various business combinations, and prior to 2008, related to the business as a whole following the fundamental integration, rationalisation and re-organisations which took place after each acquisition. Following the acquisition of the REIT Group in September 2008, the business was re-organised into two distinct business segments: investment management and property asset management; these are separate business operations and are regarded as reportable segments under IAS 14 'Segment Reporting'. These business segments represent the cash generating units (CGUs) and the lowest level at which goodwill is monitored by the Board and tested for impairment.

The goodwill existing prior to the REIT acquisition was split between these two segments on the basis of the values in use of the respective business operations and resulted in £102.7m being allocated to property asset management, leaving £467.2m attributable to investment management.

The additional goodwill arising during the year relates to the acquisition of the REIT Group, whilst the goodwill disposed of reflects the 30% transfer of F&C's existing property business to the former owners of REIT; both amounts relate to the property asset management business segment. Details of the acquisition and disposal are given in note 16.

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

The movement in the carrying value of goodwill during the year, across reportable business segments, is as follows:

		31 December 2008			31 December 2007
	Note	Investment management £m	Property asset management £m	Total £m	Entire business £m
At 1 January		569.9	–	569.9	569.9
Allocation to property segment		(102.7)	102.7	–	–
Additions		–	56.0	56.0	–
Disposals	16(b)	–	(30.8)	(30.8)	–
At 31 December		467.2	127.9	595.1	569.9

Goodwill is not amortised but requires to be tested for impairment annually. The carrying value of goodwill attributable to each business segment has been tested for impairment at the balance sheet date, as described below. Accumulated goodwill impairment losses at 31 December 2008 were £nil for both business segments (31 December 2007: £nil).

Management contracts

Management contracts predominantly relate to the value of investment management contracts arising on business acquisitions. The addition during the year of £71.3m is the value attributed to the management contracts acquired through the acquisition of REIT.

The management contract impairment losses recognised during the year and the accumulated impairment losses at 31 December 2008 of £218.3m relate entirely to the investment management business segment. Details of impairment recognised in the year are discussed below.

The foreign exchange gains in the year arise from the significant relative strengthening of the Euro over the course of 2008, adding value to contracts denominated in that currency, (primarily F&C insurance contracts), in Sterling terms.

The categories of management contracts, their carrying amounts at the year-end, remaining amortisation periods and estimated useful lives are as follows:

	31 December 2008			31 December 2007		
	Net book vaues £m	Remaining amortisation period (years)	Estimated useful life (years)	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)
RSAI insurance contracts	2.4	3	10	3.1	4	10
RSAI retail contracts/F&C OEICs	17.9	3 – 6	10	36.3	4 – 7	10
F&C insurance contracts	100.2	6	10	89.4	7	10
F&C institutional contracts (fixed term/non-fixed term)	29.4	6 / 2	10 / 4	47.0	7 / 3	10 / 4
F&C investment trust contracts	16.1	7½	10	27.2	8½	10
F&C advisory and sub-advisory contracts	32.0	6	10	49.6	7	10
Private equity fund of funds	1.0	16	20	1.1	17	20
REIT property contracts	67.9	7	7	–	–	–
	266.9			253.7		

Impairment testing of goodwill and intangible assets

Goodwill

The recoverable amount of the CGUs has been determined on their value in use (including terminal value) at each respective testing date for 2007 and 2008. The value in use is calculated by discounting the cash flow projections based on the latest annual financial budget approved by the Board. A long-term growth rate is used to extrapolate the cash flows because of the long-term nature of the Group's businesses making up the CGUs and the Board's current view that there is no reason to believe that they will not continue in operation in perpetuity.

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

The key assumptions adopted in these calculations for each business segment are as follows:

	31 December 2008						31 December 2007		
	Investment management			Property asset management			Entire business		
Discount rate	10.15%			10.15%			8.50%		
	Year 1	Year 2	Year 3 +	Year 1	Year 2	Year 3 +	Year 1	Year 2	Year 3 +
Market growth rate	0.00%	6.00%	5.55%	(4.15)%	0.00%	4.15%	5.85%	5.85%	5.85%
Inflation rate	*	3.75%	3.75%	*	3.75%	3.75%	*	4.00%	4.00%

* The costs included in Year 1 of the projections reflect those included in the Board approved budget for 2009.

The discount rate is based on the Group's weighted average cost of capital to estimate a market relevant rate, calculated as at the year-end, and takes into account the relative risks associated with the Group's various revenue streams. The pre-tax discount rate is 10.93% (2007: 8.90%). All discount rates shown subsequently within this note are stated after tax.

Revenues for the first year are based on the Board-approved budget. In year two, revenues have been grown at market rates estimated to be experienced in 2010 when the Board anticipate capital markets may begin to recover; these estimates are based on a combination of in-house and analysts' views in light of the current, continued depression of markets. Beyond this, revenues have been grown in line with the Group's long-term view of market growth, consistent with that experienced historically, in the long-term, across the markets in which assets are invested. The different rates reflect the composite mix of assets held in each business segment and at each balance sheet date. 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 profit margins for each business segment for 2009. Thereafter costs have been grown at inflation rates to accord with anticipated future salary and other cost increases.

Values in use are compared to the carrying values of goodwill, attributable 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.

As this annual impairment review of goodwill determined surpluses in both segments, no impairment has been recognised in the year in respect of goodwill (31 December 2007: £nil).

The key assumptions to which the calculated values in use are most sensitive are as follows:

	31 December 2008		31 December 2007
	Investment management	Property asset management	Entire business
Discount rate	10.15%	10.15%	8.50%
Long-term market growth rate	5.55%	4.15%	5.85%
Inflation rate	3.75%	3.75%	4.00%

The above assumptions result in the following surpluses of goodwill:

	31 December 2008		31 December 2007
	Investment management £m	Property asset management £m	Entire business £m
Excess of recoverable amount over carrying value	74.4	55.0	878.1

In order to assess the sensitivity of the key assumptions on the carrying values of goodwill, an analysis was conducted to ascertain the change that would be required to derive values in use which approximated to the carrying values of goodwill, and beyond which impairment would arise.

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

The absolute levels, on a standalone basis, of the key assumptions which most closely resulted in a match in the values in use to the carrying values of goodwill were as follows:

	31 December 2008		31 December 2007
	Investment management	Property asset management	Entire business
Discount rate	11.00%	12.40%	14.70%
Long-term market growth rate	5.15%	1.65%	3.40%
Inflation rate	4.25%	7.20%	7.10%

Intangible assets with finite lives

During 2008, the significant fall in equity market levels and consequent reduction in management fee revenues arising from management contracts was considered to be an indicator of potential impairment of certain management contract intangible assets. Historically, the sole indicator of impairment has been where actual fund outflows were significantly greater than the levels that had originally been forecast when the asset was initially recognised or when subsequent impairment had arisen.

In accordance with IAS 36 'Impairment of Assets', a full impairment review of these assets was undertaken as at 31 December 2008. The review has resulted in impairment losses being recognised in respect of the assets below, across reportable business segments as follows:

	2008			2007
	Investment management £m	Property asset management £m	Total £m	Entire business £m
RSAI retail contracts/F&C OEICs	**11.3**	**–**	**11.3**	–
F&C institutional contracts	**10.5**	**–**	**10.5**	–
F&C investment trust contracts	**7.9**	**–**	**7.9**	–
F&C advisory and sub-advisory contracts	**18.6**	**–**	**18.6**	–
Total impairment recognised in the Consolidated Income Statement	**48.3**	**–**	**48.3**	–

No indicators of potential impairment existed in 2007 and therefore no impairment reviews of management contracts were undertaken in respect of that year.

The recoverable amounts of the assets have been determined based on value in use calculations using cash flow projections, for each contract category, based on the latest annual financial budget approved by the Board.

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

The key assumptions adopted in the calculations are as follows:

	Discount rate	Market growth rates		
		Year 1	Year 2	Year 3+
RSAI retail contracts/F&C OEICs	10.65%	0.00%	7.50%	6.35%
F&C institutional contracts – fixed term	9.65%	0.00%	5.90%	5.60%
F&C institutional contracts – non-fixed term	10.65%	0.00%	5.90%	5.60%
F&C investment trust contracts	10.65%	0.00%	8.95%	6.85%
F&C advisory and sub-advisory contracts	10.65%	0.00%	6.35%	5.80%

The discount 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 10.15%, calculated as at 31 December 2008, as a benchmark.

Consistent with the Board-approved budget for 2009, revenues for the first year of the projections assume no market growth. In year two, revenues have been grown at market rates estimated to be experienced in 2010 when the Board anticipate capital markets may begin to recover; these estimates are based on a combination of in-house and analysts' views in light of the current, continued depression of markets. Beyond this, revenues have been grown in line with the Group's long-term view of market growth, consistent with that experienced historically, in the long-term, across the markets in which assets are invested. The different rates across the contract types reflect the composite mix of asset classes held in each category; the actual growth rates applied to each asset class are identical to those used in the goodwill impairment reviews. The projections are derived using the estimated useful lives of the underlying contracts and assume a constant loss of revenues over the projection periods, except in the case of fixed term contracts.

Projected operating costs have been driven by the reportable business segment projected operating profit margins, as determined for the purposes of the goodwill impairment review, including the cost inflation assumptions inherent therein, noted above.

Impairment has been determined by comparing the results of the value in use calculations at the year-end to the carrying values (cost less aggregate amortisation and prior years' impairment) of the assets at 31 December 2008, with any deficits arising constituting impairment to be recognised for the year.

Following the impairment recognised in 2006, the Board revised its estimate at that time of the remaining useful lives of the impaired assets. This year, however, impairment has arisen for a different reason, as noted above, and the driver behind the 2008 impairment charge is not considered to affect the longevity of the contracts. Hence, there has been no change in accounting estimate in respect of their remaining useful lives.

14. Financial investments

The following assets are designated as available for sale:

	31 December 2008 £m	31 December 2007 £m
Unquoted investments	2.1	3.8

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

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

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

The investments have no fixed maturity date or coupon rate.

Included within the unquoted financial investments at 31 December 2008 are £0.2m (31 December 2007: £0.3m) of equity instruments measured at the price of recent investments. The fair value of these investments cannot be measured reliably as the Group does not have access to the underlying information to produce fair value valuations for these investments. These investments consist of loans and carried interest in private equity limited partnerships. These investments are managed by external fund managers and the Group obtains returns when the investments are realised. The Group intends to hold these investments until all the private equity investments are realised. In 2008, the Group received distributions totalling £0.9m (2007: £3.9m) which comprised £0.9m (2007: £3.8m) of investment income and £nil (2007: £0.1m) return of capital in respect of the investments held at cost.

An impairment charge of £0.1m (2007: £nil) arose in respect of unquoted investments in 2008.

15. Investment in associates

Prior to December 2007 the Group held an investment in an associate limited liability partnership, ISIS EP LLP, which acquired the private equity business previously owned by the Group. F&C held a 19.99% stake in this business until the investment was terminated by an agreed Deed of Retirement in December 2007 resulting in ISIS EP LLP no longer being an associate of the Group at the end of 2007.

The movement in the carrying amount of investments in associates is analysed below:

	2008 £m	2007 £m
At 1 January	–	1.4
Share of profit for the year	–	0.6
Distributions of profits received in the year	–	(1.9)
Further distribution due on termination of investment agreement (included in trade and other receivables)	–	(0.1)
At 31 December	–	–

	2008 £m	2007 £m
Share of associate's revenues and profits:		
Revenues	–	3.3
Profits	–	0.6

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

Under the terms of the Deed of Retirement from ISIS EP LLP, F&C received £1.0m in 2007 and £1.0m in 2008 in respect of its transfer of B capital. The remaining £0.5m due from ISIS EP LLP in respect of its disposal of B capital will be received in 2009 and is included within trade and other receivables as at 31 December 2008.

16. Acquisition and disposal of subsidiaries

(a) Acquisition of REIT Property Asset Management Group

F&C Asset Management plc ("FCAM") acquired and gained control of the REIT Property Asset Management Group ("REIT Group") on 3 September 2008. As part of this transaction, FCAM has relinquished 30% of its beneficial entitlement in F&C Property Asset Management plc ("F&C PAM") by transferring its interest into the newly created F&C REIT Asset Management LLP ("F&C REIT") Group property business, which is 30% minority owned.

F&C REIT ownership interests are initially split 70% ownership of "A" and "B" partnerships units held by FCAM, 30% of "A" units by Kendray Properties Limited, 22.5% of "B" units by Leo Noé and 7.5% of "B" units by Ivor Smith (the latter three being collectively known as the "REIT Parties"). "A" units entitle the holder to profits earned by the overseas sub-group within the F&C REIT Group and "B" units entitle the holder to profits earned by the other entities within this Group. For each financial year ending on or before 31 December 2014 in which the Earnings Before Interest Taxation Depreciation and Amortisation ("EBITDA") of the F&C REIT Group is £45 million or more, FCAM will transfer up to 3.33% of its existing holding of "A" and "B" units in F&C REIT to the REIT Parties, subject to a maximum aggregate transfer of 10%.

The F&C REIT members generally share in the capital, profits and losses of F&C REIT Group in proportion to their respective ownership interests in F&C REIT. However, where certain EBITDA targets are met in any financial year ending on or before 31 December 2013, the REIT Parties may be entitled to receive an uplift in their profit allocation for that year, subject to having a maximum profit allocation of 45% in any financial year.

The F&C REIT Group is governed by the F&C REIT Board, comprising Leo Noé, Ivor Smith, Nick Criticos, Alain Grisay and David Logan.

FCAM acquired 70% ownership of F&C REIT Asset Management LLP, which in turn owns, directly or indirectly, 100% of the following entities:

F&C REIT Asset Management S.à.r.l.
Adebai Limited
F&C REIT Asset Management Sweden AB
F&C REIT Asset Worldwide Limited
F&C REIT Asset Management GmbH & Co KG
F&C REIT Property Management India Pvt Limited
REIT Asset Management Limited
REIT (Corporate Services) Limited
REIT (Corporate Directors) Limited
REIT Corporate Finance Limited
RCF Directors Limited
Tier Services Limited

70% of the REIT Group was acquired from the REIT Parties for an initial consideration of £25.0m in cash, issue of a £35.0m Floating Rate Secured Loan Note and the transfer of 30% of F&C PAM. While FCAM transferred F&C PAM, a subsidiary undertaking, into the F&C REIT Group, it retains a 70% beneficial holding in F&C PAM via its 70% holding in F&C REIT.

The total consideration paid for the Group's 70% holding in F&C REIT is as follows:

	£m
Initial consideration – cash	25.0
Initial consideration – loan notes	35.0
Fair value of consideration in respect of sacrifice of 30% of F&C PAM	28.2
Fair value of consideration paid for 70% of the REIT Group	88.2
Estimated expenses of acquisition (of which £0.2m is accrued at 31 December 2008)	4.4
Total consideration	92.6

16. Acquisition and disposal of subsidiaries (cont'd)

The fair values of assets and liabilities acquired are as follows:

	Book value £m	Acquired intangibles £m	Fair value adjustments £m	Provisional fair value to the Group at acquisition, as at 31 December 2008 £m
Non-current assets:				
Property, plant and equipment	0.6	–	–	0.6
Intangible assets – management contracts	34.0	71.3	(34.0)	71.3
Current assets:				
Trade and other receivables	0.9	–	0.2	1.1
Cash and short-term deposits	0.2	–	–	0.2
Non-current liabilities:				
Deferred tax	–	(20.0)	–	(20.0)
Current liabilities:				
Trade and other payables	(0.9)	–	–	(0.9)
Current tax payable	(0.1)	–	–	(0.1)
Estimated net assets acquired	34.7	51.3	(33.8)	52.2
Less: Minority interest's share of net assets				(15.6)
Goodwill				56.0
Total consideration				92.6

As part of the transaction the fair value of the combined business was agreed as follows:

	£m
Fair value of F&C PAM	94.1
Fair value of REIT Group	126.0
Total value of combined business	220.1

	£m
F&C's 70% share of the combined business	154.1

The REIT Parties have the right to require F&C to acquire all or part of their membership interests in F&C REIT at a valuation determined by an independent valuer, subject to an overall cap on F&C's liability of £100.0 million. Leo Noé's option is exercisable after the seventh anniversary of Completion and Ivor Smith's option is exercisable after the third anniversary of Completion. While Kendray Properties Limited does not have any direct right to require F&C to acquire its holding in F&C REIT, under the terms of the Partnership Agreement Kendray cannot hold a greater interest in F&C REIT than the aggregate of Leo Noé or Ivor Smith (or the holder of their beneficial interest) and is therefore effectively required to transfer an element of its holding such that this requirement is achieved. The consideration for such a transfer would be fair value. Hence, in determining the gross liability of the option, Kendray Properties Limited's entire holding in F&C REIT has been included. The option liabilities are given in note 30.

On Completion, this option is recognised as a liability of £66.0m, being the fair value of 30% of F&C REIT, with the initial charge being taken to equity.

The following adjustments have been made to the book values of the assets and liabilities acquired:

- An adjustment of £0.2m has been made in respect of an estimation of the additional cash which the minority partners will require to inject into the business in accordance with the transaction agreements.
- The amount of £34.0m has been excluded from the fair value of intangible assets acquired and replaced by the recognition of £71.3m for REIT management contracts, being their fair value at acquisition. Further details of intangible assets are given in note 13.

The value of goodwill arising on acquisition takes account of the value of the property asset management team acquired and the value of future new business flows.

16. Acquisition and disposal of subsidiaries (cont'd)

The Directors consider the fair values of the net assets acquired to be provisional until the REIT Completion Accounts review process has been finalised. In the meantime, the adjustments reflect the Directors' best estimates of the necessary fair value adjustments to the net assets of the acquired entities.

No provisions for re-organisation or restructuring costs are included in the liabilities of the acquired entities.

The profit before tax attributable to the acquired element of the F&C REIT Group for the period between the date of acquisition and the balance sheet date was £3.2m.

As a result of the acquired entities not being operated as a group prior to acquisition and the associated restructuring which was performed before the acquisition by F&C, it is not possible to determine what the Group results and cashflows would have been had the acquisition been completed on 1 January 2008.

(b) Loss on partial disposal of property business

As noted above, the Group disposed of 30% of its property business via the relinquishment of 30% of its ownership of F&C PAM. The loss on disposal is quantified below:

	£m
Fair value of deemed consideration on disposal of 30% of F&C PAM	28.2
Less: Share of net assets attributable to 30% of F&C PAM, being transferred to minority interests	(1.5)
Less: Goodwill attributable to share of business transferred	(30.8)
Loss on disposal	**(4.1)**

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

Following the review of the Completion Accounts and subsequent fair value adjustments to the purchase consideration for the acquisition of F&C Group (Holdings) Limited on 11 October 2004, there is an estimated further consideration of £2.9m payable to Eureko B.V. at 31 December 2008 (31 December 2007: £2.9m).

17. Deferred acquisition costs

	2008 £m	2007 £m
At 1 January	11.9	11.3
Costs deferred in the year	3.1	3.6
Amortisation in the year	(3.9)	(3.0)
At 31 December	**11.1**	11.9

	31 December 2008 £m	31 December 2007 £m
Split as follows:		
Non-current assets	7.8	8.1
Current assets	3.3	3.8
	11.1	11.9

Deferred acquisition costs represent the commission paid to gain new asset inflows into OEICs. These costs are amortised over the expected terms of the contracts, in line with the initial fees received from investors, as disclosed in note 29.

18. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

(a) Recognised deferred assets and liabilities

	31 December 2008			31 December 2007		
	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Employee benefits*	9.0	–	9.0	10.8	–	10.8
Share-based payments	9.7	–	9.7	10.6	–	10.6
Unused tax losses	–	–	–	1.8	–	1.8
Property, plant and equipment	2.5	–	2.5	3.7	–	3.7
Receivables, payables & provisions	5.3	–	5.3	2.1	–	2.1
Intangible assets	–	(74.5)	(74.5)	–	(71.0)	(71.0)
Revaluation of unrealised fair value gains on available for sale assets	–	(0.6)	(0.6)	–	(0.9)	(0.9)
Unremitted overseas earnings	–	(1.9)	(1.9)	–	(1.5)	(1.5)
Net deferred tax assets/(liabilities)	26.5	(77.0)	(50.5)	29.0	(73.4)	(44.4)

*Includes £5.9m (31 December 2007: £7.4m) relating to deferred tax on defined benefit pension obligations.

(b) Movement in temporary differences during the year

	1 January 2008 £m	Recognised in income £m	Recognised in equity £m	Revaluation in year £m	Acquired in year £m	31 December 2008 £m
Employee benefits	10.8	(1.3)	(0.8)	0.3	–	9.0
Share-based payments	10.6	(0.9)	–	–	–	9.7
Unused tax losses	1.8	(1.8)	–	–	–	–
Property, plant and equipment	3.7	(1.2)	–	–	–	2.5
Receivables, payables & provisions	2.1	3.2	–	–	–	5.3
Intangible assets	(71.0)	27.6	–	(11.1)	(20.0)	(74.5)
Revaluation of unrealised fair value gains on available for sale assets	(0.9)	(0.1)	0.4	–	–	(0.6)
Unremitted overseas earnings	(1.5)	0.1	–	(0.5)	–	(1.9)
	(44.4)	25.6	(0.4)	(11.3)	(20.0)	(50.5)

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

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

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

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

(c) Unrecognised deferred tax assets and liabilities

The Group has unrecognised tax losses which arose in the UK of £0.2m (31 December 2007: £0.2m) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they cannot be used to offset taxable profits elsewhere in the Group, and they have arisen in companies that have not reported taxable profits for some time.

19. Financial instruments

(a) Analysis of Balance Sheet assets

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

Stocks of units and shares are held in relation to fund management activities and are classified as held for trading within 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). Other receivables included within non-current assets are carried at amortised cost.

(i) Designated as fair value through profit or loss

	Notes	31 December 2008 £m	31 December 2007 £m
Financial investments in respect of unit-linked contracts	(1)	**709.8**	1,034.2
Other financial investments	(2)	**8.2**	8.6
		718.0	1,042.8

19. Financial instruments (cont'd)

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

	31 December 2008 £m	31 December 2007 £m
Equity securities:		
Listed	493.1	713.2
OEICs and unit trusts	14.2	14.8
Total equity securities	507.3	728.0
Debt and fixed income securities:		
Government bonds	86.6	109.7
Other listed fixed interest securities	84.2	100.7
Index-linked gilts	22.6	34.0
Participation in pooled investments	9.1	61.8
Total debt and fixed income securities	202.5	306.2
Total unit-linked financial investments designated as fair value through profit or loss	709.8	1,034.2

Financial instruments relating to unit-linked contracts

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

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

	31 December 2008 £m	31 December 2007 £m
Fair value through profit or loss:		
Financial investments designated as fair value through profit or loss	709.8	1,034.2
Loans and receivables:		
Deferred acquisition costs	0.2	0.6
Trade and other receivables	0.7	0.4
Cash and cash equivalents	46.7	58.2
Trade and other payables	(4.3)	(3.3)
Total unit-linked assets less liabilities	753.1	1,090.1

These unit-linked assets are matched by the associated investment contract liabilities disclosed in note 31.

(2) Other financial investments:

	31 December 2008 £m	31 December 2007 £m
NIC hedge	3.2	3.3
Corporate bonds	0.7	3.0
Purchased Equity Plan	2.6	1.2
Bonuses – investments	1.7	1.1
	8.2	8.6

19. Financial instruments (cont'd)

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

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

The Purchased Equity Plan represents investments held by an Employee Benefit Trust in F&C funds for the purpose of future settlement of Purchased Equity Plan awards. A corresponding liability is recognised over the vesting period; details are given in note 28(v)(b).

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

The corporate bonds have the following maturity dates:

Maturity date	31 December 2008 £m	31 December 2007 £m
2011	–	1.7
2012	–	0.3
2014	0.3	0.4
2037	0.4	0.6
	0.7	3.0

(ii) Designated as held for trading

	31 December 2008 £m	31 December 2007 £m
Stock of units and shares	0.3	0.8

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

(iii) Designated as loans and receivables

	31 December 2008 £m	31 December 2007 £m
Cash and cash equivalents	269.8	274.4
Trade and other receivables:		
Trade debtors	9.5	11.0
Accrued income	35.0	45.3
Other debtors	27.7	25.6
Amounts owed by Eureko Group	4.8	6.5
Amounts owed by Friends Provident Group	0.4	1.5
Amounts owed by F&C REIT related party entities	0.9	–
	348.1	364.3

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 2008 £m	31 December 2007 £m	31 December 2008 £m	31 December 2007 £m
Financial assets:				
Financial investments: available for sale	2.1	3.8	2.1	3.8
Financial investments: fair value through profit or loss	718.0	1,042.8	718.0	1,042.8
Reinsurance assets	2.1	2.3	2.1	2.3
Stock of units and shares: held for trading	0.3	0.8	0.3	0.8
Cash and cash equivalents	269.8	274.4	269.8	274.4
Financial liabilities:				
Interest bearing loans and borrowings:				
Fixed/Floating Rate Subordinated Notes 2026	(258.2)	(257.9)	(164.6)	(239.9)
Preference Share capital	(0.8)	(0.8)	(0.3)	(0.6)
£35.0m Floating Rate Secured Notes 2010	(35.0)	–	(35.0)	–
Other financial liabilities:				
F&C REIT put options	(66.0)	–	(66.0)	–
Forward currency contracts	(12.3)	–	(12.3)	–
Investment contract liabilities	(753.1)	(1,090.1)	(753.1)	(1,090.1)
Insurance contract liabilities	(2.1)	(2.3)	(2.1)	(2.3)

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

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

Securities

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

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

Interest bearing loans and non-equity shares

The fair value of the Subordinated Notes is based on a quoted market price at the balance sheet date. The fair value of other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The valuations have considered similar instruments available in the market and the liquidity of assets and liabilities.

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

20. Reinsurance assets

	31 December 2008 £m	31 December 2007 £m
Reinsurers' share of insurance contract liabilities	2.1	2.3
Total reinsurance assets – current assets	2.1	2.3

Notes to the Consolidated Financial Statements

21. Trade and other receivables

	31 December 2008 £m	31 December 2007 £m
Current:		
Trade debtors	9.5	11.0
VAT recoverable	1.0	1.1
Accrued income	35.0	45.3
Other debtors	27.4	24.8
Prepayments	6.9	6.5
Amounts owed by Friends Provident Group	0.4	1.5
Amounts owed by F&C REIT related party entities	0.9	–
Amounts owed by Eureko Group	4.8	6.5
	85.9	96.7

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

	31 December 2008 £m	31 December 2007 £m
Non-current:		
Other debtors	0.3	0.8
Prepayments	0.3	–
	0.6	0.8

22. Cash and cash equivalents

	31 December 2008 £m	31 December 2007 £m
Shareholders:		
Cash at bank and in hand	9.6	9.8
Short-term deposits	213.5	206.4
	223.1	216.2
Policyholders:		
Cash at bank and in hand	0.9	8.8
Short-term deposits	45.8	49.4
	46.7	58.2
Total cash and cash equivalents	269.8	274.4

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

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents at 31 December 2008 is £269.8m (31 December 2007: £274.4m).

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 2008 this amounted to £46.7m (31 December 2007: £58.2m) of the total cash and cash equivalents balance.

23. Non-current assets held for sale

The Group injected seed capital into the two new funds which it launched in 2008 and held in excess of 50 per cent. of the beneficial and voting rights attached to the holdings. As the Group was committed, and has disposed of its entire investment in the funds within a year of the original investment, the investments in these funds were classified as being "held for sale".

The movements in seed capital investments classified as non-current assets held for sale are:

	2008 £m	2007 £m
At 1 January	–	–
Additions	14.8	–
Disposals	(14.8)	–
At 31 December	–	–

The Group realised a gain of £5.3m (2007: £nil) on disposal of these investments. This is included within finance revenue (note 7). The seed capital investments were included in the UK investment management segment.

24. Interest bearing loans and borrowings

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

Contractual terms	Note	31 December 2008 £m	31 December 2007 £m
Preference Share capital:			
Dividends are set at LIBOR + 2% and are payable each half-year in arrears.			
Preference Shares' rights are described in note 33(b).		0.8	0.8
£260m Fixed/Floating Rate Subordinated Notes 2026:			
Interest rate of 6.75% per annum for period 20 December 2006 – 19 December 2016, payable annually in arrears.			
Issuer has the option to extend the notes beyond 19 December 2016.			
Interest rate of 2.69% above 3 month LIBOR for the period 20 December 2016 – 19 December 2026, payable quarterly in arrears.		258.2	257.9
£35.0m Floating Rate Secured Notes 2010	(i)		
Interest payable at the following rates of interest:			
From 3 September 2008 to 15 December 2008 at LIBOR + 2%;			
From 16 December 2008 to 15 June 2009 at LIBOR + 3%;			
From 16 June 2009 until redemption at LIBOR + 4%.		35.0	–
Interest is payable quarterly in arrears on 28 February, 31 May, 31 August and 30 November.			
Notes must be repaid by 30 June 2010, or earlier at the discretion of the issuer.			
		294.0	258.7

(i) These Secured Notes are listed on The Channel Islands Stock Exchange.

The £35.0m Floating Rate Secured Notes are held by Kendray Properties Limited, who hold a security over FCAM's entire holding in F&C REIT Asset Management LLP until such point as FCAM has settled all liabilities due under the terms of the loan note agreement.

The carrying amount of net assets (including intangible management contracts) pledged as security over the Secured Notes at 31 December 2008 was £40.3m (31 December 2007: £nil).

Borrowing facilities

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

	31 December 2008 £m	31 December 2007 £m
Expiring in one year or less:		
Bank overdraft facilities	2.0	2.0
	2.0	2.0

24. Interest bearing loans and borrowings (cont'd)

	31 December 2008 £m	31 December 2007 £m
Repayment periods		
Amounts repayable:		
In one year or less, or on demand	**–**	–
In more than one year but not more than two years	**35.0**	–
In more than two years but not more than five years	**–**	–
In more than five years	**259.0**	258.7
	294.0	258.7

Preference Share Capital is perpetual in nature and has no contractual repayment date.

Additional information about the Group's exposure to interest risk is provided in note 39.

25. Trade and other payables

	31 December 2008 £m	31 December 2007 £m
Amounts due within one year:		
Trade creditors	**1.4**	3.1
Amounts owed to Friends Provident Group	**1.2**	–
Amounts owed to Eureko Group	**2.9**	2.9
Amounts owed to F&C REIT related party entities	**2.4**	–
Social Security and PAYE	**2.4**	5.1
Accruals	**20.6**	18.8
Other creditors	**22.6**	29.0
	53.5	58.9
Amounts due outwith one year:		
Accruals	**5.4**	5.8
Other creditors	**1.7**	1.4
	7.1	7.2

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

26. Provisions

	Onerous premises contracts £m	NIC on share schemes £m	Long-term sickness £m	Guaranteed product £m	Long-term service award £m	Investment Trust VAT £m	Total £m
At 1 January 2007	9.8	6.4	2.0	0.2	0.1	–	18.5
Provided during the year	2.3	2.2	–	0.1	–	3.9	8.5
Utilised during the year	(3.5)	(3.1)	–	(0.1)	–	–	(6.7)
At 31 December 2007	8.6	5.5	2.0	0.2	0.1	3.9	20.3
Provided during the year	2.4	–	–	0.7	–	–	3.1
Utilised during the year	(1.8)	(0.5)	(0.1)	(0.1)	–	(0.1)	(2.6)
Released during the year	(2.2)	(0.6)	–	–	–	–	(2.8)
At 31 December 2008	**7.0**	**4.4**	**1.9**	**0.8**	**0.1**	**3.8**	**18.0**
At 31 December 2008							
Non-current	**5.8**	**0.8**	**1.7**	**0.6**	**0.1**	**–**	**9.0**
Current	**1.2**	**3.6**	**0.2**	**0.2**	**–**	**3.8**	**9.0**
At 31 December 2007							
Non-current	6.8	1.3	1.8	0.2	0.1	–	10.2
Current	1.8	4.2	0.2	–	–	3.9	10.1

Onerous premises contracts

The Group holds all properties under operating leases. This includes a number of vacant or sub-let properties which were either previously occupied by the Group or are only partially occupied by the Group. Provision has been made for the residual lease commitments where significant, after taking into account existing and expected sub-tenant contractual arrangements. The remaining terms are for up to 13 years, although a significant element of this provision relates to lease incentive arrangements and is expected to be utilised within 3 years.

Assumptions have been made as to whether each leasehold property may be sub-let or assigned in the future. All leases, and the majority of sub-leases, are for minimum guaranteed rentals. One sub-lease involves the possible receipt of contingent rent. Any contingent rent received in excess of the anticipated amount is recognised as income during the period. The provision is subject to uncertainties over time including market rent reviews and break-options within the lease arrangements.

NIC on share schemes

The provision for National Insurance Contributions (NIC) on share schemes represents the potential NIC liabilities in respect of a number of share-based payment schemes operated by the Group. The provision is subject to uncertainties in respect of the extent to which performance conditions are met, movements in the Company's share price, the extent to which awards lapse and, where eligible, the timing of when employees choose to exercise options. The current element of the provision for NIC on share schemes relates to awards which are expected to vest within one year. At 31 December 2008 £3.2m (31 December 2007: £3.3m) of financial investments were held by the Group to partially fund the NIC liability on the Deferred Investment Plan and Deferred Investment Option Plan. This is disclosed in note 19.

Long-term sickness

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

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

Guaranteed product

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

26. Provisions (cont'd)

Long-term service award

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

Investment Trust VAT

On 5 November 2007, HM Revenue and Customs (HMRC) agreed that management services to UK Investment Trust Companies (ITCs) should be exempt from VAT. As a result, the Group no longer applies VAT to investment management fees charged to UK investment trust clients. A number of Group companies, in common with other asset managers in the UK, received claims from ITCs for the repayment of VAT charged to them for historic periods dating back to 1990.

While the Group charged VAT in accordance with applicable UK law at the time, a provision was recognised in 2007 to the extent that the expected payments to be made to ITCs are greater than the expected amount recoverable from HMRC. During 2008 monies refunded from HMRC have been paid, as required, to ITCs. However, due to the complexity of the repayment process and its interaction with contractual arrangements, uncertainty still exists as to the final cost to be incurred by the Group. The provision of £3.8m (at 31 December 2007: £3.9m) represents the estimate of the expected liability of the Group.

27. Employee benefits – Pension scheme obligations

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

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 2008 by qualified independent actuaries.

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

	31 December 2008 £m	31 December 2007 £m
F&C Asset Management Pension Plan	**13.9**	21.4
F&C Portugal pension	**0.2**	(0.1)
F&C Netherlands pension	**4.8**	2.9
F&C Ireland pension	**0.6**	0.2
R W Jenkins pension	**2.3**	2.4
Total pension deficit	**21.8**	26.8

Disclosure relating to the Group's defined benefit obligations

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

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

(1) Plan assets and expected rate of return

Plan assets	31 December 2008 £m	31 December 2008 %	31 December 2007 £m	31 December 2007 %
Equities	**74.8**	**51**	100.0	66
Government bonds	**2.7**	**2**	1.8	1
LDI Pools	**55.2**	**38**	37.2	25
Cash	**1.9**	**1**	2.4	2
Other	**11.5**	**8**	9.2	6
Total fair value of plan assets	**146.1**	**100**	150.6	100

Plan assets include £70.2m (31 December 2007: £63.4m) of underlying investments held by the Group pensions schemes via transferable investment contracts with F&C Managed Pension Funds Limited, the Group's unit-linked pooled pension business.

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

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

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

Expected long-term rate of return on plan assets*	31 December 2008	31 December 2007
Equities	**7.00%**	7.00%
Government bonds	**5.00%**	5.00%
LDI Pools	**3.30%**	4.50%
Cash	**2.00%**	4.50%
Other	**7.00%**	7.00%

*Expected returns are shown for the UK obligations only.

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

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

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

(i) Mortality assumptions

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

	31 December 2008	31 December 2007
Mortality table for males retiring in the future	**PMA92MCYOB – 1**	PMA92MCYOB – 1
Mortality table for females retiring in the future	**PFA92MCYOB – 1**	PFA92MCYOB – 1
Mortality table for current male pensioners	**PMA92MCYOB – 1**	PMA92MCYOB – 1
Mortality table for current female pensioners	**PFA92MCYOB – 1**	PFA92MCYOB – 1

In 2008 the mortality assumption of the F&C Ireland scheme was updated. There was change in the compulsory purchased annuity rates used to value liabilities for 2008, with the new rates allowing for more conservative mortality rates.

In 2007 the mortality assumption of the F&C Netherlands scheme was updated to the Prognosetafel 2008-2050.

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

(ii) Impact of mortality assumptions

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

	31 December 2008 Years	31 December 2007 Years
Expected age at death for a male retiring in the future at age 60	**89**	89
Expected age at death for a female retiring in the future at age 60	**92**	92
Expected age at death for a current male pensioner aged 60	**88**	88
Expected age at death for a current female pensioner aged 60	**91**	91

(iii) Cost of annuities

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

	31 December 2008 £	31 December 2007 £
Male annuity	**21.30**	23.50
Female annuity	**21.10**	24.00

These rates assume a monthly payments model with a discount rate of 6.10% (2007: 5.60%) based, with appropriate adjustments, on the iBoxx over 15 year AA corporate bond index of 6.71% (2007: 5.82%). 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 3.10% (2007: 3.30%) per annum.

(iv) Discount and growth assumptions

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

	31 December 2008	31 December 2007
Discount rate	**5.70% – 6.10%**	5.50% – 5.60%
Rate of salary increase	**2.50% – 4.35%**	2.50% – 4.55%
Rate of inflation increase	**2.00% – 3.10%**	2.00% – 3.30%

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

	2008	2007
Discount rate	**5.50% – 5.60%**	4.60% – 5.00%
Weighted average expected long-term return on plan assets	**5.50% – 6.30%**	3.90% – 6.45%
Rate of inflation increase	**2.00% – 3.30%**	1.75% – 3.00%
Rate of salary increase	**2.50% – 4.55%**	2.50% – 4.25%

(v) Sensitivities

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

Assumption	Change in assumption	Estimated impact on scheme liabilities
Inflation	Increase/decrease by 0.1%	Increase/decrease by 1.7%
Salaries	Increase/decrease by 0.1%	Increase/decrease by 0.4%
Pensions	Increase/decrease by 0.1%	Increase/decrease by 1.2%
Discount rate	Increase/decrease by 0.1%	Decrease/increase by 2.3%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 1.9%

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

(3) Profile of schemes' membership

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

	31 December 2008		31 December 2007	
	% of total membership	Average age	% of total membership	Average age
Active members	20%	41	22%	42
Deferred members	69%	42	68%	42
Pensioners	11%	65	10%	65
	100%		100%	

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

	2008 £m	2007 £m
Active members	49.1	50.4
Deferred members	73.3	82.1
Pensioners	45.5	44.9
Benefit obligation at 31 December	167.9	177.4

(4) Aggregate disclosure obligations

	2008 £m	2007 £m
Change in benefit obligation:		
Benefit obligation at 1 January	177.4	179.8
Foreign exchange movements	4.6	1.3
Current service cost	3.3	4.1
Past service costs*	0.2	0.5
Interest cost on pension obligations	10.0	9.0
Members' contributions	0.3	–
Actuarial gains	(23.6)	(13.3)
Transfer in respect of the F&C Ireland scheme	–	1.4
Settlements	(0.5)	(0.1)
Benefits paid	(3.8)	(5.3)
Benefit obligation at 31 December	167.9	177.4

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

	31 December 2008 £m	31 December 2007 £m
Analysis of defined benefit obligation:		
Plans that are wholly or partly funded	165.6	175.0
Plans that are wholly unfunded	2.3	2.4
	167.9	177.4

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

	2008 £m	2007 £m
Change in plan assets:		
Fair value of plan assets at 1 January	150.6	134.4
Foreign exchange movements	3.5	1.0
Expected return on plan assets	9.7	8.9
Actuarial losses	(21.1)	(1.6)
Transfer in respect of the F&C Ireland scheme	–	0.8
Employer contributions	7.4	12.5
Member contributions	0.3	–
Settlements	(0.5)	(0.1)
Benefits paid	(3.8)	(5.3)
Fair value of plan assets at 31 December	146.1	150.6

	31 December 2008 £m	31 December 2007 £m
Funded status	(21.8)	(26.8)
Net deficit recognised	(21.8)	(26.8)

	2008 £m	2007 £m
Components of pension cost:		
Current service cost	3.3	4.1
Past service cost	0.2	0.5
Interest cost on pension obligations	10.0	9.0
Expected return on pension plan assets	(9.7)	(8.9)
Total pension cost recognised in the Income Statement	3.8	4.7

	Notes	2008 £m	2007 £m
Pension costs are included in the Income Statement as follows:			
Operating expenses	5	3.5	4.6
Finance revenue	7	(9.7)	(8.9)
Finance costs	8	10.0	9.0
Total pension cost recognised in the Income Statement		3.8	4.7

	2008 £m	2007 £m
Actuarial gains immediately recognised in the SORIE*	2.5	11.1
The cumulative actuarial losses recognised in the SORIE since transition to IFRS	(17.5)	(20.0)

*The actuarial gains includes the transfer into the F&C Ireland scheme of plan assets and benefit obligations during 2007.

	2008 £m	2007 £m
Actual return on plan assets	(11.4)	7.3

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

Five year history

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Benefit obligations at 31 December	**(167.9)**	(177.4)	(179.8)	(164.1)	(114.5)
Fair value of plan assets at 31 December	**146.1**	150.6	134.4	116.1	96.8
Total pension deficit	**(21.8)**	(26.8)	(45.4)	(48.0)	(17.7)
Difference between expected and actual return on plan assets:					
Amount	**(21.1)**	(1.6)	2.1	11.5	1.7
Percentage of plan assets	**(14%)**	(1%)	2%	10%	2%
Experience gains and losses on benefit obligations:					
Amount	**1.3**	(3.4)	(1.6)	(0.4)	(0.5)
Percentage of benefit obligations	**1%**	(2%)	(1%)	–%	–%
Total gains and losses:					
Amount	**2.5**	11.1	2.5	(30.7)	(2.9)
Percentage of benefit obligations	**1%**	6%	1%	(19%)	(3%)

(5) Pension schemes' details

F&C Asset Management Pension Plan ('FCAM Plan')

Date of last actuarial valuation	31 March 2007
Scheme Actuary	Mercer Limited
Method of valuation	Projected Unit
Market value of assets at last valuation date*	£131.6m
Level of funding*	98%

*The asset value and funding level allow for a special employer contribution of £4.0m paid very shortly after the valuation date.

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

The Plan'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 Plan and their dependants in accordance with the Trust Deed and Rules.

Trustee Board of the FCAM Plan

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

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

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

Other pension schemes

F&C Portugal SA

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

F&C Netherlands BV

The Group insures the scheme liabilities in The Netherlands with an insurance company. There are no Trustees, but the Works Council has input into negotiations on potential changes to the Plan.

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

F&C Ireland Limited

Employee pension benefits in Ireland were historically provided through the Friends First Retirement and Death Benefits Plan, in which F&C participated together with Friends First. Prior to the start of 2007 when F&C Ireland set up a separate defined benefit plan, this was accounted for as a multi-employer plan on a defined contribution basis. In 2007 the assets and liabilities attributable to the new F&C Ireland scheme were transferred into the F&C Ireland Pension Fund from the Friends First Retirement and Death Benefits Plan.

(6) Future funding requirements

UK schemes

A revised schedule of contributions for the merged plan was agreed in June 2008. The Group has paid contributions in line with this schedule since its adoption. For the first part of the year the Group contributed at the rate of £0.2m per month. The Group has agreed to pay contributions of a minimum of 29.6% of Pensionable Salaries until 1 March 2009 and 28.1% of Pensionable Salaries thereafter. In addition, the Group will pay £1.5m per annum until 30 June 2011 and £16,000 per month until March 2011. Employee contributions are payable via a salary sacrifice scheme in addition to the Group contributions. The rates of employee contributions payable are increasing on a phased basis until March 2009. Contributions are subject to review at future actuarial valuations. The minimum estimated contribution expected to be paid into the Plan during the current financial year is £3.75m (2007: £2.8m).

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

Overseas schemes

The figures in the table below assume that contributions at the level paid in 2008 will continue for the overseas schemes.

Contributions to defined benefit schemes

Amounts paid into the Group's defined benefit schemes in the past two years and expected future payments over the next five years are as follows:

Contributions paid	£m
2007	12.5
2008	**7.4**

Expected future contributions	£m
2009	5.8
2010	5.8
2011	4.9
2012	4.1
2013	4.1

(7) Risk management

(a) UK schemes

The Trustees set general investment policy but delegate the responsibility for the selection of specific investments (other than investments in respect of members' voluntary contributions) to the investment manager. The Trustees regularly monitor the Plan's investments. The Trustees seek advice from their investment adviser and believe they have sufficient skills and expertise to make investment decisions based on this advice.

The Trustees have set performance and risk targets for the investment manager. The performance objectives are long-term, however, the Trustees monitor the investment manager on a regular basis in order to ensure that the scheme is on track to meet its long-term objectives.

Prior to the merger of the two schemes, both sets of Trustees conducted an asset-liability review. These studies were used to assist the Trustees and the Group to determine the optimal long-term asset allocation with regard to the liabilities within the schemes, subject to an acceptable funding cost to the Group. The results of the studies were also used to assist the Trustees and the Group in managing volatility in the underlying investment performance and risk of a significant increase in the schemes' deficits by providing information used to determine the schemes' investment strategy.

A further asset-liability review was undertaken alongside the 31 March 2007 actuarial valuation of the merged plan.

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

Asset allocation

Following the pre-merger asset-liability reviews, both sets of Trustees agreed with F&C that they would implement a Liability Driven Investment (LDI) approach to their investment strategy. In both cases this involves the use of pooled LDI products managed by F&C. Following completion of the post-merger asset-liability review, the Trustees, with the agreement of F&C, decided in principle to introduce more diversification into the Plan's return-seeking asset investment strategy. However, at the present time, in view of the currently highly unstable markets, the implementation of this strategy change has been delayed.

Interest rate and inflation risk

The LDI pools are intended to help provide a degree of matching to the liabilities of the scheme. Each pool comprises zero coupon derivatives with the same maturity as the expected cash flows of the scheme. Each pool has leveraged exposure of varying amounts to inflation and interest rates.

The pools are valued using the market values of the underlying securities.

Currency risk

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

Operational risk

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

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

(b) Overseas schemes

The plan in The Netherlands is financed via an insurance company. The value of the Plan assets is the value of the reserve which the insurance company holds to match guaranteed pension liabilities. These reserves are, in effect, fixed interest instruments, so provide a reasonable match to pension liabilities.

The Plan in Portugal is part of an industry-wide banking sector plan. Each participant company holds a share of the assets, which are invested using the same asset allocation as the overall plan assets. F&C Portugal is the asset manager for the overall scheme.

The Plan in Ireland invests in pooled unitised funds, with returns reflecting the performance of the underlying assets.

At 31 December 2008, the assets of both the F&C Portugal and F&C Ireland Plans were invested in diversified portfolios that consisted primarily of debt and equity securities.

(8) Cost of defined contribution plans

	2008 £m	2007 £m
Group personal pension plans	**3.4**	3.3
Other defined contribution schemes	**1.1**	1.1
	4.5	4.4

The Group had £0.7m of pension contributions outstanding as at 31 December 2008 (31 December 2007: £0.1m).

28. Employee benefits – Share-based payments

The Group operates several share-based payment arrangements as part of its total employee compensation.

Summary

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

	Note	2008 £m	2007 £m
2002 ESOS		–	0.1
2002 Share Save scheme		0.1	0.2
The Re-Investment Plan		–	5.2
The Long-Term Remuneration Plan (restricted awards)		–	2.5
The Long-Term Remuneration Plan (deferred awards)		8.6	4.6
Purchased Equity Plan – FCAM plc shares		1.0	1.7
Purchased Equity Plan – F&C investment funds		0.3	0.5
Executive Director Remuneration Plan (restricted awards)		(0.7)	0.7
Executive Director Remuneration Plan (deferred awards)		1.4	0.6
Deferred Share Awards		2.2	0.3
F&C REIT variable minority interest SBP		1.4	–
Total share-based payment expenses recognised in the Income Statement	5	**14.3**	16.4

	31 December 2008 £m	31 December 2007 £m
Total carrying amount of cash-settled liabilities	**3.2**	1.4

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

	2008 £m	2007 £m
Equity – settled	12.3	13.0
Cash – settled	2.0	3.4
Total share-based payment expenses recognised in the Income Statement	**14.3**	16.4

The details of each scheme are disclosed below.

Details of option pricing models and key assumptions used to obtain the fair value of services received, or the fair value of the equity instruments granted, have been disclosed only for awards granted during the year ended 31 December 2008. Details of awards granted in previous accounting periods are disclosed in the notes of previous years' Financial Statements.

The weighted average share price during 2008 was £1.25 (2007: £1.93).

28. Employee benefits – Share-based payments (cont'd)

(i) 2002 Executive Share Option Scheme

The 2002 Executive Share Option Scheme ('2002 ESOS') was activated in March 2003. The vesting period for each award was three years and options are settled by an allotment of shares to individuals. No cash alternative is available. All options under the 2002 ESOS have now vested, as the performance criteria has been met. If the options remain unexercised after a period of 10 years from the date of award, the options expire.

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

	2008		2007	
	No.	WAEP £	No.	WAEP £
Outstanding at 1 January	1,228,227	1.99	1,880,376	1.83
Exercised during the year	(19,784)	1.39	(573,017)	1.39
Forfeited during the year	(126,415)	2.41	(79,132)	2.27
Outstanding at 31 December	1,082,028	1.96	1,228,227	1.99
Exercisable at 31 December	1,082,028	1.96	1,228,227	1.99

The options exercised during 2008 relate to a combination of "good leavers" and employees exercising vested options.

At 31 December 2008 the following options granted under the 2002 ESOS to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercisable before	Exercise price
19 March 2003	480,908	1 January 2009	19 March 2013	139.00p
9 March 2004	601,120	1 January 2009	9 March 2014	240.83p

The options outstanding at 31 December 2008 have a weighted average outstanding term of 4.8 years (31 December 2007: 5.8 years).

(ii) 2002 Share Save Scheme

The 2002 Share Save Scheme is an "all-employee share scheme" which was activated in March 2003. The options granted entitle the holders to acquire Ordinary Shares, whether by subscription or purchase, at a price per Ordinary Share determined by the Directors prior to the issue of invitations. The price at which options can be offered cannot be less than 80% of the middle-market quotation of an Ordinary Share at the date of grant. No cash alternative is available.

As part of the application process, a participant is required to enter into a savings contract with a savings provider (presently Yorkshire Building Society), and agree to make 36 (in the case of a 3-year savings contract) or 60 (in the case of a 5-year contract) monthly savings contributions of a fixed amount. At the end of the savings contract, the participant may choose to apply for repayment of his or her savings contributions, in addition to a tax free bonus.

An option may only be exercised once and normally only during the period of six months after the date on which the participant first becomes entitled to repayment of his or her savings contributions plus bonus. The option will generally lapse after a period of six months following the end of the savings contract. Employees who are deemed "good leavers" are entitled to exercise their options, for which they have accrued savings to date, for a period of up to six months after they leave.

28. Employee benefits – Share-based payments (cont'd)

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

	2008		2007	
	No.	WAEP £	No.	WAEP £
Outstanding at 1 January	**1,657,967**	**1.56**	1,448,752	1.66
Granted during the year	**–**	**–**	663,307	1.44
Exercised during the year	**(227,827)**	**1.14**	(104,874)	1.74
Forfeited during the year	**(559,814)**	**1.67**	(349,218)	1.69
Outstanding at 31 December	**870,326**	**1.60**	1,657,967	1.56
Exercisable at 31 December	**7,090**	**1.45**	11,191	1.71

No award was made in 2008.

The options exercised during 2008 relate to both the vesting of the 9 May 2003 (5 year) award and "good leavers". The 29 April 2005 (3 year) award also vested during the year.

At 31 December 2008 the following options granted under the 2002 Share Save Scheme to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercisable before	Exercise price
9 May 2003 (5 year)	3,053	1 January 2009	1 February 2009	114.0p
19 April 2004 (5 year)	65,238	19 April 2009	19 October 2009	181.0p
29 April 2005 (3 year)	913	1 January 2009	1 February 2009	186.6p
29 April 2005 (5 year)	101,085	29 April 2010	29 October 2010	186.6p
18 April 2006 (3 year)	178,113	18 April 2009	18 October 2009	171.0p
18 April 2006 (5 year)	92,745	18 April 2011	18 October 2011	171.0p
25 April 2007 (3 year)	289,893	25 April 2010	25 October 2010	144.3p
25 April 2007 (5 year)	139,286	25 April 2012	25 October 2012	144.3p

The options outstanding at 31 December 2008 have a weighted average outstanding term of 1.5 years (31 December 2007: 2.0 years).

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of options granted is measured based on a Binomial model. The contractual life of the option (3.5 or 5.5 years) is used as an input to this model. Expectations of early exercise are incorporated into the model.

The cumulative expense is "trued up" during the vesting period and at the end of the vesting period after allowing for actual forfeitures.

(iii) The Re-Investment Plan

The Re-Investment Plan was established to allow employees previously employed by F&C Group Holdings Group (F&CGH) prior to the 2004 merger to voluntarily re-invest one half of their entitlement under the F&CGH Shadow Equity Plan into Ordinary Shares in F&C Asset Management plc, and obtain rights to receive further Ordinary Shares in F&C Asset Management plc.

To encourage re-investment, and in recognition of the fact that the Investment Shares carried forfeiture provisions, after three years participants received up to one Matching Share for each Investment Share (subject to continued employment and achievement of performance conditions). One third of Matching Shares had no performance criteria, while the remaining two-thirds vested in line with EPS criteria. Full details of the Re-Investment Plan were given in the 2007 Financial Statements.

28. Employee benefits – Share-based payments (cont'd)

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

	2008		2007	
	Investment Shares No.	Matching Shares No.	Investment Shares No.	Matching Shares No.
Outstanding at 1 January	–	–	47,907	7,903,160
Exercised during the year	–	–	(47,907)	(7,819,584)
Forfeited during the year	–	–	–	(83,576)
Outstanding at 31 December	–	–	–	–

The first and second tranches of the Investment Shares vested during 2005 and 2006 respectively. The Matching Shares vested in 2007.

(iv) The Long-Term Remuneration Plan (LTRP)

The LTRP is the primary long-term incentive arrangement of the Group. LTRP awards are made at the discretion of the Board.

(a) Restricted Share Awards

Vesting of the Ordinary Shares that are currently the subject of an award under the LTRP will be dependent upon specified performance conditions and conditions of continued service. The performance conditions applied to the LTRP are determined by the Board and are measured over a three year performance period; 50% of any award relates to the achievement of total shareholder return (TSR) targets and 50% of the award relates to real underlying EPS growth, as set out below:

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

Underlying EPS target (applying to 50% of any award) Growth in Group's EPS over three year performance period	Percentage of award vesting
Below PI + 9%	Nil
PI + 9%	50%
PI + 24% or higher	100%

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

The TSR target is dependent upon the TSR of the Group compared to the TSR of the other companies who formed the FTSE 250 Index at the start of each performance period (the comparator companies) over a three year performance period commencing on the first day of the accounting period in which the award was made. At the end of the performance period, the Group and each of the comparator companies (the comparator list) are listed and ranked in accordance with their TSR over the performance period. The number of Ordinary Shares which vest would depend upon the ranking of the Group in the comparator list, in accordance with the vesting table above, described as follows: For below median TSR performance, no awards would vest; for TSR performance between the median and upper quartile (125th and 63rd position in the comparator list index), awards would vest on a straight-line basis between 35% for median and 100% for upper quartile. The TSR measure reflects the movement in the value of shares plus any dividends declared during the relevant period. It was chosen as the performance measure for the LTRP as it is directly related to movements in shareholder value.

28. Employee benefits – Share-based payments (cont'd)

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 number of restricted share awards is as follows:

	2008 No.	2007 No.
Outstanding at 1 January	**852,656**	6,506,759
Granted during the year	**–**	327,548
Exercised during the year	**–**	(2,771,901)
Forfeited during the year	**(8,827)**	(3,209,750)
Outstanding at 31 December	**843,829**	852,656

No award was made in 2008. The EPS element of the award granted on 15 November 2004 vested in full on 15 November 2007. The TSR element of the award was not achieved.

At 31 December 2008 the following LTRP restricted share awards were outstanding:

Grant date	No. of options outstanding	Earliest exercise date*	Exercise price
17 May 2006	516,281	17 May 2009	0.0p
16 March 2007	327,548	16 March 2010	0.0p

*assuming performance criteria satisfied.

The awards outstanding at 31 December 2008 have a weighted average outstanding term of 0.7 years (31 December 2007: 1.7 years).

The fair value of services received in return for share options granted is measured by reference to the fair value of share awards granted. The estimate of the fair value of awards granted is measured at full market value for the EPS criteria and no valuation model is used for this element. Monte Carlo Simulation is used to value the TSR criteria. The contractual life of the award (3 years) is used as an input to the TSR model. The 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 share awards vest, the value of the notional shares is paid to the employee in cash. The value of dividend payments has been separated as these are settled in cash.

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

The Long Term Remuneration Plan allows deferred awards to be granted to employees below Executive Director level, subject only to a time-vesting period of three years.

The number of deferred share awards is as follows:

	2008 No.	2007 No.
Outstanding at 1 January	**8,614,024**	3,446,624
Granted during the year	**10,216,710**	5,911,422
Exercised during the year	**(273,606)**	(89,712)
Forfeited during the year	**(725,758)**	(654,310)
Outstanding at 31 December	**17,831,370**	8,614,024
Exercisable at 31 December	**79,561**	43,220

The awards exercised during 2008 and exercisable at 31 December 2008 relate to "good leavers".

28. Employee benefits – Share-based payments (cont'd)

At 31 December 2008 the following awards granted under the LTRP (deferred) were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercise price
17 May 2006	2,789,825	17 May 2009	0.0p
16 March 2007	5,073,331	16 March 2010	0.0p
16 April 2007	130,890	16 April 2010	0.0p
25 March 2008	9,763,578	25 March 2011	0.0p
13 May 2008	73,746	13 May 2011	0.0p

The awards outstanding at 31 December 2008 have a weighted average outstanding term of 1.6 years (31 December 2007: 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 and no valuation model is used. 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 share awards vest, the value of the notional shares is paid to the employee in cash. The value of dividend payments has been separated from the valuation as these are settled in cash.

The key assumptions which have been used to ascertain the fair value of awards made during 2008 are as follows:

	25 March 2008		13 May 2008	
	Equity	Cash	Equity	Cash
Fair value at measurement date (per award)	169.0p	16.25p	154.5p	15.0p
Number of awards granted	10,142,964		73,746	
Share price at grant date	185.25p		169.50p	
Exercise price	0.0p		0.0p	
Vesting period	3 years		3 years	
Full term of award	3 years		3 years	
Expected dividend yield	3.10%		3.10%	
Expected forfeiture rate (per annum)	5.00%		5.00%	

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) Purchased Equity Plan

(a) F&C Asset Management plc shares

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

- The compulsory purchase of shares using annual bonus above a threshold level; and
- Voluntary purchase of shares using annual bonus, with associated Matching Shares. No Voluntary Purchased Equity awards have been granted.

On an annual basis, eligible employees who are awarded in a financial year an aggregate bonus in excess of a threshold level of £100,000 (£100,000 in respect of the year ended 31 December 2007) will be required to defer one third of the element exceeding £100,000 (£100,000 in respect of the year ended 31 December 2007) into shares (comprising either a range of investment products managed by the Group or the Company's shares) (Compulsory Purchased Equity) for three years.

28. Employee benefits – Share-based payments (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 number of Compulsory Purchased Equity Plan share awards is as follows:

	2008 No.	2007 No.
Outstanding at 1 January	**2,471,588**	1,401,112
Granted during the year	**89,371**	1,131,097
Exercised during the year	**(541,511)**	(30,475)
Forfeited during the year	**(43,854)**	(30,146)
Outstanding at 31 December	**1,975,594**	2,471,588
Exercisable at 31 December	**15,503**	57,822

The 24 March 2005 award vested on 24 March 2008.

The awards exercised during 2008 and 2007 and exercisable at 31 December 2008 relate to "good leavers".

At 31 December 2008 the following awards granted under the Purchased Equity Plan to acquire Ordinary Shares were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date*	Exercise price
24 March 2006	792,495	24 March 2009	0.0p
13 April 2007	1,105,055	13 April 2010	0.0p
2 April 2008	78,044	2 April 2011	0.0p

*assuming performance criteria satisfied.

The awards outstanding at 31 December 2008 have a weighted average outstanding term of 0.9 years (31 December 2007: 1.5 years).

The estimate of the fair value of awards granted is measured at full market value and no valuation model is used. 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 share awards vest, the value of the notional shares is paid to the employees in cash. 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 2008 are as follows:

	2 April 2008	
	Equity	Cash
Fair value at measurement date (per award)	160.0p	22.75p
Number of awards granted	89,371	
Share price at grant date	182.75p	
Exercise price	0.0p	
Vesting period	3 years	
Full term of award	51 months	
Expected dividend yield	3.10%	
Expected forfeiture rate (per annum)	5.00%	

The cumulative grant expense is "trued up" during the vesting period and at the end of the vesting period after allowing for actual forfeitures.

28. Employee benefits – Share-based payments (cont'd)

(b) F&C Investment Funds

A new element was introduced into the Purchased Equity Plan in 2007 whereby the cash bonus is deferred on a mandatory basis into certain F&C Funds (Compulsory Purchased Equity) subject to continued service over either three or four years. This option is now available in addition to the Compulsory Purchased Equity into F&C Asset Management plc ("FCAM plc") shares. The main benefit of this arrangement is to incentivise fund managers to invest in the funds they manage, thereby further aligning employee interests with those of clients.

The settlement of awards from the Compulsory Purchased Equity (F&C Investment Funds) is made by realisation of the holding in the fund at the vesting date and purchase of FCAM plc shares at that date. The value of the investment in F&C Funds, the FCAM plc share price and hence the ultimate number of FCAM plc shares to be settled is only known with certainty at the vesting date. Any dividends paid during the vesting period are used to buy further underlying F&C Investment Funds shares.

Although the awards meet the criteria of IFRS 2 "Share-based Payment" as the awards are ultimately settled in FCAM plc shares, it is not considered possible to reliably estimate the fair value of these awards at the grant date. This is due to the number of market based criteria which ultimately combine to determine the number and value of FCAM plc shares settled. Settlement of these awards to employees is satisfied by the purchase of FCAM plc shares in the market.

The fair value of these awards at the year end has been determined by measurement of the equity instruments at intrinsic value, being the quoted price of the relevant F&C Funds, both at the grant date and at each subsequent balance sheet date. The intrinsic value is then spread over the vesting period. The value of the services provided is measured using the ultimate value of awards which vest.

Awards totalling £2.5m were made on 2 April 2008 (13 April 2007: £1.2m). These awards were invested into a total of 24 (13 April 2007: 26) eligible F&C Investment Funds, comprising OEICs and Investment Trusts.

The underlying investments are held within an Employee Benefit Trust. Further details of the investments are disclosed in note 19(a)(i).

	Note	31 December 2008 £m	31 December 2007 £m
Value of F&C Investments held within the Purchased Equity Plan	19(i)(2)	**2.6**	1.2
		No.	No.
Number of FCAM plc shares which would be settled as at balance sheet date (based on year end FCAM plc share price)		**4,498,068**	597,294

(vi) Deferred Share Awards

The Group has made some deferred share awards which are not subject to ongoing performance conditions, but have a time-vesting period.

The number of share awards is as follows:

	2008 No.	2007 No.
Outstanding at 1 January	**1,251,377**	154,838
Granted during the year	**40,000**	1,096,539
Exercised during the year	**(1,096,539)**	–
Outstanding at 31 December	**194,838**	1,251,377

No awards were exercisable at either 31 December 2008 or 31 December 2007.

28. Employee benefits – Share-based payments (cont'd)

At 31 December 2008 the following Deferred Share Awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
9 August 2006	154,838	9 August 2009	0.0p
3 September 2008	40,000	3 March 2011	0.0p

The awards outstanding at 31 December 2008 have a weighted average outstanding term of 0.9 year (31 December 2007: 1.0 year).

The fair value of services received in return for share awards 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 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 share awards vest, the value of the notional shares is paid to the employee in cash. The value of dividend payments has been separated from the valuation as these are settled in cash.

The cumulative expense is "trued up" during the vesting period and at the end of the vesting period after allowing for actual forfeiture.

(vii) The Executive Director Remuneration Plan

The Executive Director Remuneration Plan ("EDRP") was approved at the 2007 AGM. Any Executive Director of the Company is eligible to participate in the EDRP. The EDRP provides for the grant of two different forms of award, Restricted Share Awards and Deferred Share Awards.

(a) Restricted Share Awards

The vesting of the Restricted Share Awards is dependent on the satisfaction of pre-determined performance conditions relating to the Underlying Earnings Per Share ("Underlying EPS") performance of the Group. Under this condition, a Restricted Share Award will only vest if the Group's Underlying EPS equals or exceeds the specified target for the year ending 31 December 2009. On achievement of the specified target, 100% of the award will vest. The participant can achieve a maximum enhanced level of vesting of 140% of the award by achieving an extremely stretching level of Underlying EPS. Where the actual Underlying EPS exceeds the minimum vesting conditions but is less than the maximum enhanced level of vesting, then the percentage of the award that vests will be calculated on a "straight-line" basis between 100% and 140%.

The 2007 Restricted Share Award is subject to the following EPS hurdle:

Underlying EPS for the year ending 31 December 2009	Percentage of Restricted Share Awards Vesting
18.1p	100%
25.2p	140%
18.1p – 25.2p	Pro-rata between 100% and 140% on a straight-line basis

Following vesting, shares will be held by Trustees, in a nominee capacity, throughout a fixed holding period at the end of which the shares may be transferred to the participant. The holding period applicable to 50% of such vested shares will end on announcement of the 2010 year end results; the balance of vested shares will be subject to a further six month holding period. During the holding period the participant will be eligible to receive dividends and exercise voting rights.

The number of Restricted Share Awards is as follows:

	3 years		3.5 years	
	2008 No.	2007 No.	2008 No.	2007 No.
Outstanding at 1 January	**2,002,000**	–	**2,002,000**	–
Granted during the year (i)	**–**	2,002,000	**–**	2,002,000
Outstanding at 31 December	**2,002,000**	2,002,000	**2,002,000**	2,002,000

(i) This represents the maximum number of restricted shares which could be achieved by the participants (i.e. 140%).

No awards were made during 2008 or were exercisable at either 31 December 2008 or 31 December 2007.

28. Employee benefits – Share-based payments (cont'd)

At 31 December 2008 the following EDRP Restricted Share Awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
21 May 2007	2,002,000	10 May 2010	0.0p
21 May 2007	2,002,000	10 November 2010	0.0p

The awards outstanding at 31 December 2008 have a weighted average outstanding term of 1.6 years (31 December 2007: 2.6 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. The estimate of fair value of awards granted is measured at full market value for EPS criteria and no valuation model is used. 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 share awards vest, the value of the notional shares is paid to the participant in cash. The value of dividend payments has been separated from the valuation as these are settled in cash.

The cumulative grant expense is "trued up" during the vesting period and at the end of the vesting period after allowing for actual forfeitures.

(b) Deferred Share Awards

Awards vest at the end of a three year period from grant date, subject to the continued employment of the participant within the Group. There are no performance criteria attached to the deferred shares and the vested shares transfer to the participant as soon as possible after vesting.

The number of Deferred Share Awards is as follows:

	2008 No.	2007 No.
Outstanding at 1 January	**1,500,574**	–
Granted during the year	**1,025,640**	1,500,574
Outstanding at 31 December	**2,526,214**	1,500,574

No awards were exercised during 2008 or were exercisable at either 31 December 2008 or 31 December 2007.

At 31 December 2008 the following EDRP Deferred Share Awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
21 May 2007	1,500,574	10 May 2010	0.0p
21 May 2008	1,025,640	25 March 2011	0.0p

The awards outstanding at 31 December 2008 have a weighted average outstanding term of 1.8 years (31 December 2007: 2.4 years).

The fair value of services received in return for share options granted is measured by reference to the fair value of share awards granted. The estimate of fair value of awards granted is measured at full market value and no valuation model is used. The 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 share awards vest, the value of the notional shares is paid to the participant in cash. The value of dividend payments has been separated from the valuation as these are settled in cash.

28. Employee benefits – Share-based payments (cont'd)

The key assumptions which have been used in the valuation to ascertain the fair value of the 2008 award are as follows:

	21 May 2008	
	Equity	Cash
Fair value at measurement date (per award)	169.0p	16.25p
Number of awards granted	1,025,640	
Share price at grant date	185.25p	
Exercise price	0.0p	
Vesting period	3 years	
Full term of award	3 years	
Expected dividend yield	3.10%	
Expected forfeiture rate	0.00%	

The cumulative grant expense is "trued up" during the vesting period and at the end of the vesting period after allowing for actual forfeitures.

(viii) F&C REIT variable minority interest SBP

In accordance with the Partnership Agreement, the REIT minority partners (Kendray Properties Limited, Leo Noé and Ivor Smith) have the potential to increase their stake in F&C REIT Asset Management LLP ("F&C REIT") collectively from 30% to 40%.

A variable minority interest was granted as an incentive to achieve increased levels of profit including realisation of future performance fees in return for a potential increased stake in the business. This variable minority interest is therefore accounted for under IFRS2: Share-based Payment. The fair value of the "award" at date of acquisition reflects the value assessed as part of the acquisition valuation. This fair value will be spread over the relevant vesting period.

The minority partners have the potential to increase their stake in the F&C REIT partnership by 3.33% for every year in which the EBITDA performance target of £45.0m is achieved, up to a maximum of 10%. Therefore, if the target was achieved in the first three years, no further increase would be possible. The variable minority interest performance criteria could be achieved in any year of the six year period from 1 January 2009 to 31 December 2014. The vesting period is uncertain but the maximum timescale to achieve full vesting for each 3.33% is in years 4, 5 and 6 respectively. The Directors have assumed that 3.33% will vest in each of 2012, 2013 and 2014. The expense for each tranche is being spread from the date of grant over 4, 5 and 6 years respectively. However, the respective vesting period may be accelerated if the targets are achieved earlier.

If either Leo Noé or Ivor Smith should leave during this period, the variable minority interest could still convert to all the minority partners, so the remaining charge would be accelerated, subject to meeting the performance criteria. The additional minority interest to which the minority partners will be entitled will be in proportion to their original partnership interest at the date of vesting. If a partner left after one year he would sacrifice two thirds of his interest. If a partner stays three years he is entitled to his proportionate share of the full 10%, subject to meeting the performance criteria. Kendray's minority interest always varies in accordance with the underlying interests of Leo Noé and Ivor Smith. Any variable minority interest sacrificed by a minority partner will remain part of FCAM plc's share of the LLP.

As the performance criteria is non-market based, to the extent that part or all of the performance criteria is not met then that proportion of the charge will be reversed, i.e. "trued up". At the outset it is considered likely that the full conversion will be achieved. Therefore the IFRS2 charge to the Income Statement assumes full vesting.

Assumptions used in the model

The fair value of the award was not based on an observable market price. The fair value of the "award" at date of acquisition reflects the value assessed as part of the acquisition valuation.

Award date	3 September 2008
Fair value of award	£22.0m
Percentage chance of meeting criteria	100%
Vesting period	4-6 years
Expected forfeiture rate	0%

28. Employee benefits – Share-based payments (cont'd)

(ix) 1995 Executive Share Option Scheme

IFRS 2 'Share-based Payment' is only applied to grants of shares, share options or other equity instruments that were granted after 7 November 2002 and had not vested before 1 January 2005 (i.e. the effective date of IFRS 2).

The 1995 Executive Share Option Scheme ("1995 ESOS") last granted options before 7 November 2002 and is not therefore subject to the full effects of IFRS 2 in terms of recognising an expense in the Income Statement. The standard does, however, require certain disclosures to be made in respect of this Scheme.

The 1995 ESOS is an unapproved share option scheme, where participation was entirely at the discretion of the Directors. The lifespan of the Scheme was ten years from the date on which it was approved by shareholders and accordingly no further options can be granted under the Scheme after 1 September 2005. The vesting period is three years. Options are settled by grant of shares to individuals. No cash alternative is available.

If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest. Employees who are deemed "good leavers" are entitled to exercise their options for a period of one year after they leave, regardless of whether the vesting requirements have been met.

The option price shall not be less than the market value of a share on the dealing day (or averaged over the three dealing days) before the option is granted.

The exercise of options granted under the Scheme will be dependent on the achievement by the Company of specified thresholds of underlying earnings per share. Options cannot be exercised before the third anniversary of the date of the grant. Thereafter they can be exercised (in whole or in part) only when the underlying EPS percentage increase in each three consecutive years exceeds the RPI by at least 2% per annum.

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

	2008		2007	
	No.	WAEP £	No.	WAEP £
Outstanding at 1 January	1,333,047	2.77	2,031,927	2.63
Exercised during the year	–	–	(194,036)	2.04
Forfeited during the year	(448,865)	2.65	(504,844)	2.48
Outstanding at 31 December	884,182	2.84	1,333,047	2.77
Exercisable at 31 December	884,182	2.84	1,333,047	2.77

The options exercised during 2007 related to "good leavers".

At 31 December 2008 the following options granted under the 1995 ESOS to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercisable before	Exercise price
9 June 1998	19,402	1 January 2009	31 March 2009	203.83p
16 July 1999	340,158	1 January 2009	16 July 2009	232.50p
28 April 2000	295,622	1 January 2009	28 April 2010	214.00p
1 March 2001	229,000	1 January 2009	1 March 2011	455.83p

The options outstanding at 31 December 2008 have a weighted average outstanding term of 1.2 years (31 December 2007: 1.9 years).

29. Deferred income

	2008 £m	2007 £m
At 1 January	16.4	17.9
Income deferred in the year	3.8	5.0
Amortisation in the year	(4.6)	(6.5)
At 31 December	15.6	16.4

	31 December 2008 £m	31 December 2007 £m
Split as follows:		
Non-current liabilities	11.2	12.1
Current liabilities	4.4	4.3
	15.6	16.4

Deferred income primarily comprises initial fees arising on investments made by OEIC investors. These fees are initially recognised as deferred income and released to income over the estimated period (2008: 7 years; 2007: 7 years) for which the investment is expected to be held.

30. Other Financial Liabilities

	Notes	31 December 2008 £m	31 December 2007 £m
Amounts due within one year:			
Forward currency contracts	6(a)	9.9	–
		9.9	–
Amounts due outwith one year:			
Forward currency contracts	6(a)	2.4	–
F&C REIT put options	16	66.0	–
		68.4	–
		78.3	–

The forward currency contracts are being used to partially hedge future Euro-denominated income. The above liabilities reflect the fair value of unrealised losses on these contracts at the balance sheet date.

The F&C REIT put options represents the fair value of the potential future liability to purchase the 30% minority interest from the minority partners. Details are disclosed in note 16(a).

31. Investment contract liabilities

Investment contract liabilities in respect of policyholder investments at the start and end of the year and an analysis of movements during the year are as follows:

	2008 £m	2007 £m
Liability as at 1 January	**1,090.1**	1,175.1
Contributions received	**197.1**	96.7
Investment return applied	**(208.7)**	45.0
Charges levied	**(4.2)**	(3.9)
Repayments	**(268.6)**	(215.3)
Movement in reinsurance ceded	**(52.6)**	(7.5)
Liability as at 31 December	**753.1**	1,090.1

All investment contract liabilities have been disclosed as due within one year as this is considered to be appropriate to the rights of policyholders who have the right to withdraw their investments at short notice.

The Directors expect that the majority of the investment contract liabilities will be repayable outwith one year. However, as the investment contracts are repayable on demand of the policyholders they have been disclosed within current liabilities.

32. Insurance contract liabilities

Insurance contract liabilities include life assurance liabilities in respect of lifetime guarantees provided with certain investment products, and annuity liabilities in respect of pension investment contracts where the investor has retired. These liabilities and related reinsurance balances at the start and end of the year, together with an analysis of movements in the year, are as follows:

	2008			2007		
Insurance contract liabilities	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
At 1 January	**2.3**	**2.3**	**–**	2.4	2.4	–
Claims paid	**(0.1)**	**(0.1)**	**–**	(0.2)	(0.2)	–
Unwinding of discount rate	**0.1**	**0.1**	**–**	0.1	0.1	–
Other changes in year	**(0.2)**	**(0.2)**	**–**	–	–	–
At 31 December	**2.1**	**2.1**	**–**	2.3	2.3	–

The reinsurance liabilities relate to annuity business reinsured with Friends Provident Pensions Limited.

A liability adequacy test was carried out at policy level and resulted in no additional provision for either 2008 or 2007. No significant gain or loss arose on reinsurance contracts incepted in 2008 or 2007.

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	2008	2007
Annuities in payment	**83-94% PCXA00**	81-94% PCXA00

(i) Projected thereafter using 100% of the average of medium and long cohort improvement factors for males (75.0% for females) subject to a minimum annual rate of improvement of 1.50% for males (1.25% for females).

Due to the small number of annuity policies, the mortality assumptions reflect recent experience of the reinsurer together with an allowance for future mortality improvement. Experience analysis for mortality is performed annually by the reinsurer.

Discount rate

The discount rate used at 31 December 2008 is 4.52% (31 December 2007: 4.75%) based on current fixed interest gross redemption yields, with a prudent adjustment for risk.

33. Share capital

(a) Ordinary Share capital of 0.1p

	31 December 2008 Number of shares	31 December 2008 £m	31 December 2007 Number of shares	31 December 2007 £m
Authorised:				
Equity interests				
Ordinary Shares of 0.1p	**800,000,000**	**0.8**	800,000,000	0.8
Allotted, called up and fully paid:				
Equity interests				
Ordinary Shares of 0.1p	**495,725,314**	**0.5**	495,705,530	0.5

	No. of Ordinary Shares 2008	No. of Ordinary Shares 2007
Issued at 1 January	**495,705,530**	484,775,590
Issue of shares at par to settle share-based payment awards	**–**	10,162,887
Share options exercised during the year	**19,784**	767,053
Issued at 31 December	**495,725,314**	495,705,530

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
9 May 2008	2002 ESOS	**19,784**	139.00p

The Group held the following shares in Employee Benefit Trusts (EBTs). These are categorised as own shares held, and are deducted from shareholders' funds:

	31 December 2008 No.	31 December 2007 No.
ISIS Employee Benefit Trust	**141,755**	1,357,922
The Ivory & Sime Employee Benefit Trust	**64,176**	562,857
F&C Management Limited Employee Benefit Trust	**1,564,451**	1,512,449
	1,770,382	3,433,228

The aggregate nominal value of own shares held by EBTs at 31 December 2008 was £2,000 (31 December 2007: £3,000). The market value of these shares at 31 December 2008 was £1.0m (31 December 2007: £6.6m).

During the year, the Group purchased 345,845 of its own Ordinary Shares (2007: 1,279,618) of 0.1p to satisfy the exercise of awards granted under the Share Save scheme in respect of "good leavers" and to hold as own shares. The consideration paid for the shares was £0.6m (2007: £2.4m). The cost of this to the Group, after exercise price monies paid by the employees, was £0.4m (2007: £2.2m).

33. Share capital (cont'd)

(b) Preference Share capital of £1 each

	31 December 2008		31 December 2007	
	Number of shares	£m	Number of shares	£m
Authorised, allotted, called up and fully paid	**800,000**	**0.8**	800,000	0.8

The issued Cumulative Preference Shares are classified as financial liabilities. The key terms and conditions relating to these Preference Shares are as follows:

– Dividends on the Cumulative Preference Shares are paid in priority to any payment of dividend on any other class of shares.

– On a return of assets on liquidation, the assets of the Company available for distribution shall be applied first in repaying the holders of the Cumulative Preference Shares the amounts paid up or credited as paid up on such shares, together with any arrears of the dividend.

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

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

34. Reserves

Reconciliation of movement in reserves

	Ordinary Share capital £m	Share premium account £m	Merger reserve £m	Foreign currency translation reserve[1] £m	Fair value reserve[1] £m	Acquisition reserve[1] £m	Retained earnings £m	Minority interests £m	Total equity £m
Balance at 1 January 2007	0.5	32.6	520.7	(3.8)	1.1	–	132.3	0.4	683.8
Items reported in the Consolidated Statement of Recognised Income and Expense	–	–	–	14.9	1.4	–	24.2	1.6	42.1
Realised element of merger reserve to offset amortisation and impairment of intangible assets	–	–	(21.4)	–	–	–	21.4	–	–
Share capital allotted on exercise of options	–	1.2	–	–	–	–	–	–	1.2
Purchase of own shares	–	–	–	–	–	–	(2.4)	–	(2.4)
Settlement proceeds received on exercise of share options	–	–	–	–	–	–	0.2	–	0.2
Final 2006 dividend paid	–	–	–	–	–	–	(33.8)	–	(33.8)
Interim 2007 dividend paid	–	–	–	–	–	–	(9.7)	–	(9.7)
Share-based payment charges credited to equity	–	–	–	–	–	–	13.0	–	13.0
Distributions to minority interest	–	–	–	–	–	–	–	(0.9)	(0.9)
Balance at 31 December 2007	**0.5**	**33.8**	**499.3**	**11.1**	**2.5**	**–**	**145.2**	**1.1**	**693.5**
Items reported in the Consolidated Statement of Recognised Income and Expense	–	–	–	54.2	(1.2)	–	(50.6)	1.9	4.3
Realised element of merger reserve to offset amortisation and impairment of intangible assets	–	–	(42.5)	–	–	–	42.5	–	–
Issue of F&C REIT put options on acquisition	–	–	–	–	–	(66.0)	–	–	(66.0)
Purchase of own shares	–	–	–	–	–	–	(0.6)	–	(0.6)
Settlement proceeds received on exercise of share options	–	–	–	–	–	–	0.2	–	0.2
Final 2007 dividend paid	–	–	–	–	–	–	(19.7)	–	(19.7)
Interim 2008 dividend paid	–	–	–	–	–	–	(9.9)	–	(9.9)
Share-based payment charges credited to equity	–	–	–	–	–	–	12.3	–	12.3
Minority interest arising on acquisition of REIT	–	–	–	–	–	–	–	17.3	17.3
Distributions to minority interest	–	–	–	–	–	–	–	(1.6)	(1.6)
Balance at 31 December 2008	**0.5**	**33.8**	**456.8**	**65.3**	**1.3**	**(66.0)**	**119.4**	**18.7**	**629.8**

Cumulative defined pension scheme actuarial losses recognised as at 31 December 2008 are £17.5m which are included in retained earnings (31 December 2007: £20.0m). See note 27.

[1] The total of foreign currency translation reserve, fair value reserve, an acquisition reserve and other reserves constitutes 'Other reserves' as disclosed in the Consolidated Balance Sheet and amounts to a credit of £0.6m (31 December 2007: credit of £13.6m).

34. Reserves (cont'd)

Nature and purpose of reserves

Share premium account

The share premium account is used to record the issue of share capital in excess of par value.

Merger reserve

The merger reserve is used to record share premium on shares issued by way of consideration in respect of acquisitions. The element of the merger reserve which relates to amortisation and impairment of intangible assets charged to the Income Statement is considered to be realised. A transfer is made from the merger reserve to retained earnings to recognise the extent to which the merger reserve has been realised, thereby offsetting the corresponding element of the intangible amortisation charge.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the Financial Statements of foreign operations and non-Sterling denominated intangible assets.

Fair value reserve

This reserve records fair value changes on available for sale investments until the investments are derecognised.

Acquisition reserve

The acquisition reserve was created on the initial recognition of the minority interest put options liability.

Minority interests

This reserve represents the share of the Group's net assets which are not attributable to equity holders of the parent, including the minority interests share of intangible assets arising from business combinations.

Retained earnings

Retained earnings comprises:

- net profits and losses recognised through the Income Statement;
- actuarial gains and losses recognised on the pension liability;
- deferred tax on actuarial gains and losses;
- transactions relating to equity-settled share-based payments, and deferred tax movements on share-based payments reflected through equity;
- the purchase and sale of own shares; and
- transfer from merger reserve.

35. Notes to the cash flow statement

(a) Analysis of cash flow statement movements

	2008 £m	2007 £m
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	3.0	3.7
Amortisation of intangible assets	49.9	43.2
Impairment of intangible assets	48.3	–
Unrealised losses on forward currency contracts	12.3	–
Gain on disposal of property, plant and equipment	(0.1)	–
Equity-settled share-based payment expenses	12.3	13.0
	125.7	59.9
Changes in working capital and provisions:		
Decrease/(increase) in trade and other receivables	16.4	(9.0)
(Decrease)/increase in trade and other payables	(6.4)	3.0
Decrease/(increase) in stock of units and shares	0.5	(0.1)
Increase/(decrease) in other liabilities	0.3	(1.1)
Decrease in investment contract liabilities	(337.0)	(77.5)
(Decrease)/increase in employee benefit liabilities	(8.2)	2.9
Decrease/(increase) in deferred acquisition costs	0.8	(0.6)
Decrease in deferred income	(0.8)	(1.5)
Pension charge to operating profit less defined benefit pension contributions paid	(3.9)	(7.9)
(Decrease)/increase in provisions for liabilities and charges	(1.8)	0.2
Decrease in financial investments	327.0	90.8
	(13.1)	(0.8)

(b) Property, plant and equipment

During the period the Group acquired property, plant and equipment with an aggregate cost of £1.2m (2007: £2.2m). Cash payments of £1.6m (2007: £2.2m) were made to purchase property, plant and equipment during the year.

(c) Cash and cash equivalents

Note 22 provides details of cash and cash equivalent balances, a description of cash and cash equivalents, restrictions on use of cash, and note 24 gives details of borrowing facilities.

36. Contingencies

Contingent liabilities:

(a) Stocklending activities

As part of its asset management responsibilities, the Group performed collateralised stock lending activities as agent for a number of its clients. The unprecedented market turbulence, increased counterparty risk and counterparty failure rates encountered during the year resulted in the Group ceasing such activities. In certain cases, the cessation was exercised through invoking default clauses in the relevant contracts, realisation of collateral held and the repurchase of stocks originally on loan. However, the related termination calculations, setting out the realisations of collateral, the uses of the cash realised and net amounts due to or from principals under the relevant agreements have not yet been agreed for all clients. In particular, in certain instances the collateral held may not be readily realisable in the current market conditions. Whilst the Group acts in an agency capacity, it is possible that potential disputes may arise from the completion of these calculations. The calculations have yet to be completed and therefore it is not possible to estimate the potential liability, if any, of the Group in these circumstances.

(b) Employment Tribunal

A number of claims were made by a former employee against the Company at UK Employment Tribunal hearings during 2007 and 2008. The Employment Tribunal initially decided six claims in favour of the Company and five in favour of the claimant.

The Company submitted appeals against these findings leading to the Employment Appeal Tribunal concluding in November 2008 that, as a result of fresh evidence supporting the Company's position, the five claims against the Company should be re-heard by a new Tribunal during 2009. Whilst the claimant has sought £19.0m in compensation, no decision on damages, were the claimant to succeed, has been made at any time.

The Company will continue to defend vigorously its position at the Tribunal re-hearing. Based on legal advice, the Directors do not believe there is a material financial exposure which should be separately reported at the balance sheet date.

(c) Ongoing business operations

In the normal course of its business, the Group is subject to matters of litigation or dispute. While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Group.

37. 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 2008 £m	31 December 2007 £m	31 December 2008 £m	31 December 2007 £m
Not later than one year	**11.6**	10.3	**3.1**	2.0
Later than one year and not later than five years	**45.0**	42.0	**1.7**	1.3
Later than five years	**56.3**	63.3	**–**	–
	112.9	115.6	**4.8**	3.3

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 exclude 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 2008 £m	31 December 2007 £m
Not later than one year	**4.1**	4.0
Later than one year and not later than five years	**11.0**	10.1
Later than five years	**6.8**	8.4
	21.9	22.5

A contingent lease payment, based on a percentage of revenue, is receivable in addition to the minimum lease payments in respect of one property. The maximum amount receivable under this arrangement is £0.6m (31 December 2007: £0.6m) per annum.

Capital commitments

The amount contracted for in terms of capital expenditure, but not provided for in the Financial Statements at 31 December 2008 was £nil (31 December 2007: £1.1m).

38. Financial risk management

Overview

The Group has exposure to a number of business risks. The Board of Directors has overall responsibility for the Group's risk management arrangements, but has delegated the implementation and operation of the Board policies to Management. The Group's risk management policies and the risk management framework for identifying, monitoring and managing risks across the Group, including strategic and operational risks, are detailed in the Directors' Report on Corporate Governance on pages 41 and 42.

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 consequential impact on the Group's assets under management and revenues. The Group's direct or indirect exposure to financial instruments arises from the following financial risks:

- Market risk
- Credit risk
- Liquidity risk

This note presents information on the Group's direct or indirect exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the management of the Group's capital. Note 39 provides numerical analysis of the Group's financial instrument exposure to such risks, including relevant sensitivity analysis, at the balance sheet date.

Indirect earnings risk through client assets

As an active fund manager the Group is responsible for managing assets in accordance with the mandates specified by our clients. The assets managed by the Group are subject to varying financial risks (market, credit and liquidity). While these risks could result in financial loss or gain through a change in asset value, these risks and rewards are fully borne by, or fall to the benefit of, our clients.

However, as the majority of the Group's revenues are quantified as a percentage of assets under management (generally on a quarterly or monthly basis), the Group's income is impacted by movements in client assets which are caused by the exposure to financial risks. As a result of the direct link of revenues to the value of client assets, the Group's interests are aligned to those of our clients.

A key risk to our business is that of poor investment performance, which could lead to the subsequent loss of client mandates. A key role of the Heads of Equities and Fixed Income is to monitor the fund performance achieved by our investment professionals. Where it is necessary, actions are taken to change process or personnel with a view to attaining top quartile performance. The Group has the ability to earn performance fees from a number of our clients, where out-performance of the benchmark or set objective is achieved. These arrangements reinforce the alignment of the Group's interests with those of our clients.

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

Market risk – the risk of financial loss arising from changes in the market prices of assets. Market risks include exposure to all asset classes, including equities, fixed income products and property as well as currency risk and interest rate risk.

Credit risk – the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations in respect of assets held within client portfolios. Credit risk can vary by asset class and individual instrument.

Liquidity risk – the risk of financial loss to client portfolios because a client does not have sufficient financial resources available and is unable to realise assets in order to meet its obligations as they fall due, or can only realise assets by suffering financial loss.

Prior to 2008, the Group did not hedge any of its revenue exposure to movements in the value of client assets arising from any of these risks. During 2008, following significant strengthening of the Euro against Sterling, the Group's reporting currency, the Group entered into a series of forward currency contracts to partially hedge future Euro-denominated revenue streams for the remainder of 2008 and beyond.

38. Financial risk management (cont'd)

Direct earnings and capital exposure

The Group has direct exposure to the following risks in respect of financial instruments on the Consolidated Balance Sheet:

- *Market risk* – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.
- *Credit risk* – the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations in respect of financial instruments held by the Group. Credit risk includes investment credit risk, counterparty risks, deposit and loan risks and country risks.
- *Liquidity risk* – Liquidity risk is the failure of the Group to maintain adequate levels of financial resources to enable it to meet its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Group could be required to pay its liabilities earlier than expected or because of any inability to realise assets in order to meet obligations as they fall due or is only able to realise assets by suffering financial loss.

A fuller analysis of the financial risks associated with the Group's financial instruments, together with the objectives, policies and processes to manage the Group's exposure follows.

Unit-linked assets and liabilities

A significant element of the value of the Group's financial assets relates to the Group's unit-linked pooled pension business. As outlined in note 19, Financial Instruments, the risks and rewards associated with these assets, which are held by the Group's insurance subsidiary, fall to be borne by, or to the benefit of, the underlying policyholders. As a result, the investment contract liabilities reflected on the Group Balance Sheet are equal and opposite in value to the assets which are held on behalf of unit-linked policyholders. The Group has no direct exposure to fluctuations in the value of the assets arising from changes in market prices or credit default, although the revenue stream earned from managing these assets varies in line with the movement in assets held on behalf of clients.

The financial risk management disclosures specifically exclude policyholders' unit-linked assets and liabilities relating to F&C Managed Pension Funds Limited as there is no direct exposure to the Group from the associated financial instruments.

Financial investments

Recognising that the Group's revenue stream has significant financial exposure to fluctuations in assets managed on behalf of clients, a key principle of the Group Treasury Policy set by the Board is to restrict investment of the Group's assets to low risk deposits or money market instruments where the risk of capital loss is low, thereby seeking to protect the Group's capital. Advanced Board approval is required for any investment or financial instrument which does not follow this general principle.

In November 2007 the Board amended the Group Treasury Policy to allow up to £20.0m of the Group's cash resources to be utilised as seed capital to support the launch of new investment funds. The policy permits seed capital to be invested in a maximum of two funds at any point in time, restricts the maximum initial investment to £10.0m in any one fund and targets divestment of seed capital no later than 12 months from the date of investment. While no such investments were held at either balance sheet date, investments totalling £14.8m were made in 2008 to facilitate the launch of new single strategy hedge funds. The Group subsequently realised a gain of £5.3m on disposal of these investments. Forward exchange contracts were also entered into with a view to minimising any financial loss arising from exposure to currency risk on these initial investments.

'Financial investments' classified as fair value through profit or loss, detailed on pages 94 to 96, primarily comprise assets held in connection with current or historic employee remuneration arrangements. The Group has no net financial exposure to 'Purchased Equity Plan' and 'Bonus investments' as the risks and rewards of all movements in the value of these financial assets fall to the beneficiary and are offset by equal and opposite movements in the Group's associated employee benefit liabilities, which accrue over the vesting period. The 'NIC hedge' economically hedges the Group's exposure to movements in future National Insurance Contributions obligations in respect of certain assets held by the Group's Employee Benefit Trusts.

'Other financial investments' classified as available for sale reflect the value of the Group's private equity investments. These primarily reflect 'carried interest entitlement' which arises from the Group's historical ownership of private equity businesses. The Board does not seek to manage any of the financial risks associated with these investments and recognises that uncertainty exists as to the quantum and timing of future distributions which may arise from these investments.

38. Financial risk management (cont'd)

Stock of units and shares

The Group operates and manages a number of Open Ended Investment Companies (OEICs) whose funds, into which retail and institutional investors can invest, have a wide range of investment objectives. The Group holds a stock of units and shares in these OEIC funds in order to facilitate the creation and redemption of units by investors. The Group's risk management policy specifically limits the overall magnitude of the units held by the Group to £1.5m and the amount which may be held in any single fund to £0.05m.

Trade debtors and accrued income

Trade debtors and accrued income represent amounts recognised within net revenue in the Income Statement, but which have not been settled in cash. The nature of F&C's business is such that asset management fees accrue based on daily, month-end or quarter-end asset values, which once known, are billed to clients and are due to be settled in line with individual contractual terms. As a result, the aggregate value of debtors and accrued income can typically represent up to four months of revenue at any point in time. In addition, as most of the performance fees earned by the Group accrue in respect of the calendar year and can only be billed subsequently, the quantum of accrued income at the balance sheet date is generally higher than at other periods and is sensitive to the magnitude of performance fees recognised.

Before the Group takes on new clients, it undertakes the required "Know Your Client" procedures. As the Group manages assets on behalf of clients and management fees are typically charged to and paid from the underlying funds managed by the Group, there is a relatively low risk of default on management fees. The Group does not hold any credit insurance.

Due to the scale of some of F&C's larger clients, the Group is exposed to a concentration of credit risk from large clients or groups of connected clients, arising from timing difference between the recognition of income and the receipt of management fees outlined above. Very few clients have external credit ratings.

Where management fees are denominated in a currency other than Sterling, the Group is exposed to currency risk. As previously noted, prior to 2008 the Group did not hedge any of its exposure to monetary assets denominated in foreign currency. However, during 2008 the Group partially hedged its anticipated Euro-denominated revenue streams in respect of 2008 and 2009.

Other debtors

Other debtors include 'Trustee debtors' and 'debtors due from investors in respect of the purchase of units'. In operating and managing OEICs, the Group seeks to match the purchase and sale of investments to align to the receipt or payment of funds from or to investors. However, if these obligations are not matched then there is a requirement for the Group to fund any short fall from its corporate cash resources. The risk relating to unsettled transactions is considered small due to the short settlement period involved. In the event that investors default on sums due, then the Group is entitled to reimbursement of costs from the investor.

Cash and cash equivalents

F&C adopts a low risk approach to treasury management and seeks to ensure that its capital is preserved and financial risks are managed appropriately.

The Group treasury operations are managed by the Finance function within parameters defined by the Board. The regulatory capital and treasury position of the Group are reported to the Board on a regular basis.

The Group's cash and cash equivalent assets are exposed to a number of financial risks in the normal course of its business. The policy adopted is designed to manage risk and recognises that treasury management operations are specifically not treated as a profit centre. The key aspects of this policy and its implementation are detailed below:

- Funds on deposit will only be placed on a short term basis (maximum term 90 days) to help maximise regulatory capital.
- Deposits may only be placed with counterparties approved by the F&C Credit Committee, and the Board has set a £25.0m limit for the maximum exposure to any single counterparty. The F&C Credit Committee's primary focus is to assess the credit position of counterparties prior to placing any client assets with them together with the monitoring of credit risk thereafter.

38. Financial risk management (cont'd)

- Exposure to cash and cash equivalent balances held in foreign currency is managed to reduce the risk of movements in exchange rates, where possible, by the repatriation of surplus foreign currency into Sterling. This is achieved in practice via the regular settlement of the Group's transfer pricing arrangements and through the payment of dividends from foreign subsidiaries, having regard to their respective, legal, regulatory and working capital requirements. The timing of the conversion of Euro-denominated cash balances to Sterling is by necessity impacted by the settlement profile of the forward currency contracts.
- Cash and deposit balances can be exposed to interest rate movements. The Group utilises the experience and skills of its professional dealing team to obtain the best interest rates, ensuring the expected maturity dates of deposits are aligned to the Group's working capital requirements.

Recognising the scale and significance of the world financial crisis which arose during 2008, management determined it appropriate to temporarily reduce the Group's maximum corporate exposure to any one financial institution to £15.0m, from the Board approved level of £25.0m. In such an environment, the objective of capital preservation was considered of greater importance than the income generated from short-term deposits.

Reinsurance assets

The Group unit-linked pooled pension subsidiary is an insurance company and has some exposure to insurance contract liabilities, as outlined in note 32. These liabilities are fully reinsured as the Group seeks to have no net insurance exposure. The reinsurance assets represent the expected amounts recoverable to meet insurance liabilities as they fall due. The Group has exposure to both credit and liquidity risk on these assets.

Defined benefit pension deficit

The Group's defined benefit pension obligation represents the discounted value of future pension obligations in excess of plan assets, details of which are given in note 27.

The Group has exposure to the movements in the market value of the plan assets, which include equities and LDI fixed interest pools. Approximately 25% of the assets held in respect of the UK scheme are held in LDI pools, with maturity profiles which match the expected maturity profile of pension obligations. The market values of the LDI pools are impacted by movements in interest rates.

The value of defined benefit pension obligations is quantified and discounted using corporate bond rates. Movements in these rates can have a significant impact on the pension liabilities and hence the quantum of the Group's pension deficit.

Management of capital

While F&C considers its capital to be its total equity, this is effectively managed via the net assets to which it relates.

The Company's Ordinary Shares are listed on the London Stock Exchange. The Board monitors significant movements in the composition of its shareholder base. Details of substantial interests in share capital are shown on page 31. In the ordinary course of business the only movements in the absolute number of shares in issue would be through the issue of new or own shares to satisfy obligations under share-based payment arrangements or through the purchase of own shares to satisfy future share scheme obligations.

The Directors give careful consideration to the appropriate funding structure for financing all acquisitions, which historically have included both equity and debt funded transactions.

Dividends are only declared by the Board after due consideration of a number of key items, including the financial results and the future outlook of the financial position of the Company and of the Group. In 2007 the Directors rebased the dividend to achieve the targeted dividend cover of 1.5 times underlying profit. The Board declared an unchanged total dividend of 6.0p per share for 2008. As a result of the impact of extreme market conditions and corporate uncertainty, this resulted in a 2008 dividend cover of less than the 150% target.

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

The only security held over the Group's assets is in respect of the £35.0m Floating Rate Secured Notes which were issued during 2008 to partially finance the acquisition of REIT. Details of this security are given in note 24.

38. Financial risk management (cont'd)

Working capital

Working capital is monitored on a daily basis to ensure that settlement terms of all forthcoming liabilities can be met. This activity includes timely collection of debtors and monitoring of cash on deposit, having regard to regulatory capital requirements, as outlined below. The Group's Finance function includes a Treasury team which manages the short-term cash-flow requirements of the Group are met while seeking to maximise the amount of cash on deposit.

The Group also has bank overdraft facilities available to it which provide some protection against any short-term cash-flow requirements. The undrawn committed facilities available at the balance sheet date are shown in note 24. In 2006 the Group issued £260.0m fixed rate Subordinated Notes for which the earliest repayment date is 2016, but this can be extended at the option of the Group until 2026. The Group has the option to defer interest payments on this debt, but if it elects to do so then no dividend can be paid to Ordinary Shareholders until the cumulative amount of any unpaid interest due on the debt is settled in full. No such interest payments have been deferred.

As highlighted above, the Group issued £35.0m of debt during 2008 to partially finance the REIT acquisition. This debt is required to be paid in full by 30 June 2010. The Group will continue to monitor options available to repay this debt recognising that market conditions may impact any refinancing alternatives.

Details of the Group's interest bearing loans and borrowings are given in note 24.

The Board Reserved List prohibits the use of derivatives including futures, options and forward contracts, in respect of the Group's net assets, without prior Board approval, recognising the general principle of seeking to minimise capital loss. In 2008, the Board specifically approved a series of Euro-denominated forward currency contracts which sought to partially hedge future revenues of the Group.

Regulatory capital requirements

The Group is required to maintain a minimum level of capital in accordance with the Capital Requirements Directive (CRD) prescribed in the UK by the Financial Services Authority (FSA).

In 2006, the Group obtained from the FSA a waiver from meeting any minimum capital requirements under the consolidated supervision rules of the CRD. This waiver took effect from 1 January 2007 and does not need to be renewed until 2011.

At 31 December 2008, there were 15 regulated companies in the Group, of which 11 are registered in the United Kingdom and are subject to regulation by the FSA. This includes F&C Managed Pension Funds Limited which, being a regulated insurance firm, as opposed to a regulated investment firm, is not part of F&C's consolidation group for regulatory capital reporting purposes but is part of the Friends Provident regulatory group. Overseas regulated companies, registered in the Republic of Ireland, The Netherlands, Portugal and Hong Kong are subject to regulatory capital requirements set out by their local regulatory authority as embedded within the legislation of those jurisdictions.

Regulatory rules set out the measurement of Capital Resources and Capital Resources Requirements (CRR) to determine the regulatory capital surplus or deficit. This CRR is referred to as the Pillar 1 capital requirements under CRD.

For the UK regulated investment firms; the CRR is the higher of:

- The sum of the 'credit risk capital requirement' and the 'market risk capital requirement'; and
- the 'fixed overhead requirement'.

Credit risk represents the risk of a party being unable to meet its obligations to a firm, calculated using risk weighted percentages applied to the various exposure amounts. The market risk for F&C represents the risk of loss from fluctuations in exchange rates, calculated as a percentage of the total of the long or short positions, denominated in foreign currencies, whichever is the greater. The fixed overheads requirement is calculated as a quarter of a firm's relevant fixed annual expenditure in the previous year's audited Financial Statements.

38. Financial risk management (cont'd)

The regulated companies are required to submit financial returns to the FSA, or the local regulatory authority for overseas companies, setting out the calculation of the regulatory capital surplus (or deficit). The Group's regulated companies are required to submit returns quarterly or semi-annually and the Group must submit a consolidated return semi-annually.

The CRD requires the Group to conduct an Internal Capital Adequacy Assessment Process (ICAAP), referred to as Pillar 2 capital requirements. The objective of this process is to ensure that companies have adequate capital to enable them to manage risks not deemed to be adequately covered under the Pillar 1 minimum requirements. This is a forward looking exercise which includes stress testing on major risks, considering how each company would cope with a significant market down turn for example, and an assessment of the companies and Group's ability to mitigate the risks.

All of the Group's regulated entities maintained surpluses of regulatory capital throughout 2007 and 2008.

39. The extent of risks arising from financial instruments

Note 38 presents details of the Group's direct or indirect exposure to financial risks arising from financial instruments and the Group's objectives, policies and processes for measuring and managing risk and the management of the Group's capital. This note provides numerical analysis of the Group's direct exposure to such financial risk, including relevant sensitivity analysis, at each balance sheet date.

The disclosures in this note exclude any policyholder unit-linked assets and liabilities in respect of the Group's insurance subsidiary, as the risks and rewards rest primarily with the policyholders.

(a) Credit risk

(i) Maximum exposure to credit risk

The carrying amount of financial assets represents the Group's maximum exposure to credit risk. The maximum exposure of each class of financial asset is:

	31 December 2008 £m	31 December 2007 £m
Financial assets at fair value through profit or loss:		
Financial investments	8.2	8.6
Stock of units and shares	0.3	0.8
Available for sale financial assets:		
Financial investments	2.1	3.8
Loans and receivables:		
Trade debtors	9.5	11.0
Accrued income	35.0	45.3
Other debtors	27.7	25.6
Amounts owed by Friends Provident Group	0.4	1.5
Amounts owned by F&C REIT related party entities	0.9	–
Amounts owed by Eureko Group	4.8	6.5
Cash and cash equivalents – shareholders	223.1	216.2
	312.0	319.3

The accrued income balance is higher than the average monthly balance during the year. This is primarily due to the level of performance fees recognised at 31 December 2008 and 31 December 2007.

39. The extent of risks arising from financial instruments (cont'd)

The credit risk of the financial assets analysed by the credit ratings of the counterparties, is set out below:

As at 31 December 2008	AAA £m	AA £m	A £m	Other rated £m	Not rated £m	Total £m
Financial assets at fair value through profit or loss:						
Financial investments	0.3	2.9	–	–	5.0	8.2
Stock of units and shares	–	–	–	–	0.3	0.3
Available for sale financial assets:						
Financial investments	–	–	–	–	2.1	2.1
Loans and receivables:						
Trade debtors	–	–	1.7	1.8	6.0	9.5
Accrued income	–	–	2.7	0.8	31.5	35.0
Other debtors	–	–	–	–	27.7	27.7
Amounts owed by Friends Provident Group	–	–	–	–	0.4	0.4
Amounts owed by Eureko Group	–	–	4.8	–	–	4.8
Amounts owed by F&C REIT related party entities	–	–	–	–	0.9	0.9
Cash and cash equivalents – shareholders	23.6	84.9	114.4	0.2	–	223.1
	23.9	87.8	123.6	2.8	73.9	312.0

As at 31 December 2007	AAA £m	AA £m	A £m	Other rated £m	Not rated £m	Total £m
Financial assets at fair value through profit or loss:						
Financial investments	0.4	2.3	–	0.3	5.6	8.6
Stock of units and shares	–	–	–	–	0.8	0.8
Available for sale financial assets:						
Financial investments	–	–	–	–	3.8	3.8
Loans and receivables:						
Trade debtors	–	–	0.9	–	10.1	11.0
Accrued income	–	–	20.5	–	24.8	45.3
Other debtors	–	–	–	–	25.6	25.6
Amounts owed by Friends Provident Group	–	–	1.5	–	–	1.5
Amounts owed by Eureko Group	–	–	6.5	–	–	6.5
Cash and cash equivalents – shareholders	6.5	179.1	30.6	–	–	216.2
	6.9	181.4	60.0	0.3	70.7	319.3

(Based on external credit ratings)

39. The extent of risks arising from financial instruments (cont'd)

(ii) Analysis of financial assets past due but not impaired

The analysis of financial assets which are receivable but have not been impaired is as follows:

As at 31 December 2008	Neither past due nor impaired £m	Less than 30 days £m	Between 30 and 90 days £m	Between 90 days and 1 year £m	Beyond 1 year £m	Total £m
Financial assets at fair value through profit or loss:						
Financial investments	8.2	–	–	–	–	8.2
Stock of units and shares	0.3	–	–	–	–	0.3
Available for sale financial assets:						
Financial investments	2.1	–	–	–	–	2.1
Loans and receivables:						
Trade debtors	4.2	2.1	1.6	1.1	0.5	9.5
Accrued income	35.0	–	–	–	–	35.0
Other debtors	27.6	0.1	–	–	–	27.7
Amounts owed by Friends Provident Group	0.4	–	–	–	–	0.4
Amounts owed by Eureko Group	4.8	–	–	–	–	4.8
Amounts owed by F&C REIT related party entities	0.9	–	–	–	–	0.9
Cash and cash equivalents – shareholders	223.1	–	–	–	–	223.1
	306.6	2.2	1.6	1.1	0.5	312.0
As at 31 December 2007						
Financial assets at fair value through profit or loss:						
Financial investments	8.6	–	–	–	–	8.6
Stock of units and shares	0.8	–	–	–	–	0.8
Available for sale financial assets:						
Financial investments	3.8	–	–	–	–	3.8
Loans and receivables:						
Trade debtors	3.2	2.6	4.3	0.9	–	11.0
Accrued income	45.3	–	–	–	–	45.3
Other debtors	25.5	0.1	–	–	–	25.6
Amounts owed by Friends Provident Group	1.5	–	–	–	–	1.5
Amounts owed by Eureko Group	4.1	–	–	–	2.4	6.5
Cash and cash equivalents – shareholders	216.2	–	–	–	–	216.2
	309.0	**2.7**	**4.3**	**0.9**	**2.4**	**319.3**

Based on past experience and the nature of the Group's business, the Directors believe that no additional impairment provision is necessary at either 31 December 2008 or 31 December 2007 in respect of trade debtors.

39. The extent of risks arising from financial instruments (cont'd)

(iii) Impairment losses

Details of impairment of financial assets at 31 December are as follows.

Trade debtors provision:

	2008 £m	2007 £m
At 1 January	**0.1**	0.9
Bad debt charge in the year	**0.1**	0.2
Utilised in the year	**(0.1)**	(1.0)
At 31 December	**0.1**	0.1
Gross impaired trade debtors	**0.1**	0.1

(iv) Concentration risk

Specific concentration of risk in respect of amounts receivable from any one client or group of connected clients at the balance sheet date is given below:

Concentrations of £1.0m or more	31 December 2008 £m	31 December 2007 £m
Amounts due from Friends Provident Group	**0.4**	4.0
Amounts due from Eureko Group	**9.7**	12.8
Amounts due from ISIS EP LLP	**0.5**	1.6
Amounts due from OEIC Trustee (JP Morgan)	**8.9**	7.7
Amounts due from other significant clients – 2008: 11 clients (2007: 11)	**19.0**	30.1
	38.5	56.2

39. The extent of risks arising from financial instruments (cont'd)

(b) Liquidity risk

The following are the maturity dates of the Group's financial liabilities:

As at 31 December 2008	Within 1 year, or repayable on demand £m	Within 1-2 years £m	Within 2-5 years £m	More than 5 years £m	Total £m
£260.0m fixed/floating Subordinated Notes 2026	–	–	–	260.0	260.0
Interest on Subordinated Notes*	17.6	17.6	52.6	52.7	140.5
£35.0m Floating Rate Secured Notes 2010	–	35.0	–	–	35.0
Interest on Secured Notes	1.5	0.8	–	–	2.3
Preference Share capital‡	–	–	–	0.8	0.8
Trade and other payables:					
Trade creditors	1.4	–	–	–	1.4
Other creditors – short-term	22.6	–	–	–	22.6
Other creditors – long-term	–	0.2	0.6	0.9	1.7
Accruals – short-term	20.6	–	–	–	20.6
Accruals – long-term	–	0.4	1.7	3.3	5.4
	63.7	54.0	54.9	317.7	490.3

As at 31 December 2007	Within 1 year, or repayable on demand £m	Within 1-2 years £m	Within 2-5 years £m	More than 5 years £m	Total £m
£260.0m fixed/floating Subordinated Notes 2026	–	–	–	260.0	260.0
Interest on Subordinated Notes*	17.6	17.6	52.6	70.2	158.0
Preference Share capital‡	–	–	–	0.8	0.8
Trade and other payables:					
Trade creditors	3.1	–	–	–	3.1
Other creditors – short-term	29.0	–	–	–	29.0
Other creditors – long-term	–	0.1	0.5	0.8	1.4
Accruals – short-term	18.8	–	–	–	18.8
Accruals – long-term	–	0.4	1.1	4.3	5.8
	68.5	18.1	54.2	336.1	476.9

* to the date of the Group's option to extend the Notes beyond 19 December 2016.
‡ interest on the Preference Share capital is potentially perpetual in nature and has been excluded from this table.

The maturity dates of the Group's financial liabilities have been determined by reference to the earliest contractual date which the third party could demand payment and represent undiscounted cash flows.

The Group has borrowing facilities available to it. The undrawn committed facilities available at 31 December 2008 and 31 December 2007 are shown in note 24.

(c) Market risk

(i) Market price risk

The analysis of financial assets which are exposed to market price risk is as follows:

	31 December 2008 £m	31 December 2007 £m
Financial assets at fair value through profit or loss:		
Financial investments	8.2	8.6
Stock of units and shares	0.3	0.8
	8.5	9.4

Details of the assets held by the Group's defined benefit pension schemes, which are also exposed to market price risk, are given in note 27.

39. The extent of risks arising from financial instruments (cont'd)

(ii) Other price risk

	31 December 2008 £m	31 December 2007 £m
Available for sale financial assets:		
Financial investments	**2.1**	3.8

(iii) Currency risk

The Group is exposed to currency risk at the balance sheet date in respect of:

(i) financial assets and liabilities denominated in foreign currencies; and

(ii) the foreign currency risk of net assets of foreign operations.

The net monetary assets and net investment in foreign operations, in Sterling, which are denominated in foreign currencies or for which the fair value of the asset or liability varies with movements in foreign currencies are:

	Euro £m	US Dollar £m	Other £m	Total £m
As at 31 December 2008	**129.6**	**1.8**	**1.4**	**132.8**
As at 31 December 2007	81.0	3.2	0.1	84.3

The above table excludes intangible assets.

(iv) Interest rate risk

The following tables set out the carrying amount and maturity profile of the Group's financial instruments that are exposed to interest rate risk:

As at 31 December 2008	Within 1 year £m	Within 1-2 years £m	Within 2-5 years £m	More than 5 years £m
Fixed rate				
£260.0m fixed/floating Subordinated Notes 2026	**–**	**–**	**–**	**(258.2)**
£35.0m Floating Rate Secured Notes 2010	**–**	**(35.0)**	**–**	**–**
Financial investments – corporate bonds	**–**	**–**	**–**	**0.7**
Floating rates				
Financial investments – fair value through profit or loss	**2.4**	**0.2**	**–**	**–**
Cash and cash equivalents – shareholder	**223.1**	**–**	**–**	**–**
£0.8m Preference Share capital	**–**	**–**	**–**	**(0.8)**
	225.5	**(34.8)**	**–**	**(258.3)**
As at 31 December 2007				
Fixed rate				
£260.0m fixed/floating Subordinated Notes 2026	–	–	–	(260.0)
Financial investments – corporate bonds	–	–	2.0	1.0
Floating rates				
Cash and cash equivalents – shareholder	216.2	–	–	–
£0.8m Preference Share capital	–	–	–	(0.8)
	216.2	**–**	**2.0**	**(259.8)**

(v) Sensitivity analysis

The Group has quantified the impact of specific changes in its significant market risk variables. This analysis measures the change in fair value and cash flows of the Group's financial instruments.

The sensitivity analysis, which is for illustrative purposes only, is prepared based on financial instruments that are recognised at the balance sheet dates. The sensitivity assumes changes in certain market conditions. These assumptions may differ materially from the actual outturn due to the inherent uncertainties in global financial markets. In practice, market risks rarely change in isolation and are likely to be interdependent. The methods and assumptions used are the same for both reporting periods.

39. The extent of risks arising from financial instruments (cont'd)

(v) Sensitivity analysis (cont'd)

The sensitivity analysis has been prepared based on the impact a set percentage increase or decrease in the market conditions would have on the profit or loss and on total equity.

Changes in exchange rates assume an instantaneous increase or decrease of 10.0% for foreign currency to Sterling rates at the reporting date, with all other variables remaining constant.

The estimated changes in fair values of investments assume a 10.0% increase or decrease in the fair values of investments at the reporting date, with all other variables remaining constant.

Changes in market interest rates assume an increase or decrease of 1.0% in the rate applied to average cash balances in the year.

The financial impact of market risk sensitivities, after taxation, are summarised below:

As at 31 December 2008	Profit or loss sensitivity £m	Profit or loss sensitivity £m	Equity sensitivity £m	Equity sensitivity £m
Exchange rate movement*	**+10%**	**–10%**	**+10%**	**–10%**
Currency				
Sterling/Euro exchange rates	8.0	(9.8)	18.4	(18.3)
Sterling/USD exchange rates	0.1	(0.1)	0.1	(0.1)
Fair value movement – Investments	**+10%**	**–10%**	**+10%**	**–10%**
Sterling equity prices	0.4	(0.4)	0.6	(0.6)
Interest rate movement	**+1%**	**–1%**	**+1%**	**–1%**
Sterling market interest rates	1.8	(1.8)	1.8	(1.8)

As at 31 December 2007				
Exchange rate movement*	**+10%**	**-10%**	**+10%**	**-10%**
Currency				
Sterling/Euro exchange rates	1.0	(1.2)	7.0	(8.5)
Sterling/USD exchange rates	0.2	(0.3)	0.2	(0.3)
Fair value movement – Investments	**+10%**	**-10%**	**+10%**	**-10%**
Sterling equity prices	0.6	(0.6)	0.9	(0.9)
Interest rate movement	**+1%**	**-1%**	**+1%**	**-1%**
Sterling market interest rates	1.5	(1.5)	1.5	(1.5)

* Represents a 10% movement in favour of the Group and 10% movement against the Group.

The increase in the sensitivity to changes in the Sterling/Euro exchange rate from 31 December 2007 to 31 December 2008 is primarily attributable to the forward currency contracts which were entered into during 2008.

In addition, the F&C REIT put options are disclosed at fair value. A 10% movement in the fair value of the options at 31 December 2008 would result in a £6.6m (31 December 2007: £nil) charge or credit to the Income Statement and to equity.

Impairment of financial assets can also be affected by changes in the relevant underlying risk.

39. The extent of risks arising from financial instruments (cont'd)

(d) Capital

A summary of the Group's capital and the net assets which it represents is shown below:

	31 December 2008 £m	31 December 2007 £m
Share capital	**0.5**	0.5
Share premium account	**33.8**	33.8
Merger reserve	**456.8**	499.3
Other reserves	**0.6**	13.6
Retained earnings	**119.4**	145.2
Minority interests	**18.7**	1.1
Total equity	**629.8**	693.5
Net assets	**629.8**	693.5

40. 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 with 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 (£2.1m at 31 December 2008; £2.3m at 31 December 2007) this is not considered significant.

41. 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 Asset Management Services Limited (1)	100	Scotland	Employee service company
ISIS Equity Partners Holdings Limited (1)	100	England	Holding company
ISIS Investment Manager plc (1)	100	England	Investment management
F&C Managed Pension Funds Limited (1)	100	England	Unit-linked pooled pensions business
F&C Treasury Limited (1)	100	England	Treasury management company
F&C Group (Holdings) Limited (1)	100	England	Holding company
F&C Group ESOP Trustee Limited (1)	100	Scotland	ESOP Trustee
F&C Investment Business Limited (1)	100	Scotland	Investment Trust management
FP Fund Managers Limited (2)	100	England	Investment management
F&C Asset Managers Limited (2)	100	England	Investment management
F&C Property Limited (2)	100	England	Property investment management
F&C Property Investments Limited (3)	100	England	Property investment management
F&C Fund Management Limited (3)	100	England	OEIC investment management
F&C Managers Limited (formerly ISIS Investment Management Limited) (3)	100	England	Investment management
WAM Holdings Limited (4)	100	England	Holding company
FCEM Holdings (UK) Limited (5)	100	England	Holding company
F&C Unit Management Limited (5)	100	England	OEIC investment management
F&C (CI) Limited (6)	100	England	Investment company
F&C Investment Services Limited (6)	100	England	Investment and support services
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 company

41. Subsidiary undertakings (cont'd)

	Percentage interest and voting rights*	Country of registration or incorporation	Nature of business
(i) United Kingdom (cont'd)			
F&C European Capital Partners (GP) Limited (1)	100	Scotland	General Partner
F&C European Capital Partners (Founder Partner) LP (1)	50#	Scotland	Founder Partner
F&C REIT Asset Management LLP (1)	70#	England	Property investment management
F&C REIT Property Asset Management plc (12)	70	England	Property investment management
REIT Asset Management Limited (12)	70	England	Property investment management
Tier Services Limited (14)	70	England	Property investment management
REIT Corporate Finance Limited (13)	70	England	Property investment management
(ii) Overseas			
F&C Channel Islands Limited (5)	100	Jersey	Employee services company
F&C Netherlands B.V. (7)	100	The Netherlands	Investment management
F&C Ireland Limited (7)	100	Republic of Ireland	Investment management
F&C Portugal Gestao de Patrimonios S.A. (7)	100	Portugal	Investment management
F&C Asset Management Asia Limited	100	Hong Kong	Investment management
F&C Luxembourg S.A. (7)	100	Luxembourg	Investment management
F&C Management Luxembourg S.A. (7)	100	Luxembourg	Investment management
F&C REIT Asset Management S.à.r.l. (12)	70	Luxembourg	Property investment management
Adebai Limited (14)	70	Cyprus	Holding company property
F&C REIT Asset Management Sweden AB (14)	70	Sweden	Property investment management
F&C REIT Asset Worldwide Limited (14)	70	Gibraltar	Property investment management
F&C REIT Asset Management GmbH & Co KG (14)	70#	Germany	Property investment management
F&C REIT Property Management India Pvt Ltd (15)	70	India	Property investment management

* Voting rights are ordinary share capital except where indicated.
\# Partnership interest in voting rights.

(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

(12) Owned by F&C REIT Asset Management LLP

(13) Owned by REIT Asset Management Limited

(14) Owned by F&C REIT Asset Management S.à.r.l.

(15) Owned by Adebai Limited

42. 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 41 and its interests in associates are shown in note 15. During the year, the Group entered into the following transactions with related parties:

(a) Compensation of key management personnel of the Group

In aggregate these are set out below:

	Total compensation 2008 £m	Outstanding at 31 December 2008 £m	Total compensation 2007 £m	Outstanding at 31 December 2007 £m
Short-term employee benefits	9.5	4.2	9.6	5.3
Post-employment benefits	1.4	–	1.4	–
Termination benefits	0.4	0.2	–	–
Share-based payments:				
– recurring arrangements	1.1	–	3.8	–
– Re-Investment Plan	–	–	5.4	–
Total	12.4	4.4	20.2	5.3

'Key management personnel' comprise:

- Directors of all principal companies in the Group.
- Members of the Group's Executive and Management Committees.

Compensation of key management personnel excludes the profit entitlement attributable to minority interests, which are separately disclosed within note 42(c).

Where key management personnel participate in defined benefit pension schemes which have been accounted for as such under IAS 19, the amount included as compensation reflects the current service and/or past service cost for the relevant year. Where key management personnel are members of multi-employer defined benefit arrangements or defined contribution schemes, the benefits shown reflect the contributions payable for each year.

The share-based payments disclosed in the table above reflect the value of any share-based payments vesting during the year. This is quantified as the aggregate of cash payments plus the fair value of shares on the date of vesting (excluding any consideration payable on exercise) of such share-based payment awards.

(b) Transactions with key management personnel of the Group

Appropriations of profits paid to key management are as follows:

	2008 £m	Minority interest at 31 December 2008 £m	2007 £m	Minority interest at 31 December 2007 £m
Ordinary dividends paid	0.1	–	0.1	–
Distributions paid to minority interests*	1.6	18.7	0.9	1.1

* Profit entitlements for 2007 and 2008 and net assets attributable to minority interests at 31 December 2008 and 31 December 2007 are disclosed on pages 148 and 149.

42. Related party transactions (cont'd)

(c) Transactions and balances with related parties

Transactions with related parties during 2008 and 2007 and outstanding balances with these parties as at 31 December 2008 and 31 December 2007 are given below, by each group of related parties.

(i) Related party transactions with the Friends Provident Group (FP Group)

Friends Provident plc is the parent undertaking and ultimate controlling party of the F&C Group.

Companies within the F&C Group provide investment management services to companies in the FP Group and are entitled to receive management fees in line with the contractual terms of relevant investment management agreements.

Companies within the FP Group provide, under the Shared Services Agreement, services in respect of accounting and other professional services. Fees are paid monthly in arrears. The Shared Services Agreement is terminable on six months' written notice by either party. The investment management agreements with the FP Group are terminable with twelve months' notice, but revert to long-term contracts of between 5 and 10 years, from inception, if Friends Provident's shareholding in the Company were to fall below 50%.

	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Management fees	31.6	(0.4)	35.8	2.5
Amounts outstanding at 31 December are included within trade debtors and accrued income or other creditors as appropriate.				
Shared services and administration services:				
Shared service fees	0.4	(0.1)	0.3	–
Administration service fees	0.6	–	0.7	–
Amounts outstanding at 31 December are included within accruals.				
Other recharges:				
Other recharges to the FP Group	0.6	–	2.5	2.4
Other recharges from the FP Group	0.2	(0.8)	0.3	(0.9)
Other recharges includes charges made to or from the FP Group for premises, staff costs and other related expenditure. Amounts outstanding at 31 December are included within amounts owed by/(to) Friends Provident Group.				
Dividends and interest payable:				
Ordinary dividends	15.5	–	22.8	–
Dividends on Preference Shares	0.1	–	0.1	–
Loan interest	–	–	0.1	–
Amounts outstanding at 31 December are included within amounts owed to FP Group.				
Other transactions:				
Net investment in property funds	(45.2)	–	(1.9)	–
Annuity reinsurance	0.2	–	0.1	–

Net investment in property funds represents amounts invested through the Property Funds 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. The reinsurance asset at 31 December 2008 is £2.1m (31 December 2007: £2.3m).

42. Related party transactions (cont'd)

OEICs and private equity special purpose vehicles ('SPVs')

Where the FP Group controls an F&C managed OEIC or private equity SPVs, 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 2008 £m	Outstanding at 31 December 2008 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Investment management fees	10.3	0.7	10.7	0.9
Carried interest receipts	1.1	–	–	–

(ii) Related party transactions with Eureko B.V. and subsidiary companies (Eureko Group)

Since the acquisition of F&C Group (Holdings) Limited in 2004, the Eureko Group has held in excess of 10% of the Ordinary Shares of the Company and is entitled to Board representation. Consequently, transactions between the F&C Group and the Eureko Group are considered to be related party transactions.

Companies within the F&C Group provide investment management services to the Eureko Group. The F&C Group is enitled to receive management fees in line with the contracted terms of relevant investment management agreements. The Achmea Group investment management agreements referred to below are deemed significant. These agreements are subject to long term contracts terminable, other than when asset class underperformance triggers have been breached, on 12 months' notice falling on or after the ninth anniversary of their commencement date (typically October 2004). In the event of a change of control whereby a third party acquires a controlling interest in F&C, whether directly or indirectly (as a result of a change of control occurring within Friends Provident), immediate termination is possible with compensation payable to F&C by the Achmea Group based on revenue stream.

Companies within the Eureko Group provide, under the Transitional Services Agreement, services in respect of investment accounting and other administration services.

	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Shared services and administrative services:				
Friends First	0.1	–	0.1	–
Achmea Group	0.4	–	0.3	–
Management fees:				
Achmea Group	33.3	4.9	32.4	5.9
Friends First	3.4	(0.1)	3.8	0.3
Imperio	0.5	0.1	0.4	0.1
Amounts outstanding at 31 December are included within trade debtors and accrued income.				
Dividends payable to Eureko B.V.:				
Ordinary dividends	3.1	–	7.5	–

Amounts owed from/to Eureko

In addition to the above, the Group was owed £4.8m at 31 December 2008 (31 December 2007: £6.5m) by Eureko B.V. and its subsidiaries. The Group owed Eureko B.V. £2.9m at 31 December 2008 (31 December 2007: £2.9m) as disclosed in note 16(c).

The Group also owed Eureko B.V. £5.2m at 31 December 2008 (31 December 2007: £3.8m) in respect of taxation balances.

During 2008, the Group received £2.4m from Eureko B.V. in settlement of the historic pension liabilities arising on non-UK defined benefit schemes acquired as part of the merger in 2004. This was shown within other income in 2007 (see note 2).

42. Related party transactions (cont'd)

(iii) Related party transactions with associates

ISIS EP LLP

ISIS EP LLP ceased to be an associate of the Group in December 2007.

Amounts charged by the Group to ISIS EP LLP	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Shared service costs	n/a	n/a	0.6	n/a
Other recharges	n/a	n/a	0.4	n/a
Profit share	n/a	n/a	0.6	n/a

In accordance with the Termination Agreement, ISIS EP LLP repaid £1.0m of the non-voting, non-participating B class capital in 2008 (2007: £1.0m). At 31 December 2008 £0.5m (31 December 2007: £1.5m) of the B class capital was due to be repaid to the Group.

The £0.1m of undistributed profit share outstanding at 31 December 2007 was repaid in 2008.

(iv) Transactions with Minority Partners

(a) F&C REIT Asset Management LLP

F&C Asset Management plc owns 70% of the "A" and "B" partnership units in F&C REIT Asset Management LLP. The other partners in the Partnership, all of whom have significant influence over the management of the Partnership or a significant economic interest in the Partnership are:

Kendray Properties Limited	30.0% ownership interest in "A" units
Leo Noé	22.5% ownership interest in "B" units
Ivor Smith	7.5% ownership interest in "B" units

These parties are considered to be related parties. The 2008 period represents the period from acquisition of F&C REIT Asset Management LLP on 3 September 2008 to 31 December 2008.

The following clients of F&C REIT Asset Management LLP are considered to be related parties as one or more of the minority partners serves as a Director of these companies.

	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Pinton Estates PLC Group	0.4	0.3	–	–
Ashpol PLC Group	0.1	0.1	–	–
Brightsea EPG Limited Group	0.4	0.4	–	–
Estates & General Limited Group	0.1	0.1	–	–
St Katherine's Investments LP	0.1	0.1	–	–
Star City Unit Trust	–	0.1	–	–
	1.1	1.1	–	–

The balances are trading balances in the ordinary course of business. Amounts outstanding at the balance sheet date are unsecured and non-interest bearing.

Notes to the Consolidated Financial Statements

42. Related party transactions (cont'd)

The partners are entitled to receive a share of the profits in F&C REIT Asset Management LLP.

	2008 profit entitlement £m	2008 distributions paid £m	Minority interest at 31 December 2008 £m	2007 profit entitlement £m	2007 distributions paid £m	Minority interest at 31 December 2007 £m
Kendray Properties Limited	0.5	–	9.1	–	–	–
Leo Noé	0.4	0.2	6.6	–	–	–
Ivor Smith	0.1	0.2	2.1	–	–	–
	1.0	0.4	17.8	–	–	–

F&C has a shared services agreement and a staff secondment agreement with F&C REIT Asset Management LLP whereby the F&C Group provides certain administrative and professional services to F&C REIT Asset Management LLP. Amounts charged under this agreement are set out below:

	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Shared services and administrative services:				
Employee benefits	2.5	1.1	–	–
Administration service fees	0.6	0.3	–	–
Amounts outstanding at 31 December are eliminated on consolidation.				

The F&C REIT Asset Management LLP Group has balances with several entities connected with the minority partners of the Partnership. These balances remain from creation of the F&C REIT Group.

	Balances outstanding at 31 December 2008 £m	Balances outstanding at 31 December 2007 £m
Trafalgar Overseas Limited	0.6	–
Kendray Properties Limited	(0.2)	–
REIT Europe Limited	0.3	–
REIT Asset Management	(2.1)	–
REIT Asset Management GmbH & Co KG	(0.1)	–

In addition, F&C REIT Asset Management LLP paid Leo Noé and Ivor Smith £0.1m during 2008 in respect of rent for the F&C REIT Groups head offices at Wigmore Street, London.

The minority partners owe F&C REIT Asset Management LLP an estimated £0.2m at 31 December 2008 as part of the equalisation of net assets upon completion, as included in note 16(a).

Certain management fees receivable by F&C companies outwith the F&C REIT Asset Managment LLP Group are passed to the F&C REIT Asset Management LLP Group under revenue delegation agreements, as the asset management activity has been delegated to F&C REIT. Amounts paid or payable are set out below:

	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Management fees	4.4	0.6	–	–
Amounts outstanding at 31 December are eliminated on consolidation.				

42. Related party transactions (cont'd)

Full details of the acquisition are given in note 16(a). In addition to the above transactions, as part of the transaction, F&C paid £25.0m in cash and issued £35.0m of secured loan notes to Kendray Properties Limited. F&C also relinquished control of 30% of F&C Property Asset Management plc as part of the transaction. Details of the loan notes are given in note 24.

Interest on £35.0m loan notes:

	Charged and accrued during 2008 £m	Outstanding at 31 December 2008 £m	Charged and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Interest payable to Kendray Properties Limited	**0.8**	**0.2**	–	–

The F&C Group incur a share-based payment expense in respect of the variable minority interest enhancement which could be achieved by Kendray Properties Limited, Leo Noé and Ivor Smith. Full details are disclosed in note 28(viii).

The F&C REIT minority partners each have a put option to sell their minority stake in F&C REIT after a minimum number of years. Details of the carrying amount of this option liability are disclosed in note 30. The option liability is split in the ownership proportions of Kendray Properties Limited, Leo Noé and Ivor Smith.

(b) F&C Partners LLP

F&C Alternative Investments (Holdings) Limited owns 60% of F&C Partners LLP. The other partners in the Partnership, both of whom have significant influence over the management of the Partnership and a significant economic interest in the Partnership are:

F. Barthelemy	20% ownership interest
A. Culligan	20% ownership interest

These parties are considered to be related parties.

The partners are entitled to receive a share of the profits in F&C Partners LLP.

	2008 profit entitlement £m	2008 distributions paid £m	Minority interest at 31 December 2008 £m	2007 profit entitlement £m	2007 distributions paid £m	Minority interest at 31 December 2007 £m
F. Barthelemy	**0.5**	**0.6**	**0.45**	0.8	0.5	0.55
A. Culligan	**0.5**	**0.6**	**0.45**	0.8	0.5	0.55
	1.0	**1.2**	**0.9**	1.6	1.0	1.1

Under the terms of the Partnership agreement, a portion of certain management fees receivable by F&C Partners LLP are passed to F&C Alternative Investments (Holdings) Limited.

	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Management fees	**1.6**	**0.5**	1.7	0.9
Amounts outstanding at 31 December are eliminated on consolidation.				

42. Related party transactions (cont'd)

The Group has a shared services agreement with F&C Partners LLP whereby the F&C Group provides certain administrative and professional services to F&C Partners LLP.

	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Employee services	**0.7**	**0.2**	0.7	0.4
Administration service fees	**0.1**	**–**	0.1	–
Amounts outstanding at 31 December are included within accruals				

(v) Post-employment benefit plans

Pension Schemes

The Group operates and participates in several post-employment benefit plans as detailed in note 27.

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

	2008		2007	
	Employer contributions £m	Outstanding at 31 December £m	Employer contributions £m	Outstanding at 31 December £m
F&C Management Pension Plan	**–**	**–**	0.2	–
F&C Asset Management Pension Plan (formerly ISIS Asset Management plc Pension Fund)	**5.6**	**–**	10.6	–
F&C Portugal[(1)]	**0.6**	**0.6**	0.5	–
F&C Netherlands	**1.0**	**0.1**	0.8	–
F&C Ireland	**0.2**	**–**	0.4	–
	7.4	**0.7**	12.5	–

(1) incorporated within the Fundo de Pensoes do Grupo Banco Comercial Português scheme.

In addition to the above, the Group has an unfunded obligation to provide the Chairman, Mr R W Jenkins, with a pension as detailed in note 27.

The Group manages the assets of the F&C Asset Management plc Pension Plan. The assets of the scheme totalled £131.4m at 31 December 2008 (31 December 2007: £139.9m which includes the F&C Management Pension Plan). In addition, the Group manages £800.3m (31 December 2007: £978.8m) of investments in respect of Friends Provident's main defined benefit pension scheme. The Group received the following investment management fees from these schemes:

	2008		2007	
	Fees receivable £m	Outstanding at 31 December £m	Fees receivable £m	Outstanding at 31 December £m
F&C Management Pension Plan	**–**	**–**	0.2	–
F&C Asset Management Pension Plan	**0.4**	**0.3**	0.2	–
Friends Provident Pension Scheme	**0.9**	**0.2**	0.9	0.2

43. Capital Requirements Directive

Under Pillar 3 of the Capital Requirements Directive, prescribed in the UK by the Financial Services Authority, the Group is required to disclose information relating to its risks and its capital and risk management objectives and policies. The Group's Pillar 3 disclosures are given on the Company's website.

44. Post Balance Sheet events

Since the year end, the minority interest members who hold a 40% interest in F&C Partners LLP, the Group's fund of funds hedge fund business, have asserted that they believe circumstances have arisen under the Limited Liabillity Partnership Agreement which would require F&C Alternative Investment (Holdings) Limited (F&C AIH), the Group's subsidiary company which holds the remaining 60% interest in F&C Partners LLP, to acquire the 40% interest currently owned by the minority interest members. The Directors of F&C AIH do not support this assertion and have initiated legal proceedings to challenge this assertion.

45. Parent undertaking and controlling party

In the opinion of the Directors, the Group's ultimate parent undertaking and controlling party is Friends Provident plc. The results of the F&C Group are consolidated in the Group Accounts of 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

The Five Year Record is shown based on International Financial Reporting Standards ("IFRS") which have been adopted by the Group.

This Five Year Record is not part of the audited Financial Statements.

Consolidated Income Statements	IFRS* 2004 £m	IFRS 2005 £m	IFRS 2006 £m	IFRS 2007 £m	IFRS 2008 £m
Revenue					
Investment management fees	154.5	277.3	257.6	267.2	**244.2**
Other income	3.3	0.7	3.7	10.6	**1.1**
Total revenue	157.8	278.0	261.3	277.8	**245.3**
Fee and commission expenses	(5.9)	(10.9)	(10.5)	(13.3)	**(15.4)**
Net revenue	151.9	267.1	250.8	264.5	**229.9**
Net gains/(losses) and investment income on unit-linked assets	93.6	162.6	106.7	45.0	**(208.7)**
Movements in fair value of unit-linked liabilities	(92.4)	(161.3)	(105.0)	(43.9)	**210.5**
Operating expenses					
Operating expenses	(101.4)	(150.7)	(159.4)	(183.8)	**(170.9)**
Amortisation of intangible assets – management contracts	(20.8)	(55.8)	(43.0)	(42.4)	**(48.9)**
Impairment of intangible assets – management contracts	–	(111.5)	(58.5)	–	**(48.3)**
Unrealised losses on forward exchange contracts	–	–	–	–	**(12.3)**
Other exceptional operating costs	(5.4)	(22.2)	(11.6)	(10.6)	**(10.6)**
Total operating expenses before restructuring costs	(127.6)	(340.2)	(272.5)	(236.8)	**(291.0)**
Operating profit/(loss) before restructuring costs	25.5	(71.8)	(20.0)	28.8	**(59.3)**
Restructuring costs:					
– Reorganisation costs post acquisition of F&CGH Group	(18.3)	(22.4)	(9.7)	–	**–**
– Operations outsourcing	(0.9)	(2.2)	–	–	**–**
Operating profit/(loss) after restructuring costs	6.3	(96.4)	(29.7)	28.8	**(59.3)**
Finance revenue	4.6	15.6	20.6	23.8	**25.7**
Finance costs	(15.0)	(19.5)	(22.0)	(27.3)	**(29.4)**
Loss on disposal of subsidiaries and associates	–	(0.7)	(0.1)	–	**(4.1)**
Impairment in associates and other financial investments	–	(5.0)	(0.8)	–	**(0.1)**
Share of (loss)/profit of associates	(0.3)	(0.3)	1.5	0.6	**–**
(Loss)/profit before tax	(4.4)	(106.3)	(30.5)	25.9	**(67.2)**
Tax – Policyholders	(0.4)	(0.1)	(0.9)	(0.6)	**(0.9)**
Tax – Shareholders	1.3	29.1	8.9	(6.6)	**17.6**
Tax income/(expense)	0.9	29.0	8.0	(7.2)	**16.7**
(Loss)/profit for the year	(3.5)	(77.3)	(22.5)	18.7	**(50.5)**
Attributable to:					
Equity holders of the parent	(3.5)	(77.3)	(23.5)	17.1	**(52.4)**
Minority interests	–	–	1.0	1.6	**1.9**
(Loss)/profit for the year	(3.5)	(77.3)	(22.5)	18.7	**(50.5)**
Underlying earnings per Ordinary Share	12.76p	15.90p	12.80p	10.37p	**7.78p**
Basic (loss)/earnings per Ordinary Share	(1.60)p	(16.36)p	(4.91)p	3.54p	**(10.64)p**
Diluted (loss)/earnings per Ordinary Share	(1.60)p	(16.36)p	(4.91)p	3.43p	**(10.64)p**
Dividends					
Memo					
Final dividend for 2003, 2004, 2005, 2006 and 2007	10.5	32.9	33.5	33.8	**19.7**
Interim dividend for 2004, 2005, 2006, 2007 and 2008	6.0	18.9	19.2	9.7	**9.9**
	16.5	51.8	52.7	43.5	**29.6**
Final dividend per Ordinary Share for 2003, 2004, 2005, 2006 and 2007	7.0p	7.0p	7.0p	7.0p	**4.0p**
Interim dividend per Ordinary Share for 2004, 2005, 2006, 2007 and 2008	4.0p	4.0p	4.0p	2.0p	**2.0p**
Dividend coverÀ	(0.21)	(1.58)	(0.45)	0.39	**(1.77)**
Dividend cover before exceptional itemsÀ	1.72	1.45	1.17	1.15	**1.30**

* as restated for IFRS.

À based on the dividends paid during 2004, 2005, 2006, 2007 and 2008.

F&C Asset Management plc
Company Financial Statements
for the year ended 31 December 2008

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 54 to 151, have been prepared in accordance with IFRS.

Company Balance Sheet
as at 31 December 2008

	Notes	As at 31 December 2008 £m	As at 31 December 2007 £m
Fixed assets			
Tangible fixed assets	5	**2.4**	3.5
Investments in subsidiaries	6	**1,195.3**	1,103.4
Other investments	7	**7.6**	7.9
		1,205.3	1,114.8
Current assets			
Debtors – amounts falling due:			
Within one year	8	**120.8**	152.8
Outwith one year	8	**61.1**	61.9
Cash and short-term deposits		**0.1**	1.8
		182.0	216.5
Creditors (amounts falling due within one year)	9	**(13.0)**	(12.6)
Net current assets		**169.0**	203.9
Total assets less current liabilities		**1,374.3**	1,318.7
Creditors (amounts falling due outwith one year)	9	**(360.0)**	(258.7)
Provisions for liabilities	10	**(7.3)**	(5.5)
Net assets		**1,007.0**	1,054.5
Capital and reserves			
Called up Ordinary Share capital	16, 17	**0.5**	0.5
Share premium account	17	**33.8**	33.8
Merger reserve	17	**912.7**	912.7
Acquisition reserve	17	**(66.0)**	–
Other reserves	17	**70.9**	59.8
Profit and loss account	17	**55.1**	47.7
Total shareholders' funds	17	**1,007.0**	1,054.5

The Financial Statements were approved by the Board of Directors and authorised for issue on 6 April 2009. They were signed on its behalf by:

Robert Jenkins
Chairman

Alain Grisay
Chief Executive

Company Accounting Policies

Basis of preparation

The separate Financial Statements of the Company are presented as required by the Companies Act and are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

In accordance with Section 230 of the Companies Act 1985 a separate Profit and Loss Account for the Company is not presented.

The Company has taken advantage of the exemption in FRS 29 'Financial Instruments: Disclosure and Presentation' and has not disclosed the information required by that standard because the Company is included in the Consolidated Financial Statements which are publicly available and include disclosures given under IFRS 7 'Financial Instruments: Disclosures'.

Turnover

Turnover comprises fees for secretarial services provided to investment trusts which are recognised in the Profit and Loss Account over the period for which these services are provided.

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.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment. The cost includes the uplift arising from the equity-settled share-based payments calculated in accordance with FRS 20 (IFRS 2) 'Share-based Payment', where no cash contributions are made by the subsidiaries. The uplift is credited to a capital contribution reserve in equity. The Company recharges certain subsidiaries when it satisfies these equity-settled awards.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Expenditure on tangible fixed assets is capitalised on initial recognition. Subsequent expenditure is only capitalised when it is probable that there will be future economic benefits associated with the expenditure which can be measured reliably. All other expenditure is recognised in the Profit and Loss Account as an expense as incurred.

Tangible fixed assets are depreciated, using the straight-line method, to write off the cost of assets over their estimated useful lives, as follows:

Leasehold improvements	– 10 years
Office furniture & equipment	– 3-5 years
Computer equipment	– 3 years

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

Financial instruments

When financial instruments are recognised initially they are measured at fair value plus directly attributable transaction costs.

The fair value of instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices (mid price for Open Ended Investment Companies) at the close of business on the balance sheet date.

Financial instruments are classified into the categories described below:

(i) *Available for sale financial assets* are carried at fair value in the Balance Sheet. In respect of unquoted instruments, or where the market for a financial instrument is not active, fair value is established by using recognised valuation methodologies, in accordance with International Private Equity and Venture Capital Valuation Guidelines.

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

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

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

- Fixed assets
  - Other investments

(ii) *Financial instruments at fair value through profit or loss* include investments which have been specifically designated as 'at fair value through profit or loss'. These are carried in the Balance Sheet at fair value and movements in fair value are taken to the Profit and Loss Account in the period in which they arise. The following assets are classified as *financial instruments at fair value through profit or loss*:

- Fixed assets
  - Other investments

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

- Current assets:
  - Debtors
  - Cash and short-term deposits

(iv) *Financial liabilities* are recognised at amortised cost using the effective interest rate method after initial recognition. The minority interest put options are classified *as fair value through profit or loss*. The following liabilities are classified as *financial liabilities*:

- Creditors (amounts falling due within one year)
- Creditors (amounts falling due outwith one year)

Financial instruments (cont'd)

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.

Minority interest put options

The minority interest put options are included at fair value at the balance sheet date. Upon initial recognition the fair value of the put options is debited to equity. Subsequent movements to the fair value are reflected in the Income Statement. Fair value is the amount at which a derivative could be exchanged in a transaction at the balance sheet date between willing parties.

Derecognition of financial assets and liabilities

Financial assets

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

Financial liabilities

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

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment in loans and receivables carried at amortised cost has occurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the expected recoverable amount. The carrying amount of the asset would be reduced and the amount of the loss recognised in the Profit and Loss Account.

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

Available for sale financial assets

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

Deferred taxation

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

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

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

Company Accounting Policies

Operating leases

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight-line basis over the lease term.

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

Accounting for Employee Benefit Trusts ('EBTs')

UITF 38 requires that own shares arising through an EBT be deducted in arriving at shareholders' funds until they vest unconditionally to the employees. Consideration paid and received for the purchase or sale of these shares is included in shareholders' funds and no gain or loss is recognised. Other assets and liabilities of the EBTs are recognised as assets and liabilities of the Company.

Ordinary shares of the Company are held by EBTs in order to satisfy a number of F&C Group share-based payment plans and future exercises of options and awards to employees of subsidiary companies. The cost relating to the share-based payment plans is recognised in the subsidiary companies which employ the staff in receipt of awards and the Company recognises any fresh issue of shares or re-issue of own shares when such a transaction occurs. These shares are included in the Financial Statements of the Company as a deduction from shareholders' funds.

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.

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.

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-based payments

The Company operates a share scheme arrangement which requires to be accounted for as a share-based payment.

All grants of shares, share option 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. 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 parties become unconditionally entitled to exercise the awards, known as the vesting period. The cumulative expense recognised in the Profit and Loss Account is equal to the estimated fair value of the award multiplied by the number of awards expected to vest.

Vesting of equity-settled employee share awards depends upon meeting “non-market related” performance conditions. The type of vesting criteria affects the calculation of the expense charged to the Profit and Loss Account and subsequent adjustments as non-market related conditions are performance criteria, such as earnings targets and/or 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.

FRS20 “Share-based Payment” makes a distinction between awards settled in equity and those settled in cash. Equity-settled awards are charged to the Profit and Loss Account with a corresponding credit to equity. Cash-settled awards are charged to the Profit and Loss Account with a corresponding credit to liabilities. The estimated fair value of cash-settled awards is re-measured at each reporting date until the payments are ultimately settled.

Share capital

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

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

Preference Share capital

The Company’s issued Preference Share capital is classified as a liability. It is carried at amortised cost in the Balance Sheet. Preference dividends are recognised in the Profit and Loss Account as an interest expense as they accrue.

Ordinary Share capital

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

Cash flow statement

The Company has taken advantage of the exemptions in FRS 1 (revised) ‘Cash Flow Statements’ and has elected not to prepare its own Cash Flow Statement as it is included within the Consolidated Cash Flow Statement in the Consolidated Financial Statements of F&C Asset Management plc.

Notes to the Company Financial Statements

1. Auditors' remuneration

Amounts received by the Company's auditors in respect of services to the Company have not been disclosed as the information is instead required to be disclosed on a consolidated basis in the Consolidated Financial Statements of the Group.

2. Directors' remuneration

Details of Directors' remuneration are as follows:

	2008 £m	2007 £m
Aggregate emoluments	**2.0**	2.5
Company contributions paid to defined contribution pension schemes	**0.9**	1.1
Aggregate value of gains made by Directors on exercise of share options	**–**	3.2

No options (31 December 2007: 194,036) have been exercised by former Directors during the year. In 2007 a gain of £22,000 was realised on exercise of such options.

	2008 Number	2007 Number
Members of defined contribution pension schemes	**2**	2

Full disclosure of Directors' remuneration is shown on pages 49 to 51.

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

3. Dividends

Details of dividends are disclosed in note 11 to the Consolidated Financial Statements on page 81.

4. Acquisition of REIT Property Asset Management Group

Full details of the acquisition of the REIT Property Asset Management Group are disclosed in note 16(a) to the Consolidated Financial Statements on pages 90 to 92.

5. Tangible fixed assets

	Leasehold improvements £m	Office furniture and equipment £m	Computer equipment £m	Total £m
Cost:				
At 1 January 2008	3.9	0.6	6.4	10.9
Additions	0.1	–	–	0.1
Disposals	–	(0.1)	(0.6)	(0.7)
At 31 December 2008	**4.0**	**0.5**	**5.8**	**10.3**
Depreciation:				
At 1 January 2008	1.6	0.5	5.3	7.4
Depreciation charge for the year	0.4	–	0.8	1.2
Disposals	–	(0.1)	(0.6)	(0.7)
At 31 December 2008	**2.0**	**0.4**	**5.5**	**7.9**
Net book values:				
At 31 December 2008	**2.0**	**0.1**	**0.3**	**2.4**
At 31 December 2007	2.3	0.1	1.1	3.5

6. Investments in subsidiaries

	£m
Cost:	
At 1 January 2008	1,106.4
Additions in the year	92.6
Partial disposal of F&C Property Asset Management plc	(9.5)
Additions in respect of share-based payment awards	12.3
Recharge in respect of share-based payment awards	(3.5)
At 31 December 2008	**1,198.3**
Impairment:	
At 1 January 2008	3.0
Impairment losses	–
At 31 December 2008	**3.0**
Net book values:	
At 31 December 2008	**1,195.3**
At 31 December 2007	1,103.4

Details of subsidiary undertakings are set out in note 41 to the Consolidated Financial Statements on pages 142 and 143.

The additions during the year and the partial disposal of F&C Property Asset Management plc are both related to the acquisition of the REIT Group. Details of the acquisition are set out in note 16(a) to the Consolidated Financial Statements on pages 90 to 92.

Included within the above net book value is £59.4m (31 December 2007: £50.6m) in respect of equity-settled share-based payment awards made by subsidiary undertakings.

Notes to the Company Financial Statements

7. Other investments

The classification of investments at 31 December is as follows:

	Notes	31 December 2008 £m	31 December 2007 £m
Available for sale	(a)	**1.8**	3.4
Fair value through profit or loss	(b)	**5.8**	4.5
		7.6	7.9

(a) Available for sale

	Unquoted £m
At 1 January 2008	3.4
Fair value movement in year	(0.5)
Realised in the year	(1.1)
At 31 December 2008	**1.8**

These investments represent carried interest entitlement in private equity funds.

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.

(b) Fair value through profit or loss

	Purchased Equity Plan £m	NIC Hedge £m	Total £m
At 1 January 2008	1.2	3.3	4.5
Additions in the year	2.5	–	2.5
Fair value movement in year	(1.1)	(0.1)	(1.2)
At 31 December 2008	**2.6**	**3.2**	**5.8**

Further details of these investments are disclosed in note 19(i)(2) to the Consolidated Financial Statements.

The cost of quoted investments as at 31 December 2008 was £2.3m (31 December 2007: £2.9m).

The valuation of quoted investments as at 31 December 2008 was £1.5m (31 December 2007: £3.1m)

Securities

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

8. Debtors

	Notes	31 December 2008 £m	31 December 2007 £m
Amounts due within one year:			
Trade debtors		–	0.7
Accrued income		0.3	0.3
Amounts owed by subsidiary undertakings		12.9	2.8
Amounts owed by parent undertaking		–	2.4
Loan to subsidiary undertaking		102.6	139.9
Prepayments		1.2	1.7
VAT recoverable		1.1	0.2
Group relief receivable		2.0	1.0
Other debtors		0.7	3.8
		120.8	152.8
Amounts due outwith one year:			
Loan to subsidiary undertaking		60.0	60.0
Other debtors		–	0.5
Deferred tax	13	1.1	1.4
		61.1	61.9

The loan to the subsidiary undertaking bears interest at 3 month LIBOR minus 0.25% and is to F&C Treasury Limited. The Company will give written notice of a minimum of one year to seek repayment of £60.0m. The £102.6m is repayable on demand.

In December 2007 the Company ceased to be an investor in ISIS EP LLP and has since received repayment of £2.0m of the £2.5m previously invested in this entity. The balance of £0.5m is included in other debtors at 31 December 2008 (31 December 2007: £1.5m).

9. Creditors

	Notes	31 December 2008 £m	31 December 2007 £m
Amounts due within one year:			
Trade creditors		**0.1**	0.1
Accruals		**4.9**	3.3
Amounts owed to subsidiary undertakings		**0.1**	3.0
Other creditors		**7.9**	4.1
Loan from subsidiary undertaking	11	**–**	2.1
		13.0	12.6
Amounts due outwith one year:			
Other financial liabilities	12	**66.0**	–
Preference Share capital		**0.8**	0.8
Floating Rate Secured Notes 2010	11	**35.0**	–
Fixed/Floating Rate Subordinated Notes 2026	11	**258.2**	257.9
		360.0	258.7

Other creditors at 31 December 2008 includes £2.9m (31 December 2007: £2.9m) of estimated further consideration payable in respect of the acquisition of F&C Group (Holdings) Limited on 11 October 2004.

10. Provisions for liabilities

	Pension Plan Guarantee £m	Investment Trust VAT £m	Onerous premises contracts £m	Deferred tax £m	Total £m
At 1 January 2007	–	–	5.4	0.4	5.8
Provided during the year	–	1.4	0.3	0.7	2.4
Utilised during the year	–	–	(2.5)	(0.2)	(2.7)
At 31 December 2007	–	1.4	3.2	0.9	5.5
Provided during the year	0.1	–	3.3	–	3.4
Provision released during the year	–	–	(0.2)	–	(0.2)
Utilised during the year	–	–	(1.0)	(0.4)	(1.4)
At 31 December 2008	**0.1**	**1.4**	**5.3**	**0.5**	**7.3**

Pension Plan Guarantee

The Company has agreed to provide the F&C Asset Management Pension Plan Trustees with a guarantee that should F&C Asset Management Services Limited become insolvent, FCAM plc has guaranteed an amount up to the lower of the cost of securing members' benefits with an insurance company over the assets of the Plan (the "solvency deficit") and £120.0m. The provision represents the actuarial estimate of the fair value of the guarantee at 31 December 2008.

Investment Trust VAT

On 5 November 2007, HM Revenue and Customs (HMRC) agreed that management services to UK Investment Trust Companies (ITCs) should be exempt from VAT. As a result, the Company, in common with other asset managers in the UK, received claims from ITCs for the repayment of VAT charged to them for historic periods dating back to 1990.

While the Company charged VAT in accordance with applicable UK law at the time, a provision was recognised in 2007 to the extent that the expected payments to be made to ITCs are greater than the expected amount recoverable from HMRC. During 2008 monies refunded from HMRC have been paid, as required, to ITCs. However, due to the complexity of the repayment process and its interaction with contractual arrangements, uncertainty still exists as to the final cost to be incurred by the Company. The provision of £1.4m (at 31 December 2007: £1.4m) represents the estimate of the expected liability of the Company.

10. Provisions for liabilities (cont'd)

Onerous premises contracts

The Company holds all properties under operating leases. This includes a number of vacant or sub-let properties which were either previously occupied by the Company or are partially occupied by the Company. Provision has been made for the residual lease commitments where significant, after taking into account existing and expected sub-tenant contractual arrangements. The remaining terms are for up to 12 years. Assumptions have been made as to whether each leasehold property may be sub-let or assigned in the future. All leases and sub-leases are for minimum guaranteed rentals. The provision is subject to uncertainties over time including market rent reviews and break-options within the lease arrangements.

The amount included within Profit and Loss in respect of unwinding of the discount on onerous premises provisions in 2008 is £0.3m (2007: £0.2m).

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 provision relates to the revaluation of available for sale assets and is recognised as a separate component of reserves.

Deferred taxation is disclosed in note 13.

11. Loans

	31 December 2008 £m	31 December 2007 £m
Amounts repayable:		
£260.0m Fixed/Floating Rate Subordinated Notes 2026 (i)	**258.2**	257.9
£35.0m Floating Rate Secured Notes 2010 (ii)	**35.0**	–
US $4.0m loan; wholly repayable on demand (iii)	**–**	2.1
	293.2	260.0

(i) The £260.0m Fixed/Floating Rate Subordinated Notes 2026 bear interest at 6.75% per annum for the period 20 December 2006 – 19 December 2016, payable annually in arrears. The Company has the option to extend the Notes beyond 19 December 2016 at a rate of 2.69% above 3 month LIBOR for the period 20 December 2016 – 19 December 2026, payable quarterly in arrears.

(ii) The £35.0m Floating Rate Secured Notes 2010 bear interest at the following rates:
From 3 September 2008 to 15 December 2008 at LIBOR +2%;
From 16 December 2008 to 15 June 2009 at LIBOR +3%;
From 16 June 2009 until redemption at LIBOR +4%.

Interest is payable quarterly in arrears. These notes must be repaid by 30 June 2010, or earlier at the discretion of the issuer.

The £35.0m Floating Rate Secured Notes are held by Kendray Properties Limited, who hold a security over FCAM's entire holding in F&C REIT Asset Management LLP until such point as FCAM has settled all liabilities due under the terms of the loan note agreement.

(iii) The US $4.0m loan was due to Friends Ivory & Sime North America Inc, a former overseas subsidiary, which was put into liquidation on 31 December 2008.

	Notes	31 December 2008 £m	31 December 2007 £m
Amounts repayable:			
In one year or less, or on demand	9	**–**	2.1
In more than one year but not more than two years	9	**35.0**	–
In more than two years but not more than five years		**–**	–
In more than five years	9	**258.2**	257.9
		293.2	260.0

11. Loans (cont'd)

Borrowing facilities

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

	31 December 2008 £m	31 December 2007 £m
Bank overdraft facilities	**0.5**	0.5

12. Other financial liabilities

	2008 £m	2007 £m
At 1 January	**–**	–
Additions in the year	**66.0**	–
At 31 December	**66.0**	–

The fair value of the F&C REIT put options represent the potential future liability to purchase 30% of F&C REIT from the minority partners. More details are provided in note 16(a) to the Consolidated Financial Statements.

13. Deferred taxation

	2008 £m	2007 £m
At 1 January	**0.5**	0.3
Adjustments in respect of previous periods	**–**	0.4
Provided during the year	**0.1**	(0.2)
At 31 December	**0.6**	0.5

	Notes	31 December 2008 £m	31 December 2007 £m
Deferred taxation is provided as follows:			
Revaluation of available for sale assets		**(0.5)**	(0.9)
Depreciation in advance of capital allowances		**0.7**	0.7
Other timing differences		**0.4**	0.7
		0.6	0.5
Disclosed in the Financial Statements as follows:			
Debtors	8	**1.1**	1.4
Provision for liabilities	10	**(0.5)**	(0.9)
Net deferred tax asset		**0.6**	0.5

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

14. Share-based payment

F&C REIT variable minority interest share-based payment ("SBP")

Details of the share-based payment award are disclosed in note 28(viii) to the Consolidated Financial Statements.

The Company recognised an expense in respect of this award as follows:

	2008 £m	2007 £m
F&C REIT variable minority interest SBP	**1.4**	–

	31 December 2008 £m	31 December 2007 £m
Total carrying amount of cash-settled liabilities	**1.4**	–

15. Pension commitments

Until 31 March 2007, the Company operated a defined benefit pension scheme ("The F&C Asset Management Pension Plan") in the UK, which provided benefits based on final pensionable salary.

The sponsoring company and principal employer for the scheme changed on 31 March 2007. Consequently the pension obligation was transferred to F&C Asset Management Services Limited on that date and F&C Asset Management plc ceased to incur a direct charge in respect of the scheme.

The Company has subsequently provided a guarantee in respect of this Plan (see note 22).

16. Ordinary Share capital

(a) Ordinary Share capital of 0.1p

	31 December 2008		31 December 2007	
	Number of shares	£m	Number of shares	£m
Authorised:				
Equity interests				
Ordinary Shares of 0.1p	**800,000,000**	**0.8**	800,000,000	0.8
Allotted, called up and fully paid:				
Equity interests				
Ordinary Shares of 0.1p	**495,725,314**	**0.5**	495,705,530	0.5

	No. of Ordinary Shares	
	2008	2007
Issued at 1 January	**495,705,530**	484,775,590
Issue of shares at par to settle share-based payment awards	**–**	10,162,887
Share options exercised during the year	**19,784**	767,053
Issued at 31 December	**495,725,314**	495,705,530

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 33 to the Consolidated Financial Statements on page 124.

No consideration was received in respect of the Ordinary Share capital issued during the year ended 31 December 2008 (year ended 31 December 2007: £1.2m).

Notes to the **Company Financial Statements**

16. Ordinary share capital (cont'd)

The Group operates several share-based payment schemes which have a contingent right to the allotment of shares in the Company.

At 31 December 2008 the contingent right to the allotment of shares was as follows:

Scheme	No. of awards outstanding	Exercise price (p)	Exercisable/vesting date
2002 Executive Share Option Scheme	480,908	139.00	1 January 2009 – 19 March 2013
2002 Executive Share Option Scheme	601,120	240.83	1 January 2009 – 9 March 2014
2002 Share Save Scheme	3,053	114.00	1 January 2009 – 1 February 2009
2002 Share Save Scheme	65,238	181.00	19 April 2009 – 19 October 2009
2002 Share Save Scheme	101,998	186.60	1 January 2009 – 29 October 2010
2002 Share Save Scheme	270,858	171.00	18 April 2009 – 18 October 2011
2002 Share Save Scheme	429,179	144.30	25 April 2010 – 25 October 2012
Long-Term Remuneration Plan (restricted)	843,829	0.00	17 May 2009 – 16 March 2010
Long-Term Remuneration Plan (deferred)	17,831,370	0.00	17 May 2009 – 13 May 2011
Purchased Equity Plan (F&C Shares)	1,975,594	0.00	24 March 2009 – 2 April 2011
Purchased Equity Plan (F&C Funds)	4,498,068	0.00	13 April 2010 – 13 April 2011
Deferred Share Award	194,838	0.00	9 August 2009 – 3 March 2011
Executive Director Remuneration Plan (deferred)	2,526,214	0.00	10 May 2010 – 25 March 2011
Executive Director Remuneration Plan (restricted)	4,004,000	0.00	10 May 2010 – 10 November 2010
1995 Executive Share Option Scheme	340,158	232.50	1 January 2009 – 16 July 2009
1995 Executive Share Option Scheme	295,622	214.00	1 January 2009 – 28 April 2010
1995 Executive Share Option Scheme	19,402	203.83	1 January 2009 – 31 March 2009
1995 Executive Share Option Scheme	229,000	455.83	1 January 2009 – 1 March 2011
	34,710,449		

The following shares are held in Employee Benefit Trusts (EBTs). These are categorised as own shares, and deducted from shareholders' funds:

	31 December 2008 £m	31 December 2007 £m
ISIS Employee Benefit Trust	**141,755**	1,357,922
The Ivory & Sime Employee Benefit Trust	**64,176**	562,857
F&C Management Limited Employee Benefit Trust	**1,564,451**	1,512,449
	1,770,382	3,433,228

The aggregate nominal value of own shares held by EBTs at 31 December 2008 was £2,000 (31 December 2007: £3,000). The market value of these shares at 31 December 2008 was £1.0m (31 December 2007: £6.6m).

The Trustees of the EBTs have wavied their right to the dividend entitlement on some of these shares.

During the year, the Company purchased 345,845 of its own Ordinary Shares (2007: 1,279,618) of 0.1p to satisfy the exercises of share-based payment awards. The consideration paid for the shares was £0.6m (2007: £2.4m). The cost of this to the Company, after exercise price monies paid by the employees, was £0.4m (2007: £2.2m).

(b) Cumulative Preference Shares of £1 each

Details of Cumulative Preference Shares are disclosed in note 33(b) to the Consolidated Financial Statements on page 125.

17. Reserves

Reconciliation of movement in reserves:

	Ordinary Share capital £m	Share premium account £m	Merger reserve £m	Acquisition reserve £m	Fair value reserve[1] £m	Capital contribution reserve[1] £m	Profit and loss account £m	Total share-holders' funds £m
Balance at 1 January 2007	0.5	32.6	912.7	–	1.1	44.3	50.9	1,042.1
Share capital allotted on exercise of options	–	1.2	–	–	–	–	–	1.2
Purchase of own shares	–	–	–	–	–	–	(2.4)	(2.4)
Settlement proceeds received on exercise of share options	–	–	–	–	–	–	0.2	0.2
Actuarial gain, net of deferred tax	–	–	–	–	–	–	1.5	1.5
Profit for the year	–	–	–	–	–	–	41.7	41.7
Final 2006 dividend	–	–	–	–	–	–	(33.8)	(33.8)
Interim 2007 dividend	–	–	–	–	–	–	(9.7)	(9.7)
Fair value gain	–	–	–	–	1.8	–	–	1.8
Corporation tax rate change	–	–	–	–	0.1	–	–	0.1
Tax on fair value gain	–	–	–	–	(0.5)	–	–	(0.5)
Equity settled share-based payment grants	–	–	–	–	–	13.0	–	13.0
Transfer of employee benefit trust own shares from subsidiary undertaking	–	–	–	–	–	–	(0.7)	(0.7)
Balance at 31 December 2007	**0.5**	**33.8**	**912.7**	**–**	**2.5**	**57.3**	**47.7**	**1,054.5**
Purchase of own shares	**–**	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
Settlement proceeds received on exercise of share options	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Issue of F&C REIT put options on acquisition	**–**	**–**	**–**	**(66.0)**	**–**	**–**	**–**	**(66.0)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**37.4**	**37.4**
Final 2007 dividend	**–**	**–**	**–**	**–**	**–**	**–**	**(19.7)**	**(19.7)**
Interim 2008 dividend	**–**	**–**	**–**	**–**	**–**	**–**	**(9.9)**	**(9.9)**
Fair value loss	**–**	**–**	**–**	**–**	**(1.6)**	**–**	**–**	**(1.6)**
Tax on fair value loss	**–**	**–**	**–**	**–**	**0.4**	**–**	**–**	**0.4**
Equity settled share-based payment grants	**–**	**–**	**–**	**–**	**–**	**12.3**	**–**	**12.3**
Balance at 31 December 2008	**0.5**	**33.8**	**912.7**	**(66.0)**	**1.3**	**69.6**	**55.1**	**1,007.0**

(1) The Fair value reserve and Capital contribution reserves constitute 'Other reserves' as disclosed on the face of the Balance Sheet and amount to £70.9m at 31 December 2008 (31 December 2007: £59.8m).

The profit after tax of the Company for the year, before dividends, was £37.4m (2007: £41.7m).

18. Financial commitments

The Company had the following annual commitments in respect of non-cancellable operating leases and other contracts:

	Premises		Other contracts	
	31 December 2008 £m	31 December 2007 £m	**31 December 2008 £m**	31 December 2007 £m
Commitments expiring within one year	**–**	–	**–**	–
Commitments expiring within two to five years	**0.1**	–	**–**	0.1
Commitments expiring outwith five years	**4.7**	4.6	**–**	–
	4.8	4.6	**–**	0.1

The premises financial commitments disclosed above do not include any sub-leasing arrangements which the Company may have in place. The amounts shown reflect gross commitments at the balance sheet dates.

19. Capital commitments

There are no capital commitments, not provided for, at 31 December 2008 (31 December 2007: £nil).

20. Subsidiary Undertakings

Details of the principal subsidiary undertakings are disclosed in note 41 to the Consolidated Financial Statements on pages 142 and 143.

Notes to the **Company Financial Statements**

21. Contingencies

Contingent liabilities:

(a) Employment Tribunal

Details of this contingent liability are given in note 36(b) to the Consolidated Financial Statements.

(b) Ongoing business operations

In the normal course of its business, the Company is subject to matters of litigation or dispute. While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Company.

22. Guarantees

The Company has provided a guarantee in respect of the F&C Asset Management Pension Plan. Details, and the amount provided, are disclosed in note 10.

23. Related party transactions

The Company has taken exemption from the requirement to disclose related party transactions with wholly-owned members of the F&C Asset Management plc Group on the basis that these companies are included within the Consolidated Financial Statements of F&C Asset Management plc.

Transactions with entities owned less than 90%

F&C REIT Asset Management LLP

F&C Asset Management plc owns 70% of F&C REIT Asset Management LLP. The other partners in the Partnership, all of whom have significant influence over the management of the Partnership or a significant economic interest in the Partnership are:

Kendray Properties Limited	30.00% ownership interest in “A” units
Leo Noé	22.50% ownership interest in “B” units
Ivor Smith	7.50% ownership interest in “B” units

These parties are considered to be related parties.

Full details of the acquisition of the REIT Group are given in note 16(a) to the Consolidated Financial Statements. In addition to the above transactions, as part of the transaction, F&C paid £25.0m in cash and issued £35.0m of Secured Loan Notes to Kendray Properties Limited. F&C also relinquished control of 30% of F&C Property Asset Management plc as part of the deal. Details of the loan notes are given in note 11.

Interest on £35.0m loan notes:

	Charged and accrued for the period 3 September to 31 December 2008 £m	Outstanding at 31 December 2008 £m	Charged and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Interest payable to Kendray Properties Limited	0.8	0.2	-	–

The Company has a shared services agreement with F&C REIT Asset Management LLP whereby it provides certain administrative and professional services to F&C REIT Asset Management LLP. Amounts charged under this agreement are set out below:

	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Shared services and administrative services:				
Administration service fees	0.6	0.3	–	–

23. Related party transactions (cont'd)

The Company has recognised £0.2m of profit entitlement from F&C REIT Asset Management LLP for the period 3 September 2008 to 31 December 2008 (2007: £nil).

No distributions have been paid to the Company.

F&C Asset Management plc incurs a share-based payment expense in respect of the variable minority interest enhancement which could be achieved by Kendray Properties Limited, Leo Noé and Ivor Smith. Full details are disclosed in note 28(viii) to the Consolidated Financial Statements.

The F&C REIT minority partners each have a put option to sell their minority stake in F&C REIT after a minimum number of years. Details of the carrying amount of these option liabilities are disclosed in note 12. The option liabilities are split in the ownership proportions of Kendray Properties Limited, Leo Noé and Ivor Smith.

24. Parent undertaking and controlling party

The smallest group of which the Company is a member and for which Consolidated Financial Statements are prepared is F&C Asset Management plc.

In the opinion of the Directors, the Company's ultimate parent undertaking and controlling party is Friends Provident plc. The results of the Company are consolidated in the Accounts of 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-ninth Annual General Meeting of F&C Asset Management plc will be held at JP Morgan Cazenove, 20 Moorgate, London EC2R on Thursday 7 May 2009 at 12 noon (UK time) for the following purposes:

Ordinary Business

To be proposed as ordinary resolutions:

1. To receive the Financial Statements and the Reports of the Directors and the Independent Auditors for the year ended 31 December 2008.

2. To declare a final dividend of 4.0 pence per share on the ordinary shares of the Company to be paid on 28 May 2009 to members whose name appears on the register of members at the close of business on 17 April 2009.

3. To elect Trevor Matthews, who retires at the first Annual General Meeting following his appointment, as a Director.

4. To re-elect Keith Bedell-Pearce, who retires by rotation, as a Director.

5. To re-elect Alain Grisay, who retires by rotation, as a Director.

6. To re-elect Brian Larcombe, who retires by rotation, as a Director.

7. To approve the Directors' Remuneration Report for the year ended 31 December 2008.

8. To re-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:

9. To re-approve and renew the authorisation of the terms of the Relationship Agreement between the Company and Friends Provident plc dated 4 October 2004, such approval and renewal to expire on the earlier of (i) the conclusion of the Annual General Meeting of the Company to be held in 2010 or (ii) Friends Provident's interest in the ordinary shares of the Company falling below 30 per cent.

10. THAT:

(A) pursuant to section 80 of the Companies Act 1985 ("the Act"), the Directors be generally and unconditionally authorised to allot:

(1) relevant securities (within the meaning of section 80 of the Act) up to a maximum nominal amount of £164,730.35; and

(2) relevant securities comprising equity securities (within the meaning of section 94 of the Act) up to a maximum nominal amount (when aggregated with any allotment made pursuant to **paragraph A(1)**) of £303,857.10 in connection with a Pre-Emptive Offer undertaken by way of rights;

(B) the authorities given in this Resolution:

(1) shall be in substitution for all pre-existing authorities to allot relevant securities; and

(2) shall expire at the completion of the Annual General Meeting of the Company to be held in 2010, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry; and

(C) for the purpose of this Resolution, "Pre-Emptive Offer" means an offer of relevant securities to:

(1) holders of ordinary shares (other than the Company) on a fixed record date in proportion to their respective holdings of such shares; and

(2) other persons entitled to participate in such offer by virtue of the rights attaching to any other equity securities held by them;

in each case, subject to such exclusions or other arrangements as the Directors may deem necessary or appropriate in relation to fractional entitlements, legal, regulatory or practical problems under the laws or the requirements of any regulatory body or stock exchange of any territory or otherwise.

To be proposed as special resolutions:

11. THAT:

(A) subject to the passing of resolution 10 set out in this Notice ("the Section 80 Authority"), the Directors be given power to allot equity securities (within the meaning of section 94 of the Companies Act 1985 ("the Act")) for cash, pursuant to the authorities given by the Section 80 Authority, and to sell treasury shares wholly for cash, as if section 89(1) of the Act did not apply to any such allotment or sale, provided that such power shall be limited to the allotment of equity securities or the sale of treasury shares:

(1) in the case of **paragraph A(1)** of the Section 80 Authority, (a) in connection with a Pre-Emptive Offer (as defined in the Section 80 Authority); or (b) in accordance with the terms of the Relationship Agreement between the Company and Friends Provident plc dated 4 October 2004, provided that resolution 9 relating to the re-approval and renewal of such Relationship Agreement as set out in this Notice is passed; or (c) in order to satisfy options or awards under any share scheme for employees or share incentive plan approved by the Company in general meeting;

(2) in the case of **paragraph A(2)** of the Section 80 Authority, in connection with a Pre-Emptive Offer undertaken by way of rights; and

(3) otherwise, up to a maximum nominal amount of £24,807.145; and

(B) the power given in this Resolution:

(1) shall be in substitution for all pre-existing authorities under section 95 of the Act; and

(2) shall expire at the same time as the Section 80 Authority, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry.

12. 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") in such terms and in such manner as the Directors of the Company may decide, provided that:

(i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 49,424,047 (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 6 April 2009);

(ii) the minimum price which may be paid for an ordinary share is 0.1 pence (exclusive of expenses); and

(iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share is an amount equal to 105 per cent. of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the ordinary shares for the five business days immediately preceding the date of purchase;

such authority to expire on the earlier of the date falling 15 months after the date of the passing of this resolution and the conclusion of the Annual General Meeting of the Company to be held in 2010, 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.

13. THAT the period of notice for calling a general meeting (other than an Annual General Meeting) shall be not less than 14 clear days provided that this authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2010.

By order of the Board
W Marrack Tonkin, FCCA
Secretary
80 George Street
Edinburgh EH2 3BU

6 April 2009

Notes

(i) A member who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and speak and vote on his/her behalf. A member may appoint more than one proxy provided that each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. A proxy need not be a member of the Company.

(ii) A Form of Proxy for use by Ordinary Shareholders in connection with the meeting is enclosed with these Accounts. To be valid, the Form of Proxy should be completed and signed and sent or delivered, together with any power of attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or authority, in accordance with the instructions contained therein, so as to reach the Company's registrars, at the address stated thereon, not later than 12 noon (UK time) on 5 May 2009.

(iii) The Company has made provision for shareholders who would like to lodge their proxy electronically or through CREST. Details of how to lodge a proxy electronically or through CREST are set out on page 41.

(iv) Completing and returning a Form of Proxy will not prevent an Ordinary Shareholder from attending in person at the meeting referred to above and voting should he or she wish to do so.

(v) Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Ordinary Shareholders entered on the register of members of the Company as at 6 p.m. (UK time) on 5 May 2009 or, in the event that the meeting is adjourned, on the register of members at 6 p.m. (UK time) on the day falling two days before the date of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to the entries on the register of members after 6 p.m. (UK time) on 5 May 2009 or, in the event that the meeting is adjourned, on the register of members at 6 p.m. (UK time) on the day falling two days before the date of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the articles of association of the Company or other instrument to the contrary.

(vi) If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint a proxy. See note (vii) below.

(vii) If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights:

- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (Relevant Member) to be appointed or to have someone else appointed as a proxy for the meeting.
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.

(viii) In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (a) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (b) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting instructions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (a) above.

(ix) As at 3 April 2009 (being the latest practicable date prior to publication of this notice) the Company's issued share capital consisted of 494,240,472 ordinary shares of 0.1 pence each, carrying one vote each and 800,000 cumulative preference shares of £1 each, carrying no right to attend or vote at the meeting which is the subject of this notice. Therefore, total voting rights in the Company as at 3 April 2009 are 494,240,472.

(x) Copies of the following documents will be made available for inspection at the registered office of the Company and at the Company's head office during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) from the date of this notice until the close of the meeting, and at the place of the meeting from 15 minutes prior to and during the continuance of the meeting:

- the Executive Directors' service contracts and Non-executive Directors' letters of appointment.
- the Relationship Agreement between the Company and Friends Provident plc dated 4 October 2004.

(xi) A member may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents to communicate with the Company for any purpose other than those expressly stated.

Corporate Information

Directors

Robert Jenkins, Chairman‡

Alain Grisay, Chief Executive

Dick de Beus, Non-executive‡

Keith Bedell-Pearce, Senior Independent Non-executive*†

Brian Larcombe, Non-executive*†‡

David Logan, Chief Financial Officer

Nick MacAndrew, Non-executive*†

Trevor Matthews, Non-executive

Jeff Medlock, Non-executive

Sir Adrian Montague, Non-executive‡

Gerhard Roggemann, 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

Norton Rose LLP
3 More London Riverside
London
SE1 2AQ

Shepherd and Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh
EH3 8UL

Principal Bankers

The Royal Bank of Scotland plc
142-144 Princes Street
Edinburgh
EH2 4EQ

Stockbrokers

JPMorgan Cazenove
20 Moorgate
London
EC2R 6DA

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London
E14 5LB

Auditors

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Registrar and Transfer Office

Equiniti Limited
34 South Gyle Crescent
South Gyle Business Park
Edinburgh
EH12 9EB

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

F&C Investments

Expect excellence