

Notes to the Group Financial Statements

1. Goodwill

| | 2010 \$m | 2009 \$m |
|---------------------------------------|-------------|-------------|
| Cost: | | |
| At beginning of year | 785 | 813 |
| Currency translation difference | 24 | (29) |
| Acquisition of subsidiary or business | – | 1 |
| Disposals | (11) | – |
| At 31 March | 798 | 785 |
| Aggregate Impairment: | | |
| At beginning of year | (11) | – |
| Currency translation difference | – | (1) |
| Disposals | 11 | – |
| Impairment | – | (10) |
| At 31 March | – | (11) |
| Net book value at 31 March | 798 | 774 |
| Made up as follows: | | |
| AHL | 74 | 55 |
| Multi-Manager Business | 724 | 719 |

The most significant amount of goodwill relates to the Multi-Manager Business (MMB). The increase in the goodwill balance relates solely to the retranslation of the Man Investments Australia goodwill, which is denominated in Australian dollars.

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

Goodwill on acquisitions of subsidiaries and businesses is included in the Balance Sheet as Goodwill. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to equity prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Goodwill has an indefinite useful life, is not subject to amortisation and is tested annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, based on value in use calculations prepared on the basis of management's assumptions and estimates of future cash flows and discount rates.

The Group identified two cash generating units for impairment review purposes: AHL; and the MMB. The MMB cash generating unit includes the goodwill relating to the RMF and Glenwood acquisitions and an allocation of the goodwill relating to the Man Investments Australia acquisition. The remaining Man Investments Australia goodwill is allocated to the AHL cash generating unit.

The MMB cash generating unit exhibited objective evidence that the goodwill may have been impaired as the funds under management (FUM) had declined from \$23.0 billion at 31 March 2009 to \$14.8 billion at 31 March 2010.

The value in use of the MMB goodwill was assessed at 31 March 2010 by applying a discounted future cash flow model, which used as a basis the detailed budget for the financial year ending March 2011 and the three year strategic plan to 31 March 2013, which were approved by the Board of Directors and which factored in expected sales, redemptions, fee margins, performance and cost estimates. Cash flows for a further two years were generated assuming modest growth assumptions, which management considered appropriate for the purposes of the impairment review exercise. A perpetuity growth rate of 2% has been assumed, being a prudent approximation of historic US long-term growth rates. For modelling purposes the future cash flows have been split into net management fee income and net performance fee income and have been risk adjusted for each financial year to take account of the risk attached to estimating future income streams. Accordingly, net management fee income cash flows have been adjusted down by 5–10% and net performance fee income cash flows by 30–40%. A pre-tax discount rate of 10% has been applied to these risk-adjusted cash flows.

The result of the value in use calculation suggests that there is approximately \$110 million of headroom over the goodwill balance and therefore no impairment is considered appropriate. A sensitivity analysis around the key assumptions applied in the discounted cash flow analysis has been performed. The sensitivity analysis highlighted that the value in use calculation used to support the level of goodwill relating to the MMB is

Notes to the Group Financial Statements continued

1. Goodwill continued

largely dependent on the timing of sales being realised and the 2011 sales budget being achieved. The time over which the MMB is expected to realise the full benefits from the new business platform is likely to extend beyond the current financial year, and an impairment may therefore be triggered prior to the full benefits being achieved. The results of the sensitivity analysis are outlined below:

- If sales were \$0.5 billion lower than the 2011 budget, the headroom of discounted fee income over the goodwill balance would reduce to be approximately \$25 million;
- If the discount rate was increased by 1% to 11%, there would be a shortfall of discounted fee income over the goodwill balance of approximately \$25 million; and
- If fund performance was flat in the financial year ending 31 March 2011, instead of the assumed 8% return, there would be a shortfall of discounted fee income over the goodwill balance of approximately \$100 million.

2. Investments in fund products and other investments

| | Financial assets at fair value through profit or loss \$m | Available-for-sale financial assets \$m | Loans and receivables \$m | Total \$m |
|--|--|--|------------------------------|--------------|
| 31 March 2010 | | | | |
| Investments in fund products comprise: | | | | |
| Amounts owed by fund products | – | – | 373 | 373 |
| Other investments in fund products | 409 | 2 | – | 411 |
| | 409 | 2 | 373 | 784 |

| | | | | |
|-------------------------------------|---|-----------|---|-----------|
| Other investments comprise: | | | | |
| Investment in Ore Hill DI portfolio | – | 67 | – | 67 |
| Exchange shares | – | 4 | – | 4 |
| Other equity investments | – | 1 | – | 1 |
| | – | 72 | – | 72 |

| | Financial assets at fair value through profit or loss \$m | Available-for-sale financial assets \$m | Loans and receivables \$m | Total \$m |
|--|--|--|------------------------------|--------------|
| 31 March 2009 | | | | |
| Investments in fund products comprise: | | | | |
| Amounts owed by fund products | – | – | 373 | 373 |
| Other investments in fund products | 715 | 3 | – | 718 |
| | 715 | 3 | 373 | 1,091 |

| | | | | |
|-------------------------------------|---|------------|---|------------|
| Other investments comprise: | | | | |
| Residual stake in MF Global | – | 94 | – | 94 |
| Investment in Ore Hill DI portfolio | – | 52 | – | 52 |
| Exchange shares | – | 28 | – | 28 |
| Other equity investments | – | 10 | – | 10 |
| | – | 184 | – | 184 |

Amounts owed by fund products are exposed to credit risk whereas other investments in fund products (mainly seeding investments) and other investments are primarily exposed to market risk. The financial disclosures in respect of credit risk may be found in Note 22. The market risk disclosures are included in 2(a) and 2(b) below.

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss; available-for-sale financial assets; and loans and receivables. The classification depends on the purpose for which the investments were acquired.

Management determines the classification of investments at initial recognition and re-evaluates, where permitted, this designation at each reporting date. Purchases and sales of investments are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

A financial asset is classified as financial assets at fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by management. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable. Available-for-sale financial assets are non-derivative equity investments that are either designated in this category or not classified in any of the other categories.

2. Investments in fund products and other investments continued

Amounts owed by fund products are classified as loans and receivables and are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value in the balance sheet. The fair values of quoted investments are based on current bid prices. There are certain other assets, if the market for a financial asset is not active (and for unlisted securities) for example the Ore Hill DI portfolio, the Group establishes fair value by using appropriate valuation techniques which include comparisons with similar financial instruments for which observable prices exist and discounted cash flow analysis.

Fair value gains and losses arising from changes in the fair value of available-for-sale investments are recognised as a separate component of equity until the investment is sold or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the asset below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale equity instruments are not reversed through the income statement. For floating rate loans and receivables, where there is objective evidence of impairment, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of future cash flows, excluding future credit losses, discounted at the current effective interest rate per IAS 39 AG7.

Given the uncertainty and subjective nature of valuing assets at fair value, it is possible that the outcomes within the next financial year could be different from the assumptions used and this could therefore result in a significant adjustment to the carrying amount of assets and liabilities measured using fair values. This is particularly the case where the Group establishes the fair value of assets by using appropriate valuation techniques.

During the year the Group adopted Amendments to IFRS 7, 'Improving Disclosures about Financial Instruments', which introduces a three-level hierarchy for fair value measurement disclosure, as follows:

- Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3. Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value measurement of financial assets as at 31 March 2010 can be analysed as follows:

| | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
|--|----------------|----------------|----------------|--------------|
| Financial assets held at fair value | | | | |
| Investments in fund products | 33 | 79 | 299 | 411 |
| Other investments: | | | | |
| Investment in Ore Hill DI portfolio | – | – | 67 | 67 |
| Exchange shares | 4 | – | – | 4 |
| Other equity investments | – | – | 1 | 1 |
| Derivative financial instruments (Note 15) | – | 25 | 1 | 26 |
| | 37 | 104 | 368 | 509 |

In respect of investment in fund products, the majority of investments classified as Level 3 assets comprise a diversified portfolio of fund of fund investments.

Notes to the Group Financial Statements continued

2. Investments in fund products and other investments continued

Movement in Level 3 financial assets, measured at fair value, during the year can be analysed as follows:

| | Financial assets at fair value through profit or loss \$m | Available- for-sale \$m | Total \$m |
|--|---|-------------------------------|--------------|
| Level 3 Financial assets held at fair value | | | |
| At beginning of year | 643 | 64 | 707 |
| Total gains in comprehensive income | 34 | 15 | 49 |
| Included in profit for the year | 34 | (4) | 30 |
| Included in other comprehensive income | – | 19 | 19 |
| Purchases | 275 | – | 275 |
| Settlements | (574) | (14) | (588) |
| Transfer to Reservoir Trust (Note 27) | (76) | – | (76) |
| Other adjustments | (1) | 2 | 1 |
| At 31 March 2010 | 301 | 67 | 368 |
| Total gains for the period included in income statement for assets held at 31 March 2010 | 34 | 1 | 35 |

The components of Investments in fund products are further analysed below.

2(a) Investments in fund products:

The majority of these investments are not held for the long-term and there are frequent changes in the aggregate amount of the Group's ownership of investments. The Group's investments in fund products are generally held for less than 12 months: of the \$784 million balance as at 31 March 2010 (2009: \$1,091 million), \$65 million (2009: \$131 million) of these investments are expected to be realised after more than one year.

Other investments in fund products

| | At 31 March 2010 \$m | At 31 March 2009 \$m | Gain/(loss) in 2010 \$m |
|-------------------|----------------------------|----------------------------|-------------------------------|
| MMB | 224 | 494 | 28 |
| AHL seeding | 43 | 52 | 10 |
| Other seeding | 65 | 75 | (2) |
| | 332 | 621 | 36 |
| Secondary market | 10 | 46 | – |
| Sales support | 14 | 19 | (3) |
| Other investments | 55 | 32 | 19 |
| | 411 | 718 | 52 |

The Group invests in early stage funds as part of its ongoing business to build investment capacity. These investments are generally held for less than one year, at which point the investment is redeemed and either investor funds introduced or the product is closed.

Investments in fund products are 'seeding' investments, secondary market and sales support investments which are 'liquidity' investments to aid investors wishing to buy and sell investments in the fund products, or investments in the equity and debt tranches of collateralised products which are the result of contractual obligations to facilitate external investment in fund products and external fund financing. The Group holds seeding investments for various reasons including: to establish track records for products; to seed new alpha strategies; to seed single managers to test alpha generation; and to co-invest with institutional investors.

The decrease in these investments from the prior year reflects the Board's strategy to reduce balance sheet exposure in the current volatile market conditions.

The fair values of investments in fund products are derived from the reported Net Asset Values (NAVs) of each of the fund products, which in turn are based upon the value of the underlying assets held within each of the fund products and the timings of being able to redeem the fund product. The valuation of the underlying assets within each fund product is determined by external valuation service providers (VSP) based on an agreed valuation policy and methodology. Whilst these valuations are performed independently of the Group, the Group has established oversight procedures and due diligence processes to ensure that the net asset values reported by the VSP are reliable and appropriate. The Group makes adjustments to NAVs where the timing of being able to redeem the fund product or events or circumstances indicate that the NAVs are not reflective of fair value.

2. Investments in fund products and other investments continued

The Group calculates the market risk on these investments using a value at risk (VaR) methodology using a one month time horizon, at a 95% confidence interval, which was \$33 million at 31 March 2010 (2009: \$53 million) and the average for the year was \$53 million (2009: \$90 million). The decrease in the VaR in 2010 compared with 2009 reflects the reduced level of seed investments.

Limits are placed on seed and other investments in funds, both at the level of the individual fund and in aggregate. These limits are set in accordance with delegated authorities approved by the Board. A series of risk measures and limits relating to proprietary investments is reviewed regularly.

Amounts owed by fund products

The Group makes available both committed and uncommitted short-term loans to fund products, with the intention of providing temporary funding until more permanent financing structures are put in place with external providers. Accordingly, the amounts owed by fund products will vary from one period to the next as a consequence of the net effect of the level of sales in the period, fund product performance less the quantum of the external re-financing initiative in the period. Floating rate interest is received on amounts owed by fund products.

The average month-end balance of amounts owed by fund products during the financial year ended 31 March 2010 was \$559 million (2009: \$778 million).

Included in amounts owed by fund products are balances totalling \$118 million (2009: \$40 million) that relate to fund products that meet the definition of an associate entity and are thus included in the disclosure on related parties (Note 24).

Refer to Note 13(b)(i) for discussion around commitments to fund products.

2(b) Other investments

Investment in Ore Hill Designated Investment (DI) portfolio

The Group owns an investment in Ore Hill's DI portfolio, which holds long-term interests of a less liquid nature in a number of underlying entities. This investment is classified as available-for-sale, and fair value is determined by reference to the value of the interests in the underlying companies. The carrying value at year end was \$67 million (2009: \$52 million).

The market risk on the holdings in the Ore Hill DI portfolio, using a VaR methodology with a one month time horizon and at a 95% confidence interval is \$40 million (2009: \$23 million).

Exchange shares

Exchange shares are equity instruments that provide the holder the same rights to an exchange as a market seat membership. Exchange shares are classified as available-for-sale financial assets. The fair value of listed exchange shares is determined by the quoted bid price at the balance sheet date. The fair value of unlisted exchange shares and memberships is determined using the exchange's internal auction process, where the last traded price is used to establish the fair value. The majority of the Group's exchange shares were sold in September 2009.

Residual stake in MF Global

Following the disposal of its brokerage business in July 2008, the Group retained a residual investment in MF Global. These shares were classified as available-for-sale financial assets, and were recorded at a carrying value of \$94 million at 31 March 2009. In August 2009 the Group sold these shares under a Variable Forward Sale (VFS) Agreement. More detail on the disposal of MF Global is explained in Note 4(d).

3. Revenue

Revenue is recognised as follows:

(a) Performance fees

Performance fees are calculated as a percentage of the net appreciation of the relevant fund products' net asset value at the end of a given contractual period (referred to as the performance period). In accordance with IAS 18, performance fees are only recognised once they can be measured reliably. The Group can only reliably measure performance fees at the end of the performance period as the net asset value of the fund products could move significantly, as a result of market movements, between the Group's balance sheet date and the end of the performance period.

Gross performance fee income for the year ended 31 March 2010 was \$52 million (2009: \$627 million) of which \$48 million (2009: \$609 million) was contributed by AHL.

(b) Management and other fees

Management fees, which include all non-performance related fees and interest income from loans to fund products, are recognised in the period in which the services are rendered. Interest income from amounts owed by fund products is included in management and other fees on the basis that it is akin to management fees earned on fund products.

Notes to the Group Financial Statements continued

3. Revenue continued

Management fee revenue for the year was \$1,293 million, compared to \$1,861 million in the prior year. Gross management and other fees have decreased 31% as a result of the average FUM for the year declining. An unaudited analysis of the movements in FUM in the year and margin analysis can be found in the 'Funds under management and capital review' section on pages 30 to 34 of the Annual Report. Interest income from amounts owed by fund products for the year ended 31 March 2010 was \$16 million (2009: \$35 million).

The Group is subject to business cycles that are aligned to the risk appetite and confidence of investors. To maintain margins the Group has a financial strategy to utilise flexibility in its cost base such that as FUM decreases the cost base can be quickly adjusted to reflect reduced revenue expectations. The reduction in the cost base to a certain extent reduces automatically with reduced FUM or sales and in other cases the reduction takes place as a result of direct management action.

The three significant costs associated with the business are: commissions, compensation and headcount related costs. Details of cost management are outlined in Notes 10, 5 and 6 respectively.

(c) Gains/(losses) on investments and other financial instruments

Gains/(losses) on investments and other financial instruments include fair value movements on Investments in fund products and other investments, which are fair valued through profit and loss.

Gains/(losses) on investments and other financial instruments for the year ended 31 March 2010 amounted to a gain of \$39 million (2009: \$260 million loss), which includes seeding and other investment net gains of \$52 million (2009: \$289 million loss) and a gain of \$30 million (2009: \$29 million) on the sale of exchange shares, partly offset by losses of \$39 million arising from credit default swaps and costs in respect of the wind down of the Group's trade credit insurance and reinsurance business, Emyprean Re (refer to Note 13(b)(vii)).

4. Income statement presentation

The Group presents separately on the face of the income statement in accordance with IAS 1 (Revised) paragraph 97 those items which the directors consider material.

| | Note | 2010 \$m | 2009 \$m |
|--|------|-------------|--------------|
| Accelerated amortisation of MGS sales commissions | (a) | – | (107) |
| Restructuring costs – compensation | (b) | (19) | (37) |
| Restructuring costs – other | (b) | (34) | – |
| Gain on disposal of 50% of subsidiary | (c) | – | 48 |
| Impairment of Ore Hill investments and goodwill | (c) | – | (299) |
| Gain/(loss) arising from residual interest in brokerage assets | (d) | 34 | (105) |
| | | (19) | (500) |

(a) Accelerated amortisation of MGS sales commissions

In the prior year as a result of the MGS de-gearing process, the useful economic life of these products was reviewed and reduced, resulting in an accelerated amortisation charge of \$107 million being recognised in the income statement. There was no further material charge in the year ended 31 March 2010.

(b) Restructuring costs

In March 2009 the Group announced that it had implemented a plan to reduce the cost base of the business. During the year ended 31 March 2010, a further \$19 million (2009: \$37 million) of one-off compensation costs have arisen associated with this restructuring, comprising \$13 million in wages and salaries (2009: \$22 million), and \$6 million in accelerated share-based payment charges (2009: \$15 million).

Compensation costs incurred as part of the restructuring are accounted for in full at the time the obligation arises, following the communication of the formal plan, and include payments in lieu of notice and enhanced termination costs.

An additional \$34 million of other costs associated with this restructuring have arisen, mainly onerous contract provisions in respect of leasehold properties. In respect of the excess leasehold space where the Group has an ongoing contractual arrangement from which it does not expect to receive any economic benefit, a provision of \$18 million for the onerous or non-productive element of the contract has been recognised within Trade and Other Payables in the balance sheet (Note 16). An impairment charge of \$11 million has also been recognised in relation to capitalised fixed assets associated with the unused floor space, consisting predominantly of leasehold improvements and office fixtures and fittings (Note 17).

(c) Gain on disposal of 50% of subsidiary/Impairment of Ore Hill investments and goodwill

In the prior year, the Group acquired a 50% interest in Ore Hill, and simultaneously disposed of 50% in Pemba Credit Advisors (Pemba). The disposal of Pemba resulted in a gain of \$48 million being recognised. As a result of the subsequent deterioration in market conditions, the investment in Ore Hill was reviewed for impairment and the Group recognised an impairment charge of \$214 million against the carrying value of the investment in Ore Hill. In addition, the carrying value of the Group's interest in the Ore Hill Designated Investments (DI) Portfolio was reviewed for impairment as at 31 March 2009 and a impairment charge of \$75 million against this investment was recognised in the income statement.

4. Income statement presentation continued

Subsequently, the Group's equity interest in Pemba increased back to 100%, through a deemed re-acquisition of its original 50% shareholding, at nil cost, with no further profit or loss arising. There was a further \$10 million charge relating to the impairment of MTM Capital goodwill. There is no further gain or loss in respect of these items in the year ended 31 March 2010.

(d) Gain/(loss) arising from residual interest in brokerage assets

In August 2009 the Group sold its remaining stake in MF Global under a Variable Forward Sale (VFS) Agreement, at a sale price of \$5.95 per share. The VFS Agreement guarantees that the Group will achieve a minimum of \$5.35 per share, while retaining a capped participation in future share price appreciation over a three to four year period. The VFS provided the Group with gross initial disposal proceeds of \$112 million, resulting in a net gain of \$34 million. The VFS Agreement is measured at fair value and is included in 'Trade and other receivables' (Note 15).

In the prior year MF Global shares, which were classified as available-for-sale financial assets, had been reviewed for impairment, following a significant decrease in the underlying share price, resulting in an impairment charge of \$126 million being taken through the income statement. Other net gains of \$21 million arose from the Group's residual interest in brokerage assets in 2009.

5. Compensation

| | 2010 \$m | 2009 \$m |
|----------------------------|-------------|-------------|
| Wages and salaries – fixed | 145 | 173 |
| – variable | 92 | 180 |
| Share-based payment charge | 50 | 71 |
| Social security costs | 26 | 20 |
| Pension costs | 17 | 19 |
| | 330 | 463 |

Wages and salaries, including bonuses, are charged to the income statement in the period in which they are incurred. Bonuses are based on a formula that takes into consideration the profit attributable to the Company's shareholders. The accounting policy and disclosure in relation to share based compensation are outlined in Note 26.

The compensation policy is described in the remuneration report on pages 87 to 94. The above analysis excludes the restructuring costs which are explained in Note 4(b) above.

The Group continues to maintain tight controls and cost flexibility in the total expense base and in particular compensation expense. Management's aim is to pay competitive total compensation based on market levels, with the bonus element being a more significant component. The bonus component is directly linked to the overall performance of the business and is established by the Remuneration Committee of the Board. Historically the total compensation has been set within a range of between 20 and 25% of revenue. Compensation is therefore variable to the overall economics of the business.

Compensation costs amounted to \$330 million, compared to \$463 million last year, reflecting the decrease in discretionary employee bonus compensation and the impact of a lower headcount. In addition to the amounts shown above, \$42 million (2009: \$62 million) of sales commissions relating to employees are included in the Group income statement charge for upfront sales commissions (Note 10(a)).

The average number of employees in the year comprised:

| | 2010 Number | 2009 Number |
|-----------------------------|----------------|----------------|
| UK | 661 | 720 |
| Switzerland | 554 | 643 |
| Other countries | 359 | 413 |
| Average number of employees | 1,574 | 1,776 |

Directors' remuneration

| | 2010 \$000 | 2009 \$000 |
|--|---------------|---------------|
| Emoluments | 6,669 | 13,872 |
| Gains made on transfer of share awards and exercise of share options in the year | 8,166 | 32,889 |
| Contributions to money purchase pension schemes | 51 | 53 |

One director is accruing retirement benefits under a defined benefit pension scheme (2009: one director).

Further information on individual directors' emoluments, options, share awards and loans is given in the Remuneration Report on pages 95 to 101, and included in the key management compensation disclosures on related parties (Note 24(b)).

Notes to the Group Financial Statements continued

6. Other costs

(a) Analysis of other costs

| | 2010 \$m | 2009 \$m |
|---|-------------|-------------|
| Occupancy | 40 | 42 |
| Travel and entertainment | 14 | 21 |
| Technology | 28 | 31 |
| Communication | 13 | 16 |
| Consulting and professional services | 36 | 46 |
| Depreciation and amortisation (Note 10(b) and 17) | 45 | 39 |
| Charitable donations | 3 | 10 |
| Other | 53 | 70 |
| Total other costs | 232 | 275 |

Other costs have decreased to \$232 million from \$275 million in 2009. The Group has reduced its discretionary costs, in particular around consultancy and professional fees. The decrease in the other category primarily relates to staff recruitment, relocation and other personnel related costs. The Group continues to invest in its technology platforms and in AHL research.

The business is people driven and therefore the number of employees drives expenses including occupancy, communications and computer equipment and travel and entertainment. As the level of headcount is not directly proportional to the level of FUM it is possible to maintain a level of scalability within a range of FUM. Outside that range the size of the employee base would need to be actively managed.

Total fixed compensation costs and other costs were \$410 million in the year, compared to \$487 million in the prior year. The decrease of \$77 million comprises: a positive FX impact of \$10 million (as sterling weakened against the US dollar in the year), savings in fixed compensation costs of \$24 million and saving in other costs of \$43 million.

Included in depreciation and amortisation above is \$22 million (2009: \$17 million) of amortisation of other intangible assets and \$23 million (2009: \$22 million) of depreciation of property, plant and equipment (see Notes 10 and 17).

(b) Other disclosures

The following items have been included in arriving at Group profit before tax:

| | 2010 \$m | 2009 \$m |
|------------------------|-------------|-------------|
| Foreign currency gains | 3 | 26 |
| Auditors' remuneration | 6 | 5 |

The remuneration received by the Group's auditors, PricewaterhouseCoopers LLP and its worldwide associates, was as follows:

| | 2010 \$'000 | 2009 \$'000 |
|--|----------------|----------------|
| Fees payable to the Company's auditors for the audit of the Company's financial statements | 1,013 | 941 |
| Other services: | | |
| The audit of the Company's subsidiaries pursuant to legislation | 2,500 | 2,430 |
| Other services pursuant to legislation | 497 | 696 |
| Other services relating to taxation | 873 | 696 |
| Services relating to corporate finance transactions | – | 19 |
| All other services | 1,141 | 493 |
| Total auditors' remuneration | 6,024 | 5,275 |

Fees payable for the audit of the Company's subsidiaries pursuant to legislation comprise the fees for the statutory audits of the subsidiaries. Other services pursuant to legislation largely relate to services in relation to statutory and regulatory filings. These include the review of the Group's interim financial information under the Listing Rules of the FSA. Taxation services include compliance services and advisory services such as tax advice relating to transactions. Other services include work in connection with the Group's pension liability and corporate restructuring.

7. Taxation

Analysis of tax charge for the year:

| | 2010 \$m | 2009 \$m |
|--|--------------|-------------|
| Current tax: | | |
| UK Corporation tax on profits of the year | 67 | 178 |
| Foreign tax | 44 | 58 |
| Adjustments to tax charge in respect of previous periods | (14) | (15) |
| Total current tax | 97 | 221 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (7) | 15 |
| Adjustments to tax charge in respect of previous periods | 6 | 4 |
| Total tax charge | 96 | 240 |
| Tax on items credited to equity: | | |
| Current tax | (11) | (15) |
| Deferred tax | (3) | 12 |
| | (14) | (3) |
| Effective tax rate | 17.7% | 32.3% |
| UK nominal corporation tax rate | 28.0% | 28.0% |

Analysis of tax (credit)/charge taken through other comprehensive income:

| | 2010 \$m | 2009 \$m |
|--|-------------|-------------|
| Tax in respect of: | | |
| Available for sale investments – valuation gains taken to equity | (3) | (2) |
| Share schemes | (2) | 8 |
| | (5) | 6 |

The tax on the Group's total profit before tax is lower (2009: higher) than the amount that would arise using the theoretical effective UK tax rate applicable to profits of the consolidated companies, as follows:

| | 2010 \$m | 2009 \$m |
|--|-------------|-------------|
| Profit before tax | 541 | 743 |
| Theoretical tax charge at UK rate – 28% (2009: 28%) | 151 | 208 |
| Effect of: | | |
| Overseas rates compared to UK | (35) | (69) |
| Share-based payments | (2) | 18 |
| Currency translation differences | – | 3 |
| Adjustments to tax charge in respect of previous periods | (8) | (11) |
| Impairment of Ore Hill investments and goodwill | – | 84 |
| (Gain)/loss arising from residual interest in brokerage assets | (9) | 29 |
| Capital gains not subject to tax | (6) | (10) |
| Other | 5 | (12) |
| | (55) | 32 |
| Total tax charge | 96 | 240 |

The Group is subject to income taxes in many jurisdictions. Judgement is required in determining estimates in relation to the worldwide provision for income taxes. There are transactions for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries and associates operate and generate taxable income.

Notes to the Group Financial Statements continued

7. Taxation continued

The tax charge for the year amounts to \$96 million compared to \$240 million in 2009. The effective tax rate on profits before adjusting items is 18.6%, compared to 20.3% for the year ended 31 March 2009. The lower rate is principally as a result of the reduced level of performance fee income in the year, which is generally subject to higher tax rates. The effective tax rate for the year including adjusting items is 17.7%, compared to 32.3% for the prior year. The majority of the Group's profit continues to be earned in Switzerland and in the UK and the current effective tax rate is consistent with this profit mix.

8. Earnings per ordinary share (EPS)

The calculation of basic EPS is based on a basic post tax earnings¹ for the year of \$421 million (2009: \$485 million) and ordinary shares of 1,678,121,503 (2009: 1,687,787,700), being the weighted average number of ordinary shares in issue during the year after excluding the shares owned by the Man Group plc employee trusts.

For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The diluted EPS is based on a profit for the year of \$421 million (2009: \$485 million) and ordinary shares of 1,700,089,060 (2009: 1,707,878,896), calculated as shown in the following table:

| | 2010 | | 2009 | |
|---|-------------------------|-----------------------------|-------------------------|-----------------------------|
| | Total Number (millions) | Weighted average (millions) | Total Number (millions) | Weighted average (millions) |
| Number of shares at beginning of year | 1,707.9 | 1,707.9 | 1,715.3 | 1,715.3 |
| Issues of shares | 4.4 | 2.8 | 23.2 | 7.9 |
| Repurchase and cancellation of own shares | – | – | (30.6) | (17.9) |
| Number of shares at 31 March | 1,712.3 | 1,710.7 | 1,707.9 | 1,705.3 |
| Shares owned by employee trusts | (26.8) | (32.6) | (28.9) | (17.5) |
| Basic number of shares | 1,685.5 | 1,678.1 | 1,679.0 | 1,687.8 |
| Share awards under incentive schemes | | 21.9 | | 19.5 |
| Employee share options | | – | | 0.6 |
| Dilutive number of shares | | 1,700.0 | | 1,707.9 |

Adjusted diluted earnings per share for the year decreased 55% to 25.5 cents, compared to 57.0 cents last year. Adjusting items in the year include the gain arising on the residual interest in brokerage assets and costs arising from the restructuring programme announced in March 2009, as discussed in Note 4. Statutory diluted earnings per share were 24.8 cents, compared to 28.4 cents last year.

The reconciliation from EPS to an adjusted EPS is given below:

| | Year to 31 March 2010 | | | |
|--|-----------------------------|-------------------------------|--------------------------------|----------------------------------|
| | Basic post-tax earnings \$m | Diluted post-tax earnings \$m | Basic earnings per share cents | Diluted earnings per share cents |
| Earnings per share ¹ | 421 | 421 | 25.1 | 24.8 |
| Items for which EPS has been adjusted (Note 4) | 19 | 19 | 1.1 | 1.1 |
| Tax on the above items | (8) | (8) | (0.4) | (0.4) |
| Adjusted Earnings per share | 432 | 432 | 25.8 | 25.5 |

| | Year to 31 March 2009 | | | |
|--|-----------------------------|-------------------------------|--------------------------------|----------------------------------|
| | Basic post-tax earnings \$m | Diluted post-tax earnings \$m | Basic earnings per share cents | Diluted earnings per share cents |
| Earnings per share ¹ | 485 | 485 | 28.7 | 28.4 |
| Items for which EPS has been adjusted (Note 4) | 500 | 500 | 29.6 | 29.3 |
| Tax on the above items | (13) | (13) | (0.7) | (0.7) |
| Adjusted Earnings per share | 972 | 972 | 57.6 | 57.0 |

¹ The difference between profit after tax and basic and diluted post-tax earnings is the adding back of the expense in the year relating to the Fixed Rate Perpetual Capital Securities (see Note 19), totalling \$24 million post-tax at 28% (2009: \$18 million).

9. Segmental analysis

(a) Business segments

Under IFRS 8, a condition for identifying an operating segment is that it is a component of the entity whose results are regularly reviewed by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and to assess its performance ('the management approach'). The chief operating decision-maker for the Group is considered to be the executive directors.

Management information relevant to the operation of the business is provided to the chief operating decision maker based on the performance of the investment managers (AHL and MMB) and the investor base (private and institutional). Whilst revenues are analysed by investment manager and the investor base, operating costs are not analysed between these elements. As a result, resources are allocated and performance is assessed by the executive directors on the basis of the investment management business as a whole.

A centralised common infrastructure means that operating costs are not and cannot meaningfully be allocated to constituent parts of the investment management business, and the chief operating decision-maker of the Group, the executive directors, have a Group-wide function rather than product-related responsibilities.

From review of the information made available to, and regularly reviewed by, the executive directors, the Group operates as a single-segment investment management business.

(b) Geographical disclosure

Although the Group's principal offices are located in London, Pfaffikon (Switzerland) and Chicago, investment management income is generated from where the fund product entities, on which fees are earned, are registered. Revenue from any single fund during the year does not exceed 10% of total revenues. The analysis of non-current assets and revenues by geographic region is given below. In addition, the table below includes an analysis of revenue by geographic location of the legal entity recognising the revenue, as this is considered more meaningful than revenue by fund location.

| | 2010 \$m | 2009 \$m |
|----------------------------------|--------------|-------------|
| Non-current assets | | |
| Bermuda | 44 | 42 |
| Ireland | 1 | 2 |
| Switzerland | 903 | 954 |
| United Kingdom | 358 | 293 |
| Other Countries | 252 | 230 |
| | 1,558 | 1,521 |
| Revenues by fund location | | |
| Bermuda | 470 | 1,034 |
| Cayman Islands | 329 | 558 |
| Cook Islands | 205 | 307 |
| Ireland | 136 | 251 |
| Other Countries | 205 | 338 |
| | 1,345 | 2,488 |
| Revenues by legal entity | | |
| Bermuda | 4 | 14 |
| Ireland | 7 | 11 |
| Switzerland | 884 | 1,394 |
| United Kingdom | 371 | 965 |
| Other Countries | 79 | 104 |
| | 1,345 | 2,488 |

Non-current assets above exclude financial instruments, deferred tax and pension assets, and are allocated based on where the assets are located.

Notes to the Group Financial Statements continued

10. Other intangible assets

| | Other intangible assets | | |
|--|-----------------------------|--------------------------------------|--------------|
| | Sales commissions \$m | Other intangible assets \$m | Total \$m |
| Cost: | | | |
| At 1 April 2009 | 928 | 90 | 1,018 |
| Currency translation difference | 2 | – | 2 |
| Additions | 113 | 42 | 155 |
| Redemptions/disposals | (127) | (20) | (147) |
| At 31 March 2010 | 916 | 112 | 1,028 |
| Aggregate amortisation: | | | |
| At 1 April 2009 | (611) | (41) | (652) |
| Redemptions/disposals | 83 | 10 | 93 |
| Amortisation | (110) | (22) | (132) |
| At 31 March 2010 | (638) | (53) | (691) |
| Net book value at 31 March 2010 | 278 | 59 | 337 |

| | Other intangible assets | | |
|--|-----------------------------|--------------------------------------|--------------|
| | Sales commissions \$m | Other intangible assets \$m | Total \$m |
| Cost: | | | |
| At 1 April 2008 | 858 | 66 | 924 |
| Additions | 217 | 33 | 250 |
| Redemptions/disposals | (147) | (9) | (156) |
| At 31 March 2009 | 928 | 90 | 1,018 |
| Aggregate amortisation: | | | |
| At 1 April 2008 | (431) | (30) | (461) |
| Redemptions/disposals | 60 | 6 | 66 |
| Accelerated amortisation on MGS (Note 4) | (107) | – | (107) |
| Amortisation | (133) | (17) | (150) |
| At 31 March 2009 | (611) | (41) | (652) |
| Net book value at 31 March 2009 | 317 | 49 | 366 |

(a) Sales commissions

Sales commission expense during the year comprised the following:

| | 2010 \$m | 2009 \$m |
|---------------------------|-------------|-------------|
| Upfront sales commissions | 171 | 240 |
| Trail commissions | 154 | 171 |
| | 325 | 411 |

Sales commissions consist of two components: upfront commissions (known as placement fees), which are payable to distributors and to employees when a fund product is first launched and is based on the amount of investors' monies introduced; and trail commissions (known as servicing fees), which are payments made in arrears to distributors for ongoing services and are based on the current NAV of each fund product.

The upfront commission is an incremental cost that is directly attributable to securing investors in fund products from which the Group earns income based on an investment management contract with the relevant fund. The majority of upfront commissions paid are capitalised and amortised and the residual is recognised in the income statement when paid. An intangible asset is recognised in accordance with IFRS, representing the Group's contractual right to benefit from future income from providing investment management services. The carrying value of this intangible asset is based on the value of the initial upfront commission payments made to distributors and employees less an amortisation charge.

The amortisation period of sales commissions is based on management's estimate of the weighted average period over which the Group expects to earn economic benefit from the investor being invested in each fund product. Management estimate that this period is five years in both the current and the comparative year. Despite current overall redemption levels, the lifecycle for private investors, which make up the majority of the capitalised sales commissions, remains long term.

10. Other intangible assets continued

Amortisation of sales commissions is included in the sales commissions line in the income statement.

When an investor redeems some or all of their investment in a fund product the corresponding unamortised upfront sales commission is immediately written off. In addition, all unamortised upfront sales commission is subject to impairment testing each period to ensure that the future economic benefit arising from each fund product is in excess of the remaining unamortised commission. Amounts written off and any impairment losses relating to sales commissions are included in sales commissions in the income statement.

Trail commissions are charged to the income statement in the period in which they are incurred.

The decrease in the upfront sales commissions amortisation charge is the result of a decrease in private investor sales in 2010. The prior year also included \$107 million of accelerated amortisation related to the legacy MGS products, as outlined in Note 4(a). Trail commission costs have declined as a result of lower funds under management. The impact of these factors has been partially offset by the incurrence of around \$30 million of non-recurring sales commission items. These come from two main sources. Firstly, some 'catch-up' trail commission paid to a large distributor following the settlement of an outstanding liability; and secondly, the accelerated amortisation of commission payments on some legacy products, where negative AHL performance over the last year has made their intended re-gear less likely in the near term.

Flexibility in the cost base relating to commissions is maintained through the automatic decline in placement fees as new sales decline, likewise as the FUM balance declines servicing commissions also reduces in line with FUM movements.

(b) Other intangible assets

Other intangible assets principally include computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised using the straight-line method over their estimated useful lives (three to five years).

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development and associated employee costs. Computer software development costs recognised as assets are amortised on a straight-line basis over their estimated useful lives (not exceeding three years).

Amortisation of other intangibles is included in 'Other costs' in the income statement. Other intangible assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement in the period in which it occurs at the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposals of other intangible assets are determined by comparing the disposal proceeds with the carrying amount and are included in the income statement.

11. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held on call with banks as follows.

| | 2010 | | | 2009 | | |
|--------------------------|------------------|------------------|--------------|------------------|------------------|--------------|
| | Overnight \$m | 2-90 days \$m | Total \$m | Overnight \$m | 2-90 days \$m | Total \$m |
| Cash at bank and in hand | 178 | 36 | 214 | 261 | 19 | 280 |
| Short-term deposits | 2 | 3,013 | 3,015 | 10 | 2,071 | 2,081 |
| | 180 | 3,049 | 3,229 | 271 | 2,090 | 2,361 |

Cash balances increased \$868 million in the year to \$3,229 million. Net of borrowings and issued debt the net cash position at year-end was \$1,740 million, up from \$1,718 million at the end of the prior year. The movement of cash is analysed in the cash flow statement and the Group's liquidity position is discussed in Note 13.

Cash generated from operations for the year was \$921 million (2009: \$1,968 million), compared with Group profit before tax for the year of \$541 million (2009: \$743 million). The net increase in the Group's net cash position of \$814 million (2009: \$487 million) during the year is primarily the result of: cash generated from operating activities of \$754 million (2009: \$1,616 million); cash realised from other financial assets of \$327 million (2009: \$242 million) including the proceeds of the sale of the Group's residual stake in MF Global and the remaining exchange shares; the proceeds of new borrowings of \$813 million (2009: \$242 million) (Note 12); against cash outflows relating to the payment of ordinary dividends in the year of \$745 million (2009: \$718 million); the payment of intangible assets, property, plant and equipment and other investments of \$242 million (2009: \$460 million); and the purchase of own shares by the ESOP trust of \$61 million (2009: \$218 million).

Notes to the Group Financial Statements continued

11. Cash and cash equivalents continued

Cash generated from operations was as follows:

| | 2010 \$m | 2009 \$m |
|--|-------------|--------------|
| Profit for the year | 445 | 503 |
| Adjustments for: | | |
| – Income tax | 96 | 240 |
| – Loss/(gain) on sale of subsidiary | 6 | (48) |
| – Finance income | (29) | (58) |
| – Finance expense | 36 | 38 |
| – Share of results of associates and joint ventures | (70) | (144) |
| – Loss on disposal of an associate | – | 11 |
| – Depreciation and impairment of property, plant and equipment | 34 | 22 |
| – Amortisation of intangible fixed assets | 132 | 257 |
| – Share-based payments expense | 56 | 86 |
| – Fair value gains on available-for-sale financial assets | (31) | (29) |
| – Impairment of Ore Hill investments and goodwill | – | 299 |
| – (Gain)/loss arising from residual interest in brokerage assets | (34) | 143 |
| – Net (gains)/losses on financial instruments | (23) | 96 |
| – Increase/(decrease) in provisions | 12 | (2) |
| – Other non-cash movements | 73 | 92 |
| | 703 | 1,506 |
| Changes in working capital: | | |
| – Decrease in receivables | 115 | 297 |
| – Decrease in other financial assets | 201 | 465 |
| – Decrease in payables | (98) | (300) |
| Cash generated from operations | 921 | 1,968 |

12. Borrowings

| | 2010 \$m | 2009 \$m |
|---|--------------|-------------|
| Bank overdrafts | 55 | 1 |
| Fixed rate notes | 1,034 | 243 |
| Floating rate notes – subordinated debt | 400 | 399 |
| | 1,489 | 643 |

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

On 18 February 2010 the Group issued €600 million Fixed Rate Notes due 18 February 2015 (2015 Fixed Rate Notes) under the Group's \$3 billion Euro Medium Term Note Programme dated 21 December 2007 (EMTN Programme). The 2015 Fixed Rate Notes have a coupon of 6.0% per annum payable annually in arrears up to and including the maturity date.

On 1 August 2008 the Group issued \$250 million Fixed Rate Notes due 1 August 2013 (2013 Fixed Rate Notes) under the EMTN Programme. The 2013 Fixed Rate Notes have a coupon of 6.5% per annum payable semi-annually in arrears up to and including the maturity date. On 18 February 2010 \$17 million of the 2013 Fixed Rate Notes were repurchased leaving \$233 million outstanding as at 31 March 2010.

The subordinated Floating Rate Notes consist of \$400 million Eurobonds issued 21 September 2005 and due 22 September 2015. The notes may be redeemed in whole at the option of the Group on any interest payment date falling on or after 22 September 2010, subject to FSA approval. The interest rate is 3-month US dollar LIBOR plus 1.15% until 22 September 2010 and thereafter is 3-month US dollar LIBOR plus 1.65%.

12. Borrowings continued

Except for the 2015 Fixed Rates Notes and 2013 Fixed Rate Notes above, all of the Group's other borrowings are subject to floating interest rates.

The carrying amounts and fair values of the Group's borrowings are as follows:

| | 2010 | | 2009 | |
|---|-------------------|----------------------------|-------------------|----------------------------|
| | Fair value \$m | Carrying amounts \$m | Fair value \$m | Carrying amounts \$m |
| Bank overdrafts | 55 | 55 | 1 | 1 |
| Fixed rate notes | 1,083 | 1,034 | 225 | 243 |
| Floating rate notes – subordinated debt | 366 | 400 | 208 | 399 |
| | 1,504 | 1,489 | 434 | 643 |

There were no related interest rate swaps in place in the current or prior year.

13. Liquidity risk management

The Group's liquidity risk management strategy is to maintain sufficient liquidity to give it the flexibility to support the business through different market conditions and business cycles. The amount of the potential requirement for liquidity is modelled based on scenarios that assume stressed market conditions, including reduced bank advance rates, de-risking of FUM, investor redemption bridging requirements, gating by underlying managers and the risk of a substantial adverse move in AHL and the consequential request to fund margin calls in those structured products that include an AHL allocation.

Liquidity is available in the form of a committed syndicated loan facility and cash which is invested in short-term bank deposits. Liquidity adequacy is monitored on a daily basis and the stress scenarios are updated regularly. The Board reviews the Group's funding resources at each Board meeting and on an annual basis as part of the strategic planning process.

The Group's liquid resources at 31 March 2010 include cash balances of \$3.2 billion (2009: \$2.4 billion) and a committed syndicated loan facility of \$2.4 billion (2009: \$2.4 billion), which was undrawn at 31 March 2010 and 31 March 2009, and total debt of \$1,489 million (2009: \$643 million).

The committed syndicated loan facility was drawn for 184 days during the year, with an average drawdown of \$167 million and a maximum drawdown of \$428 million. \$0.6 billion of this facility matures in June 2012, with the balance maturing in June 2013.

The following table summarises the Group's available facilities (drawn and undrawn) by maturity as at 31 March 2010 based on contractual maturity.

| 31 March 2010 | Total \$m | Less than 1 year \$m | 1–3 years \$m | 3–5 years \$m | Over 5 years \$m |
|---|--------------|----------------------------|------------------|------------------|------------------------|
| Drawn | | | | | |
| EMTN 2013 Senior Notes | 228 | – | 228 | – | – |
| EMTN 2015 Senior Notes | 806 | – | – | 806 | – |
| Subordinated FRN | 400 | – | – | – | 400 |
| Perpetual subordinated capital securities (Note 20) | 300 | – | – | – | 300 |
| Undrawn | | | | | |
| Committed syndicated loan facility | 2,430 | – | 630 | 1,800 | – |
| Total facilities | 4,164 | – | 858 | 2,606 | 700 |
| Bank overdrafts | (55) | | | | |
| Cash balances | 3,229 | | | | |
| Total available liquidity (cash plus undrawn committed facilities) | 5,604 | | | | |

Notes to the Group Financial Statements continued

13. Liquidity risk management continued

| 31 March 2009 | Total \$m | Less than 1 year \$m | 1–3 years \$m | 3–5 years \$m | Over 5 years \$m |
|--|--------------|----------------------------|------------------|------------------|------------------------|
| Drawn | | | | | |
| EMTN 2013 Senior Notes | 243 | – | – | 243 | – |
| Subordinated FRN | 399 | – | – | – | 399 |
| Perpetual subordinated capital securities | 300 | – | – | – | 300 |
| Undrawn | | | | | |
| Committed syndicated loan facility | 2,430 | – | – | 2,430 | – |
| Total facilities | 3,372 | – | – | 2,673 | 699 |
| Bank overdrafts | (1) | | | | |
| Cash balances | 2,361 | | | | |
| Total available liquidity (cash plus undrawn committed facilities) | 4,790 | | | | |

The Group's available liquidity of \$5.6 billion (2009: \$4.8 billion) is considered to be sufficient to cover: the Group's current financial liabilities in excess of the Group's current receivables of \$0.1 billion; and the Group's current worst case obligations in relation to guarantees and commitments of \$1 billion (2009: \$1.9 billion) which includes \$0.5 billion (2009: \$1 billion) in respect of committed purchase agreements. The Perpetual Subordinated Capital Securities are undated and have been included in over five years in the above table. Note 28 sets out the likely impact of the post balance sheet event on the Group's liquidity position.

The tables below analyse the Group's financial liabilities, guarantees and commitments based on the contractual undiscounted cash flows.

(a) Financial Liabilities

Year ended 31 March 2010:

| Financial liabilities | Total \$m | Less than 1 year \$m | 1–5 years \$m | Over 5 years \$m |
|--------------------------------|----------------|----------------------------|------------------|------------------------|
| Borrowings, including interest | (1,871) | (135) | (1,728) | (8) |
| Trade and other payables | (334) | (305) | (29) | – |
| | (2,205) | (440) | (1,757) | (8) |

Year ended 31 March 2009:

| Financial liabilities | Total \$m | Less than 1 year \$m | 1–5 years \$m | Over 5 years \$m |
|--------------------------------|----------------|----------------------------|------------------|------------------------|
| Borrowings, including interest | (820) | (32) | (354) | (434) |
| Trade and other payables | (469) | (457) | (12) | – |
| | (1,289) | (489) | (366) | (434) |

(b) Financial guarantees and commitments

Year ended 31 March 2010:

| Guarantees and commitments | Note | Total \$m | Less than 1 year \$m | 1–5 years \$m | Over 5 years \$m |
|---------------------------------------|-------|----------------|----------------------------|------------------|------------------------|
| Financial guarantees and commitments: | | | | | |
| Committed purchase agreements | (i) | (556) | (556) | – | – |
| MF Global brokerage account | (ii) | (50) | (50) | – | – |
| Intra-day credit facility | (iii) | (400) | (400) | – | – |
| Operating lease commitments | (iv) | (516) | (22) | (78) | (416) |
| | | (1,522) | (1,028) | (78) | (416) |

13. Liquidity risk management continued

Year ended 31 March 2009:

| Guarantees and commitments | Note | Total \$m | Less than 1 year \$m | 1-5 years \$m | Over 5 years \$m |
|--|-------|--------------|----------------------------|------------------|------------------------|
| Financial guarantees and commitments: | | | | | |
| Committed purchase agreements | (i) | (954) | (954) | – | – |
| MF Global brokerage account | (ii) | (50) | (50) | – | – |
| Intra-day credit facility | (iii) | (400) | (400) | – | – |
| Loan facilities provided to fund products | (v) | (177) | (177) | – | – |
| FX trading guarantee | (vi) | (24) | (24) | – | – |
| Empyrean Re commitments | (vii) | (238) | (238) | – | – |
| Operating lease commitments | (iv) | (575) | (20) | (77) | (478) |
| | | (2,418) | (1,863) | (77) | (478) |

(i) Committed purchase agreements

In respect of some of its structured products, the Group has made a commitment to provide monthly liquidity for some of their underlying investments in fund products, which otherwise have only quarterly liquidity, by purchasing these shares. This commitment allows these structured products to rebalance their portfolios and offer monthly redemption terms to investors.

The Group's commitment at 31 March 2010 covers investments in existing fund products totalling \$556 million (2009: \$954 million). The decrease during the year is primarily the result of the reduction in underlying funds under management subject to CPAs. At 31 March 2010, the aggregate risk of loss to which the Group was exposed in relation to committed purchase agreements amounted to \$34 million (2009: \$96 million) at a one year 99.9% confidence level, taking into account the contingent nature of these exposures and the probability of a loss being incurred on any resulting holding. The fair value of these commitments has been determined to be nil (2009: nil).

(ii) MF Global brokerage account

MF Global has put in place a \$50 million (2009: \$50 million) daylight overdraft facility for certain funds which is guaranteed by the Group. This guarantee has a 364 day term and can be cancelled on any day by giving notice prior to 10:00 hours. Under normal circumstances, the Group does not expect the facility to be drawn down. The fair value of these commitments has been determined to be nil (2009: nil).

(iii) Intra-day credit facility

The Group guarantees a \$400 million (2009: \$400 million) intra-day credit facility, used to settle the majority of the funds' payments. Under normal circumstances, the Group has no exposure to the guarantee at the end of any given day. The fair value of these commitments has been determined to be nil (2009: nil).

(iv) The operating lease commitments

The operating lease commitments as at 31 March 2009 and 2010 above include the agreements for lease contracts for the new headquarters at Riverbank House, London (25 years) and the UK Data Centre, Woking (10 years). The commitments disclosed above include the offsetting effect of sublease arrangements totalling \$30 million (2009: \$6 million) for commitments less than five years and \$91 million (2009: \$3 million) for periods greater than five years. The current year income statement has included \$21 million (2009: \$19 million) in respect of operating lease rental costs.

(v) Loan facilities provided to fund products

This facility no longer exists as at 31 March 2010. In the prior year, the Group had provided committed loan facilities to the MAST structures. These were collateralised fund obligations (CFO) providing financing support to a range of the Group's structured products. The commitment under this facility at 31 March 2009 was \$177 million and was unutilised as at 31 March 2009.

Otherwise all of the loan facilities which the Group provides to its fund products are uncommitted.

(vi) FX trading guarantee

This facility no longer exists as at 31 March 2010. In the prior year the Group had guaranteed all unfilled margin requirements with respect of Fund FX trading activities. At any time the Group is exposed to the unfilled margin over the previous two days. As at 31 March 2009 the Group's exposure under this guarantee was \$24 million and the average month-end balance was \$28 million.

(vii) Commitments made by Empyrean Re

Empyrean Re used to write trade credit insurance and reinsurance on a global basis. As noted in Note 3, the business ceased to write new business from August 2008 and during the year ended 31 March 2010 all existing policies have been ceded to other reinsurers. Therefore the net exposure under the Group's commitment has been reduced to minimal levels. The fair value of these commitments as at 31 March 2010 has been determined to be \$12 million (2009: nil) and the liability has been recognised in 'Other categories of payables' (Note 16).

Notes to the Group Financial Statements continued

14. Investments in associates and joint ventures

| | 2010 \$m | 2009 \$m |
|---|-------------|-------------|
| At beginning of year | 317 | 267 |
| Currency translation differences | 11 | (74) |
| Acquisitions | – | 314 |
| Additions | – | 56 |
| Share of post-tax profit | 70 | 144 |
| Dividends received | (47) | (140) |
| Impairment of Ore Hill | – | (214) |
| Disposals | – | (28) |
| Conversion from subsidiary | – | 3 |
| Conversion to subsidiary | – | (2) |
| Reclassifications to available-for-sale investments | – | (9) |
| At 31 March | 351 | 317 |

Associates are all entities in which the Group holds an interest and over which it has significant influence but not control. Investments in associates are generally accounted for by the equity method of accounting and are initially recognised at cost, except for investments in certain fund entities (see below). Under the equity method, the Group's share of its associates' post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Where the Group has investments in certain fund entities over which it is able to exert significant influence but not control, these are classified as associates. The Group has applied the scope exclusion within IAS 28 'Investments in Associates' for mutual funds, unit trusts and similar entities and has classified such holdings as investments and measured them at fair value through profit and loss in accordance with IAS 39.

Joint ventures are all entities in which the Group has joint control through a contractual arrangement. Investments in joint ventures through which the Group carries on its business are classified as jointly controlled entities and accounted for using the equity method, as described above.

Gains and losses on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in the entities. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Share of after tax profit of associates and joint ventures is shown before finance income and expense in the Group Income Statement as the directors consider that the associates and joint ventures form an important component of the Group's activities, rather than an investing activity.

The Group have taken advantage of the s.140 of the Companies Act 2006 exemption and have not provided summary financial information for these associates because the information would be of excessive length and is not considered meaningful for the user of the accounts, Details of all associates will be annexed in the Company's annual return. Further details are given in Principal Group Investments on page 76.

BlueCrest Capital Management

The Group has one principal investment in an associate, BlueCrest Capital Management Services Limited and BlueCrest Capital Management LLP (BlueCrest). Income from associates largely relates to the Group's investment in BlueCrest, whose contribution to profit consisted of \$34 million (2009: \$88 million) of net performance fee income and \$39 million (2009: \$50 million) of net management and other fee income.

The investment in BlueCrest is carried at \$256 million (2009: \$217 million). The increase in the year relates to recognition of the Group's share of after tax profits as well as currency movements. Effective 1 April 2010, BlueCrest Capital Management LLP completed a legal reorganisation which facilitated the opening of a branch operation in Geneva and a new group head office in Guernsey. This restructure has no impact on the Group's investment in BlueCrest as at 31 March 2010.

BlueCrest has a statutory accounting reference date of 30 November. In respect of the year ended 31 March 2010, this company has been included based on audited financial statements drawn up to 30 November 2009 and taking into consideration the management accounts in the subsequent period from 1 December 2009 to 31 March 2010.

Ore Hill

The Group's investment in Ore Hill, a US based credit specialist fund manager, of \$53 million (2009: \$59 million), which was acquired in the prior year, is treated as a joint venture as the Group has joint control through a contractual arrangement.

Nephila Capital Ltd.

In the prior year the Group acquired a 25% interest in Nephila Capital Ltd. (Nephila). Nephila is an alternative investment manager specialising in the management of funds which underwrite natural catastrophe reinsurance and invest in insurance-linked securities and weather derivatives. The Group's investment in Nephila of \$42 million (2009: \$41 million) has been treated as a joint venture as the Group has joint control through a contractual arrangement.

14. Investments in associates and joint ventures continued

Summarised aggregate financial information

The summarised aggregate financial information of joint ventures and associates where equity accounting is applied is as follows:

| | Current assets \$m | Non-current assets \$m | Current liabilities \$m | Income \$m | Expenses \$m | Weighted average interest held % |
|---|-----------------------|---------------------------|----------------------------|---------------|-----------------|-------------------------------------|
| Joint ventures – 31 March 2010 | | | | | | |
| Ore Hill | 5 | 1 | (5) | 14 | (14) | 50 |
| Nephila Capital Ltd | 20 | 11 | (7) | 46 | (34) | 25 |
| Other joint ventures where equity accounting is applied | 1 | – | – | 1 | (3) | 29 |
| | 26 | 12 | (12) | 61 | (51) | |

| | Current assets \$m | Non-current assets \$m | Current liabilities \$m | Income \$m | Expenses \$m | Weighted average interest held % |
|---|-----------------------|---------------------------|----------------------------|---------------|-----------------|-------------------------------------|
| Joint ventures – 31 March 2009 | | | | | | |
| Ore Hill | 4 | 2 | (3) | 15 | (16) | 50 |
| Nephila Capital Ltd | 8 | 5 | (2) | 44 | (30) | 25 |
| Other joint ventures where equity accounting is applied | 3 | – | – | 3 | (2) | 29 |
| | 15 | 7 | (5) | 62 | (48) | |

| | Assets \$m | Liabilities \$m | Revenues \$m | Pre-tax profit \$m | Weighted average interest held % |
|---|---------------|--------------------|-----------------|-----------------------|-------------------------------------|
| Associates – 31 March 2010 | | | | | |
| BlueCrest | 1,233 | (208) | 987 | 758 | 26 |
| Other associates where equity accounting is applied | – | – | – | – | 15 |
| | 1,233 | (208) | 987 | 758 | |

| | Assets \$m | Liabilities \$m | Revenues \$m | Pre-tax profit \$m | Weighted average interest held % |
|---|---------------|--------------------|-----------------|-----------------------|-------------------------------------|
| Associates – 31 March 2009 | | | | | |
| BlueCrest | 449 | (53) | 837 | 699 | 24 |
| Other associates where equity accounting is applied | – | – | 88 | 36 | 15 |
| | 449 | (53) | 925 | 735 | |

In the case of Ore Hill, Nephila Capital Ltd and BlueCrest, arrangements exist which mean that the Group does not necessarily receive a share of the assets, liabilities, income, and expenses of the entities exactly in line with its percentage equity interest or partnership share held.

In the prior year, additions relating to investments made in previously acquired joint ventures and associates included \$50 million of additional investment in BlueCrest, and \$6 million of initial investment in Ore Hill.

15. Trade and other receivables

| | 2010 \$m | 2009 \$m |
|--------------------------------|-------------|-------------|
| Trade receivables | 52 | 99 |
| Current tax assets | 4 | 16 |
| Prepayments and accrued income | 119 | 172 |
| Amounts owed by employees | 14 | 26 |
| Derivative assets | 26 | 10 |
| Other receivables | 105 | 90 |
| | 320 | 413 |

Notes to the Group Financial Statements continued

15. Trade and other receivables continued

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision, if any, is recognised in 'Other costs' in the income statement.

Amounts owed by employees are provided under the Assisted Purchase Scheme as described in the Remuneration Report on page 89. The carrying values of loans to employees are based on cash flows discounted using an effective interest rate of 5.8% (2009: 6.1%).

At 31 March 2010, \$4 million (2009: \$15 million) of amounts owed by employees are expected to be settled after more than 12 months. Included in other receivables are \$45 million (2009: \$35 million) that are expected to be settled after more than 12 months.

Included in other receivables, and prepayments and accrued income, are balances of \$19 million (2009: \$17 million), and \$31 million (2009: \$42 million) respectively, that relate to fee income receivable from fund products, that meet the definition of an associate entity (see Note 14) and are included in the disclosures on related parties (see Note 24).

Derivative assets include the VFS Agreement of \$23 million (Note 4(d)) and foreign exchange contracts of \$3 million (2009: \$6 million). The VaR for the VFS derivative is equal to the fair value of the derivative of \$23 million as at 31 March 2010 (2009: nil). The notional value of forward foreign exchange contracts is \$72 million (2009: \$73 million) and the notional value of the foreign exchange swaps is \$463 million (2009: \$881 million). The notional value of the VFS Agreement is \$132 million (2009: nil). All contracts mature within one year, except for the VFS Agreement. During the year there were \$10 million net realised and unrealised gains arising from derivative financial instruments (2009: \$15 million net loss).

Other financial risk disclosures with respect to trade and other receivables may be found in Note 22.

16. Trade and other payables

| | 2010 \$m | 2009 \$m |
|--|-------------|-------------|
| Trade payables | 4 | 17 |
| Other taxation and social security costs | 32 | 6 |
| Accrued expenses | 108 | 219 |
| Other categories of payables | 222 | 220 |
| Pension obligations (Note 27) | – | 13 |
| Deferred tax | 10 | 14 |
| | 376 | 489 |

Payables are typically recorded initially at fair value and subsequently measured at amortised cost.

Included in trade and other payables at 31 March 2010 are balances of \$39 million (2009: \$12 million) that are expected to be settled after more than 12 months.

Included in other categories of payables is \$100 million (2009: \$100 million) in relation to share buy-backs contractually undertaken with a third-party investment bank on behalf of the Group. Contracts entered into with the third party to buy-back the Company's shares during a close period give rise to an obligation for the Group. This obligation is deducted from equity on the balance sheet for the value of the maximum number of shares that may be purchased under the contract with the third party. If the number of shares repurchased by the third party is not the maximum then there is a reversal through equity for that amount at the end of the close period. Any changes in the share price from the date of the contract are taken through the income statement.

A \$18 million (2009: nil) provision for onerous leases (refer to Note 4(b)) and a \$3 million (2009: \$7 million) accrual with respect to dilapidation costs of the London offices have been recognised in the income statement in the year and included in 'Other categories of payables'. The move to new London premises is expected to occur in April 2011. See Note 13 for operating lease commitments in respect of these premises.

17. Property, plant and equipment

| | Leasehold improvements \$m | Equipment \$m | Total \$m |
|--|----------------------------------|------------------|--------------|
| Cost: | | | |
| At 1 April 2009 | 19 | 148 | 167 |
| Additions | 19 | 25 | 44 |
| Disposals | (1) | (19) | (20) |
| Reclassifications | 17 | (17) | – |
| At 31 March 2010 | 54 | 137 | 191 |
| Aggregate depreciation: | | | |
| At 1 April 2009 | (11) | (92) | (103) |
| Charge for year | (2) | (21) | (23) |
| Impairment (Note 4(b)) | (11) | – | (11) |
| Disposals | 1 | 17 | 18 |
| At 31 March 2010 | (23) | (96) | (119) |
| Net book value at 31 March 2010 | 31 | 41 | 72 |
| Cost: | | | |
| At 1 April 2008 | 17 | 123 | 140 |
| Additions | 2 | 36 | 38 |
| Disposals | – | (11) | (11) |
| At 31 March 2009 | 19 | 148 | 167 |
| Aggregate depreciation: | | | |
| At 1 April 2008 | (8) | (80) | (88) |
| Charge for year | (3) | (19) | (22) |
| Disposals | – | 7 | 7 |
| At 31 March 2009 | (11) | (92) | (103) |
| Net book value at 31 March 2009 | 8 | 56 | 64 |

All property, plant and equipment is shown at cost, less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenditures are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life as follows:

- Leasehold improvements life of the lease
- Equipment 3–10 years

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Notes to the Group Financial Statements continued

18. Net finance (expense)/income

Net finance (expense)/income comprises:

| | 2010 \$m | 2009 \$m |
|---|-------------|-------------|
| Finance income: | | |
| Interest on cash deposits | 22 | 42 |
| Finance fees | - | 6 |
| Other | 7 | 10 |
| | 29 | 58 |
| Finance expense: | | |
| Interest payable on borrowings | (33) | (36) |
| Amortisation of issue costs on borrowings | (3) | (2) |
| | (36) | (38) |
| Net finance (expense)/income | (7) | 20 |

Interest income and expense is recognised on a time-apportioned basis using the effective interest method.

Net finance expense includes interest expense on borrowings and other debt of \$36 million (2009: \$38 million), reflecting the decrease in US dollar interest rates, offset by increased borrowing. Finance income is \$29 million (2009: \$58 million), which includes interest income on cash and cash equivalents of \$22 million (2009: \$42 million) and other finance fees and related income of \$7 million (2009: \$16 million).

19. Dividends

| | 2010 \$m | 2009 \$m |
|--|-------------|-------------|
| Ordinary shares | | |
| Final dividend paid for 2009 – 24.8 cents (2008: 24.8 cents) | 419 | 423 |
| Interim dividend paid for 2010 – 19.2 cents (2009: 19.2 cents) | 326 | 295 |
| Dividends paid during the year | 745 | 718 |
| Proposed final dividend for 2010 – 24.8 cents (2009: 24.8 cents) | 425 | 416 |

Dividend distribution to the Company's shareholders is recognised directly in equity and as a liability in the Group's financial statements in the period in which the dividend is paid or, if required, approved by the Company's shareholders.

The proposed final dividend recommended by the Board is payable on 20 July 2010, subject to shareholder approval, to shareholders who are on the register of members on 2 July 2010. Dividends on ordinary shares are declared in US dollars but paid in sterling.

| | 2010 \$m | 2009 \$m |
|---|-------------|-------------|
| Fixed rate perpetual subordinated capital securities | | |
| Dividends paid during the year | 33 | 25 |

The \$33 million (2009: \$25 million) of dividends paid during the year on fixed rate perpetual subordinated capital securities relate to the \$300 million US\$ RegS Fixed Rate Perpetual Subordinated Capital Securities issued in May 2008, as discussed in the Capital Reserves section of Note 20.

20. Share capital and capital reserves

| Authorised share capital | 2010 | | | 2009 | | |
|---------------------------|---------------|------------|----------|---------------|------------|----------|
| | Number | \$m | £m | Number | \$m | £m |
| Ordinary share capital | 2,858,329,201 | 98 | – | 2,362,500,000 | 81 | – |
| Preference shares | 600,000 | 600 | – | 600,000 | 600 | – |
| Deferred US dollar shares | 1,043,449,209 | – | – | 1,043,449,209 | – | – |
| Deferred sterling shares | 50,000 | – | – | 50,000 | – | – |
| As at 31 March | | 698 | – | | 681 | – |

| Issued and fully paid share capital | 2010 | | | 2009 | | |
|---|----------------------|-----------|----------|---------------|-----------|----------|
| | Number | \$m | £m | Number | \$m | £m |
| As at beginning of year | 1,707,896,491 | 59 | – | 1,715,269,486 | 59 | – |
| Issue of ordinary shares: | | | | | | |
| Employee share awards/options | 4,445,053 | – | – | 5,650,788 | – | – |
| Shares issued in business combinations | – | – | – | 17,523,209 | 1 | – |
| Purchase and cancellation of own shares | – | – | – | (30,546,992) | (1) | – |
| Ordinary share capital as at 31 March | 1,712,341,544 | 59 | – | 1,707,896,491 | 59 | – |
| Deferred dollar shares as at 31 March | – | – | – | 1,043,449,209 | – | – |
| Deferred sterling shares as at 31 March | 50,000 | – | – | 50,000 | – | – |
| As at 31 March | | 59 | – | | 59 | – |

Equity capital is maintained to absorb losses and to provide the Group with capital flexibility to grow the business. The Group calculate economic capital using a series of risk exposures and economic scenarios. In addition the Group is subject to the regulatory capital regime of the Financial Services Authority in the United Kingdom, the Group's primary regulator.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Own shares held through an ESOP trust are recorded at cost, including any directly attributable incremental costs (net of income taxes), and are deducted from equity attributable to the Company's equity holders until the shares are transferred to employees or sold. Where such shares are subsequently sold, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Company's equity holders. Refer also to Note 25.

Ordinary shares

Ordinary shares have a par value of 3 ³/₇ US cents per share (2009: 3 ³/₇ US cents per share) and represent 99.9% of issued share capital. All issued shares are fully paid. The shares have attached to them full voting, dividend and capital distribution (including on wind up) rights. They do not confer any rights of redemption. Ordinary shareholders have the right to receive notice of, attend, vote and speak at general meetings.

A holder of ordinary shares is entitled to one vote per ordinary share held when a vote is taken on a poll and one vote only when a vote is taken on a show of hands.

Subject to certain restrictions on transfer contained in the Company's Articles of Association, such as that the directors may decline to register a transfer of a share that is not fully paid up, there are no restrictions on the transfer of ordinary shares.

During the year, the Company did not repurchase any ordinary shares (2009: 30,546,992 – \$280 million). As at 27 May 2010, the Company had an unexpired authority from the 2009 Annual General Meeting, to purchase further shares up to a maximum amount of 170,805,967 ordinary shares.

Preference shares

The preference shares, which have a par value of \$1,000 each, have not been issued.

Deferred dollar shares

In addition to the ordinary shares, as part of the return of cash to shareholders following the sale of the brokerage business, on 26 November 2007, the Company issued 1,043,449,209 C shares out of equity. The C shares were created out of share premium. Subsequent to the payments to shareholders from the C shares, all the outstanding C shares were deferred. In accordance with the Shareholders Agreement which was approved at the 2009 Annual General Meeting, all of the outstanding C shares (Deferred US Dollar Shares of 0.001 cent) were transferred to Man Group plc and were subsequently cancelled on 3 December 2009.

Notes to the Group Financial Statements continued

20. Share capital and capital reserves continued

Deferred sterling shares

On 29 July 2004, 50,000 unlisted deferred sterling shares, representing 0.1% of the Company's issued share capital, with a par value of £1 per share were issued, following the redenomination of the ordinary share capital into ordinary shares of 18 US cents each.

These shares are necessary to continue to comply with Section 763 of the Companies Act 2006, following the redenomination of the ordinary share capital into ordinary shares of 18 US cents each on that date. The deferred sterling shares are freely transferable and have no rights to participate in the profits of the Company, no rights to attend, speak or vote at any general meeting and no right to participate in any distribution in a winding up except for a return of the nominal value of the shares after the return on the nominal amount paid up on every other class of share and the distribution of £100,000,000,000 to every other holder of every other class of share.

Share Capital and reserves

| | Share capital \$m | Capital Securities \$m | Share premium account \$m | Capital redemption reserve \$m | Total \$m |
|---|----------------------|---------------------------|------------------------------|-----------------------------------|--------------|
| At 1 April 2009 | 59 | 300 | 957 | 1,292 | 2,608 |
| Issue of ordinary share capital | – | – | 18 | – | 18 |
| At 31 March 2010 | 59 | 300 | 975 | 1,292 | 2,626 |
| At 1 April 2008 | 59 | – | 841 | 1,225 | 2,125 |
| Issue of ordinary share capital | – | – | 53 | – | 53 |
| Ordinary shares issued in business combinations | 1 | – | 63 | – | 64 |
| Perpetual subordinated capital securities | – | 300 | – | – | 300 |
| Purchase and cancellation of own shares | (1) | – | – | 1 | – |
| Cancellation of B shares | – | – | – | 67 | 67 |
| Transfer between reserves | – | – | – | (1) | (1) |
| At 31 March 2009 | 59 | 300 | 957 | 1,292 | 2,608 |

On 7 May 2008 the Group issued \$300 million US\$ RegS Fixed Rate Perpetual Subordinated Capital Securities (Capital Securities). The Capital Securities consist of \$300 million principal with a perpetual maturity date with optional par redemption at the Group's discretion on 7 May 2013 and any coupon date thereafter, subject to FSA consent. On any coupon date the Group may exchange or vary the Capital Securities for Qualifying non-innovative Tier 1 Securities (e.g. perpetual non-cumulative preference shares). The interest rate is 11% per annum quarterly in arrears and is deferrable at the discretion of the Group. The Capital Securities have been classified as equity on the basis that the securities are irredeemable except at the option of the Group, and coupon payments and principal repayments can be deferred indefinitely at the option of the Group.

In the prior year, the increase in the capital redemption reserve arose from the transfer of \$67 million from revenue reserves to capital reserves to maintain the share capital, following the cancellation of B shares and return to shareholders.

21. Revaluation reserves and retained earnings

| | Available-for-sale reserve \$m | Own shares held by ESOP trust \$m | Cumulative translation adjustment \$m | Profit and loss account \$m | Total \$m |
|---|-----------------------------------|--------------------------------------|--|--------------------------------|--------------|
| At 1 April 2009 | (2) | (163) | (145) | 1,894 | 1,584 |
| Currency translation difference | – | (8) | 108 | – | 100 |
| Share-based payments charge for the year | – | – | – | 56 | 56 |
| Purchase of own shares by ESOP trusts | – | (47) | – | (14) | (61) |
| Disposal of own shares by ESOP trusts | – | 84 | – | (84) | – |
| Fair value gains taken to equity | 62 | – | – | – | 62 |
| Tax credit/(charge) taken to reserves | 3 | – | – | 2 | 5 |
| Taxation taken to equity with respect to capital securities | – | – | – | 9 | 9 |
| Transfer to income statement on sale or impairment | (66) | – | – | – | (66) |
| Disposal of business | – | – | 5 | – | 5 |
| Dividends | – | – | – | (745) | (745) |
| Dividends with respect to capital securities | – | – | – | (33) | (33) |
| Profit for the year | – | – | – | 445 | 445 |
| At 31 March 2010 | (3) | (134) | (32) | 1,530 | 1,361 |

21. Revaluation reserves and retained earnings continued

| | Available-for-sale reserve \$m | Own shares held by ESOP trust \$m | Cumulative translation adjustment \$m | Profit and loss account \$m | Total \$m |
|---|-----------------------------------|--------------------------------------|--|--------------------------------|--------------|
| At 1 April 2008 | 74 | (58) | 129 | 2,440 | 2,585 |
| Currency translation difference | – | 16 | (277) | – | (261) |
| Purchase and cancellation of own shares | – | – | – | (277) | (277) |
| Movement in close period share buyback obligations | – | – | – | (3) | (3) |
| Hybrid issue costs | – | – | – | (7) | (7) |
| Share-based payments charge for the year | – | – | – | 86 | 86 |
| Purchase of own shares by ESOP trusts | – | (186) | – | (32) | (218) |
| Disposal of own shares by ESOP trusts | – | 67 | – | (8) | 59 |
| Fair value losses taken to equity | (250) | – | – | – | (250) |
| Current tax credit taken to reserves | – | – | – | 6 | 6 |
| Deferred tax credit/(charge) taken to reserves | 2 | – | – | (14) | (12) |
| Taxation taken to equity with respect to capital securities | – | – | – | 9 | 9 |
| Transfer to income statement on impairment | 201 | – | – | – | 201 |
| Transfer to income statement on sale | (29) | – | – | – | (29) |
| Transfer between reserves | – | – | – | 1 | 1 |
| Acquisition of business | – | (2) | – | – | (2) |
| Disposal of business | – | – | 3 | – | 3 |
| Dividends | – | – | – | (718) | (718) |
| Dividends with respect to capital securities | – | – | – | (25) | (25) |
| Return of cash | – | – | – | (67) | (67) |
| Profit for the year | – | – | – | 503 | 503 |
| At 31 March 2009 | (2) | (163) | (145) | 1,894 | 1,584 |

The available-for-sale reserve represents the unrealised change in the fair value of available-for-sale investments. The reserve is not distributable.

The cumulative translation adjustment reserve comprises cumulative foreign exchange adjustments arising on the consolidation of subsidiaries with non-US dollar functional currencies. These adjustments, which were set to zero as at the Group's transition date for IFRS (1 April 2004), will be recycled through the income statement on disposal of foreign currency subsidiaries.

The amount recycled to the income statement for the year ended 31 March 2010 was a debit of \$5 million (2009: \$3 million debit).

22. Risk management

Financial risk management

(a) Credit risk management

Financial assets subject to credit risk are as follows:

| | Note | 2010 \$m | 2009 \$m |
|--|------|--------------|-------------|
| Cash and cash equivalents | 11 | 3,229 | 2,361 |
| Included in trade and other receivables: | 15 | | |
| Derivative financial instruments | | 26 | 10 |
| Other receivables | | 275 | 345 |
| Amounts owed by fund products | 2(b) | 373 | 373 |
| | | 3,903 | 3,089 |

The maximum credit risk exposure is equivalent to the carrying value of the balances shown.

Notes to the Group Financial Statements continued

22. Risk management continued

(i) Counterparty credit rating

The Group's counterparties are externally rated and amounts owed by fund products are rated using an internal rating methodology. Loans to funds are subject to strict limits consistent with the Board's risk appetite and loans are monitored and leverage reduced according to the Group's de-risking process where necessary. Deposit limits for bank counterparties are set by the Board on the basis of external long-term credit ratings and movements in credit default swap rates and counterparties' share prices. At 31 March 2010 the counterparty rating of the Group's financial assets subject to counterparty risk and neither past due nor impaired was as follows:

| | AA- or better % | A+ to A- % | BBB+ to speculative % | Not rated % |
|----------------------------------|--------------------|---------------|--------------------------|----------------|
| 31 March 2010 | | | | |
| Amounts owed by fund products | – | – | 100 | – |
| Trade and other receivables | 22 | 45 | 17 | 16 |
| Derivative financial instruments | 3 | 97 | – | – |
| Cash and cash equivalents | 27 | 72 | 1 | – |
| Weighted average | 23 | 63 | 11 | 3 |

| | AA- or better % | A+ to A- % | BBB+ to speculative % | Not rated % |
|----------------------------------|--------------------|---------------|--------------------------|----------------|
| 31 March 2009 | | | | |
| Amounts owed by fund products | 6 | 71 | 23 | – |
| Trade and other receivables | 15 | 37 | 6 | 42 |
| Derivative financial instruments | 26 | 73 | – | 1 |
| Cash and cash equivalents | 8 | 92 | – | – |
| Weighted average | 9 | 83 | 3 | 5 |

(ii) Ageing and impairment of financial assets

| | Neither past due nor impaired \$m | Past due but not impaired | | | Impaired \$m | Total \$m |
|----------------------------------|--------------------------------------|---------------------------|--------------------|-----------------|-----------------|--------------|
| | | 0–6 months \$ | 6–12 months \$m | > 1 year \$m | | |
| 31 March 2010 | | | | | | |
| Amounts owed by fund products | 373 | – | – | – | – | 373 |
| Trade and other receivables | 257 | 17 | 1 | – | – | 275 |
| Derivative financial instruments | 26 | – | – | – | – | 26 |
| Cash and cash equivalents | 3,229 | – | – | – | – | 3,229 |
| | 3,885 | 17 | 1 | – | – | 3,903 |

| | Neither past due nor impaired \$m | Past due but not impaired | | | Impaired \$m | Total \$m |
|----------------------------------|--------------------------------------|---------------------------|--------------------|-----------------|-----------------|--------------|
| | | 0–6 months \$m | 6–12 months \$m | > 1 year \$m | | |
| 31 March 2009 | | | | | | |
| Amounts owed by fund products | 373 | – | – | – | – | 373 |
| Trade and other receivables | 328 | 11 | – | 5 | 1 | 345 |
| Derivative financial instruments | 10 | – | – | – | – | 10 |
| Cash and cash equivalents | 2,361 | – | – | – | – | 2,361 |
| | 3,072 | 11 | – | 5 | 1 | 3,089 |

No significant impairments were recorded on items exposed to credit risk in either the current or comparative financial years.

(iii) Concentrations of credit risk

At 31 March 2010, the Group's single largest counterparty exposure is \$557 million held with an 'A' rated bank (2009: \$608 million). The largest loan to a fund product was \$18 million (2009: \$39 million). The amount of these exposures can change significantly each month.

(b) Foreign exchange and interest rate risk

The Group's net assets are exposed to the effect of movements in the exchange rate on financial assets and liabilities where balances are not denominated in the functional currency of the subsidiary. The main foreign exchange sensitivity is to fluctuations in the US dollar exchange rate against sterling, euro, Australian dollar and Swiss franc balances. The Group, from time to time, puts in place short-term foreign currency contracts to hedge these costs. At 31 March 2010, a 10% strengthening/weakening of the US dollar against all other currencies, with all other variables held constant, would have resulted in a foreign exchange gain/loss of \$2 million, with a corresponding impact on equity (2009: \$12 million loss/gain).

In respect of those of the Group's monetary assets and liabilities which earn/incur interest indexed to floating rates, as at 31 March 2010, a 50bp increase/decrease in interest rates, with all other variables held constant, would have resulted in a \$14 million increase/\$9 million decrease in net interest income, with a corresponding impact on equity (2009: \$10 million increase/decrease).

22. Risk management continued

Operational risk management

Operational risk arises from the potential for the Group to suffer losses due to failures in processes or procedures in its business. Examples of significant risks include fraud, mis-selling of products or errors in fund prospectuses, failures of due diligence or breach of investment mandate, failures by third party providers of critical services, technology failures and fund valuation errors. Operational risk is mitigated by the Group's control environment. The organisation's culture emphasises the importance of effective risk management, strong internal controls, sound governance and a clear understanding of the competitive advantage and value of maintaining its reputation. The Group pays particular attention to operational and reputational risks relating to product suitability, sales practices at intermediaries and the accuracy of its valuation and investor reporting processes. The Group's aim is to operate only through regulated intermediaries in all jurisdictions where investment advice is a regulated activity and continues to invest heavily in technology to improve its investor servicing.

Independent valuation service providers are used for the valuation of fund products and underlying third party managers where a managed account is in place. A dedicated team monitors the quality and reliability of administration and valuation service providers. A Valuation Committee, chaired by the Chief Risk Officer of the investment management business meets monthly to review and approve any issues relating to valuation.

Significant resources are devoted to protecting the resilience of the Group's information technology systems, including formal business continuity plans and remote data back-up and disaster recovery facilities for each of its key locations. Business continuity for its core activities is regularly tested to maintain effectiveness.

The system of internal control is subject to regular review by Internal Audit, based on an audit programme approved annually by the Audit and Risk Committee of the Board. The programme covers the business areas and processes which management believes are the most significant in terms of the Group's risk profile and where there are key controls on which the Group relies. An insurance programme provided by a syndicate of third party insurers is tailored to its risk profile and designed to maximise breadth of cover and certainty of response in respect of key third party liabilities, loss of Group assets, business interruption and people-related exposures.

Capital management

The Group monitors its capital requirements through continuous review of its regulatory capital and economic capital, including monthly reporting to Finance Committee and the Group Board. The Group has been in compliance with the Regulatory Capital requirements at all times during the year.

The Group's Financial Resources are discussed on page 34.

23. Contingent liabilities

On 28 February 2008, MF Global announced that it had incurred a significant credit loss. Following this disclosure a number of plaintiffs filed class action law suits in the US Federal Court against the Group, MF Global, certain of its officers and directors, and certain underwriters asserting various causes of action arising out of the US initial public offering. The consolidated class action complaint alleged claims under certain sections of the US Securities Act of 1933 and alleged, among other things, that the public disclosure documents for the offering contained false and misleading statements concerning risk management and trading risk controls at MF Global. The plaintiffs were seeking compensatory damages, rescission and attorneys' fees and expenses. On 16 July 2009, the United States district court dismissed the case on the grounds that the plaintiffs had failed to identify any material misrepresentations or omissions in the disclosure documents. The district court granted the plaintiffs leave to replead which was rejected on 11 September 2009 because the amended complaint failed to correct the previously identified defects, and ordered the district court case closed. The plaintiffs appealed both rulings to the United States Court of Appeals. The scheduling of the appeal process is currently under way. The directors believe that these rulings corroborate its view that the Group complied with all applicable laws and regulations in connection with the initial public offering of MF Global.

24. Related party transactions

(a) Transactions and balances with related entities

During the year the following categories of related entity relationships occurred:

| Entity type | Description of relationship | Description of transactions |
|-------------------------------|------------------------------|--|
| Associates and joint ventures | Investor and trading adviser | Seeding and liquidity investments, loans to fund products, external re-financing guarantees, asset management performance, management and other fees, brokerage commissions, and interest and dividend income. |

Notes to the Group Financial Statements continued

24. Related party transactions continued

Transactions with related parties included in the income statement during the financial year, excluding key management compensation were as follows:

| | 2010 \$m | 2009 \$m |
|---------------------------------|-------------|-------------|
| Asset Management: | | |
| Performance fee income | 5 | 122 |
| Management and other fee income | 440 | 336 |
| | 445 | 458 |

All transactions between related parties are carried out on an arm's length basis.

Year end balances arising from transactions with related parties during the financial year, excluding key management compensation are as follows:

| | 2010 \$m | 2009 \$m |
|----------------------------------|-------------|-------------|
| Receivable from related entities | 169 | 99 |

(b) Key management compensation

The total compensation and other benefits to those directors and employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Group, are as follows:

| | 2010 \$000 | 2009 \$000 |
|---|----------------|---------------|
| Salaries and other short-term employee benefits | 6,670 | 17,983 |
| Post-employment benefits | 1,885 | 906 |
| Share-based payments | (3,508) | 10,800 |
| | 5,047 | 29,689 |

The performance-related share awards given in prior years were re-assessed in the current year such that the probability of vesting has substantially reduced to minimal levels. As a result the charges raised in prior years were reversed in the current year in accordance with IFRS 2.

Information concerning individual directors' compensation and other benefits is given in the audited part of the Remuneration Report on pages 97 to 101.

25. Employee trusts

The balance sheet and financial result of the employee trusts have been consolidated in these financial statements. The employee trusts are controlled by independent trustees and their assets are held separately from those of the Group.

Contributions to the employee trusts are determined by the Board annually. The contribution made in respect of the current year was \$44 million (2009: \$64 million).

At 31 March 2010, the net assets of the employee trusts amounted to \$110 million (2009: \$108 million). These assets include 26,837,328 (2009: 28,887,776) ordinary shares in the Company. These shares are recorded at cost and shown as a deduction from shareholders' funds. Other assets were primarily cash and receivables from employees in connection with the purchase of shares in the Company. The trustees of one of the employee trusts waived all but 0.01p of the interim dividend for the year ended 31 March 2010 on each of 30,833,745 of the ordinary shares registered in its name at the relevant date for eligibility for the interim dividend (2009 interim: 22,192,216 shares) and all but 0.01p of the final dividend for the year ended 31 March 2009 on each of 33,238,809 of the ordinary shares registered in its name at the relevant date for eligibility for the final dividend (2008 final: 15,332,879 shares).

26. Share-based payments

The Group operates equity-settled, share-based compensation schemes.

The fair value of the employee services received in exchange for the share awards and options granted is recognised as an expense, with the corresponding credit being recognised in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and options awarded/granted, excluding the impact of any non-market vesting conditions (for example, earnings per share and return on equity targets). Non-market vesting conditions are included in assumptions made on the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The Group also operates 'phantom' cash-settled, equity-based compensation plans. The equity base is typically some of the fund products of which the Group is the investment manager. The fair value of the employee services received in exchange for the phantom equity awards is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards,

26. Share-based payments continued

remeasured at each reporting date until the settlement date is reached. The fair value of the awards equates to the fair value of the underlying fund products at the settlement date.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

All of the employee share awards and share option awards were made within the Group's share-based remuneration schemes. Details of these schemes may be found in the Remuneration Report on page 89.

During the year, \$56 million (2009: \$86 million) was charged to the income statement for equity-settled, share-based payment transactions. The fair value of share options and awards at grant date is calculated using a 'binomial lattice' model that takes into account the effect of both financial and demographic assumptions. Financial assumptions include the future share price volatility, dividend yield, risk-free interest rate, and the best estimate outcome of non-market based performance conditions. Demographic assumptions include forfeiture and early vesting behaviours that are based upon historic observable data. The fair values per option and award granted during the year to employees, and the assumptions used in the calculations, are as follows:

| | Executive share option scheme | Other employee share option schemes | Performance share plan | Deferred share plan |
|--|-------------------------------|-------------------------------------|------------------------|---------------------|
| Grant dates | 18/6/2009–9/7/2009 | 26/6/2009–1/7/2009 | 9/7/2009 | 18/6/2009–16/2/2010 |
| Weighted average share price at grant date (\$) | 4.23 | 4.56 | 3.95 | 4.69 |
| Weighted average exercise price at grant date (\$) | 4.18 | 3.26 | – | – |
| Share options/awards made in the year | 1,292,279 | 2,019,178 | 2,575,611 | 8,161,741 |
| Vesting period (years) | 3 | 3–5 | 4 | 4 |
| Expected share price volatility | 40% | 40% | – | – |
| Dividend yield | 10% | 10% | – | – |
| Risk-free rate | 2.9% | 2.4–2.7% | – | – |
| Expected option life (years) | 7.5 | 3.4 | – | – |
| Number of shares/options assumed to vest | 489,729 | 1,520,311 | – | 7,380,456 |
| Average fair value per option/share granted (\$) | 0.77 | 0.80 | 2.69 | 4.69 |

In addition employees were advised of Executive Share Options valued at \$36 million (2009: nil) and Deferred Share Plan awards valued at \$39 million (2009: nil) for which the grant price and number of options will not be determined until June 2010. Had the share price as at 31 March 2010 been used, Executive Share Options of 9,869,449 and Deferred Share Plan awards of 10,529,611 would have been made.

The expected share price volatility is based on historical volatility over the last 10 years. The expected option life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon US and UK (where appropriate) government bonds of a term consistent with the assumed option life.

It is currently assumed that the performance conditions applicable to the executive share option scheme and performance share plan will not be satisfied and none of the share options awarded will vest. For the smaller number of Key Executive Plan options totalling 489,729 included above, it is assumed that the performance criteria will be met, and consequently these options are expected to vest in full. For these options, it is assumed that 5% per year are subject to early exercise, and in addition, provided there is a gain of 50% on the exercise price, it is assumed that 50% of remaining option holders will exercise per year.

Movements in the number of share options outstanding are as follows:

| | 2010 | | 2009 | |
|--|-------------|--|-------------|--|
| | Number | Weighted average exercise price (\$ per share) | Number | Weighted average exercise price (\$ per share) |
| Share options outstanding at beginning of year | 4,599,249 | 7.09 | 6,268,005 | 5.26 |
| Granted | 3,311,457 | 3.62 | 687,720 | 10.60 |
| Forfeited | (2,050,056) | 7.13 | (488,444) | 9.06 |
| Exercised | (1,067,973) | 3.51 | (1,868,032) | 4.17 |
| Share options outstanding at 31 March | 4,792,677 | 5.47 | 4,599,249 | 7.09 |
| Share options exercisable at 31 March | 665,352 | 4.94 | 1,625,046 | 3.18 |

The weighted average share price during the financial year ended 31 March 2010 was \$4.44 (2009: \$6.89). Included in the tables above are 586,318 Executive Share Plan 2007 awards outstanding as at 31 March 2010, which will not meet the performance criteria and will hence all lapse.

Notes to the Group Financial Statements continued

26. Share-based payments continued

The share options outstanding at the end of the year have a weighted average exercise price and expected remaining life as follows:

| Range of exercise prices (\$ per share) | 2010 | | | 2009 | | |
|---|-------------------------|--|--|-------------------------|--|--|
| | Number of share options | Weighted average exercise price (\$ per share) | Weighted average expected remaining life (years) | Number of share options | Weighted average exercise price (\$ per share) | Weighted average expected remaining life (years) |
| 2.00–5.00 | 3,489,853 | 3.37 | 3.3 | 1,981,266 | 3.29 | 2.5 |
| 5.01–7.00 | 363,912 | 6.07 | 4.7 | 1,346,962 | 5.93 | 5.1 |
| 7.01–9.00 | 675,318 | 8.60 | 4.4 | 1,271,021 | 8.10 | 5.9 |
| 9.01–11.00 | 263,594 | 9.18 | 6.7 | – | – | – |
| | 4,792,677 | | | 4,599,249 | | |

Movements in the number of share awards outstanding are as follows:

| | 2010 Number | 2009 Number |
|---|----------------|----------------|
| Share awards outstanding at beginning of year | 37,971,004 | 32,425,283 |
| Granted | 10,737,352 | 17,437,157 |
| Transferred | 21,699 | – |
| Forfeited | (1,606,002) | (483,949) |
| Exercised | (15,900,247) | (11,407,487) |
| Share awards outstanding at 31 March | 31,223,806 | 37,971,004 |
| Share awards exercisable at 31 March | 2,056,069 | 2,055,199 |

Included in the table above are 1,213,300 Performance Share Plan 2007 awards outstanding as at 31 March 2010 which will not meet the performance criteria and will hence all lapse. Certain of the above awards accrue dividends in the form of additional shares, during the year these additional shares totalled 704,703 (2009: nil).

27. Pension benefits

The Group operates various pension plans throughout the world, including a number of defined contribution plans and two funded defined benefit plans. The Group's pension plans are funded through payments to trustee-administered funds or insurance companies, determined by periodic actuarial calculations. Other than pensions, the Group does not operate any other form of post-retirement benefit plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund. A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

(a) Defined contribution plans

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined contribution pension costs totalled \$6 million (2009: \$11 million).

(b) Defined benefit plans

The two defined benefit plans operated by the Group are the Man Group plc Pension Fund in the UK (the UK plan) and the Man Group Pension Plan in Switzerland (the Swiss plan). The asset recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs less the present value of the defined benefit obligation at the balance sheet date. These include the contingent asset described below. The present values of the defined benefit obligations are determined using the Projected Unit Credit method by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The latest regular triennial funding valuation of the UK Plan was carried out as at 31 December 2008. The defined benefit obligation for the UK Plan is based on this funding valuation, with results projected forward by independent qualified actuaries. The obligation for the Swiss plan was calculated as at 31 March 2010 by independent qualified actuaries. At 31 March 2010, the UK plan comprised 80% (2009: 76%) of the Group's total defined benefit pension obligations.

Following the 31 December 2008 funding valuation the Group reached an agreement with the UK Plan trustees on the future level of contributions to the UK Plan in March 2010. It was agreed that from April 2010 the Group will contribute 46.0% of pensionable salaries each year to cover the cost of accruing benefits less the contributions made by active members. In addition, to remove the funding deficit as at

27. Pension benefits continued

31 December 2008, it was agreed that the Group would pay £7.3 million every year from March 2010 until 31 March 2015 with a further lump sum to be paid in March 2016 to cover any remaining funding deficit at 31 December 2015.

It was also agreed that the Group would set up the Man Group Reservoir Trust (the Reservoir Trust) to provide additional security for the UK Plan as a contingent asset. The Reservoir Trust, which is a separate legal entity to the Group which is governed by independent trustees to the UK Plan, can be used to make the March 2016 lump sum contribution to the UK Plan should there be a funding deficit at 31 December 2015. The Group contributed £50 million (\$76 million) of hedge fund assets to the Reservoir Trust on 31 March 2010 and is committed to ensure the Reservoir Trust value remains at least £49 million (or at the level of the funding deficit in the UK Plan if lower).

In accordance with the transitional provisions set out in IFRS 1 'First time adoption of international financial reporting standards', all cumulative actuarial gains and losses at the date of the Group's IFRS transition (1 April 2004) were recognised in full. Since 1 April 2004, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are not recognised in the current period unless the cumulative unrecognised gain or loss at the end of the previous reporting period exceeds the greater of 10% of the plan assets or liabilities. In these circumstances the excess is charged or credited to the income statement over the employees' expected average remaining working lives.

Past service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

The principal actuarial assumptions used in the valuations of the two plans as at 31 March 2010 were:

| | UK plan | | Swiss plan | |
|--------------------------------|--------------|--------------|--------------|--------------|
| | 2010 % pa | 2009 % pa | 2010 % pa | 2009 % pa |
| Discount rate | 5.5 | 6.8 | 2.7 | 3.3 |
| Price inflation | 3.7 | 3.3 | 1.5 | 1.5 |
| Expected return on plan assets | 6.9 | 7.0 | 4.5 | 4.5 |
| Future salary increases | 3.7 | 3.3 | 2.5 | 2.5 |
| Social security increases | – | – | 3.0 | 3.0 |
| Pension in payment increases | 3.8 | 3.6 | – | – |
| Deferred pensions increases | 5.0 | 5.0 | – | – |

The expected return on plan assets is based on the market expectation at the beginning of the period for returns over the entire life of the benefit obligation. In the UK, investment market conditions suggest an expected return on equities of around 7.9% (2009: 8.0%), expected bond returns of around 5.0% (2009: 5.3%), expected return on hedge funds of around 7.9% (2009: 8.0%), and expected average return on other plan assets (cash) of around 4.5% (2009: 4.2%). The Reservoir Trust holds a different mixture of hedge funds, the expected return on these assets is around 7.4%. In Switzerland, investment market conditions suggest an expected return on equities of around 6.0% (2009: 7.2%), expected bond returns of around 2.2% (2009: 3.4%), expected returns on property of 4.5% (2009: 4.4%), expected hedge fund returns of around 6.0% (2009: 5.8%) and expected average return on other plan assets (commodities) of around 6.0% (2009: 5.8%).

Mortality rates in the UK plan are assumed to be in line with 120% (2009: 100%) of the PNA00 tables projected by year of birth with allowance for future improvements in mortality rates in line with the medium cohort projections with a minimum rate of improvement each year of 1.0% for males and 0.5% for females. This assumption reflects the profile of the UK Plan implied by a post-code analysis carried out as part of the 31 December 2008 funding valuation. The table below sets out the implied life expectancy at age 60 for members currently aged 60 and for members reaching age 60 in 20 years' time.

| | Current life expectancy (years) | Life expectancy in 20 years time (years) |
|----------------------|------------------------------------|---|
| 31 March 2010 | | |
| Male aged 60 | 25.6 | 27.7 |
| Female aged 60 | 27.7 | 28.9 |
| 31 March 2009 | | |
| Male aged 60 | 27.1 | 29.3 |
| Female aged 60 | 29.1 | 30.3 |

Mortality rates in the Swiss plan are assumed to be in line with the Swiss BVG 2005 standard table plus a 0.5% pa allowance for increase in life expectancy from the date of the census underlying the table to the valuation date.

Notes to the Group Financial Statements continued

27. Pension benefits continued

The amounts recognised in the balance sheet are determined as follows:

| | 2010 \$m | 2009 \$m |
|--|-------------|-------------|
| Present value of funded obligations | 384 | 296 |
| Fair value of plan assets | (391) | (248) |
| (Surplus)/deficit | (7) | 48 |
| Unrecognised actuarial losses | (61) | (33) |
| Unrecognised past service cost | (1) | (2) |
| Net pension (asset)/liability in the balance sheet at 31 March | (69) | 13 |

Analysed as follows

| | 2010 \$m | 2009 \$m |
|--|-------------|-------------|
| UK plan – Pension (asset)/liability | (70) | 15 |
| Swiss plan – Pension liability/(asset) | 1 | (2) |
| Pension (asset)/liability in the balance sheet at 31 March | (69) | 13 |

The major categories of plan assets are:

| | 2010 \$m | 2009 \$m |
|-------------|-------------|-------------|
| Equities | 113 | 77 |
| Bonds | 119 | 88 |
| Property | 5 | 9 |
| Hedge funds | 123 | 63 |
| Other | 31 | 11 |
| | 391 | 248 |

The actual return on plan assets was:

| | 2010 \$m | 2009 \$m |
|-----------------------|-------------|-------------|
| Return on plan assets | 54 | (15) |

The movement in the pension (asset)/liability recognised in the balance sheet is as follows:

| | 2010 \$m | 2009 \$m |
|---|-------------|-------------|
| Pension liability at beginning of year | 13 | 24 |
| Currency translation differences taken through income statement | 1 | (6) |
| Other expenses charged to the income statement | 11 | 8 |
| Contributions paid – Reservoir Trust | (76) | – |
| Contributions paid – Other | (18) | (13) |
| Net pension (asset)/liability at 31 March | (69) | 13 |

The contributions expected to be paid during the financial year ending 31 March 2011 amount to \$21 million.

The other expenses recognised in the income statement are as follows:

| | 2010 \$m | 2009 \$m |
|--|-------------|-------------|
| Current service cost (employer portion) | 7 | 6 |
| Interest cost | 19 | 20 |
| Expected return on plan assets | (17) | (20) |
| Amortisation of unrecognised past service cost | 1 | 1 |
| Amortisation of unrecognised net loss | 1 | – |
| Past service costs | (2) | 4 |
| Settlement/curtailment | 2 | (3) |
| Total charge | 11 | 8 |

27. Pension benefits continued

Changes in the present value of the defined benefit obligations are as follows:

| | 2010 \$m | 2009 \$m |
|--|-------------|-------------|
| Present value of funded obligations at beginning of year | 296 | 350 |
| Currency translation difference | 16 | (92) |
| Current service cost (employer portion) | 7 | 6 |
| Interest cost | 19 | 20 |
| Employee contributions | 4 | 4 |
| Actuarial loss | 66 | 18 |
| Actual benefit payments | (17) | (10) |
| Past service costs | (2) | 4 |
| Settlement/curtailment | (5) | (4) |
| Present value of funded obligations at 31 March | 384 | 296 |

The changes in the fair value of plan assets are as follows:

| | 2010 \$m | 2009 \$m |
|--|-------------|-------------|
| Fair value of plan assets at beginning of year | 248 | 341 |
| Currency translation difference | 13 | (85) |
| Expected return on plan assets | 17 | 20 |
| Actuarial gains/(losses) on plan assets | 37 | (35) |
| Employer contributions | 94 | 13 |
| Employee contributions | 4 | 4 |
| Benefits paid | (17) | (10) |
| Assets distributed on settlements | (5) | – |
| Fair value of plan assets at 31 March | 391 | 248 |

History of experience gains and losses:

| | 2010 | | 2009 | | 2008 | | 2007 | | 2006 | |
|---|-------|-----|-------|--------|-------|-------|-------|-----|-------|------|
| | \$m | % | \$m | % | \$m | % | \$m | % | \$m | % |
| Experience gain/(loss) arising on plan assets (% of plan assets) | 37 | 9.4 | (35) | (14.1) | (19) | (5.3) | 11 | 3.3 | 31 | 10.9 |
| Experience gain/(loss) arising on plan liabilities (% of the present value of plan liabilities) | 4.7 | 1.2 | (11) | (3.7) | – | (0.7) | 3 | 0.1 | 10 | 3.3 |
| Present value of plan liabilities | 384 | | 296 | | 350 | | 409 | | 396 | |
| Fair value of plan assets | (391) | | (248) | | (341) | | (359) | | (324) | |
| Plan deficit | (7) | | 48 | | 9 | | 50 | | 72 | |

28. Post balance sheet events

On 17 May 2010, the Board announced that it had reached an agreement on the terms of the recommended acquisition of GLG Partners, Inc. (GLG) (the Acquisition). On the basis stated in the announcement of 17 May 2010, the Acquisition values the fully diluted share capital of GLG at approximately \$1.6 billion and will create a diversified, world-leading alternative investment manager with approximately \$63 billion of funds under management.

The Acquisition is structured as a cash merger transaction with respect to the GLG public stockholders and a share exchange transaction in respect of the GLG Principals. The Acquisition is expected to close by the end of September 2010. On the closing date, GLG will become a wholly owned subsidiary of the Group. Closing is conditional upon approval of GLG stockholders, the Man Group plc's shareholders and regulatory approvals, including the FSA.

The cash consideration payable will be funded by existing cash resources and the Group will continue to have a significant level of available liquidity. The consideration is likely to be almost entirely allocated to goodwill and other identifiable assets (for example, investment management contracts) and is expected to result in the Group's regulatory capital headroom being reduced to approximately \$300 million at the closing date.