

F&C Asset Management plc

Preliminary Announcement for the year ended 31 December 2009 (unaudited)

10 March 2010

The F&C Asset Management plc Group ("F&C") has today announced its unaudited financial results for the year ended 31 December 2009.

Financial and Business Highlights

- Strong investment performance across fixed income, equities and property
- Institutional unfunded mandate pipeline of £1.37 billion
- Improving outlook for fund flows
- Resilient revenues
- Unchanged dividend

Financial Summary

	Year ended 31 December 2009	Year ended 31 December 2008 [†]
Assets under management (at year end)	£97.8bn	£98.6bn
Net revenue	£225.1m	£229.9m
Underlying operating expenses*	£166.6m	£172.3m
Reported profit/(loss) after tax	£18.7m	(£50.6m)
Group operating profit*	£51.8m	£60.7m
Group operating margin*	23.0%	26.4%
Basic earnings/(loss) per Ordinary Share	3.2p	(10.7p)
Underlying earnings per Ordinary Share excluding foreign exchange gains and losses	5.8p	7.6p
Underlying earnings per Ordinary Share	4.6p	7.8p
Interim dividend	2.0p	2.0p
Proposed final dividend	4.0p	4.0p
Total dividend per Ordinary Share	6.0p	6.0p

[†] As restated for the amendment to IFRS 2: Share-based Payment – vesting conditions and cancellations, as explained in note 1.

*Calculations are given in note 14.

Reconciliations between reported earnings and underlying earnings and between basic earnings/(loss) per share and underlying earnings per share are given in note 5.

Alain Grisay, Chief Executive of F&C, commented:

"2009 was undoubtedly a challenging year for asset managers with the average level of the FTSE 100 around 15% lower than in 2008. However, we are pleased to report that F&C continues to demonstrate the strength of its business model which delivered a resilient revenue performance. Importantly, in 2009 core performance was strong across all asset classes which, combined with improved consultant ratings, provides a good basis for winning new business in 2010."

Chairman's Statement

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

10 March 2010

Chief Executive's Report

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.

The Group has confirmed that it remains in discussions regarding a potential offer for C-Quadrat, a Vienna based asset manager specialising in quantitative funds of funds and multi-asset products and that it intends to submit an offer, subject to the successful conclusion of such discussions and satisfying all regulatory and other requirements, at a price of approximately €12.50 per share. Any such offer would be submitted on the basis that the two founders of C-Quadrat remain involved in both the management and the capital of 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
10 March 2010

**Consolidated Income Statement (unaudited)
for the year ended 31 December 2009**

	Notes	2009 £m	2008 (as restated [†]) £m
Revenue			
Investment management fees	2	237.8	244.2
Other income	2	4.1	1.1
Total revenue		241.9	245.3
Fee and commission expenses	2	(16.8)	(15.4)
Net revenue	2	225.1	229.9
Net gains/(losses) and investment income on unit-linked assets		136.0	(208.7)
Movement in fair value of unit-linked liabilities		(134.6)	210.5
Operating expenses			
Operating expenses		(164.8)	(171.0)
Amortisation of intangible assets – management contracts	7	(49.8)	(48.9)
Impairment of intangible assets – management contracts	7	-	(48.3)
Unrealised gains/(losses) on forward currency contracts	3(a)	1.2	(12.3)
Other exceptional net operating expenses	3(b)	(19.0)	(10.6)
Total operating expenses		(232.4)	(291.1)
Operating loss		(5.9)	(59.4)
Finance revenue		11.5	25.7
Finance costs		(30.3)	(29.4)
F&C REIT put option fair value gain	3(c)	5.6	-
Gain on debt exchange	3(d)	27.9	-
Loss on partial disposal of property business	8(c)	-	(4.1)
Impairment of financial investments		(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	4	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	5	3.24p	(10.66)p
Diluted earnings/(loss) per Ordinary Share	5	3.19p	(10.66)p
		£m	£m
Memo – dividends paid	6	29.5	29.6
Memo – dividends proposed	6	19.5	19.8

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

**Consolidated Statement of Comprehensive Income (unaudited)
for the year ended 31 December 2009**

	2009	2008
	£m	(as restated [†]) £m
Note		
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	(27.2)	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	4(a) 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 explained in note 1.

**Consolidated Statement of Financial Position (unaudited)
as at 31 December 2009**

	Notes	31 December 2009 £m	31 December 2008 £m
Assets			
Non-current assets			
Property, plant and equipment		8.4	10.6
Intangible assets:			
– Goodwill	7	595.1	595.1
– Management contracts	7	206.7	266.9
– Software and licences	7	0.6	1.2
	7	802.4	863.2
Financial investments		2.2	2.1
Other receivables		1.9	0.6
Deferred acquisition costs		6.4	7.8
Deferred tax assets		34.3	26.5
Total non-current assets		855.6	910.8
Current assets			
Financial investments		634.9	718.0
Reinsurance assets		1.9	2.1
Stock of units and shares		0.3	0.3
Deferred acquisition costs		2.6	3.3
Trade and other receivables		91.4	85.9
Current tax receivable		5.8	-
Cash and cash equivalents:			
– Shareholders		186.2	223.1
– Policyholders		27.7	46.7
		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		253.9	294.0
Other payables		6.7	7.1
Provisions	9	10.1	9.0
Pension deficit	10	46.7	21.8
Employee benefits		9.6	4.4
Deferred income		9.1	11.2
Other financial liabilities		60.4	68.4
Deferred tax liabilities		58.3	77.0
Total non-current liabilities		454.8	492.9
Current liabilities			
Investment contract liabilities		649.9	753.1
Insurance contract liabilities		1.9	2.1
Interest bearing loans and borrowings		10.0	-
Trade and other payables		64.1	53.5
Provisions	9	8.9	9.0
Employee benefits		21.3	23.0
Deferred income		3.8	4.4
Other financial liabilities		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	11	0.5	0.5
Share premium account		33.8	33.8
Capital Redemption reserve		0.8	-
Merger reserve		416.6	456.8
Other reserves		(14.5)	0.6
Retained earnings		132.5	119.4
Total equity attributable to equity holders of the parent		569.7	611.1
Minority interests		19.2	18.7
Total equity		588.9	629.8
Total liabilities and equity		1,806.4	1,990.2

**Consolidated Statement of Changes in Equity (unaudited)
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 explained 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 (unaudited)
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	12	58.5	125.8
Changes in working capital and provisions	12	(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		25.0	-
Repayment of REIT Floating Rate Secured Notes 2010		(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	6	(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		213.9	269.8
Cash and cash equivalents:			
Shareholders		186.2	223.1
Policyholders		27.7	46.7
		213.9	269.8

[†]As restated for the amendment to IFRS 2: Share-based Payment as explained 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".

1. Basis of preparation of accounting policies

Basis of preparation

These are the unaudited preliminary results of F&C Asset Management plc and its subsidiaries ("the Group") for the year ended 31 December 2009 which were approved by the Board on 10 March 2010. This preliminary results announcement has 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. This preliminary results announcement is presented in millions of pounds Sterling, rounded to one decimal point, except where otherwise indicated.

The comparative figures for the year ended 31 December 2008 included in this preliminary results announcement do not constitute the Company's statutory Financial Statements for that financial year within the meaning of section 435 of the Companies Act 2006 but are derived from the 2008 Annual Report and Financial Statements, as restated for the adoption of IFRS 2 Share-based Payment – vesting conditions and cancellation, explained below. Those Financial Statements, which were prepared in accordance with IFRS and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the EU were approved by the Board of Directors on 6 April 2009 and have been delivered to the Registrar of Companies. Those Financial Statements have been reported on by the Company's auditors; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

Accounting policies

This preliminary results announcement for the year ended 31 December 2009 has been prepared in accordance with accounting policies that the Directors are applying in the Consolidated Financial Statements for the year ending 31 December 2009. The accounting policies adopted are consistent with those followed in the preparation of the Group's Annual Report and Consolidated Financial Statements for the year ended 31 December 2008, as amended for the new standards adopted in 2009, as described below.

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.

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.

(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.

(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 estimates, assumptions and judgements

The preparation of this preliminary results announcement 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.

Notes to the Consolidated Financial Statements (unaudited)

2. Net revenue

	2009	2008
	£m	£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.

3. 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)

(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.

(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 9.

(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 9 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.

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

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

The fair value of the F&C REIT put option liability 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 8(a). 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	2008
	£m	£m
Gain on debt exchange	27.9	-

During 2009 the Group executed a debt exchange programme 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.

4. 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 Consolidated Income Statement	(10.0)	(16.7)
	2009	2008
	£m	£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 Consolidated Income Statement	(10.0)	(16.7)

5. 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.

	2009	2008
	Basic	Basic
	p	(as restated [†])
Reconciliation of Basic Earnings per Share	p	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

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

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

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.

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

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

	2009			2008 (as restated [†])		
	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m
Reconciliation of earnings/(loss)						
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 explained in note 1.

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

	2009 No.	2008 No.
Share capital		
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

6. 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

7. 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 8.

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 year-end reporting date, as described below. Accumulated goodwill impairment losses at 31 December 2009 were £nil for both operating segments (31 December 2008: £nil).

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).

8. 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 are held 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 the F&C REIT Group 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 the F&C REIT Group 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.

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

FCAM acquired 70% ownership of F&C REIT Asset Management LLP, which in turn 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, into the F&C REIT Group, it retains a 70% beneficial holding in F&C PAM via its 70% holding in F&C REIT.

The total consideration paid 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 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.

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

The following adjustments 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.

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 the reporting date was £3.2m.

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

(b) 2009 – Acquisition of REIT Property Asset Management Group

	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 sacrifice 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 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.

(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 Eureka B.V. at 31 December 2009 (31 December 2008: £2.9m).

9. Provisions

	Onerous premises contracts	NIC on share schemes	Long-term sickness	Guaranteed product	Long-term service award	Investment Trust VAT	Put option claim	Total
	£m	£m	£m	£m	£m	£m	£m	£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.

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. A number of Group companies, in common with other asset managers in the UK, received claims from ITCs for the repayment of VAT charged to them for historic periods dating back to 1990. While the Group charged VAT in accordance with applicable UK law at the time, a provision was recognised in 2007 to the extent that the expected payments to be made to ITCs are greater than the expected amount recoverable from HMRC. During 2008 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 this preliminary results announcement, 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.

10. Defined benefit pension obligations

The following tables summarise the aggregate defined benefit pension deficit of the Group and the key assumptions which drive the quantum of the deficit:

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

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

	31 December 2009	31 December 2008
Expected long-term rate of return on plan assets		
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%

	31 December 2009	31 December 2008
Discount rate and growth assumptions		
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%

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

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

	31 December 2009	31 December 2008
	Years	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

11. Share capital

The Group recorded the following amounts within shareholders' equity:

	31 December 2009 £m	31 December 2008 £m
Issued Ordinary Shares of 0.1p each	0.5	0.5

The number of Ordinary Shares in issue was as follows:

	31 December 2009 No.	31 December 2008 No.
Allotted, called up and fully paid Ordinary Shares of 0.1p each	499,273,120	495,725,314
Ordinary Shares held by Employee Benefit Trusts	(11,797,023)	(1,770,382)
Ordinary Shares available in the market	487,476,097	493,954,932

12. Analysis of cash flow statement movements

	2009	2008
	£m	(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	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	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	(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	2.1	0.8
Decrease in deferred income	(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 amendment to IFRS 2: Share-based Payment as explained in note 1.

13. 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.

14. 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

	Reported earnings	Underlying EPS		Underlying EPS ex FX	
		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	0.0
Realised gains attributable to closed FX contracts	5.9		5.9	(5.9)	0.0
FX contract losses recognised in prior periods		(9.9)	(9.9)	9.9	0.0
Operating expenses	(164.8)	(9.9)	(174.7)	8.1	(166.6)
Amortisation/impairment of intangible assets	(49.8)	49.8	0.0		0.0
Unrealised gains attributable to open FX contracts	1.2	(1.2)	0.0	0.0	0.0
Exceptional operating costs	(19.0)	19.0	0.0		0.0
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)	0.0		0.0
F&C REIT put option fair value gain	5.6	(5.6)	0.0		0.0
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/(loss) 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/(loss) 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

	Reporting earnings	Underlying EPS		Underlying EPS ex FX	
		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)	0.0
Realised losses attributable to closed FX contracts	(5.0)		(5.0)	5.0	0.0
Operating expenses	(171.0)	0.0	(171.0)	(1.3)	(172.3)
Amortisation/impairment of intangible assets	(97.2)	97.2	0.0		0.0
Unrealised losses attributable to open FX contracts	(12.3)	12.3	0.0	0.0	0.0
Exceptional operating costs	(10.6)	10.6	0.0		0.0
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

15. Other information

Copies of the 2009 Annual Report and Financial Statements are expected to be posted to shareholders later this month and will be available for inspection at the registered office of the company at 80 George Street, Edinburgh EH2 3BU.

A copy of the analyst presentation which takes place at 9am today will be available on the Company's website www.fandc.com. A video recording of this presentation will be made and will also be available on the Company's website.

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