F&C Asset Management plc
Annual Report and Financial Statements 2009

Trusted for over a century

F&C Investments

Expect excellence

About F&C

F&C is a leading asset management company providing solutions that deliver superior performance and service.

With offices in 11 countries we are a global business with a strong presence in Europe. Our clients are both retail and institutional investors, representing over three million individuals – for whom we manage approximately £100 billion.

Our values

Client focus
Accountable performance
Commercial innovation
Mutual respect

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Definitions
"F&C, FCAM, Group or Company" F&C Asset Management plc and its subsidiaries
"FP" Friends Provident plc
"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 LLP and its subsidiaries

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

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in 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.

Business highlights 2009

- Strong investment performance across fixed income, equities and property.
- Improving outlook for fund flows.
- Resilient revenues.
- Unchanged dividend.

Net revenue	Profit after taxation	Underlying earnings per share	Dividend per share
£225.1m	**£18.7m**	**5.8p**	**6.0p**

Net revenue
£m

£m	2008	**2009**
	229.9	**225.1**

Statutory reported (loss)/profit after tax
£m

£m	2008	**2009**
	(50.6)	**18.7**

Underlying earnings per ordinary share*
pence

£m	2008	2008	**2009**	**2009**
	7.8	7.6 (ex FX)	**4.6**	**5.8 (ex FX)**

Total dividends per ordinary share
pence

£m	2008	**2009**
	6.0	**6.0**

Assets under management
at 31 December
£bn

£m	2008	**2009**
	98.6	**97.8**

Basic earnings/(loss) per ordinary share
pence

£m	2008	**2009**
	(10.7)	**3.2**

Underlying profit after taxation*
£m

£m	2008	2008	**2009**	**2009**
	38.2	37.3 (ex FX)	**22.5**	**28.3 (ex FX)**

Group operating margin
%

£m	2008	**2009**
	26.4	**23.0**

* Underlying profit after taxation and underlying earnings per share are shown both inclusive and exclusive of the impact of foreign exchange gains and losses ("ex FX").

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

Calculations of key performance indicators are given on page 125.

The 2008 results have been restated for the amendment to IFRS2: Share-based Payments – vesting conditions and cancellations.

Welcome from the Chairman

Nick MacAndrew
Chairman

"... We are looking forward to building on our new independent status ..."

2009 was another turbulent year for the asset management industry and, for the Group, one of considerable change. It began with a further severe downturn in global equity and bond markets, exacerbating the difficulties of 2008. However, from March onwards both equities and bonds staged a strong rally through to the end of the year. Despite this welcome recovery, average equity market levels in 2009 were still lower than the previous year. This resulted in a tough operating environment for asset managers.

Results and Dividend

The Group's underlying profit after tax (excluding foreign exchange gains and losses) was £28.3 million compared to £37.3 million in 2008. This represented underlying earnings per share of 5.8 pence for 2009 compared to 7.6 pence in the previous year. Including the impact of foreign exchange gains and losses, underlying earnings per share were 4.6p for 2009 and 7.8p for 2008.

On a statutory reported basis, which includes exceptional and non-cash items, we made a profit after tax of £18.7 million, compared to a loss after tax of £50.6 million in 2008. This represents a basic earnings per share of 3.2 pence compared to a loss of 10.7 pence in the previous year.

After considering the results for the year, the challenging market conditions and the exceptional corporate uncertainty which impacted them, as well as the improving outlook for the business, the Board is recommending an unchanged final dividend of 4.0 pence per share, payable on 7 May 2010 to shareholders on the register at 26 March 2010. This brings full-year dividends to 6.0 pence per share.

Ownership

After a prolonged period of corporate uncertainty, F&C was demerged from the Friends Provident group on 3 July 2009. This transaction, which involved Friends Provident distributing its controlling 52 per cent. stake in F&C to its own shareholders, has resulted in an enormous broadening of our shareholder register.

Board Developments

There were a number of changes to the Board during the year, both ahead of the Group's demerger from Friends Provident and upon its completion.

At the Annual General Meeting in May, Robert Jenkins retired as Chairman of the Company and stepped down from the Board. I would like to pay tribute to Bob's many years of service to F&C, as Chief Executive of F&C Group prior to its merger with ISIS Asset Management in 2004 and subsequently as the first Chairman of F&C Asset Management plc. At the same meeting Dick de Beus also retired as an independent Non-Executive Director. Dick's tenure on the Board pre-dated the 2004 merger and his experience and insights were greatly valued. On behalf of the Board, I wish Bob and Dick well and extend thanks to them both.

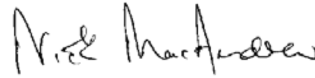
In June we welcomed two new Independent Non-Executive Directors. Kieran Poynter joined the Board and

the Audit, Risk and Compliance Committee, having recently retired as Chairman and Senior Partner of PricewaterhouseCoopers LLP. The Board was also joined in June by Roger Yates, former Chief Executive of Henderson Group. Regrettably, Roger stepped down in December 2009 following his appointment as Chief Executive of another asset management organisation. We are currently seeking a replacement.

Following the demerger of F&C from the Friends Provident group, both Sir Adrian Montague, former Chairman of Friends Provident, and Trevor Matthews, Chief Executive Officer of Friends Provident, stepped down as Non-Executive Directors. I would like to thank both Sir Adrian and Trevor for their service. Friends Provident continues to be an important client of the Group.

Conclusion

We are looking forward to building on our new independent status and, while we recognise that there are, as ever, many internal and external challenges, we are optimistic that F&C will meet those challenges in the pursuit of enhancing shareholder value.



Nick MacAndrew
Chairman
31 March 2010

Accountable performance

Our values: the foundations of excellence

We expect individuals to take responsibility and deliver solutions. Every employee knows the role they play, and the measures that will be used to judge their performance.

Chief Executive's report

Alain Grisay
Chief Executive

Market Overview

2009 was a year in which the world's major economies endured the worst recession since the 1930s. Despite this, investors in financial markets benefitted from a remarkable rally in both equities and bonds. Even accounting for significant equity market declines in the first quarter, the FTSE 100 Index returned a 27.3 per cent gain during 2009 and investment grade bonds produced their best returns in a decade.

Notwithstanding the scale of the rally since March, the average level of the FTSE 100 Index during 2009 was 4568 points compared to 5363 points during 2008, a reduction of 14.8 per cent. Consequently, 2009 was another tough year for asset managers as lower average market levels fed through to reduced management fee revenues.

Against this challenging market environment, F&C continued to make progress in the implementation of its strategy with strong investment performance and good progress with investment consultants.

Financial Results

With a diversified asset base, F&C's assets under management are less exposed to equity markets than some of our peers. We were relatively defensively positioned during the sharp equity market declines in 2008, and thus were more limited in our participation in the equity recovery during 2009. We ended the year with assets under management of £97.8 billion, broadly flat on the year (31 December 2008: £98.6 billion).

Over the year, the strengthening of Sterling against the Euro had an adverse impact on our assets under management, partially mitigating the recovery in market levels. At 31 December some 55 per cent of our assets under management were in Euro-denominated portfolios.

Net revenues, of £225 million, remained relatively stable (2008: £230 million). While net investment management fees were some £18.6 million lower, performance-related management fees increased to £18.7 million (2008: £7.9 million) on the back of strong investment performance. Underlying operating costs were £5.7 million lower reflecting the cost reduction measures implemented at the start of the year, which were partially offset by the acquired cost base of REIT Asset Management.

The Group made an underlying profit after tax, excluding foreign exchange gains and losses, of £28.3 million (2008: £37.3 million). This resulted in underlying earnings per share of 5.8 pence (2008: 7.6 pence).

The Group also recognised a number of exceptional and non-recurring items. These included the gain on debt refinancing, corporate advisory costs, and the exceptional employment costs of implementing our cost reduction programme.

On a statutory basis our profit after tax was £18.7 million compared to a loss of £50.6 million in 2008.

Statement of Financial Position

The Group closed the year with £186 million of shareholder cash reserves and net debt of some £79 million.

In the second half of the year we took advantage of prevailing conditions in the subordinated debt markets and executed an exchange offer to existing holders of our subordinated loan notes. This enabled bondholders to exchange part of their subordinated notes for new guaranteed notes, and the Group to raise £25 million of additional finance. As a result of this transaction we were able to repay £25 million of vendor loan notes issued in relation to the acquisition of REIT Asset Management in 2008, and to reduce gross and net debt by some £30 million.

Strategic and Operational Review

Our strategy is to develop the Group as a leading multi-specialist asset manager, focused on delivering a competitive range of investment products, supported by excellent client service, for a broad range of insurance, institutional, wholesale and retail investors. We are on a long-term journey to diversify beyond our traditional core business mix by expanding our presence across multiple client segments in specialist business areas which offer scaleable, high growth potential.

The Group's product strategy has three distinct pillars:

- **Advisory and client solutions** – servicing strategic clients with solutions including liability matching, fiduciary management, governance overlays, asset allocation and risk-profiled products
- **Alpha investing** – active portfolio management across a range of traditional and alternative asset classes
- **Responsible investing** – developing our strong market presence in the management of ethical and responsible investment products

We will seek to add scale and enhance our product set and distribution capabilities both organically and through acquisitions. We believe that the acquisition of REIT Asset Management has demonstrated our ability to acquire and preserve the value of entrepreneurial businesses. We will therefore look to build on this model with further acquisitions should we find them to be attractive, value creating opportunities that can be structured to minimise disruption to the business.

Business Developments

Three years ago we initiated a fundamental restructuring of the business. This aimed to improve investment performance, build our distribution capability, expand our presence in specialist investment areas and enhance our infrastructure to support future growth. We are pleased to report that the three-year objectives that we had set ourselves for core investment performance and infrastructure development have been, in the main, achieved. New business wins did not reach our targets largely because of elements outside of our control; two years of unexpected ownership uncertainty and the impact of the market turmoil.

The following was achieved by the end of 2009:

- **Investment Performance** – Overall investment performance was strong across all asset classes during 2009. On an asset weighted basis we outperformed agreed benchmarks or targets on 71 per cent of actively managed equity portfolios and 94 per cent of actively managed fixed income portfolios. As reported below, 2009 was also an excellent year for property investment performance, where all our funds outperformed their benchmark. Strong investment performance resulted in a 137 per cent increase in performance fees compared to the previous year. Mutual funds and other pooled funds represent a minority of our assets under management with the majority of portfolios in insurance funds and segregated accounts. Our overall pooled fund performance, while competitive in a number of specialist areas, does not yet reflect the strong outperformance delivered for our institutional and insurance clients. Improvements in pooled fund performance are therefore a priority for the business in 2010.
- **Distribution** – Since the end of the uncertainty over our ownership we have made good progress with institutional investment consultants, the prerequisite to winning new mandates. At the year end we had a record 43 consultant ratings, spanning a number of products including liability driven investments, environmental, social and governance services, emerging market debt, emerging equities, equity-linked bond funds, and commercial property.

  We generated £2.5 billion of new institutional business during the year and had a further pipeline of mandates that were won but awaiting funding of £1.4 billion at the year end. Institutional outflows were at their lowest level since the merger of F&C and ISIS in 2004, reducing significantly from prior year levels to £4.8 billion (2008: £7.6 billion).

  Third-party mutual fund sales (OEICs and SICAVs) of £710 million were down 31 per cent from the peak levels achieved in 2008. In particular, due to our fund range we did not participate in the strong industry preference in 2009 for investment grade corporate bond products.
- **Infrastructure** – The major infrastructure projects initiated as part of our three-year plan have now been completed. These include the consolidation of our operations on to a single platform and the upgrading of our Decision, Risk and Dealing systems to support our investment teams.

F&C REIT Asset Management

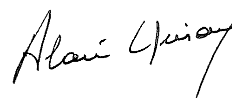
F&C REIT, our property asset manager, was accretive to the Group's underlying earnings per share in its first full-year as part of the Group.

Property investment performance was strong during 2009. The aggregate of all F&C REIT property portfolios monitored by Investment Property Databank (IPD) ranked F&C REIT's UK performance in the 8th percentile. All three closed ended listed UK commercial property vehicles managed by the Group outperformed the IPD Quarterly Index throughout the year.

Outlook

Despite the sharp recovery in asset prices during 2009, the economic outlook for 2010 remains uncertain. Spiralling public debt is forcing governments to take tough action in the form of spending cuts and tax rises. These measures, combined with the winding down of stimulus packages, also have the potential to choke off economic recovery. We therefore remain cautious in our short term market outlook and will continue to rigorously manage our cost base.

With both private investors and pensions schemes needing to rebuild capital, the business is well positioned for an upturn in fund flows.



Alain Grisay
Chief Executive
31 March 2010

Client focus

F&C is a service business. Each employee needs to excel in everything we do for our clients, adding value and building relationships.

This is F&C

The Board has prepared this review on pages 10 to 26 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 47.

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.

What we do

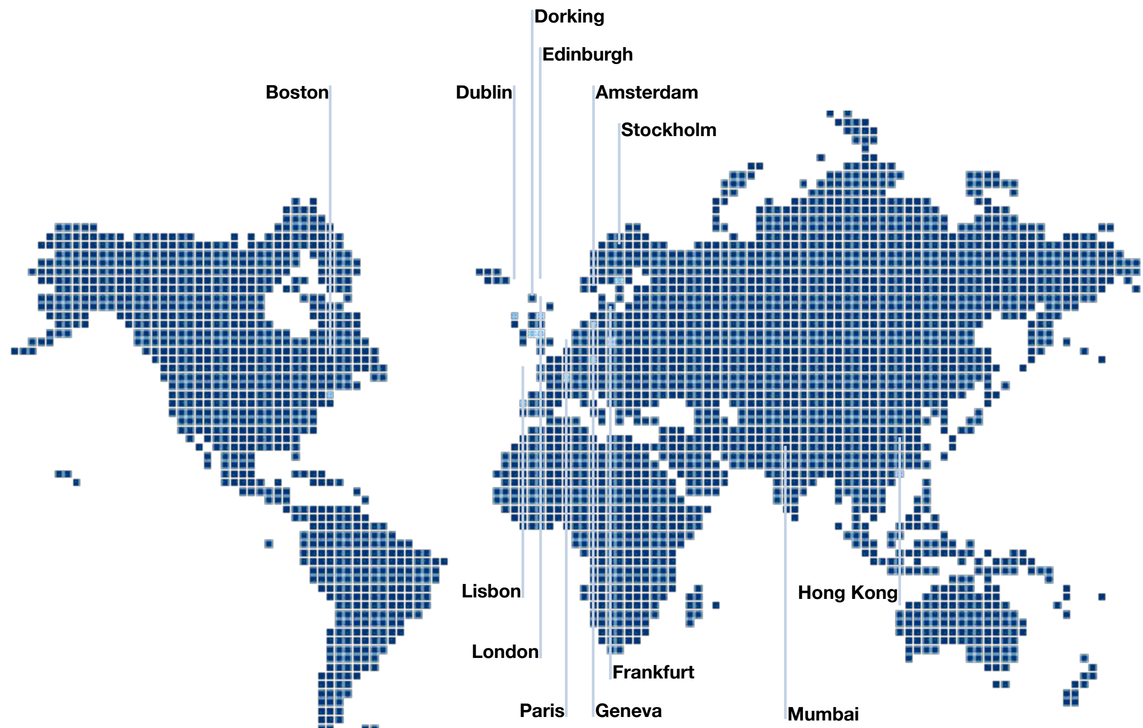
F&C's sole activity is asset management. We are not a bank. We are not an insurance company. We are an active international investor with a client focus on the UK and Continental Europe.

We operate across multiple locations, with a physical presence in eleven 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

Our objective is simple: to create value by delivering first quartile performance in everything our clients expect from us.

Our offices



Our clients

Our clients comprise a wide range of insurance, institutional and retail investors, across multiple geographies and jurisdictions, for whom we manage a diverse spread of investments including equities, fixed income, property and alternative asset classes.

Responsible investments

We seek to deliver strong investment performance through active management. However, as a shareholder representative, we seek to engage with the companies in which we invest, aiming to enhance and protect long-term shareholder value. Our approach is to have constructive dialogue with companies. We cast votes on shareholder resolutions globally, and disclose this to our clients on our website.

How we manage money

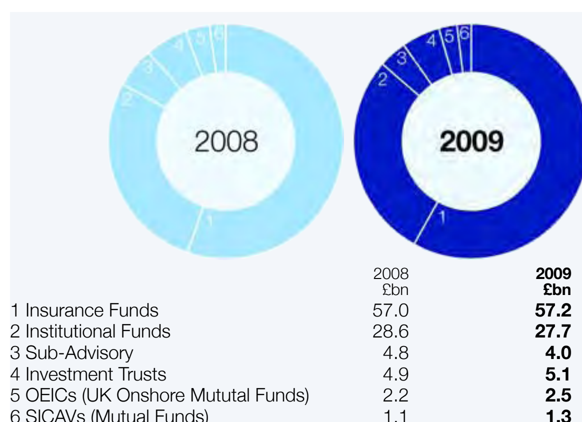
With over 230 investment professionals, F&C has one of the largest investment teams in Europe. Our scale gives us a competitive edge in research resources and access to the most senior management at major companies. We believe individuals work best as part of a small, focused team. Our investment professionals are therefore organised into dedicated teams, focused on specific products or market segments. We provide them with a high degree of autonomy over their investment process. We do this in order to foster a strong culture of enterprise and accountability for delivering performance. This approach – of being both large in terms of resource, but entrepreneurial in structure – is what we describe as a 'multi-specialist' fund management model.

Key risks – see page 13

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

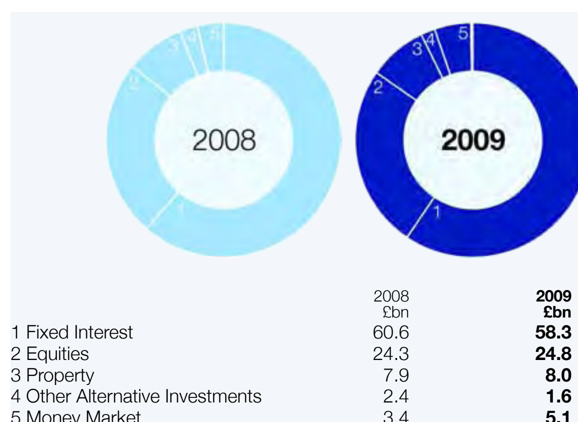
- Deterioration in the world economies
- Failure of the Group's operational platforms
- Weaknesses within the front office control processes
- Loss of key clients
- Loss of key employees

Assets under management by client category
at 31 December £bn



	2008 £bn	**2009 £bn**
1 Insurance Funds	57.0	**57.2**
2 Institutional Funds	28.6	**27.7**
3 Sub-Advisory	4.8	**4.0**
4 Investment Trusts	4.9	**5.1**
5 OEICs (UK Onshore Mututal Funds)	2.2	**2.5**
6 SICAVs (Mutual Funds)	1.1	**1.3**

Assets under management by asset class
at 31 December £bn



	2008 £bn	**2009 £bn**
1 Fixed Interest	60.6	**58.3**
2 Equities	24.3	**24.8**
3 Property	7.9	**8.0**
4 Other Alternative Investments	2.4	**1.6**
5 Money Market	3.4	**5.1**

Executive Management

Alain Grisay

Chief Executive Officer

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

Richard Wilson

Head of Equities

Jacob deWit

Head of Fixed Income

Executive Directors and Executive Committee

Messrs Grisay and Logan are the Executive Directors of the Company. These Executive Directors, together with Messrs Criticos, deWit, Mendez de Vigo, Ribeiro and Wilson 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. EXECOM has reserved lists to assist it in carrying out its functions.

Examples of matters reserved for EXECOM as delegated authorities from the Board:

- 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.

2009 Key Awards

Gold Standard Award – winners of the Fund Management category for fourth successive year – recognises excellence in overall capabilities, client service, trust and value form money

Incisive Media, (November 2009)

European Socially Responsible Investment Programme of the Year – identified as the market leader for engagement on Environmental, Social & Governance matters

Funds Europe magazine (December 2009)

Best Child Trust Provider and Best Performing Fund in a CTF (Higher Risk Category)

Moneywise magazine (2009)

Lipper Fund Awards, 2009 – Category winner F&C European High Yield Bond Fund

Lipper Fund Awards 2009 in Switzerland, Netherlands, Nordics and Germany

Investment Trust of the Year Awards 2009 – Category winner F&C US Smaller Companies PLC

Investment Week, 2009

Investment, Life & Pensions Moneyfacts Awards – Best Investment Trust Provider

ILP Moneyfacts Awards, 2009 (September 2009)

Top 50 Call Centres for Customer Service (CCF magazine) – Ranked First Place

Award for Operational Excellence, UK Customer Experience Awards (CSN)

Managing risk

The Directors are committed to a strong control environment throughout the Group. F&C has a culture that emphasises the importance of rigorous disciplines and procedures to safeguard the interests of our clients, and other key stakeholders.

Key risk	Mitigation
Deterioration in the world economies Deterioration in the global economic environment is likely to adversely impact F&C's ability to attract and retain clients. Falling market levels and asset values have a direct impact on our revenues.	The Group manages a wide range of clients across a diverse asset base and a number of geographic territories.
Failure of the Group's operational platforms Failure in the operational platforms would, at least in the short term, adversely impact client service and the abiity to manage client assets.	The Group has a detailed Business Continuity Plan that is tested annually. All departments have their own Departmental Continuity Plans to ensure the business can continue to operate if an incident occurs at any of the Group's locations.
Weaknesses within the front office control processes There are inherent risks in managing client assets. These include a failure to manage client assets in accordance with the investment remit determined by the client. Ineffective front office control processes could lead to inaccurate investment decision making and errors.	Further progress has been made in relation to pre and post trade compliance to mandate checking. Also, further functionality has been built into eFunds (the system used to record all client information) to ensure that the eFunds system is able to fully capture and accurately reflect all client requirements and restrictions. This aids both compliance to mandate checking and also improves our client servicing proposition.
Loss of key clients The success of the Group depends on the relationships it has with its clients. The retention of clients and the winning of new mandates is often driven by historical performance and the quality of client service.	Long-term contracts are in place with our key strategic clients and a number of new initiatives focussing on new business opportunities have been agreed. In addition, investment performance has improved significantly over the course of 2009.
Loss of key employees The success of the Group depends on the support of its employees. The loss of key employees could lead to client outflows and the loss of key mandates, may prevent the Company from winning new business and potentially expose the Group to greater risk of regulatory, financial or operational failure.	The Group operates competitive share plans and benchmarks the total cash component of compensation to market data. All employees receive an annual appraisal which reviews their performance against clearly defined objectives.

Commercial innovation

Innovation is perhaps the most critical capability for continuing success. We encourage our people to constantly challenge the way things are done, to improve service and the results they deliver to our clients.

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

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.

2009 key points

- We completed the integration of our operational processes on to a single platform enabling us to deliver consistent high standards for all of our clients
- We rationalised our OEIC and SICAV fund ranges and reallocated management responsibilities on a number of funds to provide greater focus for our investment teams
- We won the Incisive Media Gold Standard Award for Fund Management for the fourth year in succession; the Award for Operational Excellence in the UK Customer Experience Awards; and the Overall Winner Award in the Top 50 and Call Centres for Customer Services Awards

2010 key priorities

- Sustain overall strong investment performance across the business and address specific areas of weakness in our pooled fund range
- Continue to broaden the range of products rated by investment consultants and by fund rating agencies
- 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

2009 key points

- After a turbulent Q1, both equities and credit markets posted strong recoveries during the remainder of the year, generating strong calendar year returns
- 94 per cent. of fixed income assets were ahead of agreed benchmarks or targets at the end of the year
- 71 per cent. of equity assets were ahead of agreed benchmarks or targets at the end of the year
- Aggregate performance of all property portfolios monitored by Investment Performance Databank ranked the Group in the 8th percentile with an absolute performance of 9.1 per cent.
- All single strategy hedge funds generated positive absolute returns
- £18.7 million performance fees earned, an increase of 137 per cent. over prior year

Investment awards

- European Socially Responsible Investor of the Year, Funds Europe Awards
- Best Investment Trust Provider, ILP Moneyfacts Awards
- Category Winner – F&C European High Yield Bond Fund, Lipper Fund Awards (Germany, Netherlands, Nordics, Switzerland)
- Category Winner – F&C US Smaller Companies PLC, Investment Week Investment Trust Awards
- Best Performing Balanced Fund – F&C REIT Ireland / Friends First Unit Linked Fund, IPD European Property Investment Awards

Key performance indicators

	2008	2009
Percentage of Fixed Income assets above benchmark or peer group on an asset weighted basis % (3 years)	38	72
Percentage of Equity assets above benchmark or peer group on an asset weighted basis % (3 years)	59	72

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.

2009 key points

- Significant progress made with investment consultants, with 43 ratings achieved by the end of the year, a record level for the business
- Generated £2.5 billion of new institutional business, with a further unfunded pipeline of £1.4 billion
- Third-party mutual fund (OEIC and SICAV) gross sales of £710 million
- Over 100 distribution agreements in place with more than 60 per cent. active
- Registered new mutual funds into Hong Kong, Spain, Austria and Switzerland
- Signed 9 new distribution agreements with mid to large adviser firms for our Lifestyle range of multi-manager funds, with links now in place to multiple product and life office platforms
- Agreed to establish a joint venture fund management company in mainland China with Hua Xia Bank

2010 key priorities

- Capitalise on improved position with investment consultants to significantly accelerate institutional inflows
- Focus on improving inflows from recently established distribution agreements
- Position UK retail product set and proposition to address the implications of the Retail Distribution Review

Key performance indicators

Institutional new business £bn	2008	2009
	2.4	**2.5**

Net sales in third-party mutual funds £m	2008	2009
	221	**64**

Focus on higher margin and specialist areas for new business

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

2009 key points

- While average basis points (excluding performance fees) declined from 22.9 in 2008 to 21.8 in 2009, the comparable margin inclusive of performance fees increased slightly to 23.8. The change in fee mix reflects a combination of a move to lower risk assets by some clients and the introduction of lower base fees in conjunction with new performance fee arrangements for some clients
- In the institutional market we had strong momentum in specialist area of Liability Driven Investments
- In the UK retail market we focused on our Lifestyle range of multi-manager funds
- In the wholesale segments we focused on funds with derivative overlays, emerging market debt, global convertibles and emerging equities

2010 key priorities

- Further develop our sustainable investment franchise with new products, including a sustainable emerging equity strategy
- Achieve first close on our UK opportunities commercial property fund and launch a German property fund
- Expand the range of higher fee products with investment consultant ratings

Key performance indicators

Average basis points earned on assets under management*	2005	2006	2007	2008	**2009**
Inclusive of performance fees	20.8	21.6	22.5	23.7	**23.8**
Exclusive of performance fees				22.9	**21.8**

* revenue margin in 2008 and 2009, disclosed both inclusive and exclusive of performance fees (2005 to 2007 exclusive of performance fees)

Performance fees earned £m	2005	2006	2007	2008	**2009**
	13.0	9.5	20.8	7.9	**18.7**

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.

2009 key points

- 51 per cent. of revenues earned from non-Sterling clients, with 55 per cent. of assets under management in Euro-denominated portfolios at year end
- Closed the year with 60 per cent. of assets under management in fixed income, 25 per cent. in equities, 8 per cent. in property, 5 per cent. in money markets and 2 per cent. in alternatives
- Geographical sources of assets under management were 42 per cent. UK, 32 per cent. Netherlands, 16 per cent. Portugal, 3 per cent. Germany, 3 per cent. Ireland, 1 per cent. France and 3 per cent. other countries

2010 key priorities

- Organic growth focus on third-party institutional business, wholesale and UK retail

Key performance indicators

Operating margin %	2005	2006	2007	2008	**2009**
	44.1	36.5	30.9	26.4	**23.0**

Our view of the market

UK equity market performance – FTSE 100 index
at 31 December

£m	2005	2006	2007	2008	**2009**
	5,619	6,221	6,457	4,434	**5,413**

UK Government bond market performance – FTA British Government Fixed All Stocks total return
at 31 December

	2005	2006	2007	2008	**2009**
	1,935	1,949	2,052	2,315	**2,288**

After the near meltdown of the global financial system 2009 saw the major economies languish in the worst recession since the 1930s as the squeeze on credit rippled out into the real economy and individuals curtailed spending.

Although significant interventions by governments and monetary authorities to recapitalise the banks and pump liquidity into the financial system successfully averted the near term threat of a major banking collapse, the impact on the real economy has been somewhat tempered by the reluctance of the banks to increase lending.

While the major developed economies have now begun to emerge from recession, we expect the pace of recovery to be long and protracted in the UK, but more resilient in the US, Continental Europe and emerging economies. Furthermore, a high degree of uncertainty prevails in the global economy as massive stimulus packages wind down and the outlook for interest rates and inflation becomes more challenging.

In particular, attention has shifted to the scale of government debt, particularly in the Eurozone and UK, leading to concerns about sovereign credit ratings and sharp selling of Sterling and the Euro. Until these fears ease, bond and currency markets will likely remain volatile.

Repairing government balance sheets will require both aggressive public spending cuts and tax increases. Such actions, in conjunction with the winding down of fiscal stimulus packages, run the risk of choking off the global recovery. For these reasons we remain cautious in our macro outlook. While a slow, anaemic recovery is our base case for the UK, a double-dip recession cannot be ruled out.

For investors in equity and bond markets, we believe that the stellar performance of 2009, which saw total returns of 16.5 per cent. from the MSCI World Index, 27.3 per cent. from the FTSE 100 Index, a record year for high yield bonds and the best returns in a decade for investment grade credits, will not be repeated during 2010. Since hitting a trough in the first quarter of 2009, both equity and credit markets have re-rated significantly. In our view, both equity and credit markets have moved from being heavily oversold to approaching fair value.

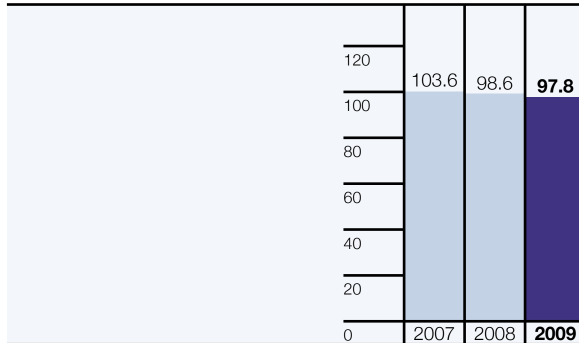
Within the asset management industry, we anticipate further change as a result of the experience of the last two years when business models were severely stress tested. Consolidation will continue to be a theme as banks, insurance companies and other financial institutions implement strategic decisions to exit asset management or are forced to dispose of specialist divisions, such as hedge fund and private equity units, as a result of proposed legislation from the Obama administration.

We also expect to see continued convergence between alternative asset managers and traditional asset managers as they each seek to diversify beyond their existing business lines and compete to bring absolute return strategies into the mutual fund market place. An increasing number of products are being launched, utilising the wider investment powers available under UCITS 3 fund structures, to implement absolute return strategies within mutual fund structures offering daily pricing and liquidity.

In the UK retail market, we see further repositioning of Independent Financial Adviser business models ahead of the implementation of the recommendations of the Retail Distribution Review in 2012. In our view this will accelerate the growth of multi-managers and risk-based funds, and provide a boost to the discretionary wealth management industry, as IFA firms seek to partner with businesses that can provide them with outsourced investment solutions.

In the institutional market we anticipate growth in both the Defined Contribution (DC) pension market and in Implemented Consulting.

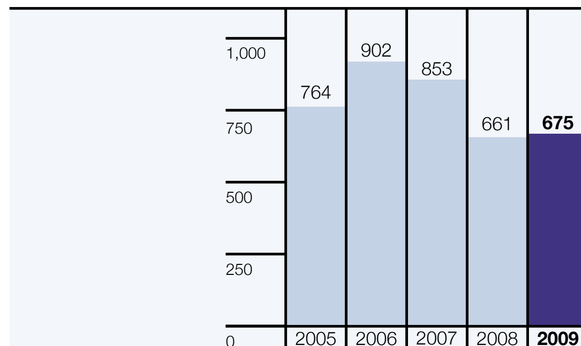
Assets under management
at 31 December £bn



In the US the DC pensions market is mature and estimated to be twice the size of the Defined Benefit (DB) market. The UK DC pension market, while well established, remains at a much earlier phase, perhaps around a third of the asset size of the DB market. However, we are seeing the pace of DB scheme closures quicken, along with the cessation of future accrual in a number of high profile DB schemes, meaning that UK DC asset growth is now rapidly climbing. This will create opportunities for asset managers able to provide DC-dedicated investment structures and develop a strong presence on life platforms, a core route to market for Corporate IFAs.

We also see a trend towards Implemented Consulting as asset consultants develop services to replicate and adapt the fiduciary management model which has gained momentum in recent years in The Netherlands. These services provide a governance model for pension schemes, which incorporates advice on asset allocation and manager selection into an integrated service. In this environment the ability of an asset management company to demonstrate that it has a portfolio of clearly differentiated specialist expertise will be more important than its perceived overall capabilities.

UK Real Estate Market Performance – IPD Monthly Index
at 31 December



After a very strong investment driven finish to 2009, performance in the Real Estate marketplace is expected to moderate in early 2010 although sheer momentum will keep total returns strongly positive. As the year progresses, a tighter economic policy, weak occupier fundamentals, a narrowing yield gap with gilts and a possible upturn in supply of investment stock will all act to move property back to its traditional role where total returns will be driven by income return. There could be some further pressure on capital values but we see total returns remaining positive over the short and medium-term.

Our trading performance and outlook

Insurance Funds

F&C has strong expertise in the management of insurance funds and oversees significant assets for insurance groups including Friends Provident, Achmea, BCP-Fortis and Friends First. At 31 December 2009 assets under management in insurance funds were £57.2 billion (2008: £57.0 billion).

Due to the maturity profile of some of the insurance funds we manage there has historically been a trend of annual net outflows. Across 2009 net insurance outflows were £2.2 billion (2008: £4.4 billion). Insurance net outflows represented 38 per cent. of total net outflows during the year.

Institutional

F&C is a major manager of assets for pension schemes and other institutional clients. We manage assets from institutional clients in a number of countries with our largest presence being in The Netherlands and UK. Institutional assets under management were £27.7 billion at 31 December 2009 (2008: £28.6 billion).

The UK and Continental European institutional investment market is heavily intermediated through firms of investment consultants. Prior to F&C's demerger from Friends Provident in July 2009, our ability to win new institutional mandates was severely curtailed by the suspension of buy ratings on our products by investment consultants, arising from the uncertainty around our ownership. Since the demerger, and the ending of the corporate uncertainty, we have made considerable progress with investment consultants. At the end of 2009 the Group had 43 consultant product ratings, a record level for the business, compared to 28 product ratings 12 months earlier.

Although the Group has made good progress with investment consultants since its demerger, there was a net outflow of £2.3 billion from institutional clients during 2009. This outflow was significantly reduced from the £5.2 billion net outflow in 2008. Additionally, at 31 December 2009 the business had won an additional £1.4 billion of institutional new business that had yet to be funded.

Sub-Advisory

Sub-advisory assets under management, where we provide portfolio management services for the mutual fund ranges of strategic clients, were £4.0 billion at 31 December 2009 (2008: £4.8 billion). Net outflows from sub-advisory funds were £1.3 billion during the year, partly reflecting the decision of a client in Portugal to bring in-house a range of money market funds.

Investment Trusts

Investment Trust assets under management increased to £5.1 billion (2008: £4.9 billion) benefitting from the recovery in equities. A net outflow of £224 million from Investment Trusts principally related to share buybacks and changes in gearing levels by our clients.

On 10 December 2009, the Board of Foreign & Colonial Eurotrust plc, an investment trust with assets under management of £285 million, announced the appointment of a new investment manager with effect from 1 February 2010. The resulting outflow from this client loss will therefore be reported with our Q1 2010 fund flows.

Open Ended Investment Companies (OEICs)

OEICs are the principal form of mutual fund that we distribute through UK-based Independent Financial Advisers, although institutional investors and wealth managers may also invest in OEICs.

Assets under management in OEICs increased to £2.5 billion (2008: £2.2 billion) as a result of improved market levels. Whilst net flows were negative by £57 million across the year, they improved strongly in the fourth quarter.

Across the industry a significant proportion of the inflows during 2009 were into investment grade corporate bond funds, an area where F&C does not have a sizeable product in its OEIC range. As investors' risk appetites increase, we anticipate improved opportunities for generating OEIC sales in areas such as Strategic Bonds, UK and European equities and multi-manager funds.

Société d'investissement à Capital Variable funds (SICAV funds)

SICAV funds are the principal form of F&C-branded mutual fund that we distribute in Continental Europe, primarily through wholesale relationships with banks, private banks, wealth managers, multi-managers and platforms.

Assets under management in SICAV funds increased to £1.3 billion at 31 December 2009 (2008: £1.1 billion) reflecting a combination of improved markets and a net inflow of £121 million. Our key products during the year were specialist fixed income funds and products with derivative overlay strategies.

Our financial performance

Total return
We view share price total return (including dividends) as a key performance measure. Our total shareholder return for the year ended 31 December 2009 was 42.5%. In the same period, the total shareholder return on the FTSE 250 index was 50.7% and the FTSE100 was 27.4%.

Strategic background
2009 was a year of considerable volatility in financial markets; the FTSE 100 index opened the year at 4,434, subsequently falling to a low of 3,512 on 3 March, before recovering sharply to close the year at 5,413. Despite this recovery, it is worth noting that the average level of the FTSE 100 during 2009 was some 15% lower than the prior year. Accordingly, we positioned the business to withstand a sustained decline in market levels, which, for an asset manager, directly impacts revenues and profitability. However, despite the reduction in average market levels and the constraints on our ability to gather new institutional assets arising from the continued corporate uncertainty during the first half of the year, our net revenues of £225.1m fell by only 2.1% from 2008 levels, benefitting from the full year impact of the acquisition of REIT Asset Management (REIT) in 2008. While the adverse market conditions encountered in 2008 and early 2009 necessitated cost reductions, we targeted these measures carefully to avoid disrupting our distribution and investment capabilities. This has positioned us to benefit from improved investor sentiment during 2010.

Presentation of financial results
International Financial Reporting Standards (IFRS) require our financial statements to consolidate the results of our managed pension funds business on a line-by-line basis, impacting the presentation of both our Income Statement and Statement of Financial Position. Our managed pension funds business provides certain clients with asset management services inside an insurance product wrapper. The requirement to consolidate this business has a significant effect on the financial investments and investment contract liability captions included in our Statement of Financial Position, the risks of which are substantially borne by the clients of this business. In addition, our Statement of Financial Position includes some £27.7m of cash also attributable to policyholders of this business and which is not available for corporate purposes.

Net revenue
Net revenue for the year was £225.1m (2008: £229.9m). This included £18.7m (2008: £7.9m) of performance fee income, reflecting the strong investment performance achieved across asset classes in 2009. While new business of £3.5 billion, excluding insurance flows, was funded during the year, this was more than offset by outflows of £7.2 billion and net insurance outflows of £2.2 billion. The combination of improved market levels, partially offset by adverse exchange rate variances, added a net £5.1 billion to our assets under management during 2009.

Net funds flows and related annualised revenues represent a key performance indicator and are indicative of the growth potential of the business. While we experienced net outflows during 2009, continuing the trend in prior years, our outflows have tended to be in lower fee margin areas, such as insurance and legacy institutional business.

Revenue margin
Our revenue margin, measured as our net management fee income divided by average assets under management, decreased from 22.9 basis points in 2008 to 21.8 basis points in 2009. However our total net fee margin, including performance fees, rose marginally from 23.7 basis points in 2008 to 23.8 basis points in 2009. There are three principal reasons for this. Firstly, a number of insurance clients reduced their risk appetite during 2009 and switched investments to lower risk asset classes; while certain insurance mandates operate on a composite fee rate, irrespective of the underlying asset classes, in some cases, the management fees we earn for insurance clients are asset class specific, with lower fees being earned on certain fixed income assets. Secondly, during 2009 we renegotiated fee structures with several clients, agreeing a lower base management fee but introducing performance fee arrangements. Thirdly, as previously noted, investment performance was strong throughout 2009, resulting in a significant increase in performance fees earned.

Operating expenses
Our operating expenses, excluding amortisation of intangible assets, the impact of unrealised gains and losses on forward currency contracts and exceptional items, were £164.8m in 2009, compared to £171.0m in 2008. After excluding exchange gains and losses, which are substantially outwith the control of management, our operating expenses were £166.6m in 2009, compared to £172.3m in 2008, a reduction of some £5.7m. However, this headline movement masks reductions in core operating costs of some £12.4m, partially offset by the full year impact (£6.7m) of the cost base added through the acquisition of REIT in Q3 2008.

One of the key costs for an asset management business is remuneration costs, which are correlated to personnel numbers. At 31 December 2009, our headcount, on a full-time equivalent basis, was 868, compared to 933 at 31 December 2008. In addition, the profile of our variable remuneration has altered in line with market conditions, with the discretionary cash bonus pool reduced by some 20%.

During 2009, we incurred a number of exceptional operating costs, which are excluded from our underlying results. These comprise exceptional employment costs, corporate advisory costs, onerous lease provisions, client compensation costs and other provisions.

Exceptional employment costs of £6.1m principally represent amounts payable to former employees on termination of employment. The majority of these costs were incurred to reduce headcount and generate cost savings in 2009 and beyond.

Corporate advisory costs of £2.6m represent project and advisory costs incurred in separating the company from Friends Provident, together with professional advisers' costs incurred until 31 December 2009 in connection with potential acquisitions.

During 2009, the tenant in one of the Group's sub-let premises sought to exercise a break clause in their lease and vacate the premises. As it was economically beneficial to retain that tenant rather than seek to market the vacant premises, additional rental inducements of some £2.5m were granted to the existing tenant. Given both the quantum plus the fact that this lease was acquired with a historical corporate acquisition rather than relating to premises occupied by the Group, the resulting impact has been treated as exceptional.

The exceptional client compensation expense of £2.5m represents the potential cost to the Company of amounts reimbursable to a client as a result of breach of their investment mandate. This provision relates to a single event in respect of one client, attributable to a unique set of circumstances.

As previously disclosed, the Company has received a put option notice from both founder members of F&C Partners LLP ("Partners"), the Group's majority owned fund of hedge funds business. These options seek to require the Company to purchase the individuals' interest in Partners. The Company vigorously denies the validity of the put option notices under the Partnership Agreement but, to date has incurred some £4.1m of exceptional legal and provisioning expenses in respect of this matter.

During 2007, the Company provided for potential sums due to investment trust clients in respect of historical VAT matters. Related discussions and negotiations with clients have now been completed and the net excess provision of £2.5m has been released. As the cost of this provision was treated as an exceptional item, the release has also been treated as an exceptional item.

Amortisation and 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.

Management contracts are separated by client type and are amortised over their estimated useful lives. Where an indicator of impairment occurs, such as greater than anticipated fund losses, we are required to review the carrying value of these contracts.

No such indicators of impairment arose during 2009 and accordingly no impairment charges were recognised.

We are also required to conduct an annual impairment review of the carrying value of goodwill. This review demonstrated that there was no impairment and hence no requirement to write down goodwill.

Foreign exchange

A large proportion of the Group's business is conducted outside the UK and consequently, the Group has significant exposure to foreign exchange rate movements. The main areas which are potentially exposed to exchange rate fluctuations are our revenues and our assets and liabilities. Approximately 55% of the Group's assets under management are denominated in Euros and, accordingly, a significant proportion of the Group's revenues are earned in Euros. As disclosed in last year's annual report and financial statements, during 2008 the Company entered into a series of forward currency contracts to partially hedge Euro denominated cash flows. While a number of the contracts expired in 2008 and 2009, the final contract matures in H1 2010. IFRS requires that open contracts are revalued at year end exchange rates. This revaluation resulted in an unrealised gain being recognised in the 2009 Income Statement in respect of forward currency contracts which mature in 2010. As this contract protects 2010 cash flows, the unrealised gain of £1.2m has been excluded from 2009 underlying earnings.

In addition, during 2009, exchange losses of some £1.8m were incurred, comprising a gain of £5.9m on forward currency contracts which matured during the year offset by a £4.1m exchange loss on the retranslation of assets and liabilities held in foreign currencies. As these amounts do not reflect the ongoing profitability of the business, they have been excluded from underlying earnings.

REIT acquisition

Under the terms of the acquisition of REIT disclosed in last year's annual report, the vendors of REIT currently own 30% of F&C REIT, the property business created on the merger of F&C's property asset management business with REIT. In certain circumstances, the REIT vendors can require F&C to purchase their interests in F&C REIT at future dates and, under IFRS, a liability for this potential obligation is included in our financial statements. As this option requires to be carried at its fair value, representing 30% of the value of F&C REIT, it is revalued each year, with any revaluation gain or loss reflected in the Income Statement. During 2009, this revaluation resulted in a gain of £5.6m being included in the 2009 Income Statement. This gain is excluded from underlying earnings.

In addition to the arrangements described above, the REIT vendors have the opportunity to increase their ownership interest from 30% to 40%, should F&C REIT achieve certain stretching financial targets over agreed periods. For accounting purposes, the valuation of the option provided by the earn-out mechanism is treated as a share-based payment expense and included in the Income Statement. The 2009 expense of £3.7m has been excluded from underlying earnings, consistent with the treatment adopted in 2008.

Underlying earnings

The Board utilises underlying earnings per share as one of its key metrics in assessing financial performance. The reconciliation between underlying earnings and statutory earnings is provided in note 11 to the consolidated financial statements. Underlying earnings per share for the year ended 31 December 2009 were 5.8p (2008: 7.6p) excluding the impact of all foreign exchange gains and losses and 4.6p (2008: 7.8p) after the inclusion of realised exchange gains and losses. The decline principally relates to the reduction in finance revenue discussed below under 'Interest profile'.

Dividends
Our dividend policy is to achieve at least 150% cover on underlying earnings, and where possible, to grow the dividend. As set out above, our underlying earnings for the year were 5.8p per share. An interim dividend of 2p per share was paid during the year. After a review of the results for the year, the market conditions that prevailed during the year and the business outlook for 2010, the Board has declared an unchanged final dividend of 4p per share. This dividend, together with the interim dividend, will result in a total dividend for the year of 6p per share, a level in excess of underlying earnings. Future dividend levels will be set in light of financial results and the business and economic outlook.

Cash resources
The Company has gross debt of some £265m (2008: £295m). During the year, the Group completed an exchange offer for a proportion of its subordinated loan notes. As a result of that offer, the Company acquired £135m of its subordinated loan notes in exchange for the issue of 2016 senior loan notes. The difference between the nominal value of the senior loan notes issued and the nominal value of the subordinated loan notes repurchased, net of costs, represents a gain of £27.9m, which, under IFRS, is recognised in the Income Statement. This gain has been excluded from underlying earnings. As part of the exchange offer, the Company also raised an additional £25m which was used to partially redeem the loan notes issued as part of the REIT acquisition.

At 31 December 2009, the Group's borrowings therefore comprise £125m of remaining subordinated loan notes, some £130m of senior loan notes, and £10m of REIT vendor loan notes. Neither the subordinated loan notes nor the senior loan notes include any financial covenants.

At 31 December 2009, the Group held cash resources of £213.9, of which some £27.7m relates to policyholders and is not available for corporate purposes. A significant portion of cash is held in our regulated subsidiaries against their capital requirements. As asset management is a cash generative business, we should not require significant cash for working capital purposes beyond our regulatory capital requirements.

Interest profile
The majority of our borrowings carry fixed rates of interest. The subordinated loan notes currently bear interest at 6.75% and the senior loan notes carry a fixed 9% interest rate.

Our cash resources earn interest based on bank deposit rates. As interest rates reached a record low during the year, bank deposit rates were significantly lower during 2009 than in the prior year. Bank interest income accordingly declined from £9.8m in 2008 to £1.8m in 2009. In addition, during 2008 we also received other investment income of £2.1m, whereas no such income was received in 2009.

Our strategic approach and commitment to corporate responsibility (CR)

CR commitment

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

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 CR 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 CR performance.

External validation

	2008 position	Existing position	2010 target
BITC Corporate Responsibility Index	Gold status	**Gold status**	**Platinum status**
EIRIS/ FTSE4Good	Inclusion	**Inclusion**	**Inclusion**
UN Global Compact CCP	Inclusion	**Inclusion**	**Inclusion**
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 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 management.

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 from chlorine free recycled supplies, reduce 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 waste management has on the environment.

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

Some of our 2009 community or charity events

In February, several members of the CR Committee travelled to a primary school in Camden to paint a classroom.

Stewart McAndie took part in the London Marathon in April. He raised over £3,000 for the Tusk Trust, a conservation charity whose work is spread over 17 African countries.

In July, a team of F&C fund managers travelled to a primary school in Lewisham to transform an overgrown patch within the school to a vegetable and herb garden.

75 F&C employees took park in the JP Morgan Chase Corporate Challenge in Battersea Park, London, raising funds for SportsAid.

Corporate responsibility key performance indicators

Category	KPI/statistic	2009 performance	2010 targets
Marketplace	Number of resolutions voted on during the year	**99.97%**	**100%**
	Proportion of companies contacted following an abstention or vote against management	**100%**	**100%**
	reo® engagement successes in year	**376**	**350**
Community	Staff participation in GAYE	**12%**	**15%**
	Employees participating in charitable events and charitable fundraising	**462**	**475**
	Staff volunteering for community projects	**34%**	**75%**
Environment	Carbon neutrality	**Full**	**Full**
	Reduction in paper consumption	**5%**	**5%**
Workplace	Employee survey participation	**75%**	**Top decile**
	Staff satisfaction	**70%**	**75%**
	Diversity training (staff coverage)	**100%**	**100%**

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 2010, 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, over the next three years, to introduce financial support and, wherever practicable, offer employees time off work to support Charitable Activities.

In 2010 F&C is targetting 75 per cent. of all employees dedicating at least one working day per year to a charitable or community programme.

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

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
31 March 2010

David Logan
31 March 2010

Company Directors

Non-executive Directors

Nick MacAndrew FCA §
Age 63
Chairman

Mr MacAndrew, a Chartered Accountant, joined the Board in May 2007 and was appointed Chairman in May 2009. 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.

Keith Bedell-Pearce CBE, LLB, MSc †*§
Age 64
Senior Independent Director

Mr Bedell-Pearce, a solicitor, joined the Board in December 2002. Until December 2001, Mr Bedell-Pearce was an Executive Director of Prudential plc with over 30 years experience in the financial services industry. He is the former Chairman of The Student Loans Company Limited Directgov and the Norwich & Peterborough Building Society. He is currently Chairman of 4D Data Centres Ltd.

Kieran Poynter FCA †
Age 59
Independent Director

Mr Poynter joined the Board in June 2009. Prior to his appointment, Mr Poynter was Chairman and Senior Partner of PricewaterhouseCoopers LLP having spent 37 years with the firm. He is a Director of Nomura plc.

Brian Larcombe †*§
Age 56
Independent Director

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

Gerhard Roggemann Ass.iur †*§
Age 62
Independent Director

Mr Roggemann joined the Board in June 2007 as an Independent Director. He is currently Vice Chairman of Hawkpoint Partners Europe and an independent director of Resolution Limited and Friends Provident Holdings 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.

Jeff Medlock B.Sc(Econ), FIA
Age 69

Mr Medlock joined the Board in October 2004. Mr Medlock 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 until his retirement in 2004. He is also a trustee of the children's charity Coram Life Education.

Executive Directors

Alain Grisay
Age 55
Chief Executive

Mr Grisay joined the Board 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.

David Logan
Age 40
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, Risk & Compliance Committee
§Member of the Nomination Committee

Report of the Directors

Results, business review and dividend

The Group's results for the year ended 31 December 2009 are shown in the Consolidated Income Statement on page 48. A business review of the year ended 31 December 2009 and future developments are covered on pages 10 to 26. This review, together with the Directors' Report on Corporate Governance on pages 33 to 38, forms part of the Report of the Directors.

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

The Directors recommend a final ordinary dividend of 4.0 pence per share, amounting to £19.5 million, resulting in a total of 6.0 pence and £29.2 million for the year. Preference dividends of £8,200 were also incurred during the year.

The final ordinary dividend, if approved, will be paid on 7 May 2010 to ordinary shareholders whose names are on the register on 26 March 2010. No liability for the proposed dividends has been recognised as at 31 December 2009, 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 five branch offices in the Group outside the UK, in The Netherlands, France, Germany, Ireland and Sweden.

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.

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

The 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 13 to the Consolidated Financial Statements. At 31 December 2009, 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 15 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 3,547,806 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 2009 are shown on pages 94 to 101. Details of all shares issued during the year ended 31 December 2009, 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 2009 Ordinary Shares**	31 December 2008** Ordinary Shares
Nick MacAndrew	Beneficial	**25,000**	25,000
Keith Bedell-Pearce	Beneficial	**51,285**	51,285
Alain Grisay	Beneficial†	**1,304,847**	1,386,094
	Non Beneficial*	**64,176**	Nil
Brian Larcombe	Beneficial	**20,000**	20,000
David Logan	Beneficial	**95,485**	2,218
	Non Beneficial*	**64,176**	Nil
Jeff Medlock	Beneficial	**10,000**	10,000
Kieran Poynter	Beneficial	**30,000**	Nil
Gerhard Roggemann	Beneficial	**Nil**	Nil

* Alain Grisay and David Logan 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 39 to 45.

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.

Charitable and political contributions
During the year, the Group made contributions to charity of £86,000 (2008: £139,000). No political donations were made during the year (2008: £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 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 2009, trade creditors represented the equivalent of 6 days (2008: 5 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 31 March 2010:

	Ordinary Shares	Percentage
Eureko B.V.	51,128,190	10.6
Aviva	24,301,321	5.0
Artemis Investment Management	23,556,805	4.9
Fidelity	22,696,416	4.7
Lloyds Banking Group	22,425,948	4.6
Greenlight Capital LP	16,450,119	3.4

Employees
At 1 March 2010, there were 798 full-time employees and 75 part-time employees within the Group (1 March 2009: 845 full-time employees and 73 part-time employees).

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

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

Employee involvement
During the year, the policy of providing employees with information about the Group has been continued through internal presentations by the Executive Directors and Executive 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 39 to 45 or the notes to the Consolidated Financial Statements on pages 94 to 101.

Annual General Meeting (AGM)
The Company will hold its AGM on Tuesday, 4 May 2010 at The Gibson Hall, 13 Bishopsgate, London EC2N 3BA. The meeting will start at 11 a.m. (UK time). Details of all resolutions being put to shareholders are set out in the Notice of Annual General Meeting commencing on page 139.

Board changes
On 7 May 2009, Robert Jenkins, the Company's former Chairman and Dick de Beus, an independent Non-executive Director, retired from the Board. Coincident with the demerger of Friends Provident plc on 3 July 2009, Sir Adrian Montague and Trevor Matthews, both of whom were Friends Provident's nominated shareholder representatives, retired from the Board.

On 1 June 2009, Kieran Poynter and Roger Yates joined the Board as independent Non-executive Directors. Roger Yates subsequently resigned from the Board in December 2009 to take up an executive role overseas.

The Nomination Committee and the Board have commenced a search for an independent Non-executive Director.

General Meeting
Authority to allot ordinary shares and disapplication of pre-emption rights
Ordinary resolution 9 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 £164,730.35. The Resolution proposes that a similar authority be granted in substitution of the existing authority to allot securities up to

a maximum amount of £160,715.81, 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, in accordance with guidance issued by the Association of British Insurers 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 £140,011.07, representing approximately 29.04 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 62.37 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 2011, 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 17,077,485 ordinary shares in treasury. This represents approximately 3.54 per cent. of the Company's ordinary share capital in issue (excluding treasury shares) as at the date of this report.

Special resolution 10 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 £24,963.65, 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 £300,726.88, representing approximately 62.37 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); or
  (b) in order to satisfy options or awards under any share scheme for employees or share incentive plan approved by the Company in general meeting,

  is £160,715.81, 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 9 and the power proposed to be granted by resolution 10 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)(b) above.

Purchase of own shares

Special resolution 11 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 11 the maximum aggregate number of ordinary shares which may be purchased pursuant to the authority shall be 48,219,564 (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 24,339,183 options to subscribe for ordinary shares outstanding (representing 5.05 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 2010 AGM and is then utilised in full, the options outstanding at the date of this report would represent 5.61 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 2011.

Any ordinary shares purchased pursuant to this authority would either be held as treasury shares or cancelled. 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. The Directors 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 2009, the Group purchased 11,043,017 ordinary shares (2008: 345,845 ordinary shares) representing 2.2 per cent. of the ordinary shares in issue at 31 December 2009 pursuant to this authority. The aggregate consideration paid for own share purchases in 2009 was £7.4 million (2008: £0.6 million). The maximum number of own shares held during the year was 11,797,023 representing 2.4 per cent. of the ordinary shares in issue. 4,487,231 own shares representing 0.9 per cent. of the ordinary shares in issue were transferred during the year pursuant to employee share schemes.

Amendment to Articles of Association

Special Resolution 12 will propose the amendment of the Company's Articles of Association primarily to take account of the coming into force of the Companies (Shareholders' Rights) Regulations 2009 (the "Shareholders' Rights Regulations") and the implementation of the last parts of the Companies Act 2006. The principal proposed changes to the Articles are summarised below:

1. The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006 the objects clause and all other provisions which are contained in a company's memorandum, for existing companies at 1 October 2009, are deemed to be contained in the company's articles of association but the company can remove these provisions by special resolution.

Further, the Companies Act 2006 states that, unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are treated as forming part of the Company's articles of association as of 1 October 2009. Resolution 12 set out in the Notice of the Annual General Meeting confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the revised articles of association also contain an express statement regarding the limited liability of shareholders.

2. Articles which duplicate statutory provisions

Provisions in the current articles of association which replicate provisions contained in the Companies Act 2006 are in the main amended to bring them into line with the Companies Act 2006.

3. Change of name

Under the Companies Act 1985, a company could only change its name by special resolution. Under the Companies Act 2006 a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the revised articles of association enable the directors to pass a resolution to change the Company's name.

4. Authorised share capital and unissued shares

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the revised articles of association reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

5. Redeemable shares

Under the Companies Act 1985, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The Companies Act 2006 enables directors to determine such matters instead provided they are so authorised by the articles. The revised articles of association contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the directors would need shareholders' authority to issue new shares in the usual way.

6. Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital

Under the Companies Act 1985, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The current articles of association include these enabling provisions. Under the Companies Act 2006 a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly, the relevant enabling provisions have been removed from the revised articles of association.

7. Use of seals

Under the Companies Act 1985, a company required authority in its articles to have an official seal for use abroad. Under the Companies Act 2006, such authority will no longer be required. Accordingly, the relevant authorisation has been removed in the revised articles of association.

8. Suspension of registration of share transfers

The current articles of association permit the directors to suspend the registration of transfers. Under the Companies Act 2006 share transfers must be registered as soon as practicable. The power in the current articles of association to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the revised articles of association.

9. Vacation of office by directors

The current articles of association specify the circumstances in which a director must vacate office. The revised articles of association update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Innovation and Skills.

10. Voting by proxies on a show of hands

The Shareholders' Rights Regulations have amended the Companies Act 2006 so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The current articles of association have been amended to reflect these changes.

11. Voting by corporate representatives

The Shareholders' Rights Regulations have amended the Companies Act 2006 in order to enable multiple representatives appointed by the same corporate member to vote in different ways on a show of hands and on a poll. The revised articles of association contain provisions which reflect these amendments.

12. Chairman's casting vote
The revised articles of association remove the provision giving the chairman a casting vote in the event of an equality of votes at a general meeting as this is no longer permitted under the Companies Act 2006.

13. Notice of general meetings
The Shareholders' Rights Regulations amend the Companies Act 2006 to require the company to give 21 clear days' notice of general meetings unless the company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than 14 days has been passed. Annual general meetings must be held on 21 clear days' notice. The revised articles of association amend the provisions of the current articles of association to be consistent with the new requirements.

14. Adjournments for lack of quorum
Under the Companies Act 2006 as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The current articles of association have been changed to reflect this requirement.

15. Voting record date
Under the Companies Act 2006 as amended by the Shareholders' Rights Regulations, the company must determine the right of members to vote at a general meeting by reference to the register not more than 48 hours before the time for the holding of the meeting, not taking account of days which are not working days. The current articles of association have been amended to reflect this requirement.

16. Extraordinary general meetings
The concept of extraordinary general meetings no longer exists in the Companies Act 2006. Accordingly, references to extraordinary general meetings will simply refer to general meetings.

17. Retirement of directors by rotation
The provisions on retirement by rotation have been amended to reflect the requirements of the Combined Code. Under the Combined Code directors must offer themselves for re-election at regular intervals and at least every three years and so the revised articles of association provide that each director shall retire at the annual general meeting held in the third calendar year following the year in which he was elected or last re-elected by the Company and a director (other than a director holding executive office) shall retire at each annual general meeting from the ninth anniversary of the date in which he was appointed or elected (as the case may be). In addition, any director who has been appointed by the board since the last annual general meeting is required to retire. All such retiring directors may offer themselves for election or re-election.

18. Electronic communications
Provisions of the Companies Act 2006 enable companies to communicate with members by electronic and/or website communications. The proposed revised articles of association continue to allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the provisions of the Companies Act 2006 relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

Notice of General Meetings

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. The flexibility offered by this resolution will only be issued where it is, in the opinion of the directors, merited in the interests of the Shareholders as a whole.

The authority being sought pursuant to Special Resolution 13 will expire at the conclusion of the AGM to be held in 2011. 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 5(c) to the Consolidated Financial Statements and further detail on how the Board ensures the independence of the auditors is detailed on pages 37 and 38 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
31 March 2010

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 2006 ("the Code") have been applied.

Statement of compliance

The Directors consider that the Company has, throughout the year ended 31 December 2009 and up to the date hereof, applied the principles and met the requirements of the Code with the following two exceptions:

- For the period from 7 May 2009 until the appointment of Messrs Poynter and Yates on 1 June 2009, the composition of the Board did not meet code provision A3.2 in that half the Board, excluding the Chairman, did not comprise of independent Non-executive Directors. The Board has complied fully with this provision since 1 June 2009.

- For the period from 11 December 2009 until the appointment of Gerhard Roggemann on 18 January 2010, the composition of the Remuneration Committee did not meet code provision B2.1 in that it only had two members. No Committee meetings ocurred during that period and the Remuneration Committee has complied with this provision since 18 January 2010.

The Chairmen of the Audit, Risk & Compliance, Remuneration and Nomination committees will be available to answer questions at this year's Annual General Meeting to be held on Tuesday, 4 May 2010.

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 21. The financial position of the Group, its cash flows and liquidity position are described in the Business Review on pages 22 to 24. 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. 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 five Non-executive Directors, four of whom the Board has identified as Independent Directors. Jeff Medlock, who in 2004 retired as Chief Financial Officer of Achmea, a 10 per cent. shareholder in the Company is the only Non-executive Director who does not meet the criteria of independence as set out in the accepted guidance.

The biographies of the Directors appear on page 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.

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 its 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 Nick MacAndrew. The Committee comprises the Chairman and three Non-executive Directors, all of whom are Independent Non-executive Directors. Throughout 2009, the Committee met formally on two occasions.

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

Activities and work of the Committee
On 7 May 2009, the Company's former Chairman, Robert Jenkins, and Dick de Beus, an independent Non-executive Director, retired from the Board. In April 2009 the Committee formally engaged an external search consultancy to conduct a search for two independent Non-executive Directors and on 1 June 2009, Kieran Poynter and Roger Yates joined the Board as independent Non-executive Directors. Roger Yates resigned from the Board on 11 December 2009 following his appointment to a full-time position overseas. On 3 July 2009 Sir Adrian Montague and Trevor Matthews retired from the Board. The Committee and the Board are currently undertaking a search for an independent Non-executive Director.

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.

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
Nick MacAndrew
Chairman, Nomination Committee
31 March 2010

(b) Statement of the Audit, Risk & 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.

Members of the Audit, Risk & Compliance Committee:
Keith Bedell-Pearce (Chairman), Brian Larcombe, Kieran Poynter and Gerhard Roggemann. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience, a position that should continue throughout 2010.

Activities and work of the Committee
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 therein. A similar process is adopted at the interim reporting stage, with a final meeting taking place late in the year to consider relevant 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, Risk & Compliance Committee
31 March 2010

(c) Statement of the Remuneration Committee

Purpose and Terms of Reference

Full details of the purpose, 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.

Members of the Remuneration Committee:

Brian Larcombe (Chairman), Keith Bedell-Pearce and Gerhard Roggemann (appointed 18 January 2010).

Mr MacAndrew served as a member of the Committee until his appointment as Chairman of the Company on 7 May 2009. Mr Yates served as a member of the Committee from 1 June 2009 to 11 December 2009.

Attendees at the Remuneration Committee

The Company's Chairman, Chief Executive and Group Head of Human Resources attended all meetings of the Committee in 2009. Mr Medlock also attended all Committee meetings in 2009.

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 39 to 45). 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.

During 2009 the Committee considered the remuneration related guidance issued by the FSA and is satisfied that the remuneration policies of the Group do not unduly encourage excessive risk taking.

For the Board
Brian Larcombe
Chairman, Remuneration Committee
31 March 2010

Attendance at meetings

The following table identifies the number of Board and formal committee meetings held in 2009 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 Directors' meetings, sub-committees of the Board and Board Committees were held.

	Board	Non-executive Director meetings without management present	Audit, Risk & Compliance Committee	Remuneration Committee	Nomination Committee
Number of meetings held 2009/(2008)	7(9)	2(2)	4(4)	6(4)	2(3)
Nick MacAndrew (1) (2)	7	2	2	3	–
Alain Grisay	7	–	–	–	–
Keith Bedell-Pearce (2)	6	2	4	5	–
Dick de Beus (3)	3	1	–	–	2
Robert Jenkins (3)	3	1	–	–	2
Brian Larcombe	7	2	4	6	2
David Logan	7	–	–	–	–
Jeff Medlock	7	2	–	–	–
Kieran Poynter (4)	4	1	2	–	–
Trevor Matthews (5)	4	1	–	–	–
Sir Adrian Montague (5)	4	1	–	–	2
Gerhard Roggemann (6)	7	2	2	–	–
Roger Yates (7)	4	1	–	3	–

(1) Appointed Chairman and resigned from the Remuneration Committee and Audit, Risk & Compliance Committee on 7 May 2009
(2) Appointed a member of the Nomination Committee on 7 May 2009
(3) Resigned as a member of the Board and relevant Board Committees on 7 May 2009.
(4) Appointed as a member of the Board and relevant Board Committee on 1 June 2009.
(5) Resigned as a member of the Board and relevant Board Committee on 3 July 2009.
(6) Appointed a member of the Audit, Risk & Compliance Committee and Nomination Committee on 7 May 2009.
(7) Appointed as a member of the Board and relevant Board Committee on 1 June 2009 and resigned from the Board and relevant Board Committee on 11 December 2009

Board roles

Chairman

The Chairman of the Company is Nick MacAndrew. As Chairman, Mr MacAndrew 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 since his appointment as Chairman during 2009 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 Nick MacAndrew displayed the characteristics expected of a Chairman.

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, Larcombe, Poynter, Medlock 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.

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

Directors and Directors' election and re-election

The Directors who served at any time during the year ended 31 December 2009 are as shown in the Directors' Remuneration Report on page 44. Details of the Executive Directors' service contracts and Non-executive Directors' letters of appointment can be found on page 43.

Kieran Poynter, an independent 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 Logan and MacAndrew 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 2009, 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 page 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 Tuesday, 4 May 2010 can be found in the Notice of the meeting commencing on page 139.

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.

Following the de-merger from Friends Provident plc, Nick MacAndrew met with a number of the Company's largest shareholders and presented their feedback on the Company to the Board. Unattributable feedback from a number of the Company's shareholders, facilitated by the Company's brokers, is also presented to the Board following management's year-end results presentations.

Electronic communications
Copies of the 2009 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.

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 2009.

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 10 March 2010, the date of approval of the Annual Report and Financial Statements. A high-level overview of the ongoing process for identifying, evaluating and managing significant risks including social, environmental and ethical issues is detailed below. This process is regularly reviewed by the Board to ensure it complies with the Turnbull Guidance.

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

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

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

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

Quarterly reports are prepared by each area of the business, covering all locations. These quarterly reports include issues of material business risk which are discussed in detail by the Executive 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 13.

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, Risk & 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, Risk & Compliance Committee.

The Audit, Risk & 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 2009 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, Risk & Compliance Committee, it is appropriate for them to do so and there are no actual or perceived independence issues.

The Chairman of the Audit, Risk & 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, Risk & Compliance Committee is required.

The performance, independence, competence and cost of the auditors are reviewed annually by the Audit, Risk & 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, Risk & 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 a number of accountancy firms, all of whom are independent of KPMG, the external auditors, provided non-audit related services to the Group. Details of fees paid to these firms during 2009 are disclosed in note 5(c) on page 67 of the notes to the Consolidated Financial Statements.

Future developments

The Board believes that the controls in place during 2009 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
31 March 2010

Directors' Remuneration Report

Introduction from the Chairman of the Remuneration Committee

2009 has been a significant year for the Company and for the fund management sector as a whole. The continuing turmoil in the investment markets has thoroughly tested the ability of all fund management teams. Furthermore, the recent changes in F&C's shareholder base was preceeded by a significant period of uncertainty for staff as the Company was in an offer period for over twelve months.

Remuneration Policy

In this demanding business environment it has been the priority of the Remuneration Committee to ensure the Company's remuneration strategy enables it to continue to attract, motivate and retain the best talent required to maximise long-term value for our shareholders. The Committee has reaffirmed its commitment to the fundamental principle of awarding competitive total remuneration as warranted by the performance of both the Company and the individual. The senior executive remuneration package comprises both fixed salary and variable pay (annual bonus and share awards, the values of which are directly linked to the profitability of the Company). The emphasis will continue to be on performance-related variable pay which will continue to constitute the vast majority (typically more than 80%) of the senior executive pay package.

Given the corporate and market uncertainty during the last 12 months, the Committee undertook a comprehensive review of the senior executive remuneration policy during the latter part of the year. In particular, the Committee was concerned to address issues with the long-term incentive structure raised by shareholders. The Committee has concluded that whilst the salary and bonus policies fulfil their purpose, the structure of the long-term awards for senior executives required to be changed to ensure close alignment with the Company's performance, as detailed below.

The following is a summary of the key decisions that have been implemented during 2010:

Salary

The Company recognises the importance of achieving an appropriate balance between fixed and variable pay. Whilst the policy is to review the salaries of all employees annually in relation to the level of responsibility and to appropriate comparators, the practice has been to maintain a tight control over salary costs. As a result, salaries for Executive Directors, senior employees and managers have been frozen for some years. Following a review against market benchmarks in 2009, the Committee has agreed to increase the CEO's and CFO's salaries to £350,000 and £275,000 respectively, effective 1 July 2010.

Annual bonus award

The Committee expects the size of the annual bonus pool to be directly linked to Group profit to ensure that the performance of the Company is a key determinant of senior executive remuneration levels. Consequently, the size of the bonus pool is determined each year in the context of market practice and corporate earnings, subject to strict limits as to the proportion of Group profits funding the pool. For the 2009 financial year, the Committee has agreed that the aggregate cash bonus pool is funded by the same proportion of profits as in 2008 and is therefore approximately 20% lower than in the prior year as a result of the decline in underlying operating profits. Consequently, bonuses paid to the Executive Directors for the 2009 financial year are commensurately lower than that for the 2008 financial year.

Long-term awards

The Executive Director Remuneration Plan ('EDRP') has been the primary long-term incentive plan for the Executive Directors since 2007. This remuneration report provides detail of the 'deferred awards' which were granted to the Executive Directors under the EDRP during 2009. The Committee has determined that this will be the final grant of time-vesting awards to the executive directors, other than awards under the Purchased Equity Plan which mandates the deferral in shares of one third of any annual cash bonus in excess of £100,000.

The EDRP also provided for 'restricted awards' granted to the Executive Directors once only in 2007, covering the three financial years ending December 2009. Vesting of these awards was based on achieving stretching EPS targets in the 2009 financial year. These targets were not met and the awards to Mr Grisay and Mr Logan with a face value at the date of award of £4.8 million and £0.7 million repectively will lapse in 2010. The EDRP comes to the end of its term in early 2010.

During recent months, the Committee has considered the structure of the long-term incentives taking into account specific feedback from shareholders and recent developments in market practice. The Committee has concluded that future awards to Executive Directors will be made annually under the existing Long Term Remuneration Plan ('LTRP') with vesting subject to appropriately challenging performance conditions. The first award made in 2010, vests according to performance over the three-year period ending December 2012.

For the awards granted in 2010 the following four performance measures apply with equal weighting:

- Growth in Earnings per Share relative to the Retail Prices Index
- Total Shareholder Return relative to a peer group comprised of FTSE 250 Financial Companies
- Achievement of annual net new business targets as approved by the Board
- Relative investment performance compared to benchmarks.

These measures have been selected as they are considered by the Committee to be the most relevant in capturing the critical elements of performance which reinforce value creation for shareholders.

In implementing this new structure, awards with a total face value of £2.37 million will be made to the Executive Directors. On finalising the details of the performance conditions, the Chairman of the Remuneration Committee will contact major shareholders with further details. A full report will be provided in the Directors' Remuneration Report for 2011.

It is intended that the executive committee team will participate in the same long-term incentive structure for awards to be made in 2011.

In addition to these revised long-term arrangements and to further align executive and shareholder interests, senior executives will be expected to retain as a proportion of salary a number of vested shares over a reasonable period as will be determined by the Remuneration Committee.

Conclusion

The Committee believes the new long-term incentive arrangements outlined above address the issues raised by shareholders, reinforce the alignment of executives and shareholders, are consistent with market and best practices and will help ensure that only those who perform will be rewarded. The Committee recommends that you vote to approve the remuneration report at the 2010 Annual General Meeting.

Brian Larcombe
Chairman, Remuneration Committee

Governance

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"), Part 15 of the Companies Act 2006 the Large and Medium sized Companies and Group (Accounts and Reports) Regulations 2008 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.

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.

A Statement of the Remuneration Committee detailing membership of the Committee and the activities and work of the Committee is set out on page 35.

Research and advice

The Remuneration Committee received advice from Kepler Associates during the year on general remuneration strategy, senior executive pay benchmarking and the redesign of the LTRP. Kepler Associates was appointed by the Committee in 2007 as its independent advisor and provided no other services to the Company during the year.

During the year, the Remuneration Committee also received independent remuneration research undertaken by McLagan & Partners, Deloitte and PricewaterhouseCoopers, leading firms of executive remuneration consultants to assess comparability of the Group's remuneration policies to the marketplace and in particular the remuneration policies of the Group's competitors.

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 and any awards under the long term share incentive schemes.

The total cash component of compensation is 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.

(b) Bonus

The size and distribution of the bonus pool is recommended by the Remuneration Committee to the Board for consideration and approval. In considering the size and in determining the distribution of the bonus pool, the Committee considers the performance of the business, the need to recruit, motivate and retain high-calibre individuals, the arrangements operated by the Company's competitors and the need to maintain an appropriate balance between salary and performance-related remuneration that ensures the achievement of objectives is rewarded. Bonus awards to all staff, including the Executive Directors, are made under the discretionary bonus scheme. The purpose of this scheme is to reward all staff and the Executive Directors for performance relative to agreed targets.

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

- 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 Board has resolved to suspend the compulsory element of the Purchased Equity Plan, for all staff excluding the Chief Executive, in respect of any bonus awards made in respect of performance for the year ended 31 December 2009.

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 2009, the Compulsory Purchased Equity element of the Purchased Equity Plan was applied to 26 employees (2008: 55 employees) in respect of their performance in 2008. Awards equivalent to £1.1 million (2008: £2.7 million) were made 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 every 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 awards for each performance period
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 be offered only 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.

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 2009, 135 employees (31 December 2008: 218 employees) participated in the Share Save and 332 employees (31 December 2008: 362 employees) participated in the SIP.

Shares under option within the Share Save at 31 December 2009 are detailed below:

Number of options	Term (years)	Exercise price
March 2004 Participation		
1,083	5	181.0 pence
March 2005 Participation		
88,548	5	186.6 pence
March 2006 Participation		
2,187	3	171.0 pence
86,270	5	171.0 pence
March 2007 Participation		
240,059	3	144.3 pence
116,141	5	144.3 pence

At 31 December 2009 571,691 shares (31 December 2008: 404,803 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 F&C Asset Management plc Executive Director Remuneration Plan (EDRP)

The EDRP was 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 that expired at the end of 2009.

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

No further awards will be made under either component of the EDRP.

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, 2,188,992 deferred awards were made under the EDRP (2008: 1,025,640 deferred awards).

Restricted awards
No restricted awards were made during the year (2008: Nil).

The performance conditions attached to the restricted awards made in 2007 based on the performance of the Group's EPS have not been met and the awards will lapse in 2010.

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, 15,139,943 deferred awards were made under the LTRP (2008: 10,216,710). Deferred awards were made to 120 staff (2008: 260 staff).

The Executive Directors are not eligible to participate in deferred share awards under the rules of the LTRP.

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 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.

The performance conditions attached to the restricted awards made in 2007 based on the performance of the Group's EPS and TSR have not been met and the awards will lapse in 2010.

No restricted awards have been made under the LTRP since 2007.

Achievement of performance conditions
During 2009, the growth in the Group's underlying EPS underperformed the growth in the RPI by 43.4 percentage points (2008: underperformed, by 26.0 percentage points, 2007 underperformed by 22.8 percentage points).

The Company's total shareholder return ("TSR") ranked 109 out of a FTSE 250 Index comparator group of 218 companies* in the period from 1 January 2009 to 31 December 2009.

In respect of awards made in 2007, the Company's total shareholder return ("TSR") ranked 168 out of a FTSE 250 Index comparator group of 177 companies* in the period from 1 January 2007 to 31 December 2009.

The share price at 31 December 2009 was 75.90 pence. During the year the highest price was 91.75 pence per share and the lowest price was 56.50 pence.

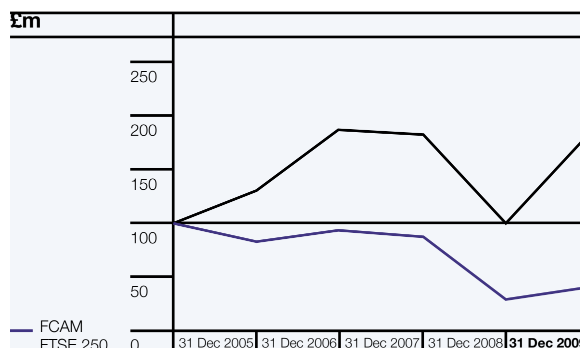
No restricted share awards made to date under the LTRP or EDRP have vested.

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

Any share incentive awards made to Executive Directors from 2009 performance year awards will be LTRP restricted awards.

Performance graph for the share incentive schemes
The graph below compares the performance of the Company compared with a notional investment made up of shares of the group of companies from which the FTSE 250 Index of companies is calculated for the five financial periods ending 31 December 2009 based on the TSR for each period (assuming all dividends are reinvested). 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.

TSR performance compared to FTSE 250 Index
For the five financial periods ending 31 December



Source: Datastream

*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 2009. Only companies appearing in the index on both dates are included for the purpose of the analysis.

(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.

(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 2009 are set out below. None of the Non-executive Directors has a service contract. 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 2009 the Non-executive base fee was £40,000 per annum. Non-executive Directors are separately remunerated for their services on Board Committees. During the year the Board approved an increase to the fees payable to the Chairman and to the Chair of each of the Board Committees.

The Chairman of the Board, who chairs the Nomination Committee, receives an annual all inclusive fee of £150,000 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,Risk & Compliance	10,000	10,000
Remuneration	7,500	10,000
Nomination	5,000	10,000*

* Currently included within the all inclusive fees payable to Nick MacAndrew.

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	Provisions 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	253

Chairman and Non-executive Directors	Date of contract	Notice period	Unexpired term at 31 March 2009	Provisions for compensation payable by the Company on early termination £000
Nick MacAndrew	13 May 2008	None	fourteen months	Nil
Keith Bedell-Pearce	7 May 2009	None	twenty six months	Nil
Brian Larcombe	7 May 2009	None	twenty six months	Nil
Jeff Medlock	13 May 2008	None	fourteen months	Nil
Kieran Poynter	1 June 2009	None	N/A*	Nil
Gerhard Roggemann	13 May 2008	None	fourteen months	Nil

* Appointed during 2009.

Statement on Directors' Remuneration (audited)

The remuneration of the Chairman and the other Directors who held office during the year ended 31 December 2009 is set out in the table below:

	Salary and fees 2009 £000	Bonus 2009 £000	Benefits and allowances 2009 £000	Total 2009 (excluding pension contribution) £000	Total 2008 (excluding pension contribution) £000	Pension contributions 2009 £000	Total 2009 £000	Total 2008 £000
Executive Directors								
Alain Grisay*	**325**	**700**	**4**	**1,029**	974	**20**	**1,049**	1,877
David Logan	**250**	**340**	**3**	**593**	535	**32**	**625**	560
Chairman and Non-executive Directors								
Nick MacAndrew (Chairman) (1)	**114**	**–**	**–**	**114**	55	**–**	**114**	55
Robert Jenkins (2)	**44**	**–**	**2**	**46**	128	**–**	**46**	128
Dick de Beus (3)	**16**	**–**	**–**	**16**	45	**–**	**16**	45
Keith Bedell-Pearce (4)	**83**	**–**	**–**	**83**	78	**–**	**83**	78
Brian Larcombe	**70**	**–**	**–**	**70**	68	**–**	**70**	68
Trevor Matthews (5)	**–**	**–**	**–**	**–**	–	**–**	**–**	–
Sir Adrian Montague (6)	**–**	**–**	**–**	**–**	–	**–**	**–**	–
Jeff Medlock	**40**	**–**	**–**	**40**	40	**–**	**40**	40
Gerhard Roggemann (7)	**50**	**–**	**–**	**50**	40	**–**	**50**	40
Kieran Poynter (8)	**29**	**–**	**–**	**29**	–	**–**	**29**	–
Roger Yates (9)	**25**	**–**	**–**	**25**	–	**–**	**25**	–
Total	**1,046**	**1,040**	**9**	**2,095**	1,963	**52**	**2,147**	2,891

* In addition, Alain Grisay received £300,000 which has been deferred for three years in Compulsory Purchased Equity under the terms of the Purchased Equity Plan.
(1) Appointed as Chairman on 7 May 2009.
(2) Resigned as Chairman on 7 May 2009.
(3) Resigned as a Director on 7 May 2009.
(4) Appointed to the Nomination Committee on 7 May 2009.
(5) Resigned as a Director on 3 July 2009.
(6) Resigned as a Director on 3 July 2009.
(7) Appointed to the Audit, Risk & Compliance Committee and the Nomination Committee on 7 May 2009.
(8) Appointed as a Director and a member of the Audit, Risk & Compliance Committee on 1 June 2009.
(9) Appointed as a Director and a member of the Remuneration Committee on 1 June 2009. Resigned as a Director on 11 December 2009.
No sums were paid to third parties in respect of any Executive Director's services.
The Company received £Nil (2008: £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 and Sir Adrian Montague, which would have been payable to Friends Provident plc, were waived in 2009 by Friends Provident in lieu of the services provided by Alain Grisay to their Board in his capacity as a Director of Friends Provident in 2009.

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:

	2009 Number	2008 Number
Members of money purchase pension scheme	**2**	2

	2009 £000	2008 £000
Company contributions paid to money purchase pension schemes		
Alain Grisay	**20**	236
David Logan	**32**	25

During the year, the Company paid a widow's pension of £95,000 (2008: £95,000) 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.

During the year and until his retirement from the Board in May 2009, Mr Jenkins had 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 decrease in accrued pension	Increase in accrued pension net of inflation	Total accrued pension at 31/12/2009	Value of net increase in accrual over period	Toal change in value during period	Value of accrued pension at 31/12/2009	Value of accrued pension at 31/12/2008
R Jenkins	(£1,700)	–	£114,400	–	£71,000	£2,716,000	£2,645,000

(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 11 October 2004 following the completion of the deal to form F&C Asset Management plc.
(b) 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.
(c) The transfer values represent the actuarial value of a liability to the Company, and are not a sum paid or payable to Mr Jenkins.
(d) The increase in the transfer value over the year is due to factors beyond the control of the Company and Directors.

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 2009 are shown below.

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 41 and 42.

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
6 Jul 2009	Deferred	1,649,452	539,540	64.9p
Total Deferred Awards Outstanding		**3,690,192**	**1,025,014**	
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 42.

At 31 December 2009 there are no awards outstanding to any Executive Director under the Long Term Remuneration Plan (31 December 2008: Nil).

Share options (audited)

Details of the share option schemes are set out on pages 100 to 101. No options have been granted to Directors or former Directors since 2003.

At 31 December 2009, 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 these senior executives 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 2009 (excluding pension contribution)" within the Statement on Directors remuneration on page 44.

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) 2009**	Number of senior executives (excluding Executive Directors) 2008
100-125	**76**	76
126-150	**30**	41
151-175	**30**	25
176-200	**23**	20
201-225	**13**	17
226-250	**4**	17
251-300	**6**	11
301-400	**4**	10
401-500	**3**	3
501-600	**4**	2
601-700	**1**	–
>701	**1**	1

By order of the Board,

W Marrack Tonkin, FCCA
Secretary
80 George Street
Edinburgh EH2 3BU
31 March 2010

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 Consolidated 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 2006 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.

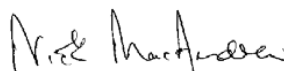
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps 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.



Nick MacAndrew
Chairman
31 March 2010

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

We have audited the financial statements of F&C Asset Management plc for the year ended 31 December 2009 set out on pages 48 to 123 and 126 to 138. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 46, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 33, in relation to going concern; and
- the part of the Directors' Report on Corporate Governance relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Simon Pashby (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
Edinburgh
31 March 2010

Consolidated Income Statement
for the year ended 31 December 2009

	Notes	2009 £m	2008 (as restated†) £m
Revenue			
Investment management fees	3	**237.8**	244.2
Other income	3	**4.1**	1.1
Total revenue	3	**241.9**	245.3
Fee and commission expenses	3	**(16.8)**	(15.4)
Net revenue	3	**225.1**	229.9
Net gains/(losses) and investment income on unit-linked assets	4	**136.0**	(208.7)
Movement in fair value of unit-linked liabilities		**(134.6)**	210.5
Operating expenses			
Operating expenses	5(b)	**(164.8)**	(171.0)
Amortisation of intangible assets – management contracts	14	**(49.8)**	(48.9)
Impairment of intangible assets – management contracts	14	**–**	(48.3)
Unrealised gains/(losses) on forward currency contracts	7(a)	**1.2**	(12.3)
Other exceptional net operating expenses	7(b)	**(19.0)**	(10.6)
Total operating expenses	5(a)	**(232.4)**	(291.1)
Operating loss		**(5.9)**	(59.4)
Finance revenue	8	**11.5**	25.7
Finance costs	9	**(30.3)**	(29.4)
F&C REIT put option fair value gain	7(c)	**5.6**	–
Gain on debt exchange	7(d)	**27.9**	–
Loss on partial disposal of property business	16(c)	**–**	(4.1)
Impairment of financial investments	15	**(0.1)**	(0.1)
Profit/(loss) before tax		**8.7**	(67.3)
Tax – Policyholders		**(0.4)**	(0.9)
Tax – Shareholders		**10.4**	17.6
Tax income	10	**10.0**	16.7
Profit/(loss) for the year		**18.7**	(50.6)
Attributable to:			
Equity holders of the parent		**15.9**	(52.5)
Minority interests		**2.8**	1.9
Profit/(loss) for the year		**18.7**	(50.6)
Basic earnings/(loss) per Ordinary Share	11	**3.24p**	(10.66)p
Diluted earnings/(loss) per Ordinary Share	11	**3.19p**	(10.66)p
		£m	£m
Memo – dividends paid	12(a)	**29.5**	29.6
Memo – dividends proposed	12(a)	**19.5**	19.8

† As restated for the amendment to IFRS 2: Share-based Payment as disclosed in note 1.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2009

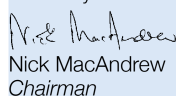
	Notes	2009 £m	2008 (as restated†) £m
Profit/(loss) for the year		**18.7**	(50.6)
Other comprehensive (expense)/income:			
Foreign exchange movements on translation of foreign operations		**(15.2)**	54.2
Actuarial (losses)/gains on defined benefit pension schemes	27(d)	**(27.2)**	2.5
Gains/(losses) on available for sale financial investments		**0.1**	(0.5)
Fair value gains on available for sale financial investments transferred to the Income Statement		**–**	(1.1)
Tax income/(expense) on items taken directly to equity	10	**7.6**	(0.3)
Other comprehensive (expense)/income for the year		**(34.7)**	54.8
Total comprehensive (expense)/income for the year		**(16.0)**	4.2
Total comprehensive (expense)/income attributable to:			
Equity holders of the parent		**(18.8)**	2.3
Minority interests		**2.8**	1.9
		(16.0)	4.2

† As restated for the amendment to IFRS 2: Share-based Payment as disclosed in note 1.

Consolidated Statement of Financial Position
as at 31 December 2009

	Notes	**31 December 2009 £m**	31 December 2008 £m
Assets			
Non-current assets			
Property, plant and equipment	13	**8.4**	10.6
Intangible assets:			
– Goodwill	14	**595.1**	595.1
– Management contracts	14	**206.7**	266.9
– Software and licences	14	**0.6**	1.2
	14	**802.4**	863.2
Financial investments	15	**2.2**	2.1
Other receivables	21	**1.9**	0.6
Deferred acquisition costs	17	**6.4**	7.8
Deferred tax assets	18(a)	**34.3**	26.5
Total non-current assets		**855.6**	910.8
Current assets			
Financial investments	19(a)(i)	**634.9**	718.0
Reinsurance assets	20	**1.9**	2.1
Stock of units and shares	19(a)(ii)	**0.3**	0.3
Deferred acquisition costs	17	**2.6**	3.3
Trade and other receivables	21	**91.4**	85.9
Current tax receivable		**5.8**	–
Cash and cash equivalents:			
– Shareholders	22	**186.2**	223.1
– Policyholders	22	**27.7**	46.7
	22	**213.9**	269.8
Total current assets		**950.8**	1,079.4
Total assets		**1,806.4**	1,990.2
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	24	**253.9**	294.0
Other payables	25	**6.7**	7.1
Provisions	26	**10.1**	9.0
Pension deficit	27	**46.7**	21.8
Employee benefits		**9.6**	4.4
Deferred income	29	**9.1**	11.2
Other financial liabilities	30	**60.4**	68.4
Deferred tax liabilities	18(a)	**58.3**	77.0
Total non-current liabilities		**454.8**	492.9
Current liabilities			
Investment contract liabilities	31	**649.9**	753.1
Insurance contract liabilities	32	**1.9**	2.1
Interest bearing loans and borrowings	24	**10.0**	–
Trade and other payables	25	**64.1**	53.5
Provisions	26	**8.9**	9.0
Employee benefits		**21.3**	23.0
Deferred income	29	**3.8**	4.4
Other financial liabilities	30	**1.3**	9.9
Current tax payable		**1.5**	12.5
Total current liabilities		**762.7**	867.5
Total liabilities		**1,217.5**	1,360.4
Equity			
Ordinary Share capital	33	**0.5**	0.5
Share premium account	34	**33.8**	33.8
Capital Redemption reserve	34	**0.8**	–
Merger reserve	34	**416.6**	456.8
Other reserves	34	**(14.5)**	0.6
Retained earnings	34	**132.5**	119.4
Total equity attributable to equity holders of the parent		**569.7**	611.1
Minority interests	34	**19.2**	18.7
Total equity		**588.9**	629.8
Total liabilities and equity		**1,806.4**	1,990.2

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 31 March 2010. They were signed on its behalf by:


Nick MacAndrew
Chairman

Alain Grisay
Chief Executive

Consolidated Statement of Changes in Equity
for the year ended 31 December 2009

	Ordinary Share capital £m	Share premium account £m	Capital Redemption reserve £m	Merger reserve £m	Foreign currency translation reserve £m	Fair value reserve £m	Acquisition reserve £m	Retained earnings £m	Minority interests £m	Total equity £m
Balance at 1 January 2008	0.5	33.8	–	499.3	11.1	2.5	–	145.2	1.1	693.5
(Loss)/profit for the year (as restated†)	–	–	–	–	–	–	–	(52.5)	1.9	(50.6)
Other comprehensive income/(expense)	–	–	–	–	54.2	(1.2)	–	1.8	–	54.8
Total comprehensive income/(expense)	–	–	–	–	54.2	(1.2)	–	(50.7)	1.9	4.2
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
Share–based payment charges credited to equity (as restated†)	–	–	–	–	–	–	–	12.4	–	12.4
Final 2007 dividend paid	–	–	–	–	–	–	–	(19.7)	–	(19.7)
Interim 2008 dividend paid	–	–	–	–	–	–	–	(9.9)	–	(9.9)
Minority interest arising on acquisition of REIT	–	–	–	–	–	–	–	–	17.3	17.3
Distributions to minority interests	–	–	–	–	–	–	–	–	(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
Profit for the year	–	–	–	–	–	–	–	15.9	2.8	18.7
Other comprehensive (expense)/income	–	–	–	–	(15.2)	0.1	–	(19.6)	–	(34.7)
Total comprehensive (expense)/income	–	–	–	–	(15.2)	0.1	–	(3.7)	2.8	(16.0)
Realised element of merger reserve to offset amortisation of intangible assets	–	–	–	(40.2)	–	–	–	40.2	–	–
Purchase of own shares	–	–	–	–	–	–	–	(7.4)	–	(7.4)
Share–based payment charges credited to equity	–	–	–	–	–	–	–	14.3	–	14.3
Transfer to Capital Redemption reserve on redemption of Preference Share capital	–	–	0.8	–	–	–	–	(0.8)	–	–
Final 2008 dividend paid	–	–	–	–	–	–	–	(19.8)	–	(19.8)
Interim 2009 dividend paid	–	–	–	–	–	–	–	(9.7)	–	(9.7)
Distributions to minority interests	–	–	–	–	–	–	–	–	(2.3)	(2.3)
Balance at 31 December 2009	0.5	33.8	0.8	416.6	50.1	1.4	(66.0)	132.5	19.2	588.9

† As restated for the amendment to IFRS 2: Share-based Payment as disclosed in note 1.

The total of foreign currency translation reserve, fair value reserve and acquisition reserve constitutes 'Other reserves' as disclosed in the Consolidated Statement of Financial Position and amounts to a debit of £14.5m at 31 December 2009 (31 December 2008: £0.6m credit).

Cumulative defined benefit pension scheme actuarial losses recognised as at 31 December 2009 are £44.7m which are included in retained earnings (31 December 2008: £17.5m).

Consolidated Statement of Cash Flows
for the year ended 31 December 2009

	Notes	2009 £m	2008 (as restated†) £m
Cash flows from operating activities			
Operating loss		**(5.9)**	(59.4)
Cash outflow relating to restructuring costs		**–**	(1.0)
Adjustments for non-cash items	35	**58.5**	125.8
Changes in working capital and provisions	35	**(27.9)**	(13.1)
Cash generated from operating activities*		**24.7**	52.3
Income tax paid		**(16.4)**	(14.6)
Net cash inflow from operating activities		**8.3**	37.7
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(0.9)**	(1.6)
Proceeds from disposal of property, plant and equipment		**–**	0.2
Purchase of software and licences		**(0.2)**	(1.1)
Loan repayment from former associate		**0.5**	1.0
Payments to acquire investments		**(1.6)**	(18.6)
Proceeds from disposal of investments		**6.5**	15.2
Payment in respect of acquisition of REIT		**–**	(25.0)
Expenses of acquisitions		**(0.2)**	(4.3)
Fair value of cash acquired with REIT		**–**	0.2
Distributions received from former associate		**–**	0.1
Investment income – investments		**–**	2.1
Investment income – interest and dividends		**2.5**	10.2
Net cash inflow/(outflow) from investing activities		**6.6**	(21.6)
Cash flows from financing activities			
Proceeds from issue of Guaranteed Loan Notes 2016	24	**25.0**	–
Repayment of REIT Floating Rate Secured Notes 2010	24	**(25.0)**	–
Expenses in respect of debt exchange		**(1.3)**	–
Interest paid on Loan Notes		**(19.8)**	(18.2)
Other interest paid		**(0.2)**	(0.2)
Equity dividends paid	12(a)	**(29.5)**	(29.6)
Interest on Preference Shares		**(0.1)**	(0.1)
Repayment of Preference Share capital		**(0.8)**	–
Distributions to minority interests		**(2.3)**	(1.6)
Purchases and disposals of own shares		**(7.4)**	(0.3)
Net cash outflow from financing activities		**(61.4)**	(50.0)
Net decrease in cash and cash equivalents		**(46.5)**	(33.9)
Effect of exchange rate fluctuations on cash held		**(9.4)**	29.3
Cash and cash equivalents at 1 January		**269.8**	274.4
Cash and cash equivalents at 31 December	22	**213.9**	269.8
Cash and cash equivalents			
Shareholders	22	**186.2**	223.1
Policyholders	22	**27.7**	46.7
	22	**213.9**	269.8

† As restated for the amendment to IFRS 2: Share-based Payment as disclosed in note 1.

* Cash inflows from operating activities includes investments and disinvestments relating to unit-linked assets attributable to policyholders in the Group's insurance company. These activities can result in significant fluctuations in "cash flows from operating activities".

Non-cash transactions

In addition to the above, £135.0m of Fixed/Floating Rate Subordinated Notes 2016/2026 were exchanged for £104.7m of Guaranteed Fixed Rate Loan Notes 2016, as detailed in note 24.

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 on a going concern basis and in accordance with International Financial Reporting Standards, as adopted by the European Union ("adopted IFRS"), and those parts of the Companies Act 2006 applicable to companies reporting under adopted IFRS. The Consolidated Financial Statements are presented in millions of pounds Sterling, rounded to one decimal point, except where otherwise indicated.

The Group has adopted the following new or revised standards and interpretations as of 1 January 2009:

(a) IFRS 2: Share-based Payment – vesting conditions and cancellations

The adoption of the following amendment to IFRS 2: Share-based Payment is to be applied retrospectively and, as a result, a prior period adjustment has been made, as disclosed in note 1.

Vesting conditions are restricted to service conditions and performance conditions. All features of a share-based payment arrangement other than service conditions and performance conditions will be considered to be non-vesting conditions. In cases where the company or an employee can choose whether to meet the non-vesting condition these are to be treated as cancellations. When cancellations occur the Company recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period.

(b) IAS 1: Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The Consolidated Statement of Changes in Equity ('Statement of Changes in Equity') includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the Consolidated Statement of Comprehensive Income ('Statement of Comprehensive Income'): it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

Assets and liabilities classified as held for trading in accordance with IAS 39: Financial Instruments: Recognition and Measurement are not automatically classified as current in the Consolidated Statement of Financial Position ('Statement of Financial Position'). The Group amended its accounting policy accordingly and analysed whether management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the Statement of Financial Position.

(c) IFRS 8: Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments are the same as the business segments previously identified under IAS 14: Segment Reporting. Segment disclosures are shown in note 2, including revised comparative information.

(d) IFRS 7: Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the opening and closing balance for level 3 fair value measurements is now required, as well as disclosure of significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 19(b). The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 39(b).

(e) IAS 32: Financial Instruments – Presentation and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group as the criteria were not met.

(f) IAS 16: Property, Plant and Equipment

In line with the revised standard, the Group amended its accounting policy by replacing the term "net selling price" with "fair value less costs to sell", which did not result in any change in the financial position.

(g) The amendments to the following standards and new interpretations below did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 8: Accounting Policies, Change in Accounting Estimates and Errors
- IAS 10: Events after the Reporting Period
- IAS 18: Revenue
- IAS 19: Employee Benefits
- IAS 20: Accounting for Government Grants and Disclosures of Government Assistance
- IAS 23: Borrowing Costs
- IAS 28: Investment in Associates
- IAS 31: Interests in Joint Ventures
- IAS 34: Interim Financial Reporting
- IAS 36: Impairment of Assets
- IAS 40: Investment Property
- IAS 41: Agriculture
- IFRIC 9: Re-assessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement

Accounting Policies

Parent Company Financial Statements

The parent Company has continued to present individual financial statements prepared on a UK GAAP basis as permitted by section 395(1) of the Companies Act 2006, adopting the exemption of omitting the Profit and Loss Account and related notes conferred by section 408 of that Act. The Parent Company Financial Statements, together with their respective accounting policies and notes, are presented on pages 126 to 138.

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 reporting 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 14.

(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.

(d) Provisions
Details of provisions are disclosed within note 26. Actuarial valuations are used for the guaranteed product, long-term sickness and long-term service awards using assumptions consistent with the pension assumptions disclosed in note 27. Onerous contract provisions for premises are subject to uncertainties over time, including market rent reviews and break-options within the lease arrangments.

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 2009 and 31 December 2008.

(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. The subsidiaries all have coterminous reporting periods, with one immaterial exception.

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 Consolidated Income Statement ('Income Statement') and within equity in the Statement of Financial Position, separately from parent shareholders' equity.

(ii) 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 and liabilities acquired 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 presentational 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 reporting date are translated at the exchange rate ruling at the reporting 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 reporting 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 Comprehensive Income. 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 Statement of Financial Position 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 OEIC 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 disclosed in the Income Statement as exceptional items, either separately or collectively, depending on their nature.

(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 borrowings, 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 reporting date, and includes any adjustment to tax payable in respect of previous years.

Accounting Policies

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 reporting date 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 reporting 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 reporting 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 fair value less costs to sell) is included in the Income Statement in the year the asset is derecognised.

(k) Intangible assets

(i) Goodwill

Goodwill arising from a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets and liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Business combinations arising after 1 July 2002 are accounted for under IFRS 3: Business Combinations using the purchase method. Where the initial amount of goodwill can only be determined on a provisional basis at the end of the financial reporting period, adjustments are made to the amount of goodwill up to 12 months from the date of acquisition. Other adjustments to goodwill are made for amounts that are contingent on future events and on the realisation of potential benefits of the acquiree's tax losses carried forward 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 14.

(iii) Software and licences

Separately purchased intangible assets have a finite life and are shown at cost less accumulated amortisation and any accumulated 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 reporting 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 Statement of Financial Position 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
- Other financial liabilities

Non-current liabilities:
- Other financial liabilities

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.

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.

Accounting Policies

(ii) *Available for sale financial assets* are also carried at fair value in the Statement of Financial Position. 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. 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 reporting 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
- Current tax receivable

(iv) *Other financial liabilities* include the minority interest put options and forward currency contracts which are recognised at fair value through profit or loss.

The minority interest put options, over equity in majority owned subsidiaries, are recognised at fair value at the reporting 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 reporting date between willing parties.

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

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

Current liabilities:
- Trade and other payables
- Interest bearing loans and borrowings
- Current tax payable

Expenses incurred 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.

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 reporting 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 interest rate. 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 dispose of them subsequently 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 finance revenue.

(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 entity, 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 reporting 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 "Movement 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 Statement of Financial Position. Changes in the value of the asset are taken to the Income Statement. Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting 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.

Accounting Policies

(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 Statement of Financial Position 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 reporting 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 which are recognised in the Income Statement to the extent that they are not allowed for in the actuarial assumptions. Gains or losses on settlements or curtailments are recognised at the date on which there is a demonstratable commitment to making a significant reduction in the number of employees covered by the plan or an amendment to the terms of the plan; and
- The expected return on pension assets, which is recognised within 'Finance revenue'; and
- The interest on pension obligations which 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 reporting date, are taken in full to the Statement of Comprehensive Income 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 reporting date. The benefit is determined using actuarial techniques to estimate the amount of benefit employees have earned for their services at the reporting 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 underlying earnings per share ("EPS") targets and/or share price return targets or continued employment.

The fair value of share-based payment awards, where it is not considered possible to estimate reliably the fair value of these awards at the grant date, has 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 continued employment. 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" or employees who cancel their savings contracts (under the Share Save Scheme) 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 Statement of Financial Position 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 recovered from external parties, the recovery 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 Statement of Financial Position, 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 Statement of Financial Position. 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 settlements 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.

Accounting Policies

(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 by the European Union and available for early adoption:		
IFRS 1:	First-time adoption of IFRS 1	1 July 2009
IFRS 3:	Business Combinations – Comprehensive revision on applying the acquisition method	1 July 2009
IFRS 5:	Non-current Assets Held for Sale and Discontinued Operations – Amendments resulting from annual improvements project	1 July 2009
IAS 27:	Consolidated and Separate Financial Statements – Consequential amendments arising from changes to IFRS 3	1 July 2009
IAS 38:	Intangible Assets – Amendments resulting from annual improvements project	1 July 2009
IAS 1:	Presentation of Financial Statements – Amendments resulting from annual improvements project	1 January 2010
IAS 7:	Statement of Cash Flows – Amendments resulting from annual improvements project	1 January 2010
IAS 17:	Leases – Amendments resulting from annual improvements project	1 January 2010
IAS 36:	Impairment of Assets – Amendments resulting from annual improvements to IFRS	1 January 2010
IAS 39:	Financial Instruments: Recognition and Measurement – Amendments resulting from annual improvements to IFRS	1 January 2010
IAS 32:	Financial Instruments: Presentation – Amendments relating to classification of rights issues	1 February 2010
Not yet endorsed by the European Union:		
IFRS 2:	Share-based Payment – Amendments relating to group cash-settled share-based payment transactions	1 January 2010
IAS 24:	Related Party Disclosures	1 January 2011
IFRS 9:	Financial Instruments: Recognition and Measurement	1 January 2013

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 IFRS 3. The Group intends to adopt the standards in the reporting period when they become effective.

Notes to the Consolidated Financial Statements

1. Prior period adjustment

With effect from 1 January 2009 the Group has adopted the revision to IFRS 2: Share-based Payment – vesting conditions and cancellations. The revision clarifies vesting conditions and the circumstances giving rise to cancellations. There are two categories of non-vesting conditions where the grant of equity instruments is considered cancelled: employees who elect to cease saving into the Group's Share Save Scheme or employees who are "good leavers" and have ceased saving for the Share Save Scheme. In both cases, the Group immediately recognises the amount of the expense that would otherwise have been recognised over the remainder of the vesting period. Previously these events were treated as forfeitures. The amendments are applied retrospectively and hence a prior period adjustment has been made at the transition date, 31 December 2007, and for the year ended 31 December 2008.

The effect of the Income Statement and Statement of Financial Position is as follows:

At 31 December 2007:

	£m
*Statement of Financial Position impact**	
Retained earnings – share-based payment credit to equity	0.3
Retained earnings – share-based payment charged to operating expenses	(0.3)

Year ended 31 December 2008:

	£m
Statement of Financial Position impact	
Retained earnings – share-based payment credit to equity	0.1
Income Statement impact	
Operating expenses – share-based payment expenses	(0.1)

* As the adjustment is within retained earnings there is no impact on the Statement of Financial Position at 31 December 2007 and accordingly a Statement of Financial Position has not been re-presented at that date.

There is no income tax effect on the above adjustments.

The impact of the prior period adjustment on the year ended 31 December 2008 loss per share is to increase the basic and diluted loss from 10.64p to 10.66p as disclosed in note 11.

2. Operating segments

The Group has adopted IFRS 8: Operating Segments for the year ended 31 December 2009, which has replaced IAS 14: Segment Reporting. The adoption of the new standard has not altered the make-up of the Group's reportable operating segments.

The Group operates two operating units and therefore presents two operating segments for segment reporting purposes: Investment Management and Property Asset Management. F&C REIT, the property business acquired on 3 September 2008, 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. Prior to 3 September 2008, the Group operated as a single asset management business which did not comprise different operating segments.

While there are different sources of revenue within the investment management operating 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 operating segments within the meaning of IFRS 8: Operating Segments as the internal financial reporting and performance monitoring is not further segregated below the level of the aforementioned operating segments.

Management monitors the operating results of its two operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Transfer prices between the operating segments reflect the arm's-length agreements entered into at the time of acquiring REIT and creating the property asset management operating segment. Segment revenue, segment expense and segment result include transactions between operating segments, which are eliminated on consolidation. The accounting policies of the operating segments are the same as those of the Group.

Notes to the Consolidated Financial Statements

2. Operating segments continued
(a) Operating segments

	Investment management		Property asset management		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Revenue						
External clients	**203.1**	232.8	**38.8**	12.5	**241.9**	245.3
Inter-segment revenue	**1.3**	0.6	**–**	–	**1.3**	0.6
Segment revenue	**204.4**	233.4	**38.8**	12.5	**243.2**	245.9
Fee and commission expenses	**(13.5)**	(15.0)	**(3.3)**	(0.4)	**(16.8)**	(15.4)
Net gains/(losses) and investment income on unit-linked assets	**136.0**	(208.7)	**–**	–	**136.0**	(208.7)
Movement in fair value of unit-linked liabilities	**(134.6)**	210.5	**–**	–	**(134.6)**	210.5
Operating expenses*	**(206.4)**	(282.0)	**(27.3)**	(9.7)	**(233.7)**	(291.7)
Operating (loss)/profit	**(14.1)**	(61.8)	**8.2**	2.4	**(5.9)**	(59.4)
Finance revenue	**11.4**	25.7	**0.1**	–	**11.5**	25.7
Finance costs	**(30.3)**	(29.4)	**–**	–	**(30.3)**	(29.4)
F&C REIT put option fair value gain	**5.6**	–	**–**	–	**5.6**	–
Gain on debt exchange	**27.9**	–	**–**	–	**27.9**	–
Impairment of financial investments	**(0.1)**	(0.1)	**–**	–	**(0.1)**	(0.1)
Loss on partial disposal of property business	**–**	(4.1)	**–**	–	**–**	(4.1)
Tax income/(expense)	**11.4**	18.2	**(1.4)**	(1.5)	**10.0**	16.7
Profit/(loss) for the year	**11.8**	(51.5)	**6.9**	0.9	**18.7**	(50.6)
Segment assets	**1,594.4**	1,777.8	**222.2**	215.6	**1,816.6**	1,993.4
Segment liabilities	**1,151.4**	1,333.0	**29.6**	8.8	**1,181.0**	1,341.8
Other information						
Expenditure on non-current assets	**0.5**	2.0	**0.6**	128.2	**1.1**	130.2
Depreciation and amortisation	**41.8**	49.4	**11.5**	3.5	**53.3**	52.9
Impairment of intangible assets	**–**	48.3	**–**	–	**–**	48.3
Non-cash income/(expenses) other than depreciation, amortisation and impairment	**(22.7)**	23.5	**0.8**	0.2	**(21.9)**	23.7

* Operating expenses include depreciation, amortisation and impairment of intangible assets.

Revenues from two external clients each represent ten per cent or more of the Group's total revenues. Revenues from the largest client amount to £35.1m (2008: £37.2m) and are earned in the investment management segment. Revenues from the second largest client amount to £29.8m (2008: £31.6m) and are earned across both segments.

2. Operating segments continued

(b) Reconciliations to Group Financial Statements

	2009 £m	2008 £m
Total revenue		
Total revenue for reportable segments	**243.2**	245.9
Elimination of inter-segment revenue	**(1.3)**	(0.6)
Group revenue	**241.9**	245.3
Operating expenses		
Total operating expenses for reportable segments	**233.7**	291.7
Elimination of inter-segment expenses	**(1.3)**	(0.6)
Group operating expenses	**232.4**	291.1
Profit/(loss) after tax		
Total profit/(loss) for reportable segments	**18.7**	(50.6)
Adjustments	**–**	–
Group profit/(loss) for the period	**18.7**	(50.6)
Assets		
Total assets for reportable segments	**1,816.6**	1,993.4
Elimination of inter-segment assets	**(7.4)**	(3.2)
Reclassification between assets and liabilities	**(2.8)**	–
Group assets	**1,806.4**	1,990.2
Liabilities		
Total liabilities for reportable segments	**1,181.0**	1,341.8
Elimination of inter-segment liabilities	**(7.4)**	(3.2)
Reclassification between assets and liabilities	**(2.8)**	–
Unallocated defined benefit pension liabilities	**46.7**	21.8
Group liabilities	**1,217.5**	1,360.4

The reportable segments' totals for all other line items reported in the table at note 2(a) are the same as those for the Group, with no reconciling differences.

(c) Geographical information

Revenue by location of clients	2009 £m	2008 £m
United Kingdom	**95.2**	108.5
Continental Europe*	**127.7**	124.8
Rest of the World	**19.0**	12.0
Group total	**241.9**	245.3

Non-current assets by domicile†	31 December 2009 £m	31 December 2008 £m
United Kingdom	**116.6**	118.5
Continental Europe*	**76.0**	135.0
Rest of the World	**23.1**	25.2
	215.7	278.7
Unallocated	**595.1**	595.1
Group total	**810.8**	873.8

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

† Excluding financial instruments and deferred tax assets.

3. Net revenue

	2009 £m	2008 £m
Base management fees	**219.1**	236.3
Performance related management fees	**18.7**	7.9
Total investment management fees	**237.8**	244.2
Other income	**4.1**	1.1
Total revenue	**241.9**	245.3
Renewal commission on open-ended investment products	**(9.3)**	(10.5)
Other selling expenses	**(7.5)**	(4.9)
Fee and commission expenses	**(16.8)**	(15.4)
Net revenue	**225.1**	229.9

Other income in 2009 includes £3.8m associated with the finalisation of the consideration payable to Eureko B.V. in respect of the 2004 acquisition of F&C Group Holdings and its subsidiaries.

Notes to the Consolidated Financial Statements

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

	Notes	**2009 £m**	2008 £m
Interest income on policyholders' cash	8	**0.4**	2.0
Interest income on other financial instruments attributable to policyholders	8	**9.2**	12.1
Dividend income		**16.8**	21.5
Movement in fair values of unit-linked assets		**109.6**	(244.3)
	31	**136.0**	(208.7)

Note 19(a)(i)(1) gives further background to the unit-linked assets held by the Group.

5. Expenses

(a) Total operating expenses

Total operating expenses, including exceptional costs, can be summarised into the following categories:

	2009 £m	2008 (as restated†) £m
Employee benefit and related expenses*	**121.6**	119.2
Premises expenses	**12.6**	9.0
Communication and information technology expenses	**13.5**	15.2
Third party administration expenses	**6.5**	6.6
Promotional and client servicing expenses	**5.5**	7.6
Depreciation and amortisation expenses	**53.3**	52.9
Impairment expenses	**–**	48.3
Other expenses	**19.4**	32.3
Total operating expenses	**232.4**	291.1

† As restated for the amendment to IFRS 2: Share-based Payment as disclosed in note 1.
* This includes £6.1m (2008: £7.1m) of employment related expenses, which are not included in the employee benefit expense table in note 6.

(b) Operating expenses

Operating expenses include the following:

	Notes	**2009 £m**	2008 £m
Depreciation of owned tangible property, plant and equipment	13	**2.8**	3.0
Amortisation of software and licences	14	**0.7**	1.0
Auditor's remuneration – audit of these financial statements		**0.6**	0.4
Auditor's remuneration – audit of financial statements of subsidiaries pursuant to legislation		**0.3**	0.3
Auditor's remuneration – other services		**0.4**	0.5
Operating lease rentals – land and buildings (head leases)		**11.5**	10.8
Operating lease rentals – vehicles		**0.6**	0.5
Operating lease rentals – other*		**4.5**	3.6
Rentals receivable – operating leases (sub-leases)		**(4.3)**	(4.0)
Loss/(gain) on disposal of property, plant and equipment		**0.2**	(0.1)
Realised exchange (gains)/losses on forward currency contracts		**(5.9)**	5.0
Other foreign exchange losses/(gains)		**4.1**	(6.3)

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

Sub-lease rentals of £4.3m (2008: £4.0m) were received during the year of which £4.2m (2008: £3.8m) relates to guaranteed payments and £0.1m (2008: £0.2m) relates to contingent payments.

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

(c) Auditor's remuneration

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

	KPMG Audit Plc 2009 £m	2008 £m
Annual audit fees – 2009	**0.4**	–
Annual audit fees – 2008	**0.2**	0.4
Audit of these financial statements	**0.6**	0.4
Audit of financial statements of subsidiaries pursuant to legislation	**0.3**	0.3
Total audit fees of the Group	**0.9**	0.7
Other services supplied pursuant to such legislation	**0.1**	0.1
Other services relating to taxation	**–**	0.1
Services relating to recruitment and remuneration	**–**	0.1
All other services	**0.3**	0.2
Total auditor's remuneration	**1.3**	1.2

5. Expenses continued

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:

	2009 £m	2008 £m
Ernst & Young	**0.4**	0.6
PricewaterhouseCoopers	**0.4**	0.5
Deloitte	**0.3**	0.2
BDO	**0.2**	–
Jebensmensching	**0.1**	–
	1.4	1.3

During 2009, in addition to the above, £0.1m (2008: £0.8m) was paid to Deloitte 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, unit trusts and SICAVs, for which Group companies are the Authorised Corporate Director or Manager, for services provided directly to them:

	2009 £m	2008 £m
PricewaterhouseCoopers	**0.5**	0.4

6. Employee benefit expenses

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

	Notes	2009 £m	2008 (as restated†) £m
Short-term employee benefits:			
Salaries and related benefits		**56.6**	58.6
Bonus		**15.9**	18.6
Wages and salaries		**72.5**	77.2
Social Security costs		**11.2**	7.9
		83.7	85.1
Post-employment benefits:			
Defined contributions scheme expenses	27(h)	**4.2**	4.5
Defined benefits scheme expenses	27(d)	**2.6**	3.5
		6.8	8.0
Total of wages and salaries, Social Security costs and post-employment benefits		**90.5**	93.1
Other long-term employee benefits		**0.1**	–
Termination benefits		**4.6**	4.6
Share-based payment expenses	28	**20.3**	14.4
Total employee benefits expenses		**115.5**	112.1

† As restated for the amendment to IFRS 2: Share-based Payment as disclosed in note 1.

The monthly average number of employees (including Executive Directors) of the Group during 2009 was 923 (2008: 1,052). F&C Asset Management plc had no employees during either year.

The above table includes £6.1m (2008: £4.8m) of exceptional employment costs, as disclosed in note 7(b).

7. Exceptional income and expenditure

(a) Unrealised gains/(losses) on forward currency contracts

	2009 £m	2008 £m
Unrealised gains/(losses) on forward currency contracts	**1.2**	(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 Statement of Financial Position at their fair value. During the 12 months ended 31 December 2009 an unrealised gain of £1.2m was recognised. Unrealised gains/(losses) are excluded from the calculation of underlying earnings. Realised gains or losses on such contracts are included in determining underlying earnings.

(b) Other exceptional operating (expenses)/income

The Group has classified the following operating (expenses)/income as exceptional:

		2009 £m	2008 £m
Corporate advisory fees	(i)	**(2.6)**	(4.4)
Exceptional employment and staff related costs	(ii)	**(6.1)**	(4.8)
F&C REIT variable minority interest SBP expense	(iii)	**(3.7)**	(1.4)
Investment Trust VAT income	(iv)	**2.5**	–
Exceptional client compensation expense	(v)	**(2.5)**	–
Exceptional property expense	(vi)	**(2.5)**	–
Put option claim expense	(vii)	**(4.1)**	–
		(19.0)	(10.6)

Notes to the Consolidated Financial Statements

7. Exceptional costs continued

(i) Corporate advisory fees

During 2008, Friends Provident announced its intention to divest of its 52 per cent. shareholding in F&C, which was effected on 3 July 2009. During 2008, legal, commercial and corporate finance advisors fees were incurred in seeking to identify acquisition opportunities which would create value for F&C's shareholders. During 2009, a further £2.6m of corporate advisory fees and costs relating to the separation of F&C from Friends Provident were incurred. The Directors consider these advisory costs to be exceptional in nature and have therefore excluded this expense from the measurement of underlying earnings.

(ii) Exceptional employment and staff related costs

As a result of the challenging and volatile market conditions experienced in 2008 and the adverse consequential impact on the Group's revenues, management identified and initiated actions in 2008 and 2009 to achieve annualised cost savings. Management sought to avoid any cost saving initiative which would significantly impede the Group's distribution capabilities which are key for business growth.

The Directors consider significant redundancy and related costs to be exceptional in nature and have therefore excluded the associated employment costs of £6.1m incurred during 2009 from the measurement of underlying earnings.

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

F&C controls 70 per cent. of F&C REIT, the Group's property business, 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 five years. This earn-out mechanism meets the criteria of a share-based payment and results in a charge of £3.7m to the Income Statement in 2009. 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(c).

(iv) Investment Trust VAT income

During 2007, following the outcome of litigation, HM Revenue and Customs ("HMRC") concluded that investment management fees paid by investment trusts were not subject to VAT.

In 2007 a provision was recognised for the VAT and associated interest costs which the Directors considered may be payable to investment trust clients in respect of historic periods, beyond the amounts recoverable from HMRC. The Group has now settled all amounts payable in respect of this matter, and the credit of £2.5m recognised in the Income Statement for the year ended 31 December 2009 represents the excess provision, net of professional costs incurred in respect of the matter during 2009.

The Directors have excluded this income from underlying earnings to be consistent with the treatment of the expense when the provision was initially recognised. Details and movements in the associated provision are given in note 26.

(v) Exceptional client compensation expense

The exceptional client compensation expense of £2.5m represents the net expected cost to the Group of amounts reimbursable to a client as a result of a breach of their investment mandate. This expense relates to a single event in respect of one client, attributable to a unique set of circumstances.

Given the scale of the compensation, the Directors consider it appropriate to exclude this cost from the measurement of underlying earnings.

(vi) Exceptional property expense

The Group has a number of onerous sub-let properties, which have arisen from historic acquisitions, as the Group has reduced its space requirements for its own operations. During 2009, the tenant in one of the Group's sub-let premises sought to exercise a break clause in their lease and vacate the premises. As it was economically beneficial to retain that tenant rather than seek to re-market the vacant premises, additional lease incentives of some £2.5m were granted to the existing tenant.

Given both the quantum of the increase in this provision and the fact that this lease was acquired with a historical corporate acquisition, the Directors consider it appropriate to exclude the associated exceptional expense from the measurement of underlying earnings.

(vii) Put option claim expense

Note 26 outlines the circumstances surrounding the put option notice received from the founder members of F&C Partners LLP ("Partners"), the Group's majority owned fund of hedge funds business. The Company vigorously denies the validity of that put option notice under the Partnership Agreement, but has incurred legal and associated costs of £4.1m, including provisioning, in respect of this matter.

Given the quantum and nature of this claim, the Directors consider it appropriate to treat this cost as exceptional in nature and exclude it from the measurement of underlying earnings.

7. Exceptional costs continued

(c) F&C REIT put option fair value gain

	2009 £m	2008 £m
F&C REIT put option fair value gain	**5.6**	–

The fair value of the F&C REIT put option liability, as disclosed in note 30, reflects the value of the F&C REIT business which is currently owned by the minority interest partners and which is the subject of options, as detailed in note 16. The reduction in the fair value of the options during the year of £5.6m has been recognised as a fair value gain in the Income Statement.

The Directors consider the value of the options and movements therein to be of a capital nature, and have therefore excluded this fair value gain from the measurement of underlying earnings.

(d) Gain on debt exchange

	2009 £m	2008 £m
Gain on debt exchange	**27.9**	–

During 2009 the Group executed a debt exchange programme, as outlined in note 24, which sought to capitalise on the prevailing market conditions. A net gain of £27.9m arose on the partial extinguishment of existing subordinated debt, after accounting for the fees and other costs associated with the extinguishment of this debt.

The Directors consider the quantum and nature of this gain to be exceptional and consider it appropriate to exclude this gain from the measurement of underlying earnings.

8. Finance revenue

	Note	2009 £m	2008 £m
Loans and receivables:			
Bank interest receivable		**1.8**	9.8
Other interest receivable		**0.6**	0.2
Designated as fair value through profit or loss:			
Movement in fair value of investments		**1.2**	3.9
Designated as available for sale:			
Investment income receivable		**–**	2.1
		3.6	16.0
Other finance revenue:			
Expected return on pension plan assets	27(d)	**7.9**	9.7
Total finance revenue		**11.5**	25.7

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

	Note	2009 £m	2008 £m
Bank interest receivable		**1.8**	9.8
Other interest receivable		**0.6**	0.2
Interest income on policyholders' cash	4	**0.4**	2.0
Interest income on other financial instruments attributable to policyholders	4	**9.2**	12.1
Total interest income		**12.0**	24.1

9. Finance costs

	Notes	2009 £m	2008 £m
Interest expense on financial liabilities recognised at cost using the effective interest rate method:			
Fixed/Floating Rate Subordinated Loan Notes 2016/2026		**14.9**	17.6
Guaranteed Fixed Rate Loan Notes 2016		**3.4**	–
Floating Rate Secured Loan Notes 2010		**1.5**	0.8
Cumulative Preference Shares	12(b)	**–**	0.1
Bank charges		**0.1**	0.1
Other interest payable		**–**	0.2
Total interest expense		**19.9**	18.8
Amortisation of Subordinated Notes issue costs		**0.2**	0.3
Unwinding of discount on onerous provisions		**0.2**	0.3
Other finance costs:			
Interest cost on pension obligations	27(d)	**10.0**	10.0
Total finance costs		**30.3**	29.4

Notes to the Consolidated Financial Statements

10. Income tax

(a) Analysis of tax income in the year

The major components of tax (income)/expense recognised in the Income Statement and Statement of Comprehensive Income are:

	2009 £m	2008 £m
Current income tax:		
UK	**(2.4)**	17.5
Double tax relief in UK on overseas earnings	**–**	(11.5)
Overseas	**8.8**	9.7
Adjustments in respect of previous years	**(0.6)**	(6.8)
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(14.0)**	(27.8)
Adjustments in respect of previous years	**(1.8)**	2.2
Tax income reported in the Income Statement	**(10.0)**	(16.7)

	2009 £m	2008 £m
Deferred and current income tax related to items charged or credited directly to equity:		
Loss on financial investments	**–**	(0.5)
Actuarial (loss)/gains on defined benefit pension schemes	**(7.6)**	0.8
Tax (income)/expense recognised directly in the Statement of Comprehensive Income	**(7.6)**	0.3

(b) Factors affecting the tax income for the year

A reconciliation between the actual tax income and the accounting profit/(loss) multiplied by the Group's domestic tax rate for the years ended 31 December 2009 and 2008 is as follows:

	2009 £m	2008 (as restated†) £m
Profit/(loss) before tax	**8.7**	(67.3)
At the Group's statutory income tax rate of 28.0% (2008: 28.5%)	**2.4**	(19.2)
Adjustments in respect of previous years	**(2.4)**	(4.6)
Disallowed expenses	**2.3**	3.0
Non-taxable income	**(11.8)**	(0.7)
Overseas tax	**(0.4)**	0.3
Utilisation of unrecognised losses	**–**	(0.1)
Share-based payments	**(0.1)**	4.6
Tax income reported in the Income Statement	**(10.0)**	(16.7)

† As restated for the amendment to IFRS 2: Share-based Payment as disclosed in note 1.

Deferred tax assets and liabilities are shown in note 18.

11. Earnings per Share

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

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

In the opinion of the Directors the 'underlying earnings' as quantified as in the 'Reconciliation of earnings/(loss)' table below, more accurately reflects the underlying earnings performance of the Group.

Reconciliation of Basic Earnings per Share	2009 Basic p	2008 Basic (as restated†) p
Earnings/(loss) per Ordinary Share	**3.24**	(10.66)
Amortisation of intangibles	**6.80**	6.95
Impairment of intangibles	**–**	7.00
Unrealised (gains)/losses on forward currency contracts	**(0.16)**	1.79
Prior year unrealised losses on forward currency contracts, now realised	**(1.45)**	–
Corporate advisory fees	**0.45**	0.87
Exceptional employment and staff related costs	**0.89**	0.69
F&C REIT variable minority interest SBP expense	**0.75**	0.29
Investment Trust VAT income	**(0.37)**	–
Exceptional client compensation expense	**0.37**	–
Exceptional property expense	**0.37**	–
Put option claim expense	**0.83**	–
F&C REIT put option fair value gain	**(1.14)**	–
Gain on debt exchange	**(6.00)**	–
Loss on partial disposal of property business	**–**	0.83
Underlying earnings per share	**4.58**	7.76
Foreign exchange losses/(gains) included within underlying earnings per share	**1.18**	(0.18)
Underlying earnings per share excluding foreign exchange gains and losses	**5.76**	7.58

	2009 p	2008 (as restated†) p
Diluted Earnings per Share*	**3.19**	(10.66)

† As restated for the amendment to IFRS 2: Share-based Payment as disclosed in note 1.

* 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.

All amounts disclosed in the table above are stated net of any attributable tax, as presented in the Reconciliation of earnings/(loss) table below.

The following tables disclose the earnings and share capital data used in the basic and diluted earnings/(loss) per share calculations:

Reconciliation of earnings/(loss)	2009 Gross £m	2009 Tax £m	2009 Net £m	2008 (as restated†) Gross £m	2008 (as restated†) Tax £m	2008 (as restated†) Net £m
Earnings/(loss) attributable to Ordinary equity holders of the parent for basic earnings/(loss) per share	**5.9**	**10.0**	**15.9**	(69.0)	16.5	(52.5)
Amortisation of intangibles*	**46.4**	**(13.0)**	**33.4**	47.9	(13.7)	34.2
Impairment of intangibles	**–**	**–**	**–**	48.3	(13.8)	34.5
Unrealised (gains)/losses on forward currency contracts	**(1.2)**	**0.4**	**(0.8)**	12.3	(3.5)	8.8
Prior year unrealised losses on forward currency contracts, now realised	**(9.9)**	**2.8**	**(7.1)**	–	–	–
Corporate advisory fees	**2.6**	**(0.4)**	**2.2**	4.4	(0.1)	4.3
Exceptional employment and staff related costs	**6.1**	**(1.7)**	**4.4**	4.8	(1.4)	3.4
F&C REIT variable minority interest SBP expense	**3.7**	**–**	**3.7**	1.4	–	1.4
Investment Trust VAT income	**(2.5)**	**0.7**	**(1.8)**	–	–	–
Exceptional client compensation expense	**2.5**	**(0.7)**	**1.8**	–	–	–
Exceptional property expense	**2.5**	**(0.7)**	**1.8**	–	–	–
Put option claim expense	**4.1**	**–**	**4.1**	–	–	–
F&C REIT put option fair value gain	**(5.6)**	**–**	**(5.6)**	–	–	–
Gain on debt exchange	**(27.9)**	**(1.6)**	**(29.5)**	–	–	–
Loss on partial disposal of property business	**–**	**–**	**–**	4.1	–	4.1
Underlying earnings attributable to ordinary equity holders of the parent	**26.7**	**(4.2)**	**22.5**	54.2	(16.0)	38.2
Foreign exchange losses/(gains) included within underlying earnings	**8.1**	**(2.3)**	**5.8**	(1.3)	0.4	(0.9)
Underlying earnings attributable to ordinary equity holders of the parent excluding foreign exchange gains and losses	**34.8**	**(6.5)**	**28.3**	52.9	(15.6)	37.3

† As restated for the amendment to IFRS 2: Share-based Payment as disclosed in note 1.

* Excludes £2.4m (2008: £0.7m) of amortisation of intangibles (net of tax) which is attributable to minority interests.

Notes to the Consolidated Financial Statements

11. Earnings per Share continued

Share capital	2009 No.	2008 No.
Weighted average number of Ordinary Shares (excluding own shares held by Employee Benefit Trusts) for basic earnings/(loss) per share	**491,145,219**	492,685,954
Weighted average dilutive potential Ordinary Shares exercisable:		
The Long Term Remuneration Plan awards	**5,505,284**	5,625,653
The Executive Director Remuneration Plan awards	**1,079,472**	489,667
Purchased Equity Plan awards	**1,066,603**	1,390,522
Discretionary awards	**93,327**	1,133,495
Share Save Scheme options	**36,311**	9,105
Dilutive potential weighted average number of Ordinary Shares	**498,926,216**	501,334,396

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(c), gives the F&C REIT minority partners the opportunity to increase their ownership of F&C REIT 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:

	2009 £m	2008 (as restated†) £m
Profits/(losses) attributable to equity holders of the parent	**15.9**	(52.5)
Dilution of profits through increase in F&C REIT minority interest ownership	**(0.8)**	(0.3)
Profits/(losses) attributable to equity holders of the parent after dilution	**15.1**	(52.8)

† As restated for the amendment to IFRS 2: Share-based Payment as disclosed in note 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, the higher level of profits which met the vesting criteria would necessarily be sustainable.

In the period between the reporting date and the approval of the Consolidated Financial Statements, no share awards (2008: 417,586) vested which were 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 remaining options granted under the 1995 Executive Share Option Scheme vested during 2006, as the performance criteria had been met. At 31 December 2009 the 532,122 (31 December 2008: 884,182) options outstanding, at exercise prices between 214.00p and 455.83p, are now potentially dilutive, as settlement would be made by the issue of new shares.

The remaining options granted under the 2002 Executive Share Option Scheme vested during 2006, as the performance criteria had been met. At 31 December 2009 the 1,082,028 (31 December 2008: 1,082,028) 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 2009 and 31 December 2008 are disclosed in note 28, together with the total number of awards outstanding for each scheme.

12. Dividends

(a) Ordinary dividends

	2009 £m	2008 £m
Declared and paid during the year		
Equity dividends on Ordinary Shares:		
Final dividend for 2008: 4.0p (2007: 4.0p)	**19.8**	19.7
Interim dividend for 2009: 2.0p (2008: 2.0p)	**9.7**	9.9
	29.5	29.6
Proposed for approval at the Annual General Meeting		
Equity dividends on Ordinary Shares:		
Final dividend for 2009: 4.0p (2008: 4.0p)	**19.5**	19.8

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

	Shares	£m
2009 Dividends		
2008 Final	**1,461,036**	**0.1**
2009 Interim	**11,202,711**	**0.2**
2008 Dividends		
2007 Final	2,612,286	0.1
2008 Interim	2,522,040	0.1

(b) Non-equity dividends on Cumulative Preference shares

	Note	2009 £m	2008 £m
Interest expense during the year	9	**–**	0.1

13. Property, plant and equipment

	Leasehold improvements £m	Computer equipment £m	Office furniture and equipment £m	Motor vehicles £m	Total £m
Cost:					
At 1 January 2008	12.4	10.6	2.8	0.2	26.0
Fair value of additions arising on business combinations	–	0.1	0.1	0.4	0.6
Additions	0.1	0.8	0.1	0.2	1.2
Disposals	(0.1)	(0.8)	(0.5)	(0.1)	(1.5)
Foreign exchange gains	0.6	0.1	0.1	–	0.8
At 31 December 2008	13.0	10.8	2.6	0.7	27.1
Additions	0.4	0.2	0.2	0.2	1.0
Disposals	(0.1)	(3.4)	(0.5)	–	(4.0)
Foreign exchange losses	(0.1)	–	–	–	(0.1)
At 31 December 2009	**13.2**	**7.6**	**2.3**	**0.9**	**24.0**
Depreciation and impairment:					
At 1 January 2008	4.1	8.6	1.8	0.1	14.6
Depreciation charge for the year	1.3	1.3	0.3	0.1	3.0
Disposals	(0.1)	(0.8)	(0.4)	(0.1)	(1.4)
Foreign exchange losses	0.2	0.1	–	–	0.3
At 31 December 2008	5.5	9.2	1.7	0.1	16.5
Depreciation charge for the year	1.4	1.0	0.2	0.2	2.8
Disposals	(0.1)	(3.4)	(0.2)	–	(3.7)
At 31 December 2009	**6.8**	**6.8**	**1.7**	**0.3**	**15.6**
Net book values:					
At 31 December 2007	8.3	2.0	1.0	0.1	11.4
At 31 December 2008	7.5	1.6	0.9	0.6	10.6
At 31 December 2009	**6.4**	**0.8**	**0.6**	**0.6**	**8.4**
Cumulative impairment losses:					
At 31 December 2008	2.0	–	–	–	2.0
At 31 December 2009	**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 2009 is £7.4m (31 December 2008: £10.9m).

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets

	Goodwill £m	Management contracts £m	Software and licences £m	Total £m
Cost:				
At 1 January 2008	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
Additions	–	–	0.1	0.1
Disposals	–	–	(1.2)	(1.2)
Foreign exchange losses	–	(10.4)	(0.1)	(10.5)
At 31 December 2009	**595.1**	**685.1**	**4.7**	**1,284.9**
Amortisation and impairment:				
At 1 January 2008	–	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
Amortisation charge for the year	–	49.8	0.7	50.5
Disposals	–	–	(1.2)	(1.2)
Foreign exchange gains	–	–	(0.1)	(0.1)
At 31 December 2009	**–**	**478.4**	**4.1**	**482.5**
Net book values:				
At 31 December 2007	569.9	253.7	1.1	824.7
At 31 December 2008	595.1	266.9	1.2	863.2
At 31 December 2009	**595.1**	**206.7**	**0.6**	**802.4**

Goodwill

Goodwill arose on various business combinations, and prior to September 2008, related to the business as a whole following the fundamental integration, rationalisation and re-organisation which took place after each acquisition. Following the acquisition of the REIT Group in September 2008, the business was re-organised into two distinct operating segments: Investment Management (IM) and Property Asset Management (PAM). These are separate business operations and are regarded as reportable segments under IFRS 8: Operating Segments. These operating 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 operating segments on the basis of the values in use of the respective business operations and resulted in £102.7m being allocated to PAM, leaving £467.2m attributable to IM.

The additional goodwill arising in 2008 relates to the acquisition of the REIT Group, while the goodwill disposed of relates to the 30 per cent. transfer of F&C's existing property business to the former owners of REIT; both amounts relate to the transactions arising on creation of the PAM operating segment. Details of the acquisition and disposal are given in note 16.

At the end of 2008 and 2009, of the total goodwill of £595.1m, £127.9m relates to PAM, and £467.2m relates to IM, there having been no movement in goodwill in either segment during 2009.

Goodwill is not amortised but requires to be tested for impairment annually or when indicators of potential impairment are identified. The carrying value of goodwill attributable to each operating segment has been tested for impairment at the reporting date, as described below. Accumulated goodwill impairment losses at 31 December 2009 were £nil for both operating segments (31 December 2008: £nil).

14. Goodwill and other intangible assets continued

Management contracts

Management contracts predominantly relate to contracts arising from business acquisitions. The addition during 2008 of £71.3m is the value attributed to the management contracts acquired through the REIT business combination.

Management contracts are amortised over their expected useful lives and are tested for impairment only when indicators of potential impairment are identified. No such indicators have been identified since the last impairment review undertaken as at 31 December 2008 and therefore no impairment review of management contracts has been undertaken this year. The management contract impairment losses recognised in prior years relate entirely to the IM operating segment; the accumulated impairment losses at 31 December 2009 were £218.3m, (31 December 2008: £218.3m). Details of impairment recognised in 2008 are disclosed below.

The foreign exchange losses in the year arise from the relative weakening of the Euro over the course of 2009, reducing the value of 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 2009			31 December 2008		
	Net book values £m	**Remaining amortisation period (years)**	**Estimated useful life (years)**	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)
RSAI insurance contracts	**1.7**	**2**	**10**	2.4	3	10
RSAI retail contracts/F&C OEICs	**13.5**	**2 – 5**	**10**	17.9	3 – 6	10
F&C insurance contracts	**76.2**	**5**	**10**	100.2	6	10
F&C institutional contracts (fixed term / non-fixed term)	**17.7**	**5 / 1**	**10 / 4**	29.4	6 / 2	10 / 4
F&C investment trust contracts	**14.0**	**6½**	**10**	16.1	7½	10
F&C advisory and sub-advisory contracts	**25.0**	**5**	**10**	32.0	6	10
Private equity fund of funds	**0.9**	**15**	**20**	1.0	16	20
REIT property contracts	**57.7**	**6**	**7**	67.9	7	7
	206.7			266.9		

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 2008 and 2009. The value in use is calculated by discounting the cash flow projections based on the latest annual financial budget approved by the Board, and management's forecasts. A long-term growth rate is used to extrapolate the cash flows because of the long-term nature of the Group's business 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.

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

	31 December 2009		31 December 2008					
	IM	**PAM**	IM			PAM		
			Year 1	Year 2	Year 3+	Year 1	Year 2	Year 3+
Discount rate	**10.25%**	**10.25%**	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
Market growth rate*	**5.35%**	**4.15%**	0.00%	6.00%	5.55%	(4.15%)	0.00%	4.15%
Inflation rate**	**4.25%**	**4.25%**	*	3.75%	3.75%	*	3.75%	3.75%

* In 2008, separate market growth rates were assumed over the first three years of the projections due to the market conditions and the outlook at that time, and the assumptions adopted for the 2009 budget. In 2009, the valuation models have reverted to applying constant long-term growth rates across years.

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

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 included in operating segments. The discount rate disclosed above is the post-tax rate which has been applied in the projections; the pre-tax discount rate is 11.40% (2008: 10.93%). All discount rates shown subsequently within this note are stated after tax.

Revenues are based on the Board-approved budget for each operating segment, and management's forecasts for the subsequent four years. Thereafter, 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 operating segment for each period. Net new business revenues are included at the levels assumed in the 2010 budget and management's forecasts up to 2014 with no further net new business included thereafter. Additional costs associated with the increased revenues have been included in the projections, primarily to reflect variable remuneration costs. 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 operating segment for 2010. Thereafter, both existing budgeted costs and, as noted above, further costs added associated with net new business revenue forecasts have been grown at inflation rates to accord with anticipated future salary and other cost increases.

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets continued

Goodwill continued

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 2008: £nil).

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

	31 December 2009		31 December 2008	
	IM	**PAM**	IM	PAM
Discount rate	**10.25%**	**10.25%**	10.15%	10.15%
Long-term market growth rate	**5.35%**	**4.15%**	5.55%	4.15%
Inflation rate	**4.25%**	**4.25%**	3.75%	3.75%

The above assumptions, together with the inclusion of forecast net new business revenues and associated costs in the 2009 cash flow projections, result in the following surpluses of goodwill:

	31 December 2009		31 December 2008	
	IM £m	**PAM £m**	IM £m	PAM £m
Excess of recoverable amount over carrying value	**615.1**	**74.6**	74.4	55.0

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.

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 2009		31 December 2008	
	IM	**PAM**	IM	PAM
Discount rate	**17.00%**	**13.35%**	11.00%	12.40%
Long-term market growth rate	**2.55%**	**1.28%**	5.15%	1.65%
Inflation rate	**7.65%**	**9.20%**	4.25%	7.20%
Per cent achievement of new business targets	**<0.00%**	**41.85%**	–	–

Intangible assets with finite lives

During 2008, the significant fall in equity markets 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. Previously, indicators of impairment had only arisen where fund outflows were significantly greater than the levels which had been forecast when the assets were recognised or when subsequent impairment reviews were performed. No indicators of potential impairment of management contracts have been identified since the 2008 review, and therefore no impairment reviews of management contracts have been undertaken for 2009. The information which follows in the remainder of this note is the disclosure in respect of the comparative period.

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

		2009			2008	
	IM £m	**PAM £m**	**Total £m**	IM £m	PAM £m	Total £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

The recoverable amounts of the assets were 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.

The key assumptions adopted in the 2008 calculations were 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%

14. Goodwill and other intangible assets continued

Intangible assets with finite lives continued

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 assumed no market growth. In year two, revenues were grown at market rates estimated to be experienced in 2010 when the Board anticipated capital markets would begin to recover; these estimates were based on a combination of in-house and analysts' views in light of the prevailing market conditions at the time. Beyond that, revenues were 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 were identical to those used in the 2008 goodwill impairment reviews. The projections were derived using the estimated average lives of the underlying contracts and assumed a constant loss of revenues over the projection periods, except in the case of fixed term contracts.

Projected operating costs were driven by the reportable operating segment projected operating profit margins, as determined for the purposes of the 2008 goodwill impairment review, including the cost inflation assumptions inherent therein, noted above.

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

15. Financial investments

The following assets are designated as available for sale:

Unquoted investments	2009 £m	2008 £m
At 1 January	**2.1**	3.8
Fair value gains transferred to the Income Statement	**–**	(1.1)
Fair value movement in the year	**0.2**	(0.5)
Impairment expense	**(0.1)**	(0.1)
At 31 December	**2.2**	2.1

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

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

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

The investments have no fixed maturity date or coupon rate.

Included within the unquoted financial investments at 31 December 2009 are £0.1m (31 December 2008: £0.2m) 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 income when the investments are realised. The Group intends to hold these investments until all the private equity investments are realised. In 2009, the Group received distributions totalling £nil (2008: £0.9m) which comprised £nil (2008: £0.9m) of investment income and £nil (2008: £nil) return of capital in respect of the investments held at cost.

16. Acquisition and disposal of subsidiaries

(a) 2008 – 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 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 as follows 70% of "A" and "B" partnership units are held by FCAM, 30% of "A" units by Kendray Properties Limited, 22.5% of "B" units are held by Leo Noé and 7.5% of "B" units are held 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 F&C REIT while "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 F&C REIT is £45 million or more, FCAM will transfer 3.33% of the total 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.

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

Notes to the Consolidated Financial Statements

16. Acquisition and disposal of subsidiaries continued

(a) 2008 – Acquisition of REIT Property Asset Management Group continued

FCAM acquired 70% ownership of F&C REIT Asset Management LLP, which in turn owned, directly or indirectly, 100% of the following entities at the date of acquisition:
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, the issue of a £35.0m Floating Rate Secured Loan Note and the transfer of F&C PAM. While FCAM transferred F&C PAM, a subsidiary undertaking, to F&C REIT, it retains a 70% beneficial holding in F&C PAM via its 70% holding in F&C REIT.

The total consideration paid by the Group for its 70% holding in F&C REIT was as follows:

	£m
Initial consideration – cash	25.0
Initial consideration – loan notes	35.0
Fair value of consideration in respect of relinquishment 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 was accrued at 31 December 2008)	4.4
Total consideration	92.6

The provisional fair values of assets and liabilities acquired as at 31 December 2008 were 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 interests' 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's and Ivor Smith's interests (or the holder of their beneficial interests) 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.

16. Acquisition and disposal of subsidiaries continued

(a) 2008 – Acquisition of REIT Property Asset Management Group continued

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

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

- An adjustment of £0.2m was 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 was 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 14.

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

The fair values of the net assets acquired were provisional until the REIT Completion Accounts review process was finalised in 2009. The adjustments noted above reflected 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 were 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 31 December 2008 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) 2009 – Acquisition of REIT Property Asset Management Group

Note 16 (a) provides the disclosure given in the 2008 financial statements in respect of the acquisition of REIT, including the provisional fair values of the net assets acquired. This note provides further analysis of the adjustments made during 2009 to determine the final fair values of the net assets acquired.

	Provisional fair value to the Group at acquisition, as at 31 December 2008 £m	2009 Fair value adjustments £m	Final fair value to the Group at acquisition, as at 31 December 2009 £m
Non-current assets:			
Property, plant and equipment	0.6	–	**0.6**
Intangible assets – management contracts	71.3	–	**71.3**
Current assets:			
Trade and other receivables	1.1	0.2	**1.3**
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)	(0.2)	**(1.1)**
Current tax payable	(0.1)	–	**(0.1)**
Net assets acquired	52.2	–	**52.2**
Less: Minority interests' share of net assets	(15.6)	–	**(15.6)**
Goodwill	56.0	–	**56.0**
Total consideration	92.6	**–**	**92.6**

	£m	£m	£m
Discharged by:			
Initial consideration – cash	25.0	–	**25.0**
Initial consideration – loan notes	35.0	–	**35.0**
Fair value of consideration in respect of relinquishment of 30% of F&C PAM	28.2	–	**28.2**
Fair value of consideration paid for 70% of the REIT Group	88.2	–	**88.2**
Expenses of acquisition (of which £0.1m is accrued at 31 December 2009; 31 December 2008: £0.2m)	4.4	–	**4.4**
	92.6	**–**	**92.6**

The additional 2009 fair value adjustments are explained below:

- Trade and other payables have been increased to reflect additional obligations of the acquired entities which existed at 3 September 2008, but which were not reflected in the Completion Accounts.
- There have been some reallocations between trade and other receivables and trade and other payables to reflect classification changes and offsetting of similar items.
- An adjustment of £0.5m, to a total of £0.7m, has been made in respect of the additional cash which the minority partners are required to inject into the business in accordance with the "net assets adjustments mechanism" transaction agreements. This mechanism was set to ensure the net assets contribution of each party was in equal proportions to their holding in F&C REIT. Therefore, the final fair value of assets acquired on acquisition (£52.2m) remained unchanged from the initial amount recognised in the 2008 Financial Statements.

Notes to the Consolidated Financial Statements

16. Acquisition and disposal of subsidiaries continued

(c) Loss on partial disposal of property business

As noted above, on 3 September 2008 the Group effectively disposed of 30% of its property business via the relinquishment of its ownership of F&C PAM. The loss on disposal is quantified below:

	2008 £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)

(d) 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 £0.7m payable to Eureko B.V. at 31 December 2009 (31 December 2008: £2.9m).

17. Deferred acquisition costs

	2009 £m	2008 £m
At 1 January	**11.1**	11.9
Costs deferred in the year	**1.2**	3.1
Amortisation in the year	**(3.3)**	(3.9)
At 31 December	**9.0**	11.1

	31 December 2009 £m	31 December 2008 £m
Split as follows:		
Non-current assets	**6.4**	7.8
Current assets	**2.6**	3.3
	9.0	11.1

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

(a) Recognised deferred assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	December 2009			December 2008		
	Assets £m	**Liabilities £m**	**Net £m**	Assets £m	Liabilities £m	Net £m
Employee benefits*	**15.3**	**–**	**15.3**	9.0	–	9.0
Share-based payments	**12.4**	**–**	**12.4**	9.7	–	9.7
Unused tax losses	**0.6**	**–**	**0.6**	–	–	–
Property, plant and equipment	**2.6**	**–**	**2.6**	2.5	–	2.5
Receivables, payables & provisions	**3.4**	**–**	**3.4**	5.3	–	5.3
Intangible assets – management contracts	**–**	**(57.7)**	**(57.7)**	–	(74.5)	(74.5)
Unrealised fair value gains on available for sale assets	**–**	**(0.6)**	**(0.6)**	–	(0.6)	(0.6)
Unremitted overseas earnings	**–**	**–**	**–**	–	(1.9)	(1.9)
Net deferred tax assets/(liabilities)	**34.3**	**(58.3)**	**(24.0)**	26.5	(77.0)	(50.5)

*Includes £12.9m (31 December 2008: £5.9m) relating to deferred tax on defined benefit pension deficit.

The Directors believe, based on Board approved budgets and forecasts, that it is appropriate to recognise deferred tax assets at the reporting date because it is considered probable that there will be suitable taxable profits from which the underlying temporary differences can be deducted.

18. Deferrred tax assets and liabilities continued

(b) Movement in temporary differences during the year

	1 January 2009 £m	Recognised in income £m	Recognised in equity £m	Revaluation in year £m	Acquired in year £m	31 December 2009 £m
Employee benefits	**9.0**	**(1.2)**	**7.6**	**(0.1)**	**–**	**15.3**
Share-based payments	**9.7**	**2.7**	**–**	**–**	**–**	**12.4**
Unused tax losses	**–**	**0.6**	**–**	**–**	**–**	**0.6**
Property, plant and equipment	**2.5**	**0.1**	**–**	**–**	**–**	**2.6**
Receivables, payables & provisions	**5.3**	**(1.9)**	**–**	**–**	**–**	**3.4**
Intangible assets – management contracts	**(74.5)**	**14.0**	**–**	**2.8**	**–**	**(57.7)**
Unrealised fair value gains on available for sale assets	**(0.6)**	**–**	**–**	**–**	**–**	**(0.6)**
Unremitted overseas earnings	**(1.9)**	**1.5**	**–**	**0.4**	**–**	**–**
	(50.5)	**15.8**	**7.6**	**3.1**	**–**	**(24.0)**

	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 – management contracts	(71.0)	27.6	–	(11.1)	(20.0)	(74.5)
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)

(c) Unrecognised deferred tax assets and liabilities

The Group has unrecognised tax losses which arose in the UK of £0.2m (31 December 2008: £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 assets and liabilities at the reporting date

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 loans and receivables included within non-current assets are carried at amortised cost.

(i) Designated as fair value through profit or loss

	Notes	31 December 2009 £m	31 December 2008 £m
Financial investments in respect of unit-linked contracts	(1)	**624.9**	709.8
Other financial investments	(2)	**10.0**	8.2
		634.9	718.0

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

	31 December 2009 £m	31 December 2008 £m
Equity securities:		
Listed	**431.0**	493.1
OEICs and unit trusts	**12.6**	14.2
Total equity securities	**443.6**	507.3
Debt and fixed income securities:		
Government bonds	**65.8**	86.6
Other listed fixed interest securities	**82.2**	84.2
Index-linked gilts	**24.1**	22.6
Participation in pooled investments	**9.2**	9.1
Total debt and fixed income securities	**181.3**	202.5
Total unit-linked financial investments designated as fair value through profit or loss	**624.9**	709.8

Notes to the Consolidated Financial Statements

19. Financial instruments continued

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 Consolidated Statement of Financial Position 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 net insurance risk to the Group's equity holders.

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

	31 December 2009 £m	31 December 2008 £m
Fair value through profit or loss:		
Financial investments designated as fair value through profit or loss	**624.9**	709.8
Loans and receivables:		
Deferred acquisition costs	**0.1**	0.2
Trade and other receivables	**0.3**	0.7
Cash and cash equivalents	**24.6**	43.6
Trade and other payables	**–**	(1.2)
Total unit-linked assets less liabilities	**649.9**	753.1

The above does not include £3.1m of non-linked policyholders' cash (31 December 2008: £3.1m).

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

(2) Other financial investments:

	Note	31 December 2009 £m	31 December 2008 £m
NIC hedge		**3.1**	3.2
Corporate bonds		**0.3**	0.7
Purchased Equity Plan	28(d)(ii)	**4.7**	2.6
Bonuses – investments		**1.9**	1.7
		10.0	8.2

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 the NIC liability 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(d)(ii).

'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 2009 £m	31 December 2008 £m
2014	**0.3**	0.3
2037	**–**	0.4
	0.3	0.7

(ii) Designated as held for trading

	31 December 2009 £m	31 December 2008 £m
Stock of units and shares	**0.3**	0.3

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.

19 Financial instruments continued

(iii) Designated as loans and receivables

	31 December 2009 £m	31 December 2008 £m
Cash and cash equivalents	**213.9**	269.8
Trade and other receivables:		
Trade debtors	**14.9**	9.5
Accrued income	**41.3**	35.0
Other debtors	**30.3**	28.3
Amounts owed by Eureko Group	**1.4**	4.8
Amounts owed by Friends Provident Group	**–**	0.4
Amounts owed by F&C REIT related party entities	**0.1**	0.3
Current tax receivable	**5.8**	–
	307.7	348.1

(b) Fair values

(i) Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by category of valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

Assets measured at fair value

	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2009 £m
Financial assets at fair value through profit or loss:				
Financial investments in respect of unit-linked contracts	**607.2**	**14.2**	**3.5**	**624.9**
Other financial investments	**5.1**	**4.7**	**0.2**	**10.0**
Classified as held for trading	**0.3**	**–**	**–**	**0.3**
Available for sale financial assets:				
Unquoted investments	**–**	**–**	**2.2**	**2.2**
	612.6	**18.9**	**5.9**	**637.4**

Liabilities measured at fair value

	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2009 £m
Financial liabilities at fair value through profit or loss:				
Forward currency contracts	**–**	**(1.3)**	**–**	**(1.3)**
F&C REIT put options	**–**	**–**	**(60.4)**	**(60.4)**
Investment contract liabilities	**–**	**(649.9)**	**–**	**(649.9)**
	–	**(651.2)**	**(60.4)**	**(711.6)**

Assets/(liabilities) measured at fair value based on level 3

	Financial assets at fair value through profit or loss		Available-for-sale financial assets	Financial liabilities at FVTPL	
Fair value measurement at end of the reporting period	Financial investments in respect of unit-linked contracts £m	Other financial investments £m	Unquoted investments £m	F&C REIT put options £m	Total £m
At 1 January 2009	2.4	0.3	2.1	(66.0)	(61.2)
Total gains or losses:					
In profit or loss	(0.6)	(0.1)	(0.1)	5.6	4.8
In other comprehensive income	–	–	0.2	–	0.2
Purchases	2.2	–	–	–	2.2
Settlements	(0.5)	–	–	–	(0.5)
At 31 December 2009	**3.5**	**0.2**	**2.2**	**(60.4)**	**(54.5)**

There were no transfers into or out of level 3 during 2009.

Total gains or losses included in profit or loss for the year:					
Net gains/(losses) and investment income on unit linked assets	(0.6)	–	–	–	(0.6)
Finance revenue	–	(0.1)	–	–	(0.1)
Impairment of financial investments	–	–	(0.1)	–	(0.1)
F&C REIT put option fair value gain	–	–	–	5.6	5.6
	(0.6)	(0.1)	(0.1)	5.6	4.8

The gains or losses included in profit or loss for the year were in respect of assets or liabilities held at the reporting date.

Notes to the Consolidated Financial Statements

19. Financial instruments continued

Sensitivities for level 3

While the Group believes that its estimates of fair value are appropriate, the use of different assumptions could lead to different measurements of fair value. Potential changes in the assumptions used in the valuation of level 3 financial assets are not considered to have a material impact on the Income Statement. In respect of level 3 financial liabilities changing one or more of the unobservable inputs to reasonably possible alternative assumptions would have the following effects.

At 31 December 2009	Effect on profit or loss		Effect on other comprehensive income	
	Favourable £m	(Unfavourable) £m	Favourable £m	(Unfavourable) £m
Financial liabilities at FVTPL:				
F&C REIT put options	4.3	(8.5)	–	–

The results above were derived from reasonable changes to the assumptions, as disclosed in note 30, on the following unobservable inputs:

- Recurring discount rates +/– 1%
- Weightings of 2009 results +/– 10%
- Recurring EBITDA multiple +/– 1x
- Flexing the relative weightings to the 3 valuation methodologies +/– 10%

(ii) Fair value comparisons

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

	Carrying amount		Fair value	
	31 December 2009	31 December 2008	**31 December 2009**	31 December 2008
Financial assets:				
Financial investments: available for sale	**2.2**	2.1	**2.2**	2.1
Financial investments: fair value through profit or loss	**634.9**	718.0	**634.9**	718.0
Current tax receivable	**5.8**	–	**5.8**	–
Stock of units and shares: held for trading	**0.3**	0.3	**0.3**	0.3
Cash and cash equivalents	**213.9**	269.8	**213.9**	269.8
Financial liabilities:				
Interest bearing loans and borrowings:				
Fixed/Floating Rate Subordinated Notes 2016/2026	**(124.2)**	(258.2)	**(83.2)**	(164.6)
Guaranteed Fixed Rate Loan Notes 2016	**(129.7)**	–	**(129.7)**	–
Floating Rate Secured Notes 2010	**(10.0)**	(35.0)	**(10.0)**	(35.0)
Preference Share capital	**–**	(0.8)	**–**	(0.3)
Other financial liabilities:				
F&C REIT put options	**(60.4)**	(66.0)	**(60.4)**	(66.0)
Forward currency contracts	**(1.3)**	(12.3)	**(1.3)**	(12.3)
Investment contract liabilities	**(649.9)**	(753.1)	**(649.9)**	(753.1)
Current tax payable	**(1.5)**	(12.5)	**(1.5)**	(12.5)

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 reporting 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 and Guaranteed Loan Notes is based on a quoted market price at the reporting 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.

Unquoted investments

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 reporting date. Where other pricing models are used, inputs are based on market related data at the reporting date.

Put options

Based on an external valuation of the business, as detailed in note 30.

Forward currency contracts

The fair value is based on relevant exchange rates at the reporting dates.

20. Reinsurance assets

	31 December 2009 £m	31 December 2008 £m
Reinsurers' share of insurance contract liabilities	**1.9**	2.1
Total reinsurance assets – current assets	**1.9**	2.1

21. Trade and other receivables

	31 December 2009 £m	31 December 2008 £m
Current:		
Trade debtors	**14.9**	9.5
VAT recoverable	**–**	1.0
Accrued income	**41.3**	35.0
Other debtors	**29.9**	28.0
Prepayments	**5.2**	6.9
Amounts owed by Friends Provident Group	**–**	0.4
Amounts owed by F&C REIT related party entities	**0.1**	0.3
Amounts owed by Eureko Group	**–**	4.8
	91.4	85.9
Non-current:		
Other debtors	**0.4**	0.3
Prepayments	**0.1**	0.3
Amounts owed by Eureko Group	**1.4**	–
	1.9	0.6

The balances with Friends Provident Group as at 31 December 2009 have been disclosed within the relevant category, following Friends Provident's divestment of its entire interest in FCAM on 3 July 2009.

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

22. Cash and cash equivalents

	31 December 2009 £m	31 December 2008 £m
Shareholders:		
Cash at bank and in hand	**1.5**	9.6
Short-term deposits	**184.7**	213.5
	186.2	223.1
Policyholders:		
Cash at bank and in hand	**0.6**	0.9
Short-term deposits	**27.1**	45.8
	27.7	46.7
Total cash and cash equivalents	**213.9**	269.8

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 short-term deposits 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 2009 is £213.9m (31 December 2008: £269.8m).

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 included in the Statement of Financial Position. At 31 December 2009 policyholders' cash amounted to £27.7m (31 December 2008: £46.7m) of the total cash and cash equivalents balance.

23. Non-current assets held for sale

The Group injected seed capital into 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 to disposing its entire investment in the funds within a year of the original investment, which it did in 2008, the investments in these funds were classified as being held for sale for the period during which they were held.

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

	2009 £m	2008 £m
At 1 January	**–**	–
Additions	**–**	14.8
Disposals	**–**	(14.8)
At 31 December	**–**	–

The Group realised a gain of £5.3m in 2008 on disposal of these investments. This was included within finance revenue (note 8). The seed capital investments were included in the investment management segment.

Notes to the Consolidated Financial Statements

24. Interest bearing loans and borrowings

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

	Note	**31 December 2009 £m**	31 December 2008 £m
Preference Share capital Dividends were payable at LIBOR +2% half-yearly in arrears. Preference Shares' rights are described in note 33(b).		**–**	0.8
Fixed/Floating Rate Subordinated Notes 2016/2026 Interest rate of 6.75% per annum until 19 December 2016, payable annually in arrears. Issuer has the option to extend the notes beyond this date at a rate of 2.69% above 3 month LIBOR until 19 December 2026, payable quarterly in arrears.		**124.2**	258.2
Guaranteed Fixed Rate Loan Notes 2016 Interest rate of 9.0% per annum until 19 December 2016, payable annually in arrears.		**129.7**	–
Floating Rate Secured Notes 2010 Interest payable 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%; and From 16 June 2009 until redemption at LIBOR +4%. 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. £25.0m of the original Notes were repaid on 22 September 2009.	(i)	**10.0**	35.0
		263.9	294.0

(i) The Floating Rate Secured Notes 2010 are listed on The Channel Islands Stock Exchange.

During 2009, the Group offered holders of the Fixed/Floating Rate Subordinated Notes 2016/2026 the opportunity to exchange up to £135.0m of the Notes for new Guaranteed 9% Fixed Rate Loan Notes 2016 at a pre-determined exchange ratio. £135.0m of the Subordinated Notes were exchanged for £104.7m Guaranteed Loan Notes. In addition, £25.0m of new Guaranteed Loan Note debt was issued. The gain arising on this debt exchange was £27.9m, as shown in note 7(d).

The £10.0m (31 December 2008: £35.0m) Floating Rate Secured Notes are held by Kendray Properties Limited, which holds 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 2009 was £45.7m (31 December 2008: £40.3m).

Borrowing facilities

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

	31 December 2009 £m	31 December 2008 £m
Expiring in one year or less:		
Bank overdraft facilities	**2.0**	2.0

Repayment periods	**31 December 2009 £m**	31 December 2008 £m
Amounts repayable:		
In one year or less, or on demand	**10.0**	–
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	**253.9**	259.0
	263.9	294.0

At 31 December 2008, the Preference Share capital was considered to be perpetual in nature and had no contractual repayment date, although it was repaid on 16 July 2009.

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

25. Trade and other payables

	31 December 2009 £m	31 December 2008 £m
Amounts due within one year:		
Trade creditors	**1.9**	1.4
Amounts owed to Friends Provident Group	**–**	1.2
Amounts owed to Eureko Group	**2.0**	2.9
Amounts owed to F&C REIT related party entities	**2.3**	2.4
Social Security and PAYE	**2.2**	2.4
VAT payable	**1.1**	–
Accruals	**27.1**	20.6
Other creditors	**27.5**	22.6
	64.1	53.5
Amounts due outwith one year:		
Accruals	**5.0**	5.4
Other creditors	**1.7**	1.7
	6.7	7.1

The balances with Friends Provident Group as at 31 December 2009 have been disclosed within the relevant category, following Friends Provident's divestment of its entire interest in FCAM on 3 July 2009.

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	Put option claim £m	Total £m
At 1 January 2008	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
Provided during the year	3.1	5.2	0.3	–	–	–	2.4	11.0
Utilised during the year	(1.6)	(1.7)	(0.2)	(0.2)	–	(1.2)	–	(4.9)
Released during the year	(0.1)	(2.3)	–	(0.1)	–	(2.6)	–	(5.1)
At 31 December 2009	**8.4**	**5.6**	**2.0**	**0.5**	**0.1**	**–**	**2.4**	**19.0**
At 31 December 2009								
Non-current	**6.5**	**1.3**	**1.8**	**0.4**	**0.1**	**–**	**–**	**10.1**
Current	**1.9**	**4.3**	**0.2**	**0.1**	**–**	**–**	**2.4**	**8.9**
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

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 or are partially occupied by the Group. Provision has been made for the residual lease commitments where significant, after taking into account existing and expected sub-tenant contractual arrangements. The remaining terms are for up to 11 years, although a significant element of this provision relates to lease incentive arrangements and is expected to be utilised within 4 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. In addition, exposure could exist if an existing tenant defaulted or went into liquidation or administration.

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 2009 £3.1m (31 December 2008: £3.2m) 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.

Notes to the Consolidated Financial Statements

26. Provisions continued

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.

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
In November 2007, HM Revenue and Customs ('HMRC') agreed that asset management services to UK Investment Trust Companies ('ITCs') should be exempt from VAT. 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 were greater than the expected amount recoverable from HMRC. During 2008 and 2009, monies refunded from HMRC were paid, as required, to ITCs. However, due to the complexity of the repayment process and its interaction with contractual arrangements, uncertainty existed at 31 December 2008 as to the final cost to be incurred by the Group. During 2009 all amounts due to ITCs have been settled and the remainder of the provision of £2.6m was released to the Income Statement. No provision is therefore required at 31 December 2009.

Put option claim
During 2009 the two individual founder members of F&C Partners LLP ('LLP'), the Group's fund of hedge funds business, sought to exercise put options to sell their minority interest in the LLP to the F&C corporate member under the terms of the LLP Agreement (in total, for approximately £7.8m). On 6 March 2009 the corporate member issued a claim in the High Court seeking a declaration on the validity of the exercise of the put options. The individual members are seeking an unspecified sum by way of counterclaim. On 10 June 2009 the individual founder members issued a petition against the LLP and the F&C corporate member under Section 459 of the Companies Act 1985 seeking an order that the F&C corporate member buy out their minority interest in the LLP at a price to be determined.

At the date of these Financial Statements, directions have been given by the High Court that the two actions be heard together going forward. In addition the two founder partners may exercise further put options in October 2010 and if they do so the price formula in the LLP Agreement would produce an aggregate exercise price of a maximum of £2.4m. Upon exercise of these options the LLP Agreement provides that the LLP may sell its business and if this is completed within 12 months the individuals concerned would then become entitled only to a proportion of the sale proceeds. The Board has been advised by leading counsel that there is considerable uncertainty about whether these options could ever be completed. Notwithstanding this uncertainty and having regard to the amount which would be payable under the October 2010 options, the Board has decided to provide for an amount of £2.4m in respect of this matter.

The Group will continue to defend its position vigorously and is advised that it should be successful in respect of all claims.

27. Employee benefits – Pension scheme obligations

The Group operates a defined benefit scheme in the United Kingdom, The Netherlands, 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 former 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 net pension deficit is recognised under non-current liabilities in the Statement of Financial Position and is stated gross of the related deferred tax asset.

The results of the latest full actuarial valuations were updated at 31 December 2009 by qualified independent actuaries.

27. Employee benefits – Pension scheme obligations continued

The pension (deficits)/surpluses of the Group are summarised in aggregate and by scheme as follows:

Aggregate	31 December 2009 £m	31 December 2008 £m
Fair value of plan assets	**157.5**	146.1
Benefit obligations	**(204.2)**	(167.9)
Total pension deficit	**(46.7)**	(21.8)

By scheme	31 December 2009 £m	31 December 2008 £m
F&C Asset Management Pension Plan ("FCAM Plan")	**(38.0)**	(13.9)
F&C Netherlands pension plan	**(5.7)**	(4.8)
F&C Ireland pension plan	**(0.4)**	(0.6)
F&C Portugal pension plan	**0.1**	(0.2)
R W Jenkins pension	**(2.7)**	(2.3)
Total pension deficit	**(46.7)**	(21.8)

Disclosure relating to the Group's defined benefit obligations

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

(a) Plan assets and expected rate of return

Plan assets	31 December 2009 £m	%	31 December 2008 £m	%
Equities	**96.0**	**61**	74.8	51
Government bonds	**2.8**	**2**	2.7	2
LDI Pools	**44.3**	**28**	55.2	38
Cash	**3.3**	**2**	1.9	1
Other*	**11.1**	**7**	11.5	8
Total fair value of plan assets	**157.5**	**100**	146.1	100

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

Plan assets include £86.8m (31 December 2008: £70.2m) of underlying investments held by the Group pension schemes via transferable investment contracts with F&C Managed Pension Funds Limited, the Group's unit-linked pooled pension business. The plan assets do not include Ordinary Shares issued by the Company.

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 2009	31 December 2008
Equities	**7.00%**	7.00%
Government bonds	**5.00%**	5.00%
LDI Pools	**4.20%**	3.30%
Cash	**0.50%**	2.00%
Other	**7.00%**	7.00%

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

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

(b) 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 2009	31 December 2008
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

The mortality assumptions for the overseas schemes are:

	31 December 2009	31 December 2008
Netherlands	**Prognosetafel 2008 – 2053 generational table**	Prognosetafel 2008 – 2050 generational table
Ireland*	**Compulsory Purchase Annuity Rates**	Compulsory Purchase Annuity Rates
Portugal	**Males TV 73/77 (rated down 1 year) Females TV 88/90 (rated down 2 years)**	Males TV 73/77 (rated down 1 year) Females TV 88/90 (rated down 2 years)

* In 2009 the mortality assumption of the F&C Ireland pension fund was updated. There was a change in the compulsory purchase annuity rates used to value liabilities for 2009, with the new rates allowing for more conservative mortality rates.

Notes to the Consolidated Financial Statements

27. Employee benefits – Pension scheme obligations continued

(ii) Impact of mortality assumptions

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

	31 December 2009 Years	31 December 2008 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 2009 £	31 December 2008 £
Male annuity	**24.30**	21.30
Female annuity	**24.00**	21.10

These rates assume a monthly payments model with a discount rate of 5.7% (2008: 6.10%) based, with appropriate adjustments, on the iBoxx over 15 year AA corporate bond index of 5.66% (2008: 6.71%). 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 Guaranteed Minimum Pension will increase by 3.6% (2008: 3.10%) per annum.

(iv) Discount and growth assumptions

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

	31 December 2009	31 December 2008
Discount rate	**5.50% – 5.70%**	5.70% – 6.10%
Rate of salary increase	**2.50% – 4.85%**	2.50% – 4.35%
Rate of inflation increase	**2.00% – 3.60%**	2.00% – 3.10%

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

	2009	2008
Discount rate	**5.70% – 6.10%**	5.50% – 5.60%
Weighted average expected long-term return on plan assets	**4.80% – 5.70%**	5.50% – 6.30%
Rate of inflation increase	**2.50% – 4.35%**	2.00% – 3.30%
Rate of salary increase	**2.00% – 3.10%**	2.50% – 4.55%

(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 2.2%

(c) Profile of schemes' membership

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

	31 December 2009		31 December 2008	
	% of total membership	Average age	% of total membership	Average age
Active members	**17%**	**42**	20%	41
Deferred members	**71%**	**42**	69%	42
Pensioners	**12%**	**65**	11%	65
	100%		100%	

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

	2009 £m	2008 £m
Active members	**59.7**	49.1
Deferred members	**94.4**	73.3
Pensioners	**50.1**	45.5
Benefit obligations at 31 December	**204.2**	167.9

27. Employee benefits – Pension scheme obligations continued

(d) Aggregate disclosure obligations

	2009 £m	2008 £m
Change in benefit obligations:		
Benefit obligation at 1 January	**167.9**	177.4
Foreign exchange movements	**(1.6)**	4.6
Current service cost	**2.6**	3.3
Past service costs*	**–**	0.2
Interest cost on pension obligations	**10.0**	10.0
Members' contributions	**0.2**	0.3
Actuarial losses/(gains)	**31.4**	(23.6)
Settlements	**(0.1)**	(0.5)
Benefits paid	**(6.2)**	(3.8)
Benefit obligations at 31 December	**204.2**	167.9

* The past service costs in 2008 relate to the augmentation of pension entitlements for certain employees.

	31 December 2009 £m	31 December 2008 £m
Analysis of defined benefit obligations:		
Plans that are wholly or partly funded	**201.5**	165.6
Plans that are wholly unfunded	**2.7**	2.3
	204.2	167.9

	2009 £m	2008 £m
Change in plan assets:		
Fair value of plan assets at 1 January	**146.1**	150.6
Foreign exchange movements	**(1.2)**	3.5
Expected return on pension plan assets	**7.9**	9.7
Actuarial gains/(losses)	**4.2**	(21.1)
Employer contributions	**6.6**	7.4
Member contributions	**0.2**	0.3
Settlements	**(0.1)**	(0.5)
Benefits paid	**(6.2)**	(3.8)
Fair value of plan assets at 31 December	**157.5**	146.1

	31 December 2009 £m	31 December 2008 £m
Net pension deficit recognised	**(46.7)**	(21.8)

	2009 £m	2008 £m
Components of pension cost:		
Current service cost	**2.6**	3.3
Past service cost	**–**	0.2
Interest cost on pension obligations	**10.0**	10.0
Expected return on pension plan assets	**(7.9)**	(9.7)
Total pension cost recognised in the Income Statement	**4.7**	3.8

	Notes	2009 £m	2008 £m
Pension costs are included in the Income Statement as follows:			
Operating expenses	6	**2.6**	3.5
Finance revenue	8	**(7.9)**	(9.7)
Finance costs	9	**10.0**	10.0
Total pension cost recognised in the Income Statement		**4.7**	3.8

	2009 £m	2008 £m
Actuarial (losses)/gains immediately recognised in the Statement of Comprehensive Income	**(27.2)**	2.5
The cumulative actuarial losses recognised in the Statement of Comprehensive Income since transition to IFRS	**(44.7)**	(17.5)

	2009 £m	2008 £m
Actual return on plan assets	**12.1**	(11.4)

Notes to the Consolidated Financial Statements

27. Employee benefits – Pension scheme obligations continued

Five year history

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Benefit obligations at 31 December	**(204.2)**	(167.9)	(177.4)	(179.8)	(164.1)
Fair value of plan assets at 31 December	**157.5**	146.1	150.6	134.4	116.1
Total pension deficit	**(46.7)**	(21.8)	(26.8)	(45.4)	(48.0)
Difference between expected and actual return on plan assets:					
Amount	**4.2**	(21.1)	(1.6)	2.1	11.5
Percentage of plan assets	**3%**	(14%)	(1%)	2%	10%
Experience gains and (losses) on benefit obligations:					
Amount	**1.1**	1.3	(3.4)	(1.6)	(0.4)
Percentage of benefit obligations	**1%**	1%	(2%)	(1%)	–%
Total gains and (losses):					
Amount	**(27.2)**	2.5	11.1	2.5	(30.7)
Percentage of benefit obligations	**(13%)**	1%	6%	1%	(19%)

(e) Pension schemes' details

(i) 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 allowed for a special employer contribution of £4.0m paid very shortly after the valuation date.

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

(ii) Other pension schemes

F&C Portugal

Certain employees in Portugal participate in the multi-employer scheme, Fundo de Pensoes do Grupo Banco Comercial 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

The Plan in The Netherlands is financed via an insurance contract. There are no Trustees, but the Works Council participates in negotiations in respect of potential changes to the Plan.

F&C Ireland

The Group operates a defined benefit pension scheme in Ireland. There are currently four Trustees of this plan, all of whom are employees of F&C.

(f) Future funding requirements

UK schemes

A revised schedule of contributions was agreed in June 2008. The Group has paid contributions in line with, or in excess of, this schedule since its adoption. The Group agreed to pay contributions of a minimum of 29.6% of Pensionable Salaries until 1 March 2009 and 28.1% of Pensionable Salaries thereafter. The Group agreed to pay an additional £5.0m per annum between 1 July 2009 until the completion of the 31 March 2010 valuation. Employee contributions are payable via a salary sacrifice scheme in addition to the Group contributions. The rates of employee contributions payable increased 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 2010 is £7.4m (2009: £3.8m).

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.

27. Employee benefits – Pension scheme obligations continued

With effect from 1 March 2010 changes were made to the benefits granted under the FCAM Plan in respect of both past and future service for current active members. A limit of 2% per annum was imposed on future increases in Pensionable Salary. To facilitate this an underpin was introduced so that members' benefits accrued prior to 1 March 2010 will not be less than that they would have received if they had left service on 28 February 2010. In addition, in respect of service after 28 February 2010 only, the level of guaranteed increases in pension after retirement was reduced and some members were given a choice between increasing the level of their contributions or having their normal pension age increased to 65. These changes are expected to reduce the pension cost recognised in the Income Statement in future years, particularly in 2010 when the effect of the changes on past service will be recognised.

Overseas schemes
The figures in the table below assume that contributions will continue to be paid to the overseas schemes at the level paid in 2009, with appropriate increases for future changes in salary assumptions.

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**
2008	7.4
2009	6.6
Expected future contributions*	**£m**
2010	8.5
2011	8.4
2012	8.4
2013	8.5
2014	8.6

* Assumes the £5.0m additional annual payment into the FCAM Plan continues after 2010.

(g) Risk management
(i) FCAM Plan
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 FCAM 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.

The results of an asset-liability review undertaken alongside the 31 March 2007 actuarial valuation of the plan was used to assist the Trustees and the Group in managing volatility in the underlying investment performance and the risk of a significant increase in the FCAM Plan's deficit by providing information used to determine the FCAM Plan's investment strategy.

Asset allocation
The Trustees, with the agreement of F&C, decided to introduce more diversification into the FCAM Plan's return-seeking asset investment strategy. At the present time, one additional diversifying allocation, to a private equity fund, has been made. Previously the Trustees have implemented a Liability Driven Investment (LDI) approach to the investment strategy. Other allocations to alternative asset classes may be made in the future.

Interest rate and inflation risk
The LDI pools are intended to help provide a degree of matching to the liabilities of the FCAM Plan. 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 FCAM Plan invests in overseas assets. However, the FCAM 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 FCAM Plan's securities. These are held by an external custodian. The assets are ring fenced from F&C's creditors and therefore transferable.

Notes to the Consolidated Financial Statements

27. Employee benefits – Pension scheme obligations continued

(ii) 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 Ireland invests in pooled unitised funds, with returns reflecting the performance of the underlying assets.

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.

At 31 December 2009, 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.

(h) Cost of defined contribution plans

	Note	**2009 £m**	2008 £m
Group personal pension plans		**3.3**	3.4
Other defined contribution schemes		**0.9**	1.1
	6	**4.2**	4.5

The Group had £0.1m of pension contributions outstanding as at 31 December 2009 (31 December 2008: £0.7m).

28. Employee benefits – Share-based payments

The Group operates several share-based payment plans as part of its total employee compensation arrangements.

Summary

The total share-based payment expense is analysed as follows:

By Scheme	Note	**2009 £m**	2008 (as restated†) £m
The Long-Term Remuneration Plan (deferred awards)		**11.9**	8.6
The Long-Term Remuneration Plan (restricted awards)		**0.1**	–
Executive Director Remuneration Plan (deferred awards)		**1.9**	1.4
Executive Director Remuneration Plan (restricted awards)		**–**	(0.7)
F&C REIT variable minority interest SBP		**3.7**	1.4
Purchased Equity Plan (FCAM plc shares)		**0.7**	1.0
Purchased Equity Plan (F&C investment funds)		**1.9**	0.3
Deferred Share Awards		**0.1**	2.2
Share Save Scheme		**–**	0.2
Total share-based payment expense recognised in the Income Statement	6	**20.3**	14.4

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

	2009 £m	2008 (as restated†) £m
Equity – settled	**14.3**	12.4
Cash – settled	**6.0**	2.0
Total share-based payment expense recognised in the Income Statement	**20.3**	14.4

	31 December 2009 £m	31 December 2008 (as restated†) £m
Total carrying amount of cash-settled liabilities	**8.6**	3.2

† As restated for the amendment to IFRS 2: Share-based Payment as disclosed in note 1.

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 2009. Details of awards granted in previous accounting periods are disclosed in the previous years' Financial Statements.

The fair value of services received in return for awards granted is measured by reference to the fair value of share awards granted.

The cash-settled element of the awards is based on dividends payable on the shares during the vesting period, 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 equity-settled awards as these are settled in cash.

The cumulative grant expense for each award is "trued up", during the vesting period and at the end of the vesting period, after allowing for actual forfeitures and, where applicable, the performance criteria being met.

28. Employee benefits – Share-based payments continued

The following table summarises the inputs into the valuations used for awards granted and the fair values assigned, during the year ended 31 December 2009.

	LTRP Deferred Share Awards	EDRP Deferred Share Awards	PEP FCAM Shares
Award date	8 July 2009	8 July 2009	2 April 2009
Number of awards granted	15,139,943	2,188,992	213,761
Share price at grant date	67.0p	67.0p	64.5p
Exercise price	0.0p	0.0p	0.0p
Vesting period	3 years	3 years	3 years
Full term of award	3 years	3 years	51 months
Expected dividend yield (%)	5.72%	5.72%	4.68%
Expected volatility (%)	n/a	n/a	n/a
Risk-free interest rate (%)	n/a	n/a	n/a
Expected forfeiture rate (%)	5.00%	0.00%	5.00%
Fair value at measurement date (per award)			
– Equity	56.0p	56.0p	52.9p
– Cash	11.0p	11.0p	11.6p
Model used	No valuation model – full market value	No valuation model – full market value	No valuation model – full market value

Details of the awards made under the Purchased Equity Plan – F&C Investment Funds, are shown in note 28(d)(ii).

The weighted average share price during 2009 was £0.73 (2008: £1.25).

The weighted average share price at exercise date during 2009 was £0.77 (2008: £1.08).

(a) 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.

(i) Deferred Share Awards

The LTRP 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:

	2009 No.	2008 No.
Outstanding at 1 January	**17,831,370**	8,614,024
Granted during the year	**15,139,943**	10,216,710
Exercised during the year	**(3,667,084)**	(273,606)
Forfeited during the year	**(535,129)**	(725,758)
Outstanding at 31 December	**28,769,100**	17,831,370
Exercisable at 31 December	**180,459**	79,561

The awards exercised during 2009 relate to the 17 May 2006 award which vested on 17 May 2009.

The awards exercisable at 31 December 2009 and 31 December 2008 relate to "good leavers".

At 31 December 2009 the following awards granted under the LTRP (deferred) were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercise price
16 March 2007	4,771,791	16 March 2010	0.0p
25 March 2008	8,999,435	25 March 2011	0.0p
13 May 2008	73,746	13 May 2011	0.0p
8 July 2009	14,924,128	8 July 2012	0.0p

The awards outstanding at 31 December 2009 have a weighted average outstanding term of 1.7 years (31 December 2008: 1.6 years).

Notes to the Consolidated Financial Statements

28. Employee benefits – Share-based payments continued

(ii) Restricted Share Awards

Vesting of the Ordinary Shares that are currently the subject of a restricted award under the LTRP will be dependent upon specified performance conditions and conditions of continued service being met. The performance conditions applied to the LTRP are determined by the Board and are measured over a three year performance period; 50% of any award relates to the achievement of total shareholder return (TSR) targets and 50% of the award relates to real underlying EPS growth, as set out below:

TSR target (applying to 50% of any award)	
The Group's TSR relative to FTSE 250	**Percentage of award vesting**
Below Median	Nil
Median	35%
Upper Quartile	100%
Underlying EPS target (applying to 50% of any award)	
Growth in Group's EPS over three year performance period	**Percentage of award vesting**
Below PI +9%	Nil
PI +9%	50%
PI +24% or higher	100%

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

The TSR target is dependent upon the TSR of the Group compared to the TSR of the other companies who formed the FTSE 250 Index at the start of each performance period (the comparator companies) over a three year performance period commencing on the first day of the accounting period in which the award was made. At the end of the performance period, the Group and each of the comparator companies (the comparator list) are listed and ranked in accordance with their TSR over the performance period. The number of Ordinary Shares which vest would depend upon the ranking of the Group in the comparator list, in accordance with the vesting table above, described as follows: For below median TSR performance, no awards would vest; for TSR performance between the median and upper quartile (125th and 63rd position in the comparator list index), awards would vest on a straight-line basis between 35% for median and 100% for upper quartile. The TSR measure reflects the movement in the value of shares plus any dividends declared during the relevant period. It was chosen as the performance measure for the LTRP as it is directly related to movements in shareholder value.

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

The number of restricted share awards is as follows:

	2009 No.	2008 No.
Outstanding at 1 January	**843,829**	852,656
Lapsed during the year	**(516,281)**	–
Forfeited during the year	**–**	(8,827)
Outstanding at 31 December	**327,548**	843,829

No awards were made in 2009 or 2008. The EPS and TSR elements of the awards granted on 17 May 2006 did not meet the respective criteria and lapsed.

At 31 December 2009 the following LTRP restricted share awards were outstanding:

Grant date	**No. of options outstanding**	**Earliest exercise date***	**Exercise price**
16 March 2007	327,548	16 March 2010	0.0p

* Assuming performance criteria satisfied.

The awards outstanding at 31 December 2009 have a weighted average outstanding term of 0.2 years (31 December 2008: 0.7 years).

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.

28. Employee benefits – Share-based payments continued

(b) The Executive Director Remuneration Plan ('EDRP')

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.

(i) 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:

	2009 No.	2008 No.
Outstanding at 1 January	**2,526,214**	1,500,574
Granted during the year	**2,188,992**	1,025,640
Outstanding at 31 December	**4,715,206**	2,526,214

No awards were exercised during 2009 or were exercisable at either 31 December 2009 or 31 December 2008.

At 31 December 2009 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
25 March 2008	1,025,640	25 March 2011	0.0p
8 July 2009	2,188,992	8 July 2012	0.0p

The awards outstanding at 31 December 2009 have a weighted average outstanding term of 1.6 years (31 December 2008: 1.8 years).

During 2009 the rules of the Executive Director Remuneration Plan were amended to allow acceleration of prior year awards. These changes allow participants to exchange existing awards under these plans for F&C Asset Management plc shares subject to restrictions, allowing more flexibility for employees over the timing of their income tax charge. The restrictions mirror the original restrictions on the share awards including the forfeiture provisions. Other than the basis of personal taxation, the terms of conditions of the awards remain the same.

(ii) 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 earn 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	
	2009 No.	2008 No.	2009 No.	2008 No.
Outstanding at 1 January and 31 December #	**2,002,000**	2,002,000	**2,002,000**	2,002,000

This represents the maximum number of restricted shares which could be achieved by the participants (i.e. 140%).

No awards were made during 2009 or were exercisable at either 31 December 2009 or 31 December 2008.

At 31 December 2009 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 2009 have a weighted average outstanding term of 0.6 years (31 December 2008: 1.6 years).

The estimate of fair value of awards granted is measured at full market value for EPS criteria and no valuation model is used.

Notes to the Consolidated Financial Statements

28. Employee benefits – Share-based payments continued

(c) F&C REIT variable minority interest SBP

In accordance with the F&C REIT Partnership Agreement, the F&C 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 IFRS 2: Share-based Payment. The fair value of the "award" at date of acquisition reflects the value assessed as part of the acquisition valuation. The fair value of the award is reassessed at each reporting date and this fair value will be spread over the relevant vesting period.

The minority partners have the potential to increase their stake in F&C REIT by 3.33% for every year in which the EBITDA performance target of £45.0m is achieved, up to a maximum of 10%, for example, 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 continued to assume that 3.33% will vest in each of 2012, 2013 and 2014 in full. The expense for each tranche is being spread from the date of grant (3 September 2008) 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 would 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 F&C REIT.

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". It is still considered likely that the full conversion will be achieved. Therefore the IFRS 2 charge to the Income Statement assumes full vesting.

(d) Purchased Equity Plan ('PEP')

(i) F&C Asset Management plc shares

The PEP 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.

At the Board's discretion, eligible employees who are awarded in a financial year an aggregate bonus in excess of a threshold level of £100,000 (2008: £100,000) will be required to defer one third of the element exceeding £100,000 (2008: £100,000) into shares (comprising either a range of investment products managed by the Group or the Company's shares) (Compulsory PEP) for three years.

The Compulsory PEP 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 PEP share awards is as follows:

	2009 No.	2008 No.
Outstanding at 1 January	**1,975,594**	2,471,588
Granted during the year	**213,761**	89,371
Exercised during the year	**(792,495)**	(541,511)
Forfeited during the year	**–**	(43,854)
Outstanding at 31 December	**1,396,860**	1,975,594
Exercisable at 31 December	**41,044**	15,503

The 24 March 2006 award vested on 24 March 2009.

The awards exercisable at 31 December 2009 relate to "good leavers".

28. Employee benefits – Share-based payments continued

At 31 December 2009 the following awards granted under the PEP to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date*	Exercise price
13 April 2007	1,105,055	13 April 2010	0.0p
2 April 2008	78,044	2 April 2011	0.0p
2 April 2009	213,761	2 April 2012	0.0p

* Assuming performance criteria satisfied.

The awards outstanding at 31 December 2009 have a weighted average outstanding term of 0.6 years (31 December 2008: 0.9 years).

(ii) F&C Investment Funds

A new element was introduced into the PEP in 2007 whereby, at the discretion of the Board, 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 PEP into 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 PEP ('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 reporting date. The intrinsic value is then spread over the vesting period. The value of the services provided is measured using the ultimate value of awards which vest.

Awards totalling £1.0m were made on 2 April 2009 (2 April 2008: £2.5m). These awards were invested into a total of 14 (2 April 2008: 24) 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)(2).

	Note	31 December 2009 £m	31 December 2008 £m
Value of F&C Investments held within the Purchased Equity Plan	19(a)(i)(2)	**4.7**	2.6

	No.	No.
Number of FCAM plc shares which would be settled as at the reporting date (based on year end FCAM plc share price)	**6,167,870**	4,498,068

(e) 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:

	2009 No.	2008 No.
Outstanding at 1 January	**194,838**	1,251,377
Granted during the year	**–**	40,000
Exercised during the year	**(154,838)**	(1,096,539)
Outstanding at 31 December	**40,000**	194,838

The 9 August 2006 award vested on 9 August 2009.

No awards were exercisable at either 31 December 2009 or 31 December 2008.

At 31 December 2009 the following Deferred Share Awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
3 September 2008	40,000	3 March 2011	0.0p

The awards outstanding at 31 December 2009 have a weighted average outstanding term of 1.2 years (31 December 2008: 0.9 years).

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28. Employee benefits – Share-based payments continued

(f) Share Save Scheme

The 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 are 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, participants are 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, participants may choose to apply for repayment of their 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 participants first become entitled to repayment of their savings contributions plus bonus. The option will generally lapse after a period of six months following the end of the savings contract. Employees who are deemed "good leavers" are entitled to exercise their options, for which they have accrued savings to date, for a period of up to six months after they leave.

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

	2009 No.	**2009** WAEP £	2008 No.	2008 WAEP £
Outstanding at 1 January	**870,326**	**1.60**	1,657,967	1.56
Exercised during the year	**–**	**–**	(227,827)	1.14
Forfeited during the year	**(336,038)**	**1.67**	(559,814)	1.67
Outstanding at 31 December	**534,288**	**1.56**	870,326	1.60
Exercisable at 31 December	**3,270**	**1.74**	7,090	1.45

No awards were made in 2009 or 2008.

The 19 April 2004 (5 year) award and 18 April 2006 (3 year) award vested during 2009.

The options exercisable at 31 December 2009 and 31 December 2008 relate to "good leavers".

At 31 December 2009 the following options granted under the Share Save Scheme to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercisable before	Exercise price
19 April 2004 (5 year)	1,083	1 January 2010	1 May 2010	181.0p
29 April 2005 (5 year)	88,548	29 April 2010	29 October 2010	186.6p
18 April 2006 (3 year)	2,187	1 January 2010	1 June 2010	171.0p
18 April 2006 (5 year)	86,270	18 April 2011	18 October 2011	171.0p
25 April 2007 (3 year)	240,059	25 April 2010	25 October 2010	144.3p
25 April 2007 (5 year)	116,141	25 April 2012	25 October 2012	144.3p

The options outstanding at 31 December 2009 have a weighted average outstanding term of 0.9 years (31 December 2008: 1.5 years).

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.

(g) 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 ten years from the date of award, the options expire.

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

	2009 No.	**2009** WAEP £	2008 No.	2008 WAEP £
Outstanding at 1 January	1,082,028	1.96	1,228,227	1.99
Exercised during the year	–	–	(19,784)	1.39
Forfeited during the year	–	–	(126,415)	2.41
Outstanding at 31 December	**1,082,028**	**1.96**	1,082,028	1.96
Exercisable at 31 December	**1,082,028**	**1.96**	1,082,028	1.96

The options exercised during 2008 relate to a combination of "good leavers" and employees exercising vested options.

28. Employee benefits – Share-based payments continued

At 31 December 2009 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 2010	19 March 2013	139.00p
9 March 2004	601,120	1 January 2010	9 March 2014	240.83p

The options outstanding at 31 December 2009 have a weighted average outstanding term of 3.8 years (31 December 2008: 4.8 years).

(h) 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 was three years and all options are exercisable. 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. Options are forfeited if the employee leaves the Group.

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

	2009		2008	
	No.	WAEP £	No.	WAEP £
Outstanding at 1 January	**884,182**	**2.84**	1,333,047	2.77
Lapsed during the year	**(352,060)**	**2.26**	(448,865)	2.65
Outstanding at 31 December	**532,122**	**3.21**	884,182	2.84
Exercisable at 31 December	**532,122**	**3.21**	884,182	2.84

At 31 December 2009 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
28 April 2000	295,622	1 January 2010	28 April 2010	214.00p
1 March 2001	236,500	1 January 2010	1 March 2011	455.83p

The options outstanding at 31 December 2009 have a weighted average outstanding term of 0.7 years (31 December 2008: 1.2 years).

29. Deferred income

	2009 £m	2008 £m
At 1 January	**15.6**	16.4
Income deferred in the year	**1.8**	3.8
Amortisation in the year	**(4.5)**	(4.6)
At 31 December	**12.9**	15.6

	31 December 2009 £m	31 December 2008 £m
Split as follows:		
Non-current liabilities	**9.1**	11.2
Current liabilities	**3.8**	4.4
	12.9	**15.6**

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 (2009: 7 years; 2008: 7 years) for which the investment is expected to be held.

Notes to the Consolidated Financial Statements

30. Other financial liabilities

	31 December 2009 £m	31 December 2008 £m
Amounts due within one year:		
Forward currency contracts	**1.3**	9.9
	1.3	9.9
Amounts due outwith one year:		
Forward currency contracts	**–**	2.4
F&C REIT put options liabilities	**60.4**	66.0
	60.4	68.4
Total other financial liabilities	**61.7**	78.3

The forward currency contracts are used to partially hedge future Euro-denominated cash flows. The above liabilities reflect the fair value of unrealised losses on open contracts at the reporting date, based on observable foreign exchange rates.

The F&C REIT put options represent the fair value of the potential future liability to purchase the 30% interest in F&C REIT currently held by the minority interest partners in this business. The reduction in the fair value of the F&C REIT put options of £5.6m between 31 December 2008 and 31 December 2009 has been released to the Income Statement. Details of these options are disclosed in note 16(a).

An external valuation of the F&C REIT business was performed at 31 December 2009 to enable a fair value to be placed on the F&C REIT put option liabilities.

The average of three valuation methodologies (equally weighted) was used to place a fair value on the F&C REIT business, namely:

1. Discounted cash flow method
2. Market earnings before interest, taxation, depreciation and amortisation ('EBITDA') multiple
3. Fixed EBITDA multiple

The main assumptions used in the valuation methodologies are:

(a) Projections of the profit and loss for F&C REIT:

Revenue Growth:	1.5% – 7.5% per annum
Cost inflation:	3.5% per annum

(b) Discount Rates: 12.5% on recurring cash flows
25.0% on non-recurring cash flows

(c) Perpetuity growth rates: 3.0% for recurring cash flows
3.0% for non-recurring cash flows

(d) Earnings multipliers: 9.0 x recurring EBITDA
3.0 x non-recurring EBITDA

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:

	Note	2009 £m	2008 £m
Liability as at 1 January		**753.1**	1,090.1
Contributions received		**67.5**	197.1
Investment return applied	4	**136.0**	(208.7)
Charges levied		**(3.4)**	(4.2)
Repayments		**(303.2)**	(268.6)
Movement in contingency reserve		**(0.1)**	–
Movement in reinsurance ceded		**–**	(52.6)
Liability as at 31 December		**649.9**	753.1

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.

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:

	2009			2008		
	Gross £m	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
At 1 January	**2.1**	**2.1**	**–**	2.3	2.3	–
Claims paid	**(0.1)**	**(0.1)**	**–**	(0.1)	(0.1)	–
Change in economic assumptions	**(0.1)**	**(0.1)**	**–**	–	–	–
Unwinding of discount rate	**0.1**	**0.1**	**–**	0.1	0.1	–
Other changes in year	**(0.1)**	**(0.1)**	**–**	(0.2)	(0.2)	–
At 31 December	**1.9**	**1.9**	**–**	2.1	2.1	–

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 2009 or 2008. No significant gain or loss arose on reinsurance contracts incepted in 2009 or 2008.

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	**2009**	2008
Annuities in payment	**81-94% PCXA00**	83-94% PCXA00

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 2009 is 5.21% (31 December 2008: 4.52%) 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 2009		31 December 2008	
	No. of shares	**£m**	No. 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	**499,273,120**	**0.5**	495,725,314	0.5

	No. of Shares	
	2009	2008
Issued at 1 January	**495,725,314**	495,705,530
Issue of shares at par to settle share-based payment awards	**3,547,806**	–
Share options exercised during the year	**–**	19,784
Issued at 31 December	**499,273,120**	495,725,314

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 Ordinary Shares were allotted, at par value, to settle share-based payment awards. There was no exercise price associated with these awards.

Issue date	**Share-based payment scheme**	**No. of Shares**
2 February 2009	Long-Term Remuneration Plan (Deferred)	66,834
16 March 2009	Purchased Equity Plan	273,801
16 March 2009	Long-Term Remuneration Plan (Deferred)	40,754
20 March 2009	Long-Term Remuneration Plan (Deferred)	36,197
18 May 2009	Long-Term Remuneration Plan (Deferred)	2,691,141
3 August 2009	Long-Term Remuneration Plan (Deferred)	125,716
29 September 2009	Long-Term Remuneration Plan (Deferred)	110,667
1 December 2009	Long-Term Remuneration Plan (Deferred)	51,348
31 December 2009	Long-Term Remuneration Plan (Deferred)	151,348
		3,547,806

Notes to the Consolidated Financial Statements

33. Share capital continued

The Group held the following Ordinary Shares in Employee Benefit Trusts ("EBTs"). These are categorised as own shares and are deducted from shareholders' funds:

	31 December 2009 No.	31 December 2008 No.
F&C Management Limited Employee Benefit Trust	**11,732,847**	1,564,451
The Ivory & Sime Employee Benefit Trust	**64,176**	64,176
ISIS Employee Benefit Trust	**–**	141,755
	11,797,023	1,770,382

The aggregate nominal value of own shares held by EBTs at 31 December 2009 was £12,000 (31 December 2008: £2,000). The market value of these shares at 31 December 2009 was £9.0m (31 December 2008: £1.0m).

During the year, the Group purchased 11,043,017 of its own 0.1p Ordinary Shares (2008: 345,845) to satisfy the settlements of awards granted under share schemes and to hold as own shares within an EBT. The consideration paid for the shares was £7.4m (2008: £0.6m). The cost of this to the Group, after exercise price monies paid by the employees, was £7.4m (2008: £0.4m).

(b) Preference share capital of £1 each

	31 December 2009		31 December 2008	
	No. of shares	**£m**	No. of shares	£m
Authorised, allotted, called up and fully paid	**–**	**–**	800,000	0.8

The issued Cumulative Preference shares were classified as financial liabilities. The Preference Share capital was repaid to Friends Provident plc in full on 16 July 2009, following the divestment by Friends Provident plc of its holding in FCAM plc on 3 July 2009. As the Preference share capital was not cancelled with Court Approval, a Capital Redemption reserve was created to maintain the capital of the Company.

The key terms and conditions relating to these Preference shares were as follows:

- Dividends on the Cumulative Preference shares were 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 would have been 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 were entitled to one vote in instances where the dividend was six months in arrears or if a resolution put to the meeting varied or impacted the rights and privileges attached to these shares.

The terms of the Cumulative Preference shares conferred 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 LIBOR rate expressed as a rate per annum at the commencement of each half-yearly dividend payment period.

34. Reserves

The analysis of movements in reserves is disclosed within the Consolidated Statement of Changes in Equity on page 51.

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.

Capital Redemption reserve
The Capital Redemption reserve is used to maintain the capital of the Company when Shares are bought back and subsequently cancelled without Court Approval.

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 and impairment 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 F&C REIT minority interest put options liability.

34. Reserves continued

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 and subsequent amortisation thereof.

Retained earnings

Retained earnings comprises:

- net profits and losses recognised through the Income Statement;
- actuarial gains and losses recognised on pension obligations;
- 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

	Notes	**2009 £m**	2008 (as restated†) £m
Adjustments for non-cash items:			
Non-cash movements on forward currency contracts		**(7.1)**	12.3
Depreciation of property, plant and equipment	13	**2.8**	3.0
Amortisation of intangible assets		**50.5**	49.9
Impairment of intangible assets		**–**	48.3
Release of acquisition creditor		**(2.2)**	–
Loss/(gain) on disposal of property, plant and equipment		**0.2**	(0.1)
Equity-settled share-based payment expenses	28	**14.3**	12.4
		58.5	125.8
Changes in working capital and provisions:			
(Increase)/decrease in trade and other receivables		**(12.9)**	16.4
Increase/(decrease) in trade and other payables		**7.8**	(6.4)
Decrease in stock of units and shares		**–**	0.5
(Decrease)/increase in other liabilities		**(4.0)**	0.3
Decrease in investment contract liabilities	31	**(103.2)**	(337.0)
Decrease in insurance contract liabilities		**(0.2)**	–
Increase/(decrease) in employee benefit liabilities		**3.5**	(8.2)
Decrease in deferred acquisition costs	17	**2.1**	0.8
Decrease in deferred income	29	**(2.7)**	(0.8)
Pension charge to operating profit less defined benefit pension contributions paid		**(4.0)**	(3.9)
Increase/(decrease) in provisions for liabilities and charges		**0.8**	(1.8)
Decrease in financial investments		**84.9**	327.0
		(27.9)	(13.1)

† As restated for the amendments to IFRS 2: Share-based Payment as disclosed in note 1.

(b) Property, plant and equipment

During the period the Group acquired property, plant and equipment with an aggregate cost of £1.0m (2008: £1.2m). Cash payments of £0.9m (2008: £1.6m) 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. Contingent liabilities

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.

Notes to the Consolidated Financial Statements

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 2009 £m	31 December 2008 £m	**31 December 2009 £m**	31 December 2008 £m
Not later than one year	**11.6**	11.6	**1.4**	3.1
Later than one year and not later than five years	**43.8**	45.0	**1.6**	1.7
Later than five years	**46.7**	56.3	**–**	–
	102.1	112.9	**3.0**	4.8

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 2009 £m	31 December 2008 £m
Not later than one year	**3.8**	4.1
Later than one year and not later than five years	**13.0**	11.0
Later than five years	**11.3**	6.8
	28.1	21.9

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 2008: £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 2009 was £nil (31 December 2008: £nil).

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 page 37.

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 reporting 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 considered 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.

38. Financial risk management continued

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 counterparty 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.

Direct earnings and capital exposure

The Group has direct exposure to the following risks in respect of financial instruments on the Statement of Financial Position:

- *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* – the risk of the Group failing 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 to those risks 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 entity, F&C Managed Pension Funds Limited ('F&C MPF'). As outlined in note 19, Financial Instruments, the risks and rewards associated with these assets, which are held by F&C MPF, fall to be borne by, or to the benefit of, the underlying policyholders. As a result, the investment contract liabilities included in the Statement of Financial Position 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 MPF 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.

Group Treasury Policy allows up to £20m of the Group's cash resources to be utilised as seed capital to support the launch of new investment funds. The policy permits seed capital to be invested in a maximum of two funds at any point in time, restricts the maximum initial investment to £10m in any one fund and targets divestment of seed capital no later than 12 months from the date of investment. While no such investments were held at either 31 December 2009 or 31 December 2008, investments totalling £14.8m were made during 2008 to facilitate the launch of new single strategy hedge funds, subsequently realising a gain of £5.3m on disposal of these investments in 2008. Prior to 2008, the Group did not hedge any of its cash flow 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 provide greater certainty over the Sterling value of some of the expected future Euro-denominated revenue streams, with the final contract maturing in June 2010. Since these contracts were established, there has been a further strengthening of the Euro. The Board continues to recognise that the Group has significant exposure to Euro-denominated cash flows, but at this point in time have not chosen to enter into any further medium-term forward exchange contracts.

During 2009 the Group recognised £5.8m of realised gains and £1.2m of unrealised gains in respect of these forward currency contracts. These gains represented the partial reversal of the £12.3m of unrealised losses recognised as at 31 December 2008. As at 31 December 2009, the Group has one remaining forward currency contract for €15m which matures on 30 June 2010, for which a liability of £1.3m is recognised at 31 December 2009 to reflect the unrealised loss on this contract.

Financial investments classified as available for sale, as detailed in note 15, 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.

Notes to the Consolidated Financial Statements

38. Financial risk management continued

Other financial investments, classified as fair value through profit or loss, as detailed in note 19(a)(i), 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.

Stock of units and shares

The Group operates and manages a number of 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 limits the aggregate value of the units held by the Group to £1.5m, thereby capping the maximum financial risk exposure associated with these assets.

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 recognised in the Statement of Financial Position at the reporting date is generally higher than at other periods and is sensitive to the magnitude of performance fees earned.

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 an external credit rating.

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. At 31 December 2009, only €15m of future cash flows are covered by open forward currency contracts.

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 shortfall 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 and to monitor credit risk thereafter.
- Exposure to cash and cash equivalent balances held in foreign currency is managed to reduce the risk of movements in exchange rates, where possible, by the repatriation of surplus foreign currency into Sterling. This is achieved in practice via the regular settlement of the Group's transfer pricing arrangements and through the payment of dividends from foreign subsidiaries, having regard to their respective, legal, regulatory and working capital requirements. 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.

38. Financial risk management continued

- 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 global financial crisis which arose during 2008, and which had consequential economic impacts through 2009, management sought to operate a maximum corporate exposure to any one financial institution of £15.0m, with prior approval required for a limited number of exceptions, as the objective of capital preservation was considered of greater importance than maximising the income generated from short-term deposits.

Reinsurance assets

The Group's 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 deficit 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 30 per cent. 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 in the Report of the Directors on page 29. In the ordinary course of business the only movements in the absolute number of shares in issue would be through the issue of new or own shares to satisfy obligations under share-based payment arrangements or through the purchase of own shares to satisfy future share scheme obligations.

The Directors give careful consideration to the appropriate funding structure for financing all acquisitions, which historically have included both equity and debt funded transactions.

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. The dividend policy seeks to achieve a targeted dividend cover of 1.5 times underlying profit. The Board declared an unchanged total dividend of 6.0p per share for 2009. As a result of the impact of extreme market conditions and continued corporate uncertainty, this resulted in a 2009 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 operational requirements. The only security held over some of the Group's assets is in respect of the £10.0m 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.

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 cash-flow requirements of the Group 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 deficiencies. The undrawn committed facilities available at the reporting date are shown in note 24 as are details of the Group's interest bearing loans and borrowings. During 2009 the Group executed a debt exchange programme, which sought to capitalise on the prevailing market conditions, and acquired £135m of its existing subordinated loan notes and £25m of new cash in exchange for the issue of £129.7m of new guaranteed 9% debt, which matures in 2016, generating a net gain of some £27.9m. The earliest repayment date for the remaining £125m subordinated loan notes 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 subordinated debt is settled in full. No such interest payments have been deferred.

Notes to the Consolidated Financial Statements

38. Financial risk management continued

The Group issued £35.0m of debt during 2008 to partially finance the REIT acquisition. The £25m of cash raised as part of the debt exchange was used to repay a portion of this debt. The remaining £10m of this debt requires to be repaid in full by 30 June 2010. The Directors currently anticipate that this debt will be repaid from existing cash resources, but they will continue to monitor other options available to repay this debt, recognising that prevailing market conditions will 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.

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 requires renewal during 2011.

At 31 December 2009, there were 14 regulated companies in the Group, of which 10 are registered in the United Kingdom and are subject to regulation by the FSA. This includes F&C MPF which, being a regulated insurance firm, as opposed to an investment firm, is not part of the consolidation Group for regulatory capital reporting purposes. 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.

Regulations 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 overhead requirement is calculated as a quarter of a firm's relevant fixed annual expenditure in the previous year's audited Financial Statements.

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 financial returns monthly, 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 the Group would cope with a significant market down turn, for example, and an assessment of the Group's ability to mitigate the risks.

All of the Group's regulated entities maintained surpluses of regulatory capital throughout 2009.

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 analyses of the Group's direct exposure to such financial risk, including relevant sensitivity analysis, at each reporting date.

The disclosures in this note exclude any policyholder unit-linked assets and liabilities in respect of F&C MPF, as the risks and rewards rest primarily with the policyholders.

39. The extent of risks arising from financial instruments continued

(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 2009 £m	31 December 2008 £m
Financial assets at fair value through profit or loss:		
Financial investments	**10.0**	8.2
Stock of units and shares	**0.3**	0.3
Available for sale financial assets:		
Financial investments	**2.2**	2.1
Loans and receivables:		
Trade debtors	**14.9**	9.5
Accrued income	**41.3**	35.0
Other debtors	**30.3**	28.3
Amounts owed by Friends Provident Group	**–**	0.4
Amounts owned by F&C REIT related party entities	**0.1**	0.3
Amounts owed by Eureko Group	**1.4**	4.8
Current tax receivable	**5.8**	–
Cash and cash equivalents – shareholders	**186.2**	223.1
	292.5	312.0

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 2009 and 31 December 2008.

The credit risk of the financial assets analysed by the credit ratings of the counterparties, based on external credit ratings, is set out below:

As at 31 December 2009	**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	**–**	**2.3**	**–**	**0.3**	**7.4**	**10.0**
Stock of units and shares	**–**	**–**	**–**	**–**	**0.3**	**0.3**
Available for sale financial assets:						
Financial investments	**–**	**–**	**–**	**–**	**2.2**	**2.2**
Loans and receivables:						
Trade debtors	**–**	**–**	**0.1**	**0.5**	**14.3**	**14.9**
Accrued income	**–**	**–**	**1.6**	**0.1**	**39.6**	**41.3**
Other debtors	**–**	**–**	**4.2**	**–**	**26.1**	**30.3**
Amounts owed by Eureko Group	**–**	**–**	**1.4**	**–**	**–**	**1.4**
Amounts owed by F&C REIT related party entities	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Current tax receivable	**–**	**–**	**–**	**–**	**5.8**	**5.8**
Cash and cash equivalents – shareholders	**8.5**	**93.5**	**70.0**	**13.3**	**0.9**	**186.2**
	8.5	**95.8**	**77.3**	**14.2**	**96.7**	**292.5**

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	–	–	–	–	28.3	28.3
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	–	–	–	–	0.3	0.3
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

Notes to the Consolidated Financial Statements

39. The extent of risks arising from financial instruments continued

(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 2009	Neither past due nor impaired £m	Less than 30 days overdue £m	Between 30 and 90 days overdue £m	Between 90 days and 1year overdue £m	Beyond 1 year overdue £m	Total £m
Financial assets at fair value through profit or loss:						
Financial investments	**10.0**	**–**	**–**	**–**	**–**	**10.0**
Stock of units and shares	**0.3**	**–**	**–**	**–**	**–**	**0.3**
Available for sale financial assets:						
Financial investments	**2.2**	**–**	**–**	**–**	**–**	**2.2**
Loans and receivables:						
Trade debtors	**5.1**	**3.4**	**0.8**	**5.5**	**0.1**	**14.9**
Accrued income	**41.3**	**–**	**–**	**–**	**–**	**41.3**
Other debtors	**30.3**	**–**	**–**	**–**	**–**	**30.3**
Amounts owed by Eureko Group	**1.4**	**–**	**–**	**–**	**–**	**1.4**
Amounts owed by F&C REIT related party entities	**0.1**	**–**	**–**	**–**	**–**	**0.1**
Current tax receivable	**5.8**	**–**	**–**	**–**	**–**	**5.8**
Cash and cash equivalents – shareholders	**186.2**	**–**	**–**	**–**	**–**	**186.2**
	282.7	**3.4**	**0.8**	**5.5**	**0.1**	**292.5**

As at 31 December 2008						
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	28.2	0.1	–	–	–	28.3
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	0.3	–	–	–	–	0.3
Cash and cash equivalents – shareholders	223.1	–	–	–	–	223.1
	306.6	2.2	1.6	1.1	0.5	312.0

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 2009 or 31 December 2008 in respect of trade debtors. The trade debtor balances, which have been impaired at the reporting dates, are shown below.

(iii) Impairment losses

Details of impairment of financial assets at 31 December are as follows.

Trade debtors provision:

	2009 £m	2008 £m
At 1 January	**0.1**	0.1
Bad debt charge in the year	**0.5**	0.1
Utilised in the year	**–**	(0.1)
At 31 December	**0.6**	0.1
Gross impaired trade debtors	**0.6**	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 reporting date is given below:

Concentrations of £1.0m or more	31 December 2009 £m	31 December 2008 £m
Amounts due from Eureko Group	**3.6**	9.7
Amounts due from OEIC Trustee (JP Morgan)	**6.9**	8.9
Amounts due from other significant clients – 2009: 10 clients (2008: 12)	**37.8**	25.9
Amounts due from significant other debtors – 2009: 2 (2008: nil)	**4.2**	–
	52.5	44.5

39. The extent of risks arising from financial instruments continued

Concentration risk comprises of individual entities or clients with a receivable balance of £1.0m or more at the reporting date. This disclosure shows the potential impact of some of these entities or clients failing to satisfy payment of the receivable amounts. The table does not consider the likelihood of any of these entities or clients defaulting.

(b) Liquidity risk

The following are the maturity dates of the Group's financial liabilities:

As at 31 December 2009	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
Interest bearing loans and borrowings:					
£125.0m Fixed/Floating Rate Subordinated Notes 2016/2026	**–**	**–**	**–**	**125.0**	**125.0**
Interest on Subordinated Notes*	**8.4**	**8.4**	**25.3**	**16.6**	**58.7**
£129.7m Guaranteed Fixed Rate Loan Notes 2016	**–**	**–**	**–**	**129.7**	**129.7**
Interest on Guaranteed Loan Notes 2016	**11.7**	**11.7**	**35.0**	**22.9**	**81.3**
£10.0m Floating Rate Secured Notes 2010	**10.0**	**–**	**–**	**–**	**10.0**
Interest on Secured Notes	**0.2**	**–**	**–**	**–**	**0.2**
Trade and other payables:					
Trade creditors	**1.9**	**–**	**–**	**–**	**1.9**
Other creditors – short-term	**27.5**	**–**	**–**	**–**	**27.5**
Other creditors – long-term	**–**	**0.2**	**0.6**	**0.9**	**1.7**
Accruals – short-term	**27.1**	**–**	**–**	**–**	**27.1**
Accruals – long-term	**–**	**0.4**	**2.5**	**2.1**	**5.0**
Current tax payable	**1.5**	**–**	**–**	**–**	**1.5**
Other financial liabilities – short-term	**12.1**	**–**	**–**	**–**	**12.1**
Other financial liabilities – long-term	**–**	**15.1**	**45.3**	**–**	**60.4**
	100.4	**35.8**	**108.7**	**297.2**	**542.1**

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
Interest bearing loans and borrowings:					
£260.0m Fixed/Floating Rate Subordinated Notes 2016/2026	–	–	–	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
Current tax payable	12.5	–	–	–	12.5
Other financial liabilities – short-term	62.6	–	–	–	62.6
Other financial liabilities – long-term	–	12.1	16.5	49.5	78.1
	138.8	66.1	71.4	367.2	643.5

* To the date of the Group's option to extend the Notes beyond 19 December 2016.

‡ Interest on the Preference Share capital was considered potentially perpetual in nature and is 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 counterparty could demand payment and the stated amounts represent undiscounted cash flows.

Included within other financial liabilities are:

- the gross cash flows associated with the Group's forward currency contracts. The net unrealised losses on open contracts at the reporting date are disclosed in note 30; and
- the F&C REIT put options, included at the earliest date at which the options could be exercised.

The Group has borrowing facilities available to it. The undrawn committed facilities available at 31 December 2009 and 31 December 2008 are shown in note 24.

Notes to the Consolidated Financial Statements

39. The extent of risks arising from financial instruments continued

(c) Market risk

(i) Market price risk

The analysis of financial assets which are exposed to market price risk is as follows:

	31 December 2009 £m	31 December 2008 £m
Financial assets at fair value through profit or loss:		
Financial investments	**7.6**	5.6
Stock of units and shares	**0.3**	0.3
	7.9	5.9

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.

(ii) Other price risk

	31 December 2009 £m	31 December 2008 £m
Available for sale financial assets:		
Financial investments	**2.2**	2.1

(iii) Currency risk

The Group is exposed to currency risk at the reporting 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 2009	**94.3**	**2.6**	**1.4**	**98.3**
As at 31 December 2008	129.6	1.8	1.4	132.8

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 2009	Within 1 year £m	Within 1-2 years £m	Within 2-5 years £m	More than 5 years £m
Fixed rate				
£125.0m Fixed/Floating Rate Subordinated Notes 2016/2026	**–**	**–**	**–**	**(125.0)**
£129.7m Guaranteed Loan Notes 2016	**–**	**–**	**–**	**(129.7)**
Financial investments – corporate bonds	**–**	**–**	**0.3**	**–**
Financial investments – NIC hedge	**–**	**–**	**0.1**	**–**
Floating rates				
£10.0m Floating Rate Secured Notes 2010	**(10.0)**	**–**	**–**	**–**
Financial investments – fair value through profit or loss	**2.3**	**–**	**–**	**–**
Cash and cash equivalents – shareholder	**186.2**	**–**	**–**	**–**
	178.5	**–**	**0.4**	**(254.7)**

As at 31 December 2008				
Fixed rate				
£260.0 fixed/floating Subordinated Notes 2016/2026	–	–	–	(258.2)
Financial investments – corporate bonds	–	–	–	0.7
Floating rates				
£35.0m Floating Rate Secured Notes 2010	–	(35.0)	–	–
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)

39. The extent of risks arising from financial instruments continued

(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 at the reporting 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.

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 2009	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	**2.2**	**(2.7)**	**8.8**	**(10.8)**
Sterling/USD exchange rates	**0.2**	**(0.2)**	**0.2**	**(0.2)**
Fair value movement – Investments	**+10%**	**-10%**	**+10%**	**-10%**
Sterling equity prices	**0.6**	**(0.6)**	**0.7**	**(0.7)**
Interest rate movement	**+1%**	**-1%**	**+1%**	**-1%**
Sterling market interest rates	**1.4**	**(1.4)**	**1.4**	**(1.4)**
As at 31 December 2008				
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)

* Represents a 10% movement in favour of the Group and 10% movement against the Group.

The decrease in the sensitivity to changes in the Sterling/Euro exchange rate from 31 December 2008 to 31 December 2009 is primarily attributable to the lower value of open forward currency contracts held as at 31 December 2009.

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 2009 would result in a £6.0m (31 December 2008: £6.6m) 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.

Notes to the Consolidated Financial Statements

39. The extent of risks arising from financial instruments continued

(d) Capital

A summary of the Group's capital and the net assets which it represents is shown below:

	31 December 2009 £m	31 December 2008 £m
Share capital	**0.5**	0.5
Share premium account	**33.8**	33.8
Merger reserve	**416.6**	456.8
Other reserves	**(14.5)**	0.6
Retained earnings	**133.3**	119.4
Minority interests	**19.2**	18.7
Total equity	**588.9**	629.8
Net assets	**588.9**	629.8

Note 38 describes the Group's management of capital, working capital and regulatory capital requirements in detail.

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 (£1.9m at 31 December 2009; £2.1m at 31 December 2008), 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 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
F&C Finance plc(1)	100	England	Debt financing company
F&C Aurora (GP) Limited(1)	100	Scotland	General Partner
The Aurora Fund (Founder Partner) LP(1)	50#	Scotland	Founder Partner
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 asset 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 asset management
F&C Property Investments Limited(3)	100	England	Property asset management
F&C Fund Management Limited(3)	100	England	OEIC investment management
F&C Managers 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 (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
F&C REIT Property Asset Management plc(12)	70	England	Property asset management
F&C REIT Asset Management Limited (formerly REIT Asset Management Limited)(12)	70	England	Property asset management
Tier Services Limited(14)	70	England	Property asset management
F&C REIT Corporate Finance Limited (formerly REIT Corporate Finance Limited)(13)	70	England	Property asset management
(ii) Overseas			
F&C Channel Islands Limited(5)	100	Jersey	Employee service 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.(7)	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 asset management
Adebai Limited(14)	70	Cyprus	Holding company
F&C REIT Asset Management Sweden AB(14)	70	Sweden	Property asset management
F&C REIT Asset Worldwide Limited(14)	70	Gibraltar	Property asset management
F&C REIT Asset Management GmbH & Co KG(14)	70#	Germany	Property asset management
F&C REIT Property Management India Pvt Ltd(15)$	70	India	Property asset management

* Voting rights are ordinary share capital except where indicated.
# Partnership interest in voting rights.
$ This company has a non-coterminous 31 March reporting date, to comply with local reporting requirements.

(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 F&C REIT Asset Management Limited
(14) Owned by F&C REIT Asset Management S.à.r.l.
(15) Owned by Adebai Limited

Notes to the Consolidated Financial Statements

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. 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 2009 £m	Outstanding at 31 December 2009 £m	Total compensation 2008 £m	Outstanding at 31 December 2008 £m
Short-term employee benefits	**10.0**	**4.0**	9.5	4.2
Post-employment benefits	**0.8**	**–**	1.4	–
Termination benefits	**0.2**	**–**	0.4	0.2
Share-based payments	**1.0**	**–**	1.1	–
Total	**12.0**	**4.0**	12.4	4.4

'Key management personnel' comprise:

- Directors of all principal companies in the Group.
- Members of the Group's Executive Committee.

Compensation of key management personnel excludes the profit entitlement attributable to minority interests, which are separately disclosed within note 42(c)(iii).

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:

	2009 £m	Minority interest at 31 December 2009 £m	2008 £m	Minority interest at 31 December 2008 £m
Ordinary dividends paid	**0.1**	**–**	0.1	–
Distributions paid to minority interests*	**2.3**	**19.2**	1.6	18.7

* An analysis of profit entitlements for 2009 and 2008 and net assets attributable to minority interests at 31 December 2009 and 31 December 2008 are disclosed on pages 120 and 122.

(c) Transactions and balances with related parties

Transactions with related parties during 2009 and 2008 and outstanding balances with these parties as at 31 December 2009 and 31 December 2008 are given below, by each group of related parties.

(i) Related party transactions with the Friends Provident Group ("FP Group")

Friends Provident plc was the parent undertaking and ultimate controlling party of the F&C Group until 3 July 2009. As such, all the disclosures below relates to the point of demerger, when the FP Group ceased to be a related party.

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.

42. Related party transactions continued

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. Following Friends Provident's shareholding in the Company falling below 50% in July 2009 the investment management agreements with the FP Group reverted to long-term contracts of between 5 and 10 years (from their inception in July 2004). After such time, the agreements are terminable with 12 months' notice.

	Total invoiced and accrued during 2009 £m	**Outstanding at 31 December 2009 £m**	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m
Management fees	**14.6**	**n/a**	31.6	(0.4)
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	**0.2**	**n/a**	0.4	(0.1)
Administration service fees	**0.3**	**n/a**	0.6	–
Amounts outstanding at 31 December are included within accruals.				
Other recharges:				
Other recharges to the FP Group	**0.5**	**n/a**	0.6	–
Other recharges from the FP Group	**–**	**n/a**	0.2	(0.8)
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) the Friends Provident Group.				
Dividends and interest payable:				
Ordinary dividends	**10.3**	**n/a**	15.5	–
Dividends on Preference Shares	**–**	**n/a**	0.1	–
Other transactions:				
Net investment in property funds	**(0.1)**	**n/a**	(45.2)	–
Annuity reinsurance	**0.1**	**n/a**	0.2	–

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.

OEICs and private equity special purpose vehicles ('SPVs')

Where the FP Group controlled an F&C managed OEIC or private equity SPVs, it was required to consolidate them and hence the investment management fees received by F&C were related party transactions. The total invoiced and accrued during 2009 is until the point of demerger, when FP plc ceased to be a related party.

	Total invoiced and accrued during 2009 £m	**Outstanding at 31 December 2009 £m**	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m
Investment management fees	**4.0**	**n/a**	10.3	0.7
Carried interest receipts	**–**	**n/a**	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 entitled to receive management fees in line with the contracted terms of relevant investment management agreements. The Achmea Group (subsidiary of Eureko) 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, immediate termination is possible with compensation payable to F&C by the Achmea Group based on lost revenue streams.

Notes to the Consolidated Financial Statements

42. Related party transactions continued

Companies within the Eureko Group, under the Transitional Services Agreement, provides services in respect of investment accounting and other administration services.

	Total invoiced and accrued during 2009 £m	**Outstanding at 31 December 2009 £m**	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m
Shared services and administrative services:				
Achmea Group	**0.6**	**0.1**	0.4	–
Friends First	**0.1**	**–**	0.1	–
Amounts outstanding at 31 December are included within acruals.				
Management fees:				
Achmea Group	**30.4**	**1.7**	33.3	4.9
Friends First	**4.3**	**0.4**	3.4	(0.1)
Imperio	**0.4**	**0.1**	0.5	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**	**–**	3.1	–

Amounts owed from/to Eureko

In addition to the above, the Group was owed £1.4m at 31 December 2009 (31 December 2008: £4.8m) by Eureko B.V. and its subsidiaries. The Group owed Eureko B.V. £0.7m at 31 December 2009 (31 December 2008: £2.9m) as disclosed in note 16(d).

The Group also owed Eureko B.V. £1.3m at 31 December 2009 (31 December 2008: £5.2m) in respect of taxation balances.

(iii) Transactions with Minority Partners

(1) 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 partners are entitled to receive a share of the profits of F&C REIT Group.

	2009 amortisation of intangible assets £m	**2009 profit share £m**	**2009 distributions paid £m**	**Minority interest at 31 December 2009 £m**	2008 amortisation of intangible assets £m	2008 profit share £m	2008 distributions paid £m	Minority interest at 31 December 2008 £m
Kendray Properties Limited	**(1.2)**	**2.3**	**–**	**10.2**	(0.4)	0.9	–	9.1
Leo Noé	**(0.9)**	**1.9**	**(0.7)**	**6.9**	(0.3)	0.7	(0.2)	6.6
Ivor Smith	**(0.3)**	**0.7**	**(0.4)**	**2.1**	(0.1)	0.2	(0.2)	2.1
	(2.4)	**4.9**	**(1.1)**	**19.2**	(0.8)	1.8	(0.4)	17.8

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 2009 £m	**Outstanding at 31 December 2009 £m**	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m
Pinton Estates PLC Group	**n/a**	**n/a**	0.4	0.3
Ashpol PLC Group	**n/a**	**n/a**	0.1	0.1
Brightsea EPG Limited Group	**0.9**	**0.3**	0.4	0.4
Estates & General Limited Group	**n/a**	**n/a**	0.1	0.1
St Katherine's Investments LP	**0.5**	**0.1**	0.1	0.1
Star City Unit Trust	**0.2**	**–**	–	0.1
Lionsgate Properties LP	**0.3**	**–**	–	–
	1.9	**0.4**	1.1	1.1

The balances are trading balances in the ordinary course of business. Amounts outstanding at the reporting date are unsecured and non-interest bearing.

42. Related party transactions continued

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 the F&C REIT Group. Amounts charged under these agreements are set out below:

	Total invoiced and accrued during 2009 £m	**Outstanding at 31 December during 2009 £m**	Total invoiced and accrued during 2008 £m	Outstanding at 31 December during 2008 £m
Shared services and administrative services:				
Employee benefits	**7.4**	**3.6**	2.5	1.1
Administration service fees	**1.3**	**0.2**	0.6	0.3
The above amounts 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 primarily remain from creation of the F&C REIT Group.

	Balances outstanding at 31 December 2009 £m	Balances outstanding at 31 December 2008 £m
Kendray Properties Limited	**(0.3)**	(0.2)
REIT Europe Limited	**0.1**	0.3
REIT Asset Management LP	**(2.0)**	(2.1)
REIT Asset Management GmbH & Co KG	**–**	(0.1)

In addition, F&C REIT Asset Management LLP paid Leo Noé and Ivor Smith £0.4m during 2009 (£0.1m during 2008) in respect of rent for the F&C REIT Group's head office at Wigmore Street, London.

The minority partners owe F&C REIT Asset Management LLP £0.7m at 31 December 2009 (£0.2m at 31 December 2008) as part of the equalisation of net assets upon completion, as included in note 16(a) and (b).

Certain management fees receivable by F&C companies outwith the F&C REIT Group are passed to the F&C REIT Group under revenue delegation agreements, as the asset management activity has been delegated to F&C REIT. Amounts payable during the year and outstanding at the year-end are set out below:

	Total invoiced and accrued during 2009 £m	**Outstanding at 31 December 2009 £m**	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m
Management fees	**12.7**	**4.8**	4.4	0.6
These amounts are eliminated on consolidation.				

Full details of the 2008 acquisition are given in note 16(a) and (b). As part of the transaction in 2008, F&C paid £25.0m in cash and issued £35.0m of Secured Loan Notes to Kendray Properties Limited, of which £25.0m was repaid to Kendray Properties Limited during 2009. Details of the loan notes are given in note 24.

Interest on Secured Loan Notes

	Charged and accrued during 2009 £m	**Outstanding at 31 December 2009 £m**	Charged and accrued during 2008 £m	Outstanding at 31 December 2008 £m
Interest payable to Kendray Properties Limited	**1.5**	**–**	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(c).

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 30. The option liability is split in the ownership proportions of Kendray Properties Limited, Leo Noé and Ivor Smith.

(2) 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.

Notes to the Consolidated Financial Statements

42. Related party transactions continued

The partners are entitled to receive a share of the profits in F&C Partners LLP.

	2009 profit entitlement £m	**2009 distributions paid £m**	**Minority interest at 31 December 2009 £m**	2008 profit entitlement £m	2008 distributions paid £m	Minority interest at 31 December 2008 £m
F. Barthelemy	**0.15**	**(0.6)**	**–**	0.5	(0.6)	0.45
A. Culligan	**0.15**	**(0.6)**	**–**	0.5	(0.6)	0.45
	0.3	**(1.2)**	**–**	1.0	(1.2)	0.9

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 2009 £m	**Outstanding at 31 December 2009 £m**	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m
Management fees	**0.7**	**0.4**	1.6	0.5
These amounts are eliminated on consolidation.				

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 2009 £m	**Outstanding at 31 December 2009 £m**	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m
Employee services	**0.7**	**0.3**	0.7	0.2
Administration service fees	**0.1**	**–**	0.1	–
The above amounts are eliminated on consolidation.				

(iv) 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:

	2009		2008	
	Employer contributions £m	**Outstanding at 31 December £m**	Employer contributions £m	Outstanding at 31 December £m
F&C Asset Management Pension Plan	**5.7**	**–**	5.6	–
F&C Portugal [1]	**–**	**–**	0.6	0.6
F&C Netherlands	**0.7**	**–**	1.0	0.1
F&C Ireland	**0.2**	**–**	0.2	–
	6.6	**–**	7.4	0.7

[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 former 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 Plan totalled £144.2m at 31 December 2009 (31 December 2008: £131.4m). In addition, the Group managed £800.3m at 31 December 2008 of investments in respect of Friends Provident's main defined benefit pension scheme. Friends Provident plc was the parent undertaking and ultimate controlling party of the F&C Group until 3 July 2009. As such, the disclosure below relates to the point of demerger, when FP plc ceased to be a related party.

The Group received the following investment management fees from these schemes:

	2009		2008	
	Fees receivable £m	**Outstanding at 31 December £m**	Fees receivable £m	Outstanding at 31 December £m
F&C Asset Management Pension Plan	**–**	**0.1**	0.4	0.3
Friends Provident Pension Scheme	**0.4**	**n/a**	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 regulatory capital and risk management objectives and policies. The Group's Pillar 3 disclosures are given on the Company's website.

44. Guarantees

As disclosed in note 24, Kendray Properties Limited holds a security over FCAM's entire holding in F&C REIT Asset Management LLP until their Floating Rate Secured Notes 2010 are settled in full.

The Company's subsidiary, F&C Netherlands B.V., has provided a lease guarantee for £0.2m to the landlord of their premises at Jachthavenweg 109k, 1081 KM Amsterdam. The guarantee is in respect of 3 months rent (inclusive of services, additional charges and VAT).

45. Parent undertaking and controlling party

In the opinion of the Directors, the Group's ultimate parent undertaking and controlling party until 3 July 2009 was Friends Provident plc. The results of the F&C Group were consolidated in the Group Accounts of Friends Provident Group plc (formerly Friends Provident plc), until 3 July 2009, the date when Friends Provident divested its entire interest in the Group.

Friends Provident Group plc is incorporated in England and Wales. Copies of the Friends Provident Group plc Annual Report and Accounts can be obtained from the Company Secretary, Pixham End, Dorking, Surrey RH4 1QA.

From 3 July 2009, in the opinion of the Directors, the Group has no ultimate parent undertaking and controlling party.

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 2005 £m	IFRS 2006 £m	IFRS 2007 £m	IFRS 2008 (as restated#) £m	**IFRS 2009 £m**
Revenue					
Investment management fees	277.3	257.6	267.2	244.2	**237.8**
Other income	0.7	3.7	10.6	1.1	**4.1**
Total revenue	278.0	261.3	277.8	245.3	**241.9**
Fee and commission expenses	(10.9)	(10.5)	(13.3)	(15.4)	**(16.8)**
Net revenue	267.1	250.8	264.5	229.9	**225.1**
Net gains/(losses) and investment income on unit-linked assets	162.6	106.7	45.0	(208.7)	**136.0**
Movements in fair value of unit-linked liabilities	(161.3)	(105.0)	(43.9)	210.5	**(134.6)**
Operating expenses					
Operating expenses	(150.7)	(159.4)	(183.8)	(171.0)	**(164.8)**
Amortisation of intangible assets – management contracts	(55.8)	(43.0)	(42.4)	(48.9)	**(49.8)**
Impairment of intangible assets – management contracts	(111.5)	(58.5)	–	(48.3)	**–**
Unrealised gains/(losses) on forward exchange contracts	–	–	–	(12.3)	**1.2**
Other exceptional operating costs	(22.2)	(11.6)	(10.6)	(10.6)	**(19.0)**
Total operating expenses before restructuring costs	(340.2)	(272.5)	(236.8)	(291.1)	**(232.4)**
Operating (loss)/profit before restructuring costs	(71.8)	(20.0)	28.8	(59.4)	**(5.9)**
Restructuring costs:					
– Reorganisation costs post acquisition of F&CGH Group	(22.4)	(9.7)	–	–	**–**
– Operations outsourcing	(2.2)	–	–	–	**–**
Operating (loss)/profit after restructuring costs	(96.4)	(29.7)	28.8	(59.4)	**(5.9)**
Finance revenue	15.6	20.6	23.8	25.7	**11.5**
Finance costs	(19.5)	(22.0)	(27.3)	(29.4)	**(30.3)**
F&C REIT put option fair value gain	–	–	–	–	**5.6**
Gain on debt exchange	–	–	–	–	**27.9**
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)	**(0.1)**
Share of (loss)/profit of associates	(0.3)	1.5	0.6	–	**–**
Profit/(loss) before tax	(106.3)	(30.5)	25.9	(67.3)	**8.7**
Tax – Policyholders	(0.1)	(0.9)	(0.6)	(0.9)	**(0.4)**
Tax – Shareholders	29.1	8.9	(6.6)	17.6	**10.4**
Tax income/(expense)	29.0	8.0	(7.2)	16.7	**10.0**
Profit/(loss) for the year	(77.3)	(22.5)	18.7	(50.6)	**18.7**
Attributable to:					
Equity holders of the parent	(77.3)	(23.5)	17.1	(52.5)	**15.9**
Minority interests	–	1.0	1.6	1.9	**2.8**
Profit/(loss) for the year	(77.3)	(22.5)	18.7	(50.6)	**18.7**
Underlying earnings per Ordinary Share	15.90p	12.80p	10.37p	7.76p	**4.58p**
Basic earnings/(loss) per Ordinary Share	(16.36)p	(4.91)p	3.54p	(10.66)p	**3.24p**
Diluted earnings/(loss) per Ordinary Share	(16.36)p	(4.91)p	3.43p	(10.66)p	**3.19p**
Dividends					
Memo					
Final dividend for 2004, 2005, 2006, 2007 and 2008	32.9	33.5	33.8	19.7	**19.8**
Interim dividend for 2005, 2006, 2007, 2008 and 2009	18.9	19.2	9.7	9.9	**9.7**
	51.8	52.7	43.5	29.6	**29.5**
Final dividend per Ordinary Share for 2004, 2005, 2006, 2007 and 2008	7.0p	7.0p	7.0p	4.0p	**4.0p**
Interim dividend per Ordinary Share for 2005, 2006, 2007, 2008 and 2009	4.0p	4.0p	2.0p	2.0p	**2.0p**
Dividend cover†	(1.58)	(0.45)	0.39	(1.78)	**0.54**
Dividend cover before exceptional items†	1.45	1.17	1.15	1.29	**0.76**

† based on the dividends paid during 2005, 2006, 2007, 2008 and 2009.

As restated for the amendment to IFRS 2: Share-based Payment as disclosed in note 1 to the Consolidated Financial Statements.

Key Performance Indicators

The following tables reconcile the reported earnings to underlying earnings and demonstrate the impact of foreign exchange gains and losses. In addition, the calculation of key performance indicators is also given below.

Year ended 31 December 2009

	In £ millions unless otherwise stated		Underlying EPS		Underlying EPS ex FX	
		Reported earnings	Adjustments	Adjusted Income Statement	Adjustments for FX (gains)/losses	Adjusted Income Statement
A	**Net Revenue**	**225.1**	**–**	**225.1**	**–**	**225.1**
	Net policyholder income	1.4	–	1.4	–	1.4
	Underlying operating expenses	(166.6)	–	(166.6)	–	(166.6)
	Exchange losses	(4.1)	–	(4.1)	4.1	–
	Realised gains attributable to closed FX contracts	5.9	–	5.9	(5.9)	–
	FX contract losses recognised in prior periods	–	(9.9)	(9.9)	9.9	–
	Operating expenses	(164.8)	(9.9)	(174.7)	8.1	(166.6)
	Amortisation/impairment of intangible assets	(49.8)	49.8	–	–	–
	Unrealised gains attributable to open FX contracts	1.2	(1.2)	–	–	–
	Exceptional operating costs	(19.0)	19.0	–	–	–
	Total operating expenses	**(232.4)**	**57.7**	**(174.7)**	**8.1**	**(166.6)**
B	**Operating (loss)/profit**	**(5.9)**	**57.7**	**51.8**	**8.1**	**59.9**
	Gain on debt exchange	27.9	(27.9)	–	–	–
	F&C REIT put option fair value gain	5.6	(5.6)	–	–	–
	Interest paid	(20.3)	–	(20.3)	–	(20.3)
	Interest and investment income received	3.6	–	3.6	–	3.6
	Other non-operating items	(2.2)	–	(2.2)	–	(2.2)
	Minority interest	–	(6.2)	(6.2)	–	(6.2)
	Profit before tax	**8.7**	**18.0**	**26.7**	**8.1**	**34.8**
	Tax income/(expense)	10.0	(14.2)	(4.2)	(2.3)	(6.5)
C	**Profit for year**	**18.7**	**3.8**	**22.5**	**5.8**	**28.3**
	Underlying EPS (C÷D)			4.6p		5.8p
	Group operating margin (B÷A)			23.0%		26.6%
D	**Weighted average number of shares (000)**			491,145		491,145

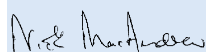
Year ended 31 December 2008

	In £ millions unless otherwise stated		Underlying EPS		Underlying EPS ex FX	
		Reported earnings	Adjustments	Adjusted Income Statement	Adjustments for FX (gains)/losses	Adjusted Income Statement
A	**Net Revenue**	**229.9**	**–**	**229.9**	**–**	**229.9**
	Net policyholder income	1.8	–	1.8	–	1.8
	Underlying operating expenses	(172.3)	–	(172.3)	–	(172.3)
	Exchange gains	6.3	–	6.3	(6.3)	–
	Realised losses attributable to closed FX contracts	(5.0)	–	(5.0)	5.0	–
	Operating expenses	(171.0)	–	(171.0)	(1.3)	(172.3)
	Amortisation/impairment of intangible assets	(97.2)	97.2	–	–	–
	Unrealised losses attributable to open FX contracts	(12.3)	12.3	–	–	–
	Exceptional operating costs	(10.6)	10.6	–	–	–
	Total operating expenses	**(291.1)**	**120.1**	**(171.0)**	**(1.3)**	**(172.3)**
B	**Operating (loss)/profit**	**(59.4)**	**120.1**	**60.7**	**(1.3)**	**59.4**
	Interest paid	(19.4)	–	(19.4)	–	(19.4)
	Interest and investment income received	16.0	–	16.0	–	16.0
	Other non-operating items	(4.5)	4.1	(0.4)	–	(0.4)
	Minority interest	–	(2.7)	(2.7)	–	(2.7)
	(Loss)/profit before tax	**(67.3)**	**121.5**	**54.2**	**(1.3)**	**52.9**
	Tax income/(expense)	16.7	(32.7)	(16.0)	0.4	(15.6)
C	**(Loss)/profit for year**	**(50.6)**	**88.8**	**38.2**	**(0.9)**	**37.3**
	Underlying EPS (C÷D)			7.8p		7.6p
	Group operating margin (B÷A)			26.4%		25.8%
D	**Weighted average number of shares (000)**			492,686		492,686

Company Balance Sheet
as at 31 December 2009

	Notes	31 December 2009 £m	31 December 2008 £m
Fixed assets			
Tangible fixed assets	5	**1.8**	2.4
Investments in subsidiaries	6	**1,199.1**	1,195.3
Other investments	7	**9.8**	7.6
		1,210.7	1,205.3
Current assets			
Debtors – amounts falling due:			
Within one year	8	**105.5**	120.8
Outwith one year	8	**61.6**	61.1
Cash and short-term deposits		**0.2**	0.1
		167.3	182.0
Creditors (amounts falling due within one year)	9	**(25.3)**	(13.0)
Net current assets		**142.0**	169.0
Total assets less current liabilities		**1,352.7**	1,374.3
Creditors (amounts falling due outwith one year)	9	**(343.8)**	(360.0)
Provisions for liabilities	10	**(10.2)**	(7.3)
Net assets		**998.7**	1,007.0
Capital and reserves			
Called up Ordinary Share capital	16, 17	**0.5**	0.5
Share premium account	17	**33.8**	33.8
Capital Redemption reserve	17	**0.8**	–
Merger reserve	17	**912.7**	912.7
Acquisition reserve	17	**(66.0)**	(66.0)
Other reserves	17	**68.3**	70.9
Profit and loss account	17	**48.6**	55.1
Total shareholders' funds	17	**998.7**	1,007.0

The Company Financial Statements were approved by the Board of Directors and authorised for issue on 31 March 2010. They were signed on its behalf by:



Nick MacAndrew
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 408 of the Companies Act 2006 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 and shared services and administration services provided to subsidiary undertakings. Fees 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 accumulated impairment losses. 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.

Company Accounting Policies

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

- Non-current assets
  – Other financial liabilities

(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, other than the minority interest put options which 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)

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 in the fair value are reflected in the Profit and Loss Account. 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.

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 acquired 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.

Company Accounting Policies

Foreign currencies
The Company's Financial Statements are presented in millions of pounds Sterling (rounded to one decimal place), the Company's functional and presentational 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 equity, the corresponding exchange movements are also recognised directly in equity, 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 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. 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 is ultimately recognised.

FRS 20: 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 was classified as a liability. It was carried at amortised cost in the Balance Sheet. Preference dividends were recognised in the Profit and Loss Account as an interest expense as they accrued.

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. Auditor's 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:

	2009 £m	2008 £m
Aggregate emoluments	**2.1**	2.0
Company contributions paid to defined contribution pension schemes	**0.1**	0.9
Aggregate value of gains made by Directors on exercise of share awards	**0.1**	–

	2009 No	2008 No
Members of defined contribution pension schemes	**2**	2

Full disclosure of Directors' remuneration is shown on pages 43 to 45.

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 12 to the Consolidated Financial Statements on page 73.

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) and (b) to the Consolidated Financial Statements on pages 77 to 79.

5. Tangible fixed assets

	Leasehold improvements £m	**Office furniture and equipment £m**	**Computer equipment £m**	**Total £m**
Cost:				
At 1 January 2009	4.0	0.5	5.7	10.2
Additions	0.1	–	0.1	0.2
Disposals	–	(0.1)	(0.1)	(0.2)
At 31 December 2009	**4.1**	**0.4**	**5.7**	**10.2**
Depreciation:				
At 1 January 2009	2.0	0.4	5.4	7.8
Depreciation charge for the year	0.4	–	0.3	0.7
Disposals	–	–	(0.1)	(0.1)
At 31 December 2009	**2.4**	**0.4**	**5.6**	**8.4**
Net book values:				
At 31 December 2009	**1.7**	**–**	**0.1**	**1.8**
At 31 December 2008	2.0	0.1	0.3	2.4

6. Investments in subsidiaries

	£m
Cost:	
At 1 January 2009	1,198.3
Amendment to consideration due to Eureko in respect of the acquisition of F&C Group (Holdings) Limited on 11 October 2004	(3.8)
Additions in respect of share-based payment awards	14.7
Recharge in respect of share-based payment awards	(7.1)
At 31 December 2009	**1,202.1**
Cumulative impairment:	
At 1 January 2009 and 31 December 2009	**3.0**
Net book values:	
At 31 December 2009	**1,199.1**
At 31 December 2008	1,195.3

Included within the above net book value is £66.9m (31 December 2008: £59.4m) 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 2009 £m**	31 December 2008 £m
Available for sale	(a)	**2.0**	1.8
Fair value through profit or loss	(b)	**7.8**	5.8
		9.8	7.6

(a) Available for sale

	Unquoted £m
At 1 January 2009	1.8
Fair value movement in year	0.2
At 31 December 2009	**2.0**

These investments represent carried interest entitlement in private equity funds.

The unquoted investments have 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 2009	2.6	3.2	5.8
Additions in the year	1.0	–	1.0
Disposals in the year	(0.2)	(0.2)	(0.4)
Fair value movement in year	1.3	0.1	1.4
At 31 December 2009	**4.7**	**3.1**	**7.8**

Further details of these investments are disclosed in note 19(a)(i)(2) to the Consolidated Financial Statements.

The cost of quoted investments as at 31 December 2009 was £5.2m (31 December 2008: £4.6m).

The valuation of quoted investments as at 31 December 2009 was £5.5m (31 December 2008: £3.2m). 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

	Note	**31 December 2009 £m**	31 December 2008 £m
Amounts due within one year:			
Trade debtors		1.1	–
Accrued income		–	0.3
Amounts owed by subsidiary undertakings		5.9	12.9
Loan to subsidiary undertaking		87.0	102.6
Prepayments		1.6	1.2
VAT recoverable		0.3	1.1
Group relief receivable		2.6	2.0
Other debtors		7.0	0.7
		105.5	120.8
Amounts due outwith one year:			
Loan to subsidiary undertaking		60.0	60.0
Deferred tax	13	1.6	1.1
		61.6	61.1

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 £87.0m is repayable on demand.

9. Creditors

	Notes	**31 December 2009 £m**	31 December 2008 £m
Amounts due within one year:			
Trade creditors		**0.1**	0.1
Accruals		**8.8**	4.9
Amounts owed to subsidiary undertakings		**3.9**	0.1
Other creditors		**2.5**	7.9
Floating Rate Secured Notes 2010	11	**10.0**	–
		25.3	13.0
Amounts due outwith one year:			
Other financial liabilities	12	**60.4**	66.0
Preference Share capital		**–**	0.8
Floating Rate Secured Notes 2010	11	**–**	35.0
Loan from subsidiary undertaking	11	**25.0**	–
Fixed/Floating Rate Subordinated Notes 2016/2026[#]	11	**258.4**	258.2
		343.8	360.0

[#] At 31 December 2009 £135.0m (31 December 2008: £nil) of the Fixed/Floating Rate Subordinated Notes 2016/2026 are held by F&C Finance plc, a subsidiary undertaking.

Other creditors at 31 December 2009 includes £0.7m (31 December 2008: £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

	Onerous premises contracts £m	Pension Plan guarantee £m	Investment Trust VAT £	Deferred tax £m	Put option guarantee £m	Total £m
At 1 January 2008	3.2	–	1.4	0.9	–	5.5
Provided during the year	3.3	0.1	–	–	–	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	5.3	0.1	1.4	0.5	–	7.3
Provided during the year	3.0	–	–	0.1	2.4	5.5
Provision released during the year	–	(0.1)	(0.7)	–	–	(0.8)
Utilised during the year	(1.1)	–	(0.7)	–	–	(1.8)
At 31 December 2009	**7.2**	**–**	**–**	**0.6**	**2.4**	**10.2**

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 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 11 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. In addition, exposure could exist if an existing tenant defaulted or went into liquidation or administration.

The amount included within Profit and Loss in respect of unwinding of the discount on onerous premises provisions in 2009 is £0.1m (2008: £0.3m).

Pension Plan Guarantee

The Company has agreed to provide the F&C Asset Management Pension Plan ('FCAM Plan') Trustees with a guarantee that should F&C Asset Management Services Limited become insolvent, the Company will guarantee an amount up to the lower of the cost of securing members' benefits with an insurance company over the assets of the FCAM Plan (the "solvency deficit") and £120.0m. The provision represents the actuarial estimate of the fair value of the guarantee at 31 December 2009 and 31 December 2008.

Investment Trust VAT

In 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 were greater than the expected amount recoverable from HMRC. During 2008 and 2009, monies refunded from HMRC were paid, as required, to ITCs. However, due to the complexity of the repayment process and its interaction with contractual arrangements, uncertainty existed at 31 December 2008 as to the final cost to be incurred by the Company. During 2009 all amounts due to ITCs have been settled and the remainder of the provision of £0.7m was released to the Profit and Loss Account. No provision is therefore required at 31 December 2009.

Notes to the Company Financial Statements

10. Provisions for liabilities continued

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.
A further analysis of deferred taxation is disclosed in note 13.

Put option guarantee

Note 26 to the Consolidated Financial Statements outlines the circumstances surrounding the put option notice received from the two founder members of F&C Partners LLP ("Partners"), the Group's majority owned fund of hedge funds business, together with the quantum of the provision recognised.

While a provision of £2.4m has been recognised in F&C Alternative Investment (Holdings) Limited, a subsidiary company, the Company, through the Partnership Agreement, has guaranteed any amounts validly due to the founder members to the extent that F&C Alternative Investment (Holdings) Limited is unable to meet such obligations. A corresponding provision of £2.4m has therefore been recognised in the Company's Balance Sheet as at 31 December 2009.

11. Loans

	31 December 2009 £m	31 December 2008 £m
Amounts repayable:		
Fixed/Floating Rate Subordinated Notes 2016/2026 (i)	**258.4**	258.2
Floating Rate Secured Notes 2010 (ii)	**10.0**	35.0
Fixed Rate inter-company loan 2016 (iii)	**25.0**	–
	293.4	293.2

(i) The £260.0m Fixed/Floating Rate Subordinated Notes 2016/2026 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 £10.0m 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 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. On 22 September 2009, £25.0m was borrowed from F&C Finance plc, a subsidiary undertaking, to repay £25.0m of the Floating Rate Secured Notes.

(iii) The £25.0m loan bears interest at a fixed rate of 13.26%, payable half-yearly in arrears. This loan is due to F&C Finance plc, a subsidiary undertaking, and repayable on 19 December 2016.

	Note	**31 December 2009 £m**	31 December 2008 £m
Amounts repayable:			
In one year or less, or on demand	9	**10.0**	–
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	**283.4**	258.2
		293.4	293.2

11. Loans continued

Borrowing facilities

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

	31 December 2009 £m	31 December 2008 £m
Bank overdraft facilities	**0.5**	0.5

12. Other financial liabilities

	2009 £m	2008 £m
At 1 January	**66.0**	–
Additions in the year	**–**	66.0
Movement in fair value during the year	**(5.6)**	–
At 31 December	**60.4**	66.0

The fair value of the F&C REIT put options represents the potential future liability to purchase 30% of F&C REIT from the minority partners. More details are provided in notes 16(a) and 30 to the Consolidated Financial Statements.

13. Deferred taxation

	2009 £m	2008 £m
At 1 January	**0.6**	0.5
Provided during the year	**0.4**	0.1
At 31 December	**1.0**	0.6

	Notes	**31 December 2009 £m**	31 December 2008 £m
Deferred taxation is provided as follows:			
Distributions from partnerships		**0.6**	–
Revaluation of available for sale assets		**0.3**	(0.5)
Depreciation in advance of capital allowances		**(0.6)**	0.7
Other timing differences		**0.7**	0.4
		1.0	0.6
Disclosed in the Financial Statements as follows:			
Debtors	8	**1.6**	1.1
Provisions for liabilities	10	**(0.6)**	(0.5)
Net deferred tax asset		**1.0**	0.6

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 this share-based payment award are disclosed in note 28(c) to the Consolidated Financial Statements.

The Company recognised an expense in respect of this award as follows:

	2009 £m	2008 £m
F&C REIT variable minority interest SBP	**3.7**	1.4

	31 December 2009 £m	31 December 2008 £m
Total carrying amount of cash-settled liabilities	**5.1**	1.4

15. Pension commitments

Until 31 March 2007, the Company operated a defined benefit pension plan ('The F&C Asset Management Pension Plan') in the UK, which provides 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. Further details are described in note 10.

Notes to the Company Financial Statements

16. Ordinary Share capital

(a) Ordinary Share capital of 0.1p

	31 December 2009 No. of Shares	**£m**	31 December 2008 No. 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	**499,273,120**	**0.5**	495,725,314	0.5

	No. of Shares 2009	2008
Issued at 1 January	**495,725,314**	495,705,530
Issue of Shares at par to settle share-based payment awards	**3,547,806**	–
Share options exercised during the year	**–**	19,784
Issued at 31 December	**499,273,120**	495,725,314

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 shares allotted during the year are disclosed in note 33 to the Consolidated Financial Statements on page 103.

No consideration was received in respect of the Ordinary Share capital issued during the year ended 31 December 2009 (year ended 31 December 2008: £nil).

Contingent Rights to the allotment of shares

The Group operates several share-based payment schemes which have a contingent right to the allotment of shares in the Company, or by the market purchase of shares.

At 31 December 2009 the contingent right to the allotment of shares was as follows:

Scheme	**No. of awards outstanding**	**Exercise price (p)**	**Exercisable/vesting dates**
Long-Term Remuneration Plan (deferred)	28,769,100	0.00	1 January 2010 – 8 July 2012
Long-Term Remuneration Plan (restricted)	327,548	0.00	16 March 2010
Executive Director Remuneration Plan (deferred)	4,715,206	0.00	10 May 2010 – 8 July 2012
Executive Director Remuneration Plan (restricted)	4,004,000	0.00	10 May 2010 – 10 November 2010
Purchased Equity Plan (F&C Shares)	1,396,860	0.00	1 January 2010 – 2 April 2012
Purchased Equity Plan (F&C Funds)*	6,167,870	0.00	13 April 2010 – 2 April 2012
Deferred Share Award	40,000	0.00	3 March 2011
Share Save Scheme	1,083	181.0p	1 January 2010 – 1 May 2010
Share Save Scheme	88,548	186.6p	29 April 2010 – 29 October 2010
Share Save Scheme	88,457	171.0p	1 January 2010 – 18 October 2011
Share Save Scheme	356,200	144.3p	25 April 2010 – 25 October 2012
2002 Executive Share Option Scheme	480,908	139.00p	1 January 2010 – 19 March 2013
2002 Executive Share Option Scheme	601,120	240.83p	1 January 2010 – 9 March 2014
1995 Executive Share Option Scheme	295,622	214.00p	1 January 2010 – 28 April 2010
1995 Executive Share Option Scheme	236,500	455.83p	1 January 2010 – 1 March 2011
	47,569,022		

*The number of shares is dependent on the share price and the value of F&C Funds as explained in note 28(d)(ii) to the Consolidated Financial Statements.

Employee Benefit Trusts ('EBTs')

The following shares are held in EBTs. These are categorised as own shares, and deducted from shareholders' funds:

	31 December 2009 £m	31 December 2008 £m
F&C Management Limited Employee Benefit Trust	**11,732,847**	1,564,451
The Ivory & Sime Employee Benefit Trust	**64,176**	64,176
ISIS Employee Benefit Trust	**–**	141,755
	11,797,023	1,770,382

The aggregate nominal value of own shares held by EBTs at 31 December 2009 was £12,000 (31 December 2008: £2,000). The market value of these shares at 31 December 2009 was £9.0m (31 December 2008: £1.0m).

The Trustees of the EBTs have waived their right to the dividend entitlement on some of these shares.

During the year, the Company purchased 11,043,017 of its own Ordinary Shares (2008: 345,845) of 0.1p to satisfy the settlement of awards granted under share schemes and to hold as own shares. The consideration paid for the shares was £7.4m (2008: £0.6m). The cost of this to the Company, after exercise price monies paid by the employees, was £7.4m (2008: £0.4m).

(b) The Preference Share capital of £1 each

Details of the Cumulative Preference Shares are disclosed in note 33(b) to the Consolidated Financial Statements on page 104.

17. Reserves

Reconciliation of movement in reserves:

	Ordinary Share capital £m	Share premium account £m	Capital Redemption reserve £m	Merger reserve £m	Acquisition reserve £m	Fair value reserve[1] £m	Capital contribution reserve[1] £m	Profit and loss account £m	Total shareholders' funds £m
Balance at 1 January 2008	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 paid	–	–	–	–	–	–	–	(19.7)	(19.7)
Interim 2008 dividend paid	–	–	–	–	–	–	–	(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 charge	–	–	–	–	–	–	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
Purchase of own shares	–	–	–	–	–	–	–	(7.4)	(7.4)
Profit for the year	–	–	–	–	–	–	–	13.8	13.8
Final 2008 dividend paid	–	–	–	–	–	–	–	(19.8)	(19.8)
Interim 2009 dividend paid	–	–	–	–	–	–	–	(9.7)	(9.7)
Transfer to Capital Redemption reserve on settlement of Preference Share capital	–	–	0.8	–	–	–	–	(0.8)	–
Fair value gain	–	–	–	–	–	0.2	–	–	0.2
Tax on fair value gain	–	–	–	–	–	(0.1)	–	–	(0.1)
Equity settled share-based payment charge	–	–	–	–	–	–	14.7	–	14.7
Transfer to Profit and Loss account on settlement of share-based payment awards by subsidiaries	–	–	–	–	–	–	(17.4)	17.4	–
Balance at 31 December 2009	**0.5**	**33.8**	**0.8**	**912.7**	**(66.0)**	**1.4**	**66.9**	**48.6**	**998.7**

[1] The Fair value reserve and Capital contribution reserve constitute 'Other reserves' as disclosed on the face of the Balance Sheet and amount to £68.3m at 31 December 2009 (31 December 2008: £70.9m).

The profit after tax of the Company for the year, before dividends paid, was £13.8m (2008: £37.4m).

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 2009 £m	31 December 2008 £m	**31 December 2009 £m**	31 December 2008 £m
Commitments expiring within one year	**–**	–	**–**	–
Commitments expiring within two to five years	**0.1**	0.1	**0.1**	0.1
Commitments expiring outwith five years	**4.7**	4.7	**–**	–
	4.8	4.8	**0.1**	0.1

The premises financial commitments disclosed above do not include any sub-leasing arrangements which the Company may have in place. The amounts shown reflect gross commitments at the balance sheet dates.

19. Capital commitments

There are no capital commitments, not provided for, at 31 December 2009 (31 December 2008: £nil).

20. Subsidiary undertakings

Details of the principal subsidiary undertakings are disclosed in note 41 to the Consolidated Financial Statements on page 117.

21. 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.

Notes to the Company Financial Statements

21. Related party transactions continued

Full details of the 3 September 2008 acquisition of the REIT Group are given in note 16 to the Consolidated Financial Statements. £25.0m of the £35.0m 2010 Secured Loan Notes were repaid to Kendray Properties Limited on 22 September 2009.

Interest on Secured Loan Notes

	Charged and accrued during 2009 £m	**Outstanding at 31 December 2009 £m**	Charged and accrued during 2008 £m	Outstanding at 31 December 2008 £m
Interest payable to Kendray properties Limited	**1.5**	**–**	0.8	0.2

Shared services and administrative services

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 2009 £m	**Outstanding at 31 December 2009 £m**	Total invoiced and accrued during 2008 £m	Outstanding at 31 December 2008 £m
Administration service fees	**1.0**	**0.1**	0.6	0.3

No profit distributions were paid to the Company in 2009 (period 3 September 2008 to 31 December 2008: £0.2m). £2.3m was received in March 2010.

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(c) 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.

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.

As disclosed in note 24 to the Consolidated Financial Statements, Kendray Properties Limited holds a security over FCAM's entire holding in F&C REIT Asset Management LLP until their Floating Rate Secured Notes 2010 are settled in full.

The Company has guaranteed the £129.7m 9% Guaranteed Loan Notes 2016 which were issued by F&C Finance plc as part of the debt exchange (details of which are disclosed in note 24 to the Consolidated Financial Statements). The Guaranteed Loan Notes are unconditionally and irrevocably guaranteed by the Company.

The Company has provided a guarantee in respect of the F&C Alternative Investments (Holdings) Limited's obligation to pay the Put Option Price in accordance with the Option Agreement. A provision for the put option guarantee is disclosed in note 10.

23. Contingent liabilities

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.

24. Parent undertaking and controlling party

In the opinion of the Directors, the Company's ultimate parent undertaking and controlling party until 3 July 2009 was Friends Provident plc. The results of the Company were consolidated in the Group Accounts of Friends Provident Group plc (formerly Friends Provident plc), until 3 July 2009, the date when Friends Provident divested its entire interest in the Group.

Friends Provident Group plc is incorporated in England and Wales. Copies of Friends Provident Group plc Annual Report and Accounts can be obtained from the Company Secretary, Pixham End, Dorking, Surrey, RH4 1QA.

From 3 July 2009, in the opinion of the Directors, the Company has no ultimate parent undertaking indirectly and controlling party and the smallest group of which the Company is a member and for which Consolidated Financial Statements are prepared is F&C Asset Management plc.

Notice of Annual General Meeting

Notice is hereby given that the thirtieth Annual General Meeting of F&C Asset Management plc will be held at The Gibson Hall, 13 Bishopsgate, London EC2N 3BA on Tuesday 4 May 2010 at 11 a.m. (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 2009.

2. To declare a final dividend of 4.0 pence per share on the ordinary shares of the Company to be paid on 7 May 2010 to members whose name appears on the register of members at the close of business on 26 March 2010.

3. To elect Kieran Poynter, 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 Nick MacAndrew, who retires by rotation, as a Director.

6. To re-elect David Logan, who retires by rotation, as a Director.

7. To approve the Directors' Remuneration Report for the year ended 31 December 2009.

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 an ordinary resolution:

9. THAT:

(A) pursuant to section 551 of the Companies Act 2006 ("the Act"), the Directors be generally and unconditionally authorised to allot:

(1) shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company, up to a maximum nominal amount of £160,715.81, subject to **paragraph A(2)**; and

(2) shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company, comprising equity securities (within the meaning of section 560(1) of the Act) up to a maximum nominal amount (when aggregated with any allotment made pursuant to **paragraph A(1)**) of £300,726.88 in connection with a Pre-Emptive Offer undertaken by means of a rights issue;

(B) the authorities given in this Resolution:

(1) shall be in substitution for all pre-existing authorities to allot shares under section 551 of the Act or its predecessor section 80 of the Companies Act 1985; and

(2) unless renewed, revoked or varied in accordance with the Act, shall expire at the completion of the Annual General Meeting of the Company to be held in 2011, save that the Company may before such expiry make an offer or agreement which would or might require the allotment of shares in the Company, or the right to subscribe for or to convert any security into shares in the Company, after such expiry; and

(C) for the purpose of this Resolution, "Pre-Emptive Offer" means an offer of equity 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:

10. THAT:

(A) subject to the passing of resolution 9 set out in this Notice ("the Allotment Authority"), the Directors be given power pursuant to section 570 of the Companies Act 2006 ("the Act") to allot equity securities (within the meaning of section 560(1) of the Act) for cash, pursuant to the authorities given by the Allotment Authority, and to sell treasury shares wholly for cash, as if section 561(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 Allotment Authority, (a) in connection with a Pre-Emptive Offer (as defined in the Allotment Authority); or (b) in order to satisfy options or awards under any share scheme for employees or share incentive plan approved by the Company in general meeting; or (c) otherwise, up to a maximum nominal amount of £24,963.65;

(2) in the case of **paragraph A(2)** of the Allotment Authority, in connection with a Pre-Emptive Offer undertaken by means of a rights issue;

(B) the power given in this Resolution:

(1) shall be in substitution for all pre-existing authorities under section 570 of the Act or its predecessor section 95 of the Companies Act 1985; and

(2) unless renewed in accordance with the Act, shall expire at the same time as the Allotment Authority, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry.

11. THAT, in substitution for any existing power under section 701 of the Companies Act 2006 ("the Act") or its predecessor section 166 of the Companies Act 1985, 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 701 of the Act, to make market purchases (within the meaning of section 693 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 48,219,564 (being approximately 10 per cent. of the issued ordinary share capital of the Company excluding treasury shares as at 31 March 2010);

(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 2011, 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 as if this authority had not expired.

12. THAT:

(A) the articles of association of the Company be amended by deleting all the provisions of the Company's memorandum of association which, by virtue of section 28 of the Companies Act 2006, are to be treated as provisions of the Company's articles of association; and

(B) the articles of association of the Company be amended by making the alterations marked on the print of the articles of association produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification.

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 2011.

By order of the Board
W Marrack Tonkin, FCCA
Secretary
80 George Street
Edinburgh EH2 3BU

31 March 2010

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 11 a.m. (UK time) on 2 May 2010.

(iii) The Company has made provision for shareholders who would like to lodge their proxy electronically or through CREST.

(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) To be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the votes they may cast), shareholders must be registered in the register of members of the Company at 6.00 p.m. on Thursday, 29 April 2010 (or, in the event of any adjournment, on the date which is two days (excluding any part of a day that is not a working day) before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

(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) Any corporation which is a shareholder can appoint one or more corporate representative(s) who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.

(ix) Under section 527 of the Companies Act 2006, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

(x) Any shareholder attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

(xi) In accordance with section 311A of the Companies Act 2006, the contents of this notice, details of the total number of shares in respect of which members are entitled to exercise voting rights at the meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice of meeting will be available on the Company's website at www.fandc.com.

(xii) As at 31 March 2010 (being the latest practicable date prior to publication of this notice) the Company's issued share capital consisted of 482,195,635 ordinary shares of 0.1 pence each carrying one vote each. Therefore, total voting rights in the Company as at 31 March 2010 are 482,195,635.

(xiii) 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; and
- the articles of association of the Company marked up to show the proposed amendments.

(xiv) 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.

Notice To U.S. Shareholders – Certain PFIC Considerations

Shareholders should consult their own tax advisors as to the tax considerations applicable to them relating to the purchase, ownership and disposition of our ordinary shares (the "Shares"), including the applicability of U.S. Federal state and local tax laws and non-U.S. tax laws. This discussion does not address tax considerations applicable to U.S. shareholders other than the passive foreign investment company rules.

F&C Asset Management plc (the "Company") and certain of its subsidiaries may be treated as passive foreign investment companies (each, a "PFIC") within the meaning of section 1297 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") for U.S. Federal income tax purposes.

Treatment of the Company or any of its subsidiaries as a PFIC could result in adverse tax consequences for U.S. Shareholders.

A foreign corporation generally will be treated as a PFIC in any year in which either 75 percent or more of its gross income constitutes passive income or at least 50 percent of the value of its assets is attributable to assets which produce or are held for the production of passive income. In applying these tests, a non-U.S. corporation that directly or indirectly owns at least 25 percent, by value, of the stock of another corporation is treated as if it held directly its proportionate share of the other corporation's assets and received directly its proportionate share of the other corporation's income.

Whether a non-U.S. company is a PFIC is determined annually, and the status of the Company, or any of its subsidiaries, could change depending among other things upon the changes in the composition of its gross receipts and assets, and the nature of its business.

U.S. Shareholders are particularly urged to consult their own Tax Advisors regarding the U.S. tax considerations relating to an investment in a company that may be or may become a PFIC, including the availability and consequences of elections that may be available to mitigate the adverse Federal income tax consequences of owning or disposing of PFIC shares. In that regard, U.S. Shareholders should be aware that the Company does not intend to satisfy the record keeping and other requirements that would permit a U.S. Shareholder to make a qualified electing fund ("QEF") election with respect to the Company or any of its subsidiaries.

Each taxpayer is hereby notified that: (a) any discussion of U.S. Federal tax issues herein is not intended or written to be used, and cannot be used by the taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. Federal tax law; (b) any such discussion is written to support the promotion or marketing of the transactions or matters addressed herein; and (c) the taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

Corporate Information

Directors
Nick MacAndrew, Chairman‡
Alain Grisay, Chief Executive
Keith Bedell-Pearce, Senior Independent Non-executive*†‡
Brian Larcombe, Non-executive*†‡
David Logan, Chief Financial Officer
Jeff Medlock, Non-executive
Kieran Poynter, Non-executive†
Gerhard Roggemann, Non-executive*†‡

*Member of Remuneration Committee
†Member of Audit, Risk & Compliance Committee
‡Member of Nomination Committee

Head Office
Exchange House
Primrose Street
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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

Shareholder services available from Equiniti Limited

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 online.
- 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

Voting Online
In accordance with good governance practice the Company is offering shareholders use of an online voting service, "sharevote", offered by Equiniti, at www.sharevote.co.uk. Shareholders can use this service to vote or appoint a proxy online. The same voting deadline (11a.m. (UK time) on 2 May 2010) 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.

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Website www.fandc.com

Expect excellence