

F&C Asset Management plc

Preliminary Results for the year ended 31 December 2008 (Unaudited)

10 March 2009

The F&C Asset Management plc Group ("F&C") has today announced its unaudited financial results for the year ended 31 December 2008.

Financial and Business Highlights

- Assets under Management of £98.6 billion (2007: £103.6 billion) despite sharp declines in major indices
- Resilient net revenues of £229.9 million (2007: £264.5 million) with average fee rate increased to 22.9 basis points (2007: 22.5 basis points)
- Operating costs reduced by £12.9 million in 2008, reflecting partial benefit of cost reduction initiatives which will have full-year effect in 2009
- Underlying profit after tax of £38.3 million (2007: £50.2 million) and underlying Earnings Per Share of 7.8 pence (2007: 10.4 pence)
- Robust cash and liquidity position with shareholders' cash of £223.1 million (2007: £216.2 million)
- Unchanged final dividend of 4.0p per share, 6.0p for the full year

	2008	2007
Assets under management (at year-end)	£98.6bn	£103.6bn
Net revenue	£229.9m	£264.5m
(Loss)/profit after tax	£(50.5)m	£18.7m
Underlying profit after taxation*‡	£38.3m	£50.2m
Group operating margin**	26.4%	30.9%
Basic (loss)/earnings per ordinary share	(10.6)p	3.5p
Underlying earnings per ordinary share*‡	7.8p	10.4p
Interim dividend	2.0p	2.0p
Proposed final dividend	4.0p	4.0p
Total dividends per ordinary share	6.0p	6.0p

Reconciliations between reported earnings and underlying earnings and between basic (loss)/earnings per share and underlying earnings per share are given in note 4.

* before amortisation and impairment of intangibles, unrealised losses on forward currency contracts and other exceptional costs

‡ excluding minority interests

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

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

"These are without doubt challenging times for asset managers as markets remain volatile and the economic outlook continues to deteriorate. However, we are pleased to report that F&C continues to demonstrate the strength of its diversified business model with resilient assets under management and revenues, improving fee margins and a proactive approach to cost management.

While we expect the market outlook to remain tough during 2009, with the uncertainty over our ownership coming to an end we are confident about the future. Investment performance remains competitive; we have strengthened our infrastructure and have enhanced our distribution capabilities. The result is a platform that has the capacity to take on significant assets. Having acquired REIT Asset Management in 2008, we will continue to seek opportunities to enhance our business through acquisitions that will maximise value where the execution-risk is acceptable."

Chairman's Statement

Results

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

Strategy and Corporate Developments

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

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

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

Market Outlook

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

Dividend

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

Board Developments

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

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

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

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

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

Chief Executive's Report

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

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

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

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

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

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

Financial Results

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

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

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

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

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

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

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

Distribution and Business Flows

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

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

The three-year growth plan launched in 2007 was predicated on benign markets and stable ownership. Given the turbulent market conditions and uncertainty resulting from Friends Provident announcing that it wished to

divest its 52 per cent. shareholding in F&C, our focus shifted to managing the business through the current turbulence rather than achieving targets developed in a radically different environment.

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

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

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

Investment Performance

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

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

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

Creation of F&C REIT Asset Management

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

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

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

Outlook

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

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

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

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

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

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

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

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

Consolidated Income Statement (unaudited)

for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Revenue			
Investment management fees	1	244.2	267.2
Other income	1	1.1	10.6
Total revenue		245.3	277.8
Fee and commission expenses	1	(15.4)	(13.3)
Net revenue	1	229.9	264.5
Net (losses)/gains and investment income on unit-linked assets		(208.7)	45.0
Movements in fair value of unit-linked liabilities		210.5	(43.9)
Operating expenses			
Operating expenses		(170.9)	(183.8)
Amortisation of intangible assets - management contracts	5	(48.9)	(42.4)
Impairment of intangible assets - management contracts	5	(48.3)	-
Unrealised losses on forward currency contracts	2(a)	(12.3)	-
Other exceptional operating costs	2(b)	(10.6)	(10.6)
Total operating expenses		(291.0)	(236.8)
Operating (loss)/profit		(59.3)	28.8
Finance revenue		25.7	23.8
Finance costs		(29.4)	(27.3)
Loss on partial disposal of property business	6(b)	(4.1)	-
Impairment of other financial investments		(0.1)	-
Share of profit of associates		-	0.6
(Loss)/profit before tax		(67.2)	25.9
Tax - Policyholders		(0.9)	(0.6)
Tax - Shareholders		17.6	(6.6)
Tax income/(expense)	3	16.7	(7.2)
(Loss)/profit for the year		(50.5)	18.7
Attributable to:			
Equity holders of the parent		(52.4)	17.1
Minority interests		1.9	1.6
(Loss)/profit for the year		(50.5)	18.7
Basic (loss)/earnings per share	4(a)	(10.64)p	3.54p
Diluted (loss)/earnings per share	4(a)	(10.64)p	3.43p
		£m	£m
Memo - dividends paid	4(b)	29.6	43.5
Memo - dividends proposed	4(b)	19.8	19.7

Consolidated Balance Sheet (unaudited)

as at 31 December 2008

	Notes	As at 31 December 2008 £m	As at 31 December 2007 £m
Assets			
Non-current assets			
Property, plant and equipment		10.6	11.4
Intangible assets:			
- Goodwill	5	595.1	569.9
- Management contracts	5	266.9	253.7
- Other intangible assets	5	1.2	1.1
	5	863.2	824.7
Financial investments		2.1	3.8
Other receivables		0.6	0.8
Deferred acquisition costs		7.8	8.1
Deferred tax assets		26.5	29.0
Total non-current assets		910.8	877.8
Current assets			
Financial investments		718.0	1,042.8
Reinsurance assets		2.1	2.3
Stock of units and shares		0.3	0.8
Trade and other receivables		85.9	96.7
Deferred acquisition costs		3.3	3.8
Cash and cash equivalents:			
- Policyholders		46.7	58.2
- Shareholders		223.1	216.2
		269.8	274.4
Total current assets		1,079.4	1,420.8
Total assets		1,990.2	2,298.6

Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings		294.0	258.7
Other payables		7.1	7.2
Provisions		9.0	10.2
Pension deficit	7	21.8	26.8
Employee benefits		4.4	2.0
Deferred income		11.2	12.1
Other financial liabilities		68.4	-
Deferred tax liabilities		77.0	73.4
Total non-current liabilities		492.9	390.4
Current liabilities			
Investment contract liabilities		753.1	1,090.1
Insurance contract liabilities		2.1	2.3
Trade and other payables		53.5	58.9
Provisions		9.0	10.1
Employee benefits		23.0	33.7
Deferred income		4.4	4.3
Other financial liabilities		9.9	-
Current tax payable		12.5	15.3
Total current liabilities		867.5	1,214.7
Total liabilities		1,360.4	1,605.1
Equity attributable to equity holders of the parent			
Share capital	8	0.5	0.5
Share premium account		33.8	33.8
Merger reserve		456.8	499.3
Other reserves		0.6	13.6
Retained earnings		119.4	145.2
Total equity attributable to equity holders of the parent	11	611.1	692.4
Minority interests	11	18.7	1.1
Total equity	11	629.8	693.5
Total liabilities and equity		1,990.2	2,298.6

Consolidated Statement of Recognised Income and Expense (unaudited)
for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
(Loss)/profit for the year		(50.5)	18.7
Foreign exchange movements on translation of foreign operations		54.2	14.9
Actuarial gains on defined benefit pension schemes		2.5	11.1
(Loss)/gain on available for sale financial investments		(0.5)	1.9
Fair value gains on available for sale financial investments transferred to the Income Statement		(1.1)	-
Tax expense on items taken directly to equity	3	(0.3)	(4.5)
Net income recognised directly in equity		54.8	23.4
Total recognised income and expense for the year		4.3	42.1
Attributable to:			
Equity holders of the parent		2.4	40.5
Minority interests		1.9	1.6
		4.3	42.1

Consolidated Cash Flow Statement (unaudited)
for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Cash flows from operating activities			
Operating (loss)/profit		(59.3)	28.8
Cash outflow relating to restructuring costs (F&CGH Group)		(1.0)	(2.9)
Adjustments for non-cash items	9	125.7	59.9
Changes in working capital and provisions	9	(13.1)	(0.8)
Cash generated from operating activities		52.3	85.0
Income tax paid		(14.6)	(21.3)
Net cash inflow from operating activities		37.7	63.7
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1.6)	(2.2)
Proceeds from disposal of property, plant and equipment		0.2	-
Purchase of intangibles - software		(1.1)	(0.8)
Return of capital from investments		-	0.1
Loan repayment from former associate (ISIS EP LLP)		1.0	1.0
Payments to acquire investments		(18.6)	(2.0)
Proceeds from disposal of investments		15.2	-
Payment in respect of acquisition of REIT		(25.0)	-
Expenses of acquisitions		(4.3)	(0.1)
Fair value of cash acquired with REIT		0.2	-
Distributions received from former associate (ISIS EP LLP)		0.1	1.9
Investment income - investments		2.1	3.8
Investment income - interest and dividends		10.2	10.6
Net cash (outflow)/inflow from investing activities		(21.6)	12.3
Cash flows from financing activities			
Proceeds from issue of share capital		-	1.2
Repayment of loans from FP Group		-	(5.0)
Payments in respect of expenses for long-term borrowings		-	(0.3)
Interest paid on Loan Notes		(18.2)	(17.6)
Interest paid on other loans		-	(0.1)
Other interest paid		(0.2)	(0.2)
Equity dividends paid	4	(29.6)	(43.5)
Interest on Preference Shares		(0.1)	(0.1)
Distributions to minority interests		(1.6)	(0.9)
Cash movements from dealing in own shares		(0.3)	(2.2)
Net cash outflow from financing activities		(50.0)	(68.7)
Net (decrease)/increase in cash and cash equivalents		(33.9)	7.3
Effect of exchange rate fluctuations on cash held		29.3	(0.5)
Cash and cash equivalents at 1 January		274.4	267.6
Cash and cash equivalents at 31 December		269.8	274.4
Cash and cash equivalents			
Shareholders		223.1	216.2
Policyholders		46.7	58.2
		269.8	274.4

Basis of preparation and accounting policies

Basis of preparation

The preliminary results for the year ended 31 December 2008, which were approved by the Board on 9 March 2009, are unaudited.

The financial information set out in this preliminary announcement does not constitute the company's statutory accounts for the years ended 31 December 2008 or 2007. The financial information for 2007 is derived from the statutory accounts for 2007 which have been delivered to the registrar of companies. The auditors have reported on the 2007 accounts; 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. The statutory accounts for 2008 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies in due course, following the Annual General Meeting.

This preliminary results announcement for the year ended 31 December 2008 has been prepared by the directors, based upon the result and position which they expect will be reflected in the statutory accounts. The statutory accounts will be prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRS") and those parts of the Companies Acts 1985 and 2006 applicable to companies reporting under Adopted IFRS. Details of the accounting policies that will be applied in the statutory accounts are set out in the 2007 Annual Report and Accounts, which are available on the Company's website www.fandc.com.

The Consolidated Financial Statements are presented in millions of pounds Sterling, rounded to one decimal place, except where otherwise indicated.

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 liabilities at the balance sheet date as well as the reported income and expenses for the year. While estimates are based on management's best knowledge and judgement using information and financial data available to them, the actual outcome may differ from these estimates.

Notes to the Consolidated Financial Statements

1. Net revenue

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

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

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

2. Exceptional costs

(a) Unrealised losses on forward currency contracts

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

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

(b) Other exceptional operating costs

The Group has classified the following operating costs as exceptional:

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

(i) Corporate advisory fees

	2008 £m	2007 £m
Corporate advisory fees	4.4	-

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

(ii) Exceptional employment costs

	2008 £m	2007 £m
Exceptional employment costs	4.8	-

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

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

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

	2008 £m	2007 £m
REIT variable minority interest SBP expense	1.4	-

Details of the acquisition of REIT during 2008 are given in note 6. As a result of this transaction, F&C controls 70 per cent. of the merged property business (F&C REIT) and the former owners of REIT, two of whom occupy key management roles within F&C REIT, hold a 30 per cent. stake.

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

(iv) Investment Trust VAT expense

	2008 £m	2007 £m
Investment Trust VAT expense	-	4.2

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

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

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

(v) Re-Investment Plan costs

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

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

3. Income tax

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

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

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

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

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

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

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

4. Earnings per Share and Dividends

(a) Earnings per Share

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

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

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

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

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

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

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

[†] excludes £0.7m of amortisation of intangibles (net of tax) which is attributable to minority interests

Share capital	2008 No.	2007 No.
Weighted average number of Ordinary Shares for basic (loss)/earnings per share*	492,685,954	484,192,096

*Excluding own shares held by Employee Benefit Trusts

(b) Ordinary dividends

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

5. Goodwill and other intangible assets

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

Goodwill

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

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

The additional goodwill arising during the year relates to the acquisition of the REIT Group, whilst the goodwill disposed of reflects the 30% transfer of F&C's existing property business to the former owners of REIT; both amounts relate to the property asset management business segment. Details of the acquisition and disposal are given in note 6.

The movement in goodwill during the year across reportable business segments is as follows:

	31 December 2008			31 December 2007
	Investment management £m	Property asset management £m	Total £m	Entire business £m
Carrying value at 1 January	569.9	-	569.9	569.9
Allocation to property segment	(102.7)	102.7	-	-
Additions	-	56.0	56.0	-
Disposals	-	(30.8)	(30.8)	-
Carrying value at 31 December	467.2	127.9	595.1	569.9

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

Management contracts

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

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

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

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

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

Impairment testing of goodwill and intangible assets

Goodwill

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

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

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

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

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

Revenues for the first year are based on the Board-approved budget. In year two, revenues have been grown at market rates estimated to be experienced in 2010 when the Board anticipate capital markets may begin to recover; these estimates are based on a combination of in-house and analysts' views in light of the current, continued depression of markets. Beyond this, revenues have been grown in line with the Group's long-term view of market growth, consistent with that experienced historically, in the long-term, across the markets in which assets are invested. The different rates reflect the composite mix of assets held in each business segment and at each balance sheet date. Revenues earned from significant contracts with a fixed term are assumed to terminate at the end of the fixed term, with operating costs falling by an amount which assumes associated profit margins of 70%.

Projected operating costs for the first year are driven by the budgeted profit margins for each business segment for 2009. Thereafter costs have been grown at inflation rates to accord with anticipated future salary and other cost increases.

Values in use are compared to the carrying values of goodwill, attributable management contracts and other intangible assets (net of associated deferred tax provisions), and property, plant and equipment in order to ascertain whether any impairment exists.

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

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

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

The above assumptions result in the following surpluses of goodwill:

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

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

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

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

Intangible assets with finite lives

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

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

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

No indicators of potential impairment existed in 2007 and therefore no impairment reviews of management contracts were undertaken in respect of that year. Previously, the most recent impairment reviews of finite life intangible assets were for the year-ended 31 December 2006. Full details of those reviews are given in the 2006 and 2007 Financial Statements. Therefore, the disclosures which follow are given for 2008 only.

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

The key assumptions adopted in the calculations are as follows:

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

The discount rates reflect the varying risks and uncertainties inherent in the revenues from the underlying assets, using the Group's weighted average cost of capital of 10.15%, calculated as at 31 December 2008, as a benchmark.

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

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

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

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

6. Acquisition and disposal of subsidiaries

(a) Acquisition of REIT

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

F&C REIT ownership interests are initially split 70% ownership by FCAM; 15% by Kendray Properties Limited, 11.25% by Leo Noé and 3.75% by Ivor Smith (collectively known as the "REIT Parties"). For each financial year ending on or before 31 December 2014 in which the Earnings Before Interest Taxation Depreciation and Amortisation ("EBITDA") of the F&C REIT Group is £45 million or more, FCAM will transfer up to 3.33% of its existing holding in F&C REIT to the REIT Parties, subject to a maximum aggregate transfer of 10%.

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

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

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

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

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

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

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

The fair value of assets and liabilities acquired was as follows:

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

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

	£m
Fair value of F&C PAM	94.1
Fair value of REIT business	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.

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

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

The amount of £34.0m has been excluded from the fair value of intangible assets acquired and replaced by the recognition of £71.3m for REIT management contracts, being their fair value at acquisition. The value of goodwill arising on acquisition takes account of the value of the property asset management team acquired and the value of future new business flows.

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

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

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

(b) Loss on partial disposal of property business

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

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

7. 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 2008 £m	31 December 2007 £m
Defined benefit pension obligations	(167.9)	(177.4)
Fair value of plan assets	146.1	150.6
Total pension deficit	(21.8)	(26.8)

Expected long-term rate of return on plan assets*	31 December 2008	31 December 2007
Equities	7.00%	7.00%
Gilts	5.00%	5.00%
Corporate bonds	6.10%	5.60%
LDI Pools	3.30%	4.50%
Cash	2.00%	4.50%
Other	7.00%	7.00%

*Expected returns are shown for the UK plan only.

Key assumptions used to determine benefit obligations	31 December 2008	31 December 2007
Discount rate	5.70% - 6.10%	5.50% - 5.60%
Rate of salary increase	2.50% - 4.00%	2.50% - 4.55%
Rate of inflation increase	2.00% - 3.10%	2.00% - 3.30%

Mortality assumptions

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

	31 December 2008	31 December 2007
Mortality table for males retiring in the future	PMA92MICYOB - 1	PMA92MICYOB - 1
Mortality table for females retiring in the future	PFA92MICYOB - 1	PFA92MICYOB - 1
Mortality table for current male pensioners	PMA92MICYOB - 1	PMA92MICYOB - 1
Mortality table for current female pensioners	PFA92MICYOB - 1	PFA92MICYOB - 1

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

	31 December 2008 Years	31 December 2007 Years
Expected age at death for a male retiring in the future at age 60	89	89
Expected age at death for a female retiring in the future at age 60	92	92
Expected age at death for a current male pensioner aged 60	88	88
Expected age at death for a current female pensioner aged 60	91	91

8. Share capital

The Group recorded the following amounts within shareholders' equity:

	31 December 2008 £m	31 December 2007 £m
Issued Ordinary Shares of 0.1p each	0.5	0.5

The number of Ordinary Shares in issue were as follows:

	31 December 2008 No.	31 December 2007 No.
Allotted, called up and fully paid Ordinary Shares of 0.1p each	495,725,314	495,705,530
Ordinary Shares held by Employee Benefit Trusts	(1,770,382)	(3,433,228)
Ordinary Shares available in the market	493,954,932	492,272,302

9. Notes to the cash flow statement

Analysis of cash flow statement movements

	2008 £m	2007 £m
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	3.0	3.7
Amortisation of intangible assets	49.9	43.2
Impairment of intangible assets	48.3	-
Unrealised losses on forward currency contracts	12.3	-
Gain on disposal of property, plant and equipment	(0.1)	-
Equity-settled share-based payment expenses	12.3	13.0
	125.7	59.9
Changes in working capital and provisions:		
Decrease/(increase) in trade and other receivables	16.5	(9.0)
(Decrease)/increase in trade and other payables	(6.4)	3.0
Decrease/(increase) in stock of units and shares	0.5	(0.1)
Increase/(decrease) in other liabilities	0.3	(1.1)
Decrease in investment contract liabilities	(337.0)	(77.5)
(Decrease)/increase in employee benefit liabilities	(8.2)	2.9
Decrease/(increase) in deferred acquisition costs	0.7	(0.6)
Decrease in deferred income	(0.8)	(1.5)
Pension charge to operating profit less defined benefit pension contributions paid	(3.9)	(7.9)
(Decrease)/increase in provisions for liabilities and charges	(1.8)	0.2
Decrease in financial investments	327.0	90.8
	(13.1)	(0.8)

10. Contingencies

Contingent liabilities:

(a) Stocklending activities

As part of its asset management responsibilities, the Group performed collateralised stock lending activities as agent for a number of its clients. The unprecedented market turbulence, increased counterparty risk and counterparty failure rates encountered during the year resulted in the Group ceasing such activities. In certain cases, the cessation was exercised through invoking default clauses in the relevant contracts, realisation of collateral held and the repurchase of stocks originally on loan. However, the related termination calculations, setting out the realisations of collateral, the uses of the cash realised and net amounts due to or from principals under the relevant agreements have not yet been agreed for all clients. In particular, in certain instances the collateral held may not be readily realisable in the current market conditions. Whilst the Group acts in an agency capacity, it is possible that potential disputes may arise from the completion of these calculations. The calculations have yet to be completed and therefore it is not possible to estimate the potential liability, if any, of the Group in these circumstances.

(b) Employment tribunal

A number of claims were made by a former employee against the Company at UK Employment Tribunal hearings during 2007 and 2008. The Employment Tribunal initially decided six claims in favour of the Company and five in favour of the claimant.

The Company submitted appeals against these findings leading to the Employment Appeal Tribunal concluding in November 2008 that, as a result of fresh evidence supporting the company's position, the five claims against the Company should be re-heard by a new Tribunal during 2009. Whilst the claimant has sought £19.0m in compensation, no decision on damages, were the claimant to succeed, has been made at any time.

The Company will continue to defend vigorously its position at the Tribunal re-hearing. Based on legal advice, the Directors do not believe there is a material financial exposure which should be separately reported at the balance sheet date.

(c) Ongoing business operations

In the normal course of its business, the Group is subject to matters of litigation or dispute. While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Group.

11. Condensed consolidated reconciliation of equity

	2008 £000	2007 £000
Total equity at 1 January	693.5	683.8
Items reported in the Consolidated Statement of Recognised Income and Expense	4.3	42.1
Ordinary dividends paid	(29.6)	(43.5)
Share-based payment charges credited to equity	12.3	13.0
Share capital allotted on exercise of options	-	1.2
Settlement proceeds received on dealings in own shares	0.3	0.2
Purchase of own shares	(0.6)	(2.4)
Distributions to minority interests	(1.6)	(0.9)
Minority interest arising on acquisition of REIT	17.2	-
Issue of REIT put option on acquisition	(66.0)	-
Total equity at 31 December	629.8	693.5
Attributable to:		
Equity holders of the parent	611.1	692.4
Minority interests	18.7	1.1
	629.8	693.5

12. Other information

Copies of the 2008 Annual Report and Financial Statements are expected to be posted to shareholders in April 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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Forward-looking statements

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

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

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