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BlueBay Asset Management plc

Annual Report 2009

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Founded in 2001, BlueBay is one of Europe's leading managers of fixed income credit, specialising in European corporate and global emerging market debt products.

Our business at a glance:

BlueBay is one of Europe's leading fixed income credit managers.

→ We offer a comprehensive range of investment products over a number of distinct strategies including European investment grade, high yield, distressed debt, global emerging market debt and convertible bonds.

→ We seek to provide asset management services characterised by active management, a strong investment process and a focus on capital preservation and generation of attractive risk-adjusted returns.

→ We accomplish this within a comprehensive infrastructure and risk management framework to support our investment expertise.

Financial Highlights	Year ended June 2009	Year ended June 2008 (1)
Assets under management	$24.3bn	$21.0bn
Net management fees (2)	£82.4m	£91.0m
Performance fees	£18.5m	£24.0m
Total fee income (gross profit)	£100.9m	£115.0m
Profit before tax and exceptional items	£22.3m	£50.1m
Profit before tax (3)	£17.5m	£50.1m
Profit after tax	£12.0m	£33.9m
Operating margin (4)	20.8%	40.7%
Diluted earnings per share before exceptional items	7.8p	17.0p
Diluted earnings per share	6.1p	17.0p
Dividend per share (5)	6.5p	8.0p

(1) Restated for change in accounting policy, please refer to note 1 of the Notes to the Group Financial Statements.
(2) Stated net of rebates, trail commissions and expense cap reimbursements. For further details refer to page 23 of the Business Review.
(3) Stated after exceptional items.
(4) Stated before exceptional items.
(5) Includes proposed dividend per share of 4.8 pence which is subject to shareholder approval.

Inside the Business

Who we are

- Founded in 2001, BlueBay is one of Europe's leading asset managers specialising in fixed income credit.
- Based in London with offices in the USA and Japan, we manage in excess of US$24 billion of assets, and we have 211 employees globally, as at 30 June 2009.
- BlueBay's specialisation in credit is a key feature of our success – we concentrate on managing assets within a single defined asset class while applying an absolute return mind-set to a disciplined and risk controlled investment process.

What we do

- We offer clients a diverse and award winning range of credit products with a variety of different risk/return profiles.
- We offer products across the major asset classes of credit, including European investment grade and high yield bonds, global convertible bonds and global emerging markets including hard and local currency as well as sovereign and corporate investment themes.
- We offer products across a range of investment styles, including long-only funds and long/short funds.
- We recognise that capital preservation is key to our investors and our active management style aims to produce attractive positive risk-adjusted returns.

How we do it

- We believe in relentless focus and apply this to every area of our business. We have built one of the most experienced teams of credit specialists in Europe with the focus to deliver upper quartile performance.
- Alongside this we have invested significantly in developing a comprehensive and highly scalable infrastructure to provide best of breed systems, straight through operational processing and strong risk management.
- We place a high priority on maintaining a strong risk management culture within the Group combining rigorous internal controls and effective risk management systems.
- Combining the infrastructure of a mainstream asset manager and the investment focus of a boutique has ensured that our operational capacity keeps pace with asset growth.

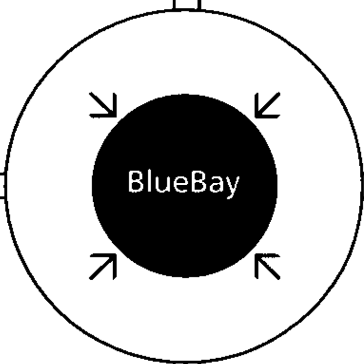
Our business drivers

Distribution strength:

BlueBay delivers investment management services via our direct sales force and distribution partnerships, primarily to institutional clients. We focus on creating strong relationships with investment consultants and have a dedicated client relationship management team that ensures our clients receive a high level of ongoing service. Our sales and client relationship teams are based in our London, Japan and US offices ensuring we can service our global client base.

Investment performance:

BlueBay's investment focus is on capital preservation and the generation of attractive risk adjusted returns for our clients across the credit cycle. We have a well developed rigorous investment process that draws on both top-down and bottom-up inputs, resulting in an active style of management across our range of managed asset classes.



Talented people:

BlueBay's success is dependent on our ability to attract, retain and motivate highly talented portfolio management teams, sales and marketing and infrastructure professionals. We accomplish this by ensuring we have competitive compensation structures – key components of which include widespread employee share ownership and investment in BlueBay funds. This is designed to ensure employees have a broad alignment of interests with fund investors and shareholders. BlueBay is also committed to creating a team oriented and collegiate working environment.

Business risk management and controls:

As a specialist fixed income credit asset manager, we recognise that risk is inherent in our business and the markets in which we operate. As such BlueBay is committed to the creation and maintenance of strong risk management, both portfolio and operational, as well as rigorous control standards throughout the organisation.

A Consistent Strategy

BlueBay's strategy continues to be to position itself as a leading specialist manager of European corporate credit and global emerging market debt products. This reflects our belief in the continuing growth market characteristics of European corporate credit and emerging market debt.

The secular drivers behind our strategy remain as much in place today as they did when the Group was founded in 2001. This year heralded the start of a new credit cycle which has resulted in new cyclical opportunities for BlueBay.

Secular opportunities

BlueBay's business model is positioned to take advantage of strong secular growth trends in both the European corporate and global emerging debt markets.

Over the last decade, the introduction of the Euro has created a homogeneous debt capital market from what was once a small fragmented and illiquid market. The European debt market has experienced rapid growth and continues to exhibit faster growth momentum than its US counterpart.

This growth has been fuelled by:

→ increases in investor demand for credit products from liability driven institutions such as insurance companies and pension funds; and

→ growing disintermediation of the banking sector from the corporate lending process.

Over the last few years emerging market economies have experienced:

→ sustained and robust domestic economic growth;

→ increased foreign exchange reserves; and

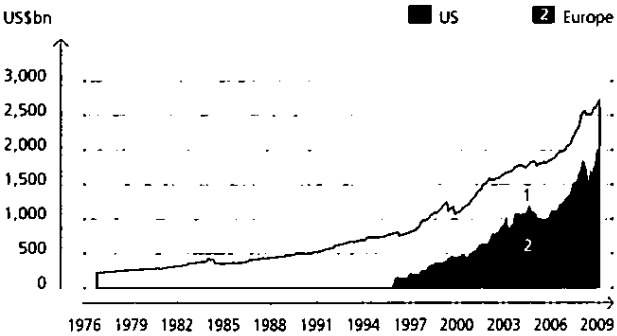
→ the general adoption of floating foreign exchange rates.

The resultant market has seen a steady increase in tradable debt instruments and derivative contracts as well as upward momentum in the credit quality of issuers.

Despite the recent upheaval in financial markets, we continue to believe that these two secular drivers of our business model remain intact and as such the demand for debt investments will continue to grow. As a result, specialist managers such as BlueBay, with the expertise to manage the full range of products on behalf of investors, will continue to expand.

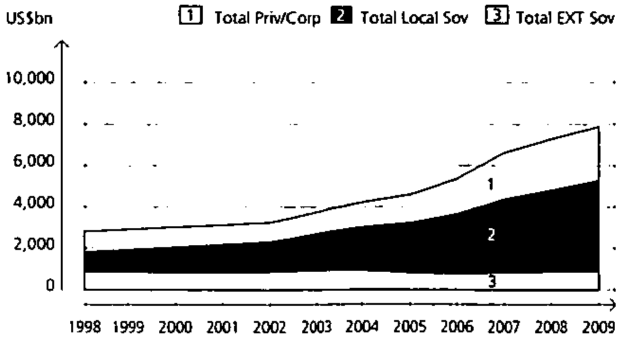
BlueBay manages a full range of European corporate debt instruments through funds specialising in investment grade, high yield, distressed debt and convertibles. Within the emerging market asset class, BlueBay manages funds across the range of sovereign and local currency denominated debt as well as emerging market corporate debt.

Figure (1) US vs European corporate debt market



Source: Merrill Lynch

Figure (2) Global emerging market debt



Source: JPMorgan

Cyclical opportunities

Credit markets have shown a historical cyclicality, generally following a leverage and deleverage cycle, each portion of which creates its own risks and opportunities. The cycle historically gives rise to correlated behaviour between debt and equity markets.

Market downturns typically precede periods of attractive investment conditions, which if properly managed, allow for the generation of attractive risk-adjusted returns. These conditions in turn are likely to attract interest from investors seeking cyclical investment opportunities at the bottom of the cycle where it may be possible to earn equity type returns from fixed income investments.

In the first positive phase of the market, corporate profits are generally growing faster than debt and this creates a favourable equity and credit environment that sees a rally in both markets. In the second phase debt is found to be growing faster than profits which leads to falling credit markets and still rising equity markets. In the third phase, the leverage bubble bursts and both credit and equity markets decline. In the fourth and final phase, debt reduction occurs leading to a credit rally while equity markets continue to slump.

In this financial year we have faced the extremes of this cycle. We started the period in the middle of the credit crunch but the environment took a dramatic turn for the worse following the collapse of Lehman brothers in September 2008. As a result credit indices lost significant amounts of value during the first half of our financial year and by the early part of 2009, credit spreads had significantly surpassed previous historic highs.

We believe that the early part of 2009 marked the beginning of a new credit cycle, creating a period of attractive investment opportunities for investors exposed to well run credit portfolios.

For BlueBay, the beginning of the new credit cycle together with the continued secular drivers to the European corporate debt market and global emerging debt markets, provides an exciting opportunity for our business.

Figure (3) The leverage cycle

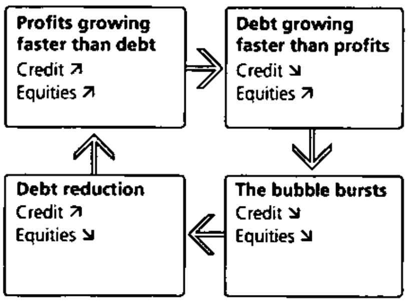
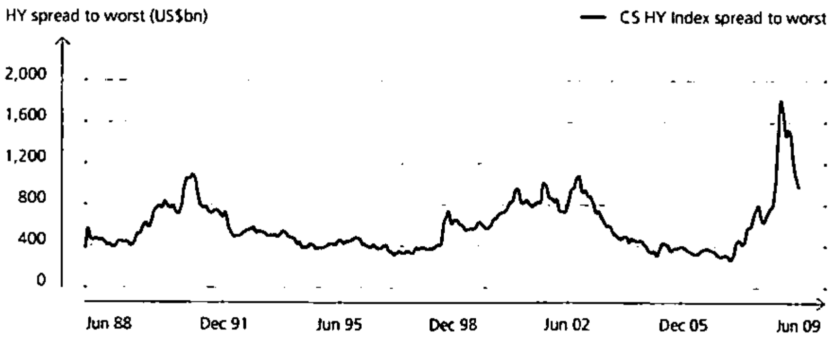


Figure (4) The credit cycle



Source: Credit Suisse/Merrill Lynch High Yield Index

Chairman's Statement
Hans-Jörg Rudloff
Chairman

BlueBay Asset Management plc has successfully navigated a year of significant changes and emerged well positioned to take advantage of the nascent credit cycle. By any measure, the events of the year to June 2009 have been tumultuous. The global banking crisis triggered by the collapse of Lehman Brothers last September led to the evaporation of confidence in counterparty solvency. Financial markets cannot function properly without this confidence and so liquidity disappeared from the markets for many of the products in which BlueBay invests on behalf of its clients. The price of traded credit escalated to levels which have not been seen before in modern financial markets. For the time being, massive government intervention around the globe has stabilised the world's banking sector and brought its financial markets back from the brink. As a result, credit markets have staged a recovery starting in the early spring of 2009. Time will tell how sustainable this proves to be.

During the course of this year, BlueBay attracted net subscriptions of $5.8 billion bringing total Assets under Management ("AuM") to a record of $24.3 billion at the end of the financial year, another remarkable achievement. BlueBay also saw an acceleration of the growth of its long-only asset management business. BlueBay's long-only products had net inflows of $7.3 billion during the year to reach a total AuM for these products of $21.5 billion at the year-end. Over the same period, BlueBay's long/short products more than halved due to net redemptions, voluntary deleveraging and negative investment performance resulting in total AuM for these products of $2.8 billion at the year end.

BlueBay is well positioned to take advantage of the nascent credit cycle.

BlueBay's Investment Grade Bond Fund continued to generate investment performance at the top of its competitive universe throughout the year. We believe that investment grade products represent the ideal strategy for risk-averse investors wishing to invest into credit in the early part of the credit cycle. The combination of the right product available at the right time provided the engine for much of BlueBay's strong inflows. The relative investment performance of the high yield product was strong in the latter part of 2008 but has lagged behind its benchmark during the rally in the first half of 2009. I am pleased to report that the investment performance in the long/short multi-strategy and the long-only emerging market debt strategy have recovered strongly in the six months to June 2009.

The fees earned on long-only products are lower than those earned on long/short products. A consequence of the evolution of BlueBay's business during the year is that its overall revenues have declined. The management team of BlueBay has reviewed the Group's cost base and has taken various measures to reduce it. With a cost base which is largely driven by compensation costs, regrettably measures inevitably included reducing the number of people employed by BlueBay. These reductions have been achieved without either impairing BlueBay's ability to exploit the opportunities created by the turn in the credit cycle or compromising on the rigour of the processes and controls in operation at BlueBay. In times of significant market turmoil, a reliable control environment and solid business risk management processes are more important than ever.

During the course of the year, BlueBay has continued to make improvements to a number of areas of its internal control environment. Once again this was reviewed and reported on by PricewaterhouseCoopers LLP under the framework of the control objectives applicable to asset management businesses developed by the Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales as Standard 01/06.

Despite the reduced profitability of the year ended 30 June 2009, the Board is optimistic about BlueBay's prospects for the years to come. In the first two months of the financial year 2010, fund inflows have remained strong and investment performance has been maintained or improved in most products. Given the Group's solid cash position and its cushion of reserves, we will be proposing to maintain the final dividend of 4.8 pence per share payable to all shareholders on the register at 6 November 2009. Following the interim dividend of 1.7 pence per share, this will bring the total dividend for the year to 6.5 pence per share.

There were no changes to the members of the Board or the Company Secretary during the course of the year and none are planned for the coming year. I am pleased to note that the Board continued to provide BlueBay with constructive support and advice through these most challenging of times. The reviews of the various committees contained later in this report provide an overview of the various matters they have considered during the year.

All asset managers are essentially people businesses. Over the years, BlueBay has assembled an exceptionally talented group of professionals in the investment management, sales and marketing and infrastructure teams. This has not been an easy year and the fact that BlueBay has emerged from it so strongly is testimony to the determination, creativity and commitment of its employees. I would like to thank them once again for their efforts. Finally, I would like to extend my thanks to our shareholders, both those who have stayed with us throughout the year as well as those more recent investors, for their ongoing confidence in BlueBay.

Chief Executive's Review
Hugh Willis
Chief Executive

2009 – A year of two halves
BlueBay entered the 2009 financial year against the backdrop of a credit market crisis already a year old. The first half of the financial year saw the crisis intensify dramatically; culminating in the unexpected collapse of Lehman Brothers in the middle of September 2008. This gave rise to a very demanding second quarter to the financial year; as credit spreads spiked to levels previously unseen and disorderly markets prevailed. The second half of the financial year was characterised, however, by a notable improvement in markets; creating far more favourable industry conditions for participants. Given such an unprecedentedly chaotic macro environment, it was pleasing to see BlueBay's AuM rising meaningfully during the financial year and its corporate profitability – while lower than in the previous year – remaining sound. This collective achievement reflects the strength of the Company's brand and the calibre of its people.

$5.8 billion of net inflows - reflecting continuing confidence in BlueBay.

Group strategy
The Group's strategy continues to be to position itself as a leading, specialist manager of European corporate and global emerging market debt funds and products. This reflects our belief in the secular growth market characteristics of European corporate credit – a major new global asset class; and emerging market debt – increasingly a mainstream asset class for institutional investors worldwide.

Alongside our product focus, we continue to invest heavily in our infrastructure; believing that institutional investors will increasingly require from asset managers state-of-the-art systems, process, compliance and risk management – as a necessary corollary to strong investment performance. It remains our mission statement to combine the infrastructure of a mainstream asset manager with the investment mindset of a boutique.

The secular drivers behind our corporate strategy remain firmly in place some eight years after the Group's formation; and continue to be bolstered by the growing preference amongst liability-driven investors – as a function of both demographics and the relative actuarial certainty of returns – for fixed income rather than equity investments. It is clear, moreover, that 2009 has ushered in a new credit cycle; serving to overlay the secular opportunity with a cyclical one – in all likelihood for some years to come. The Group's strategy, accordingly, remains unchanged.

2009 results
Our product focus and the strength of our infrastructure together drove an increase in AuM over the financial year – an uncommon achievement amongst asset management firms in the face of arguably the most disruptive market conditions in close to a century. At the heart of this achievement were $5.8 billion of net inflows predominantly from our institutional client base – experienced largely in the second half of the fiscal year; reflecting those investors' continuing confidence in BlueBay and appetite for its specialist fixed income product offerings.

The Group's long-only funds fared particularly well in terms of growth over the year; with net inflows of $7.3 billion and assets under management increasing to $21.5 billion by year end. By contrast, our long/short funds under management fell to $2.8 billion in a very difficult period for the alternative asset management industry; with the decline reflecting both net outflows and negative investment performance. Of particular note overall was BlueBay's market leading Investment Grade Bond Fund, which was amongst the biggest selling mutual funds in Europe during the early part of calendar year 2009; as excellent investment performance combined with significant investor demand for early cycle credit product.

Investment performance over the financial year was mixed. As observed previously, both the relative and absolute performance of our investment grade long-only product was strong throughout the year. Our high yield funds produced very strong relative returns during the first half of the financial year before giving some of this back as markets rallied; but still recorded commendable, positive, absolute and relative returns for the overall period. Our emerging market sovereign bond funds suffered in both relative and absolute terms in the first half of the year, before performing very strongly in the second; and our newer product launches – in convertible bonds, emerging market corporate debt and corporate loans – all performed well throughout the year. As previously noted, the performance of the Group's long/short funds was negative over the year; although its flagship Multi-Strategy Fund recovered well from a difficult first half to post returns only marginally negative for the period as a whole.

Group profitability in 2009 was impacted by the change in product mix referred to previously; with the increase in lower margin long-only assets under management unable fully to offset the decrease in higher margin long/short funds. This, combined with a reduction in performance fees, meant that Total Fee Income at £100.9 million was down 12% on the previous year. While we have taken steps meaningfully to reduce costs in response to changed market conditions, the impact of such steps – centred on a total headcount reduction of 20.5% by 30 June 2009 (from its peak in October 2008) – is, of course, subject to a lagged effect. Group profitability was affected accordingly; with pre-tax profits of £17.5 million well down from the previous year's level.

It is a priority for the Group, as we move into 2010, to restore profitability to a growing path and operating margins to pre-2009 levels; and we believe that we are well placed to do so over the medium term as revenues benefit increasingly from the sharp asset growth experienced in the later months of the 2009 fiscal year and the benefits of cost cutting measures implemented over the same period are felt.

New products

Subject to investor demand and our conviction that we have the skills and resources to deliver them effectively, we have sought over the years to maintain a healthy pipeline of new products at both the development and launch phases. The financial year 2009 saw the continued fruits of this; with two well-received new fund launches – the BlueBay High Income Loan Fund and the BlueBay Global Convertible Bond Fund.

Looking forward, we continue to explore new product areas in which we believe institutional investor demand and BlueBay's abilities and resources might combine to produce relevant and profitable new product lines. In this context, we are currently examining both a new long-only product and several potential new product launches in the long/short (alternatives) space.

Outlook

It now seems clear that the last credit cycle troughed in the final calendar quarter of 2008 and that the first calendar quarter of 2009 ushered in a new cycle. This is likely to herald a period of strong performance for the asset class of credit; indeed, this is already being experienced, with absolute returns on the Group's flagship long-only products ranging from 11% to 32% over the first six months of the calendar year and its flagship multi-strategy long/short product returning 22% over the same period. It is also likely to herald a period of solid investor demand for credit funds and products; again something already beginning to be borne out by strong net inflows into BlueBay funds in the January to June period.

In this context, we are pleased further to report that the first two months of the current financial year have continued to provide evidence both of strong fund performance and of robust asset growth; with BlueBay's AuM rising a further 15% to $27.8 billion on the back of $1.8 billion of additional net inflows, (predominantly from Investment Grade products) and $1.7 billion of fund performance (inclusive of foreign exchange differences of $0.4 billion).

We believe that this overlay of a new credit cycle, with its twin characteristics of investment opportunity and investor demand, upon the secular asset class drivers already in place in credit markets, creates conditions that should be advantageous for BlueBay and its specialist credit franchise over the coming years. There are of course necessary caveats to this: investor demand, while strong, is currently concentrated in higher quality, lower margin products and will need to broaden out over time; absolute returns from credit markets over the next few years will not be able to be sustained at the pace experienced during the first six months of calendar year 2009; and a good deal remains contingent upon a macro economic outlook that continues to be uncertain and a recovery that will, at times, disappoint. Nevertheless, with the global banking system unlikely to be in a position to play its full historic role in the provision of credit to companies for some time to come and credit markets likely to grow appreciably to fill the gap, the outlook is a very interesting one for asset managers such as ourselves; with a credit focus and strong stock selection capabilities.

BlueBay's Investment Grade Bond Fund was amongst the biggest selling mutual funds in Europe.

A thank you

It is well known that asset management companies, probably more so than many firms, are dependent for their success upon the skill, loyalty and work ethic of their people. These characteristics are tested in full during difficult years and this year it has, moreover, as previously observed, sadly been necessary to part company with a number of people in response to market conditions. The resilience and determination with which everyone at BlueBay has faced an unprecedentedly difficult period says a great deal about the quality of the work force that we are fortunate enough to have. It also bodes very well for the future as we tackle a significant opportunity set amongst improving market conditions. I would like to thank everyone at the firm for their outstanding efforts during 2009; they have been greatly appreciated.

Hugh Willis
Chief Executive

Business Review
Nick Williams
Chief Financial Officer

Introduction
BlueBay is one of the largest independent asset managers of fixed income credit products in Europe, with a total of $24.3 billion of Assets under Management ("AuM") as at 30 June 2009.

BlueBay offers two different product lines to its clients: long-only funds and long/short funds. Its long-only funds are designed as actively managed products with the objective of producing targeted excess returns over their benchmarks over the course of the credit cycle. Its long/short funds are intended to produce attractive risk-adjusted returns to investors over the long term. BlueBay's products are currently grouped into six credit strategies which cover the spectrum of credit quality, ranging from investment grade to distressed debt, as well as emerging market debt and a multi-strategy long/short fund. The Company also manages a number of segregated long-only accounts on behalf of large institutional clients.

BlueBay distributes its products either directly to institutional clients or indirectly via intermediaries such as distributors. It has dedicated sales and marketing teams based in London, Tokyo and Connecticut.

Industry environment
Secular credit market opportunities
BlueBay was founded in response to two secular developments in the debt capital markets. The first was the advent of a mainstream European corporate debt market, sparked by the introduction of the Euro in 1999. The second was the rapid growth from 1998 onwards of global emerging market debt as a major asset class. Despite the significant upheaval in all financial markets over the past year, we continue to believe that these two secular drivers of our business model remain intact.

The overlay of the start of a new credit cycle on the secular credit market trends presents a very attractive set of external circumstances for BlueBay.

The global corporate debt market comprises all publicly traded debt instruments other than those issued by governments and supranational agencies. Within this market, the US corporate debt market is estimated to be the largest single component in terms of value of instruments outstanding, currently estimated at $3.5 trillion (Source: Merrill Lynch). The European corporate debt market is estimated to be over half this size with approximately $2.1 trillion of instruments outstanding (Source: Merrill Lynch) but has experienced faster growth in recent years, driven by the introduction of the Euro (which facilitated the development of a homogenous debt capital market in Europe) and the trend of growing disintermediation of the banking system from the credit process. In addition, strong demand for fixed income instruments from liability-driven investors seeking yield in a low interest rate environment has been an important growth driver. Given the comparable size of Gross Domestic Product of the EU and the US, we believe that despite the current credit crisis, in the medium to long term, the European corporate debt market will continue to experience strong growth, similar to that witnessed in the US.

Emerging markets have historically accounted for only a small part of the global securities markets, with investor demand being dampened by limited issuance and liquidity, insufficient data quality and the significant volatility in the asset class. However, following a number of major financial crises during the 1990s (the most significant of which was the Russian default crisis of 1998), volatility in the asset class has steadily reduced, credit quality has improved and diversification has increased across the asset class in terms of the total number of issuing countries and corporations. These trends have been sustained by robust domestic economic growth, the general adoption of floating foreign exchange rates and increased foreign exchange reserves, all of which have driven the upward momentum in ratings. The resulting growth of the asset class has been further enhanced by the increasing issuance of securities denominated in local currencies and by issuance of securities by corporate borrowers located in emerging markets.

Long-only flagship funds index returns for the periods indicated:

	Six months ended Dec 2008 %	Six months ended June 2009 %	Year ended June 2009 %
iBoxx Euro Corporates Index	-2.6	7.4	4.6
Merrill Lynch Euro 3-month Libor Index	2.9	1.3	4.2
Merrill Lynch European Currency High Yield Constrained Hedged in Euro Index	-29.0	39.4	-1.1
JP Morgan EMBI Global Diversified Index	-11.8	15.7	2.1
JP Morgan GBI-EM Broad Diversified USD Unhedged Index	-5.1	6.3	0.8
50% JPM EMBI Global Diversified and 50% JPM GBI-EM Broad Diversified USD Unhedged Index	-8.4	11.0	1.7
JPM Corporate Emerging Markets Bond Diversified Index	-15.8	21.6	2.4
UBS Global Convertible Focus Index USD	n/a	7.3	13.4*

*Annualised since inception on 9 December 2008.

Market performance in 2008-09 – a tale of two halves

The first half

It has been widely documented that credit markets had deteriorated significantly since the onset of the credit crunch in July 2007. At the start of the financial year in July 2008, our view was that the effects of the credit crunch were far from over. Market conditions took a dramatic turn for the worse following the collapse of Lehman Brothers in September 2008. Much has already been written about this period of financial history and doubtless much more will be written in the years to come.

In the aftermath of the Lehman Brothers collapse, a number of other high profile banks and insurance companies experienced severe difficulties which led to a widespread fear of counterparty insolvency amongst all market participants. There was a generalised flight to safety favouring cash, government bonds and the US Dollar, which led to widespread illiquidity in many of the credit markets in which BlueBay operates. The OTC markets for credit derivatives ceased to function effectively as counterparties dramatically increased their margin requirements and often refused to unwind contracts where this would result in cash outflows.

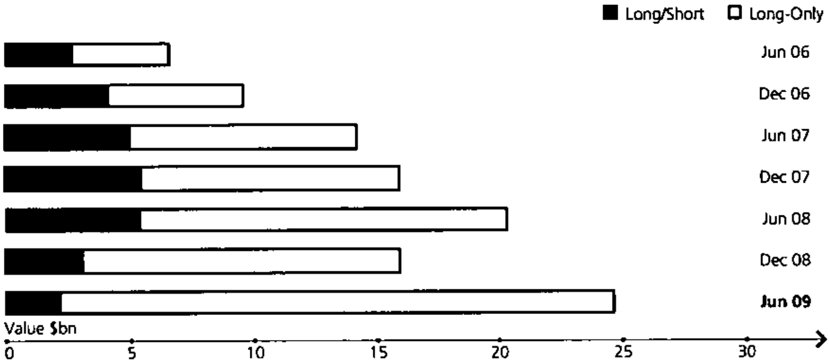
In such an exceptional environment, it is hardly surprising that all credit indices lost significant amounts of value during the first half of our financial year.

The second half

By the early part of 2009, credit spreads had significantly surpassed previous historic highs. While there is ample evidence that individual corporate defaults have increased, at an index level, the default rates implied by these spreads were well above any that had been observed in modern financial history. For investors who took the view that such default rates were unlikely to materialise, the coupons attached to credit products began to look increasingly attractive. Our view is that credit markets probably reached their trough towards the end of 2008 and that the early part of 2009 has seen the start of a new credit cycle. This view is supported by the performance of all credit indices in the first half of 2009.

For BlueBay's business the overlay of the start of a new credit cycle on the secular credit market trends presents a very attractive set of external circumstances.

Figure (5) AuM growth by product



Source: BlueBay Asset Management plc

Market performance since June 2009
Events since the end of June 2009 point to a continuing improvement in credit market conditions. Our views on these events are set out in the Chief Executive's Review on pages 8 to 11.

Regulatory environment
Existing regulatory relationships
BlueBay Asset Management plc is authorised and regulated by the Financial Services Authority ("FSA") in the UK. It also has an EU investment services passport to provide cross-border services into other EEA States. It is registered with the US Securities and Exchange Commission ("SEC") in the United States as an investment adviser. It is the promoter, investment manager and principal sales agent of BlueBay Funds, a SICAV which is subject to supervision by the Commission de Surveillance du Secteur Financier ("CSSF") in Luxembourg. Finally, BlueBay Asset Management Japan Limited is registered as a 'Financial Investment Firm' with the Financial Services Agency in Japan.

Regulatory developments
The global banking crisis that unfolded during the latter part of 2008 and the early part of 2009 required unprecedented amounts of taxpayers' money to be used in order to prevent the financial system from collapsing. Rightly or wrongly, shortcomings in regulatory oversight have been identified as a contributing factor to the severity of the crisis. As a result, an increase in the regulation of all aspects of the financial system seems inevitable.

The precise details of the increased regulatory burden have yet to be clarified although reports, such as those published by the de Larosiere Group and the Turner Review, as well as the draft directive on Alternative Investment Fund Managers published by the European Commission, give some early indications of the form it may take.

Strategic objective
Our strategic objective remains unchanged; to continue to be a leading provider of debt asset management products. We believe it is difficult to excel in a wide range of disparate investment disciplines and that focus on a narrower range of asset classes produces superior returns. We therefore provide clients with products within the asset class of credit with a range of different risk-return profiles; from absolute return long/short funds to relative return long-only funds and segregated accounts.

Our business strategy focuses on four core elements:

A. Effective diversified distribution
→ Focus primarily on institutional clients.
→ Creation of strong relationships with investment consultants.
→ Development of different geographical areas.
→ Dedicated ongoing client relationship management.

B. Strong risk-adjusted investment performance over the credit cycle
→ Focus on absolute returns across all product types.
→ Emphasis on capital preservation and rigorous strategy capacity management in long/short funds.
→ Full exploitation of available investment tools and techniques to generate excess returns in long-only funds.

C. Effective management of business risk
→ Rigorous management of portfolio risk.
→ Continual review and improvement of operational risk management.
→ Implementation of a modular IT environment which scales with business growth.

D. Recruitment, motivation and retention of highly talented people
→ Recruitment and retention of highly talented portfolio managers, sales and infrastructure professionals.
→ Compensation structures designed to ensure employees have a broad alignment of interests with fund investors and shareholders.
→ Creation of a collegiate working environment.

Execution of our strategy

A. Distribution
AuM growth
During the course of the financial year, total AuM increased by $3.3 billion to reach $24.3 billion at 30 June 2009. Over the last few years, the long-only AuM has tended to grow significantly faster than the long/short AuM. This process accelerated during the course of this financial year during which continued strong growth in long-only AuM was partially dampened by a decrease in long/short AuM. See Figure (5).

BlueBay's strategic objective remains unchanged; to continue to be a leading provider of debt asset management products.

Components of AuM growth

Of the increase in AuM of $3.3 billion during the course of the year, net subscriptions contributed $5.8 billion while net fund performance reduced the AuM by $1.5 billion and foreign exchange differences by a further $0.9 billion. These foreign exchange differences arise on the conversion of non US Dollar denominated assets into US Dollars. At 30 June 2009, approximately 71% of BlueBay's AuM was denominated in Euros with the balance primarily denominated in US Dollars. A one cent move in the Euro/US Dollar exchange rate would increase or decrease BlueBay's 30 June 2009 AuM by approximately $120 million.

The tables below provide the breakdown of net subscriptions into gross subscriptions and gross redemptions. Subscriptions and redemptions record the gross movements into and out of the funds managed by BlueBay as recorded by the transfer agents or custodians. No adjustments have been made to reflect switches of investments either between investment funds or between share classes of the same fund managed by BlueBay.

We estimate that approximately 25% of the gross redemptions represent switches from one BlueBay product or share class into another. After adjusting for these switches, the annual redemption rate expressed as a percentage of average AuM has increased from 17% for the year ended 30 June 2008 to 35% for the year ended 30 June 2009.

AuM growth in BlueBay funds for the years ended 30 June as indicated:

	2009 $m	2008 $m
Beginning of period AuM	20,967	13,118
Subscriptions	15,201	12,216
Redemptions	(9,421)	(5,118)
Net Subscriptions	**5,780**	**7,098**
Net Fund Performance	(1,504)	(130)
FX on Conversion	(945)	881
End of period AuM	**24,298**	**20,967**

Long-only funds

AuM growth in BlueBay long-only funds for the years ended 30 June as indicated:

	2009 $m	2008 $m
Beginning of period AuM	15,131	7,994
Subscriptions	12,877	9,657
Redemptions	(5,607)	(3,365)
Net Subscriptions	**7,270**	**6,292**
Net Fund Performance	(7)	100
FX on Conversion	(874)	745
End of period AuM	**21,520**	**15,131**

Of the $6.4 billion increase in long-only AuM, $7.3 billion arises from net subscriptions offset by foreign exchange differences on conversion of $0.9 billion. Net absolute fund performance was flat across the platform. Net subscriptions into long-only funds of $7.3 billion during the year were 15.5% higher than those recorded during the previous financial year. These net subscriptions were predominately into the investment grade strategy. At the start of each new credit cycle, we believe investors initially tend to be attracted into investment grade strategies, which are at the highest quality (and therefore least risky) end of the credit spectrum. We anticipate that investor interest will broaden out to the riskier parts of the credit spectrum as the cycle matures. The table below gives a breakdown of the long-only net subscriptions by long-only strategy during the financial year.

Long-only net subscriptions by strategy for the year ended 30 June:

	2009 $m
Investment Grade	7,010
High Yield	1,344
Emerging Market Debt	(1,192)
Convertible Bonds	108
Total long-only net subscriptions	**7,270**

During the course of the year, two new long-only funds were introduced. The first was the BlueBay High Income Loan Fund which focuses on investing in the European high yield market through loans rather than bonds. This was set up as a Specialised Investment Fund in Luxembourg which is only accessible to institutional investors. The second was the BlueBay Global Convertible Bond Fund, which was set up as a new sub-fund of the BlueBay Funds UCITS platform.

During the course of the year, BlueBay increased the number of long-only segregated mandates managed by the Company from 18 to 23.

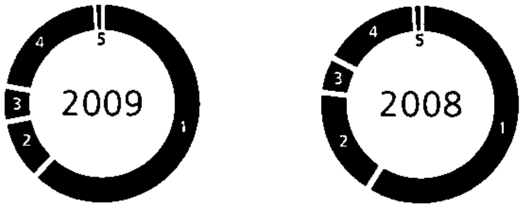
Long/short funds

AuM growth in BlueBay long/short funds for the years ended 30 June as indicated:

	2009 $m	2008 $m
Beginning of period AuM	5,836	5,124
Subscriptions	2,324	2,559
Redemptions	(3,814)	(1,753)
Net Subscriptions	**(1,490)**	**806**
Net Fund Performance	(1,497)	(230)
FX on Conversion	(71)	136
End of period AuM	**2,778**	**5,836**

Of the $3.1 billion reduction in long/short AuM, net redemptions contributed $1.5 billion (of which $0.6 billion related to the Multi-Strategy Fund, $0.5 billion to the Emerging Market Total Return Fund, $0.3 billion to the Value Recovery Fund and $0.1 billion to the Global Credit Fund). Net fund performance contributed a further $1.5 billion with the residual balance due to foreign exchange differences on conversion. The BlueBay Emerging Market Total Return Fund is in the final phase of being wound down following losses of over 50% in the last quarter of calendar year 2008. These arose as a result of the dramatic deterioration in financing and liquidity conditions in the markets in which it operated. BlueBay no longer earns any fees on this fund and it is no longer included in the reported AuM.

Figure (6) Investor analysis by investor type as a % of AuM

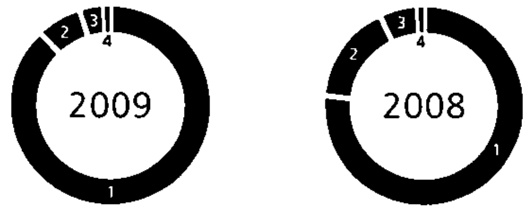


2009:
1 62% Institutional
2 10% Funds of funds
3 6% Private clients
4 21% Distribution/white labelling
5 1% Other

2008:
1 59% Institutional
2 18% Funds of funds
3 6% Private clients
4 16% Distribution/white labelling
5 1% Other

Source: BlueBay Asset Management plc

Figure (7) Investor analysis by geographical region as a % of AuM



2009:
1 88% Europe
2 7% Asia/Australia
3 4% Americas
4 1% Middle East/Africa

2008:
1 76% Europe
2 16% Asia/Australia
3 7% Americas
4 1% Middle East/Africa

The BlueBay Value Recovery Fund declined from $2.6 billion at 30 June 2008 to $1.8 billion at 30 June 2009. Net redemptions accounted for $0.3 billion of the decline, net fund performance a further $0.4 billion with the balance of $0.1 billion due to foreign exchange differences on conversion. During the course of the financial year ended 30 June 2008, in the face of a dramatic decrease in market liquidity for the type of asset managed by the Fund, a Share Conversion was undertaken. For those shareholders that agreed to participate in the voluntary Conversion, BlueBay reduced its management and performance fees on the Fund to 1% per annum and 15% per annum respectively; for a period of 30 months, commencing 1 July 2008. In exchange, these shareholders accepted amended liquidity terms; which (inter alia) prohibited redemptions prior to July 2009 and significantly restricted them thereafter.

The Fund holds a concentrated portfolio of investments, the majority of which are distressed/restructuring positions, which were illiquid in the market conditions prevailing during the financial year. In June, a further proposal was put to the holders of converted shares, with the intention of enabling the Fund's assets to be disposed of over time at prices that reflect their intrinsic value rather than the distressed nature of a forced sale. Under the terms of this proposal, which was agreed to by in excess of 90% of the shareholders concerned, BlueBay has agreed to reduce its management fees applicable to these shares on a sliding scale starting at 85 basis points per annum on 1 July 2009 and reducing to 0 basis points by 1 January 2012.

BlueBay has also agreed to a modification of the calculation method for performance fees and for shareholders to receive periodic cash distributions from the Fund to the extent that investments have been realised. In exchange, shareholders have agreed to amended liquidity terms which mean that – apart from the cash distributions referenced above and in the absence of additional subscriptions in the Fund – these shares will not be redeemable before 31 December 2011.

The BlueBay Multi-Strategy Fund declined from $1.7 billion at 30 June 2008 to $1.0 billion at 30 June 2009. Net redemptions accounted for $0.6 billion of the decline with the balance of $0.2 billion due to fund performance. As explained in more detail below, performance of this fund in the last six months of 2008 was challenging; however, in the first six months of 2009 its performance has staged a significant recovery to the point where the unleveraged version of the fund had regained its high water mark by the end of July 2009. Additional share classes have been set up for this fund which will enable BlueBay to offer this fund to new and existing investors at lower management fees and performance fees in exchange for less liquid redemption terms than those that have been offered to current investors.

Client base

BlueBay's fund investors are primarily institutional clients making up 62% of BlueBay's AuM as at 30 June 2009 (up from 59% as at 30 June 2008). The proportion of fund of fund clients has continued to decline and now represents 10% of total AuM as at 30 June 2009 (down from 18%), whereas the proportion of third party distributors has continued to grow representing 21% as at 30 June 2009 (up from 16%). The share of private client business has remained unchanged at 6%. See Figure (6).

By geographical region, European clients accounted for 88% of BlueBay's AuM as at 30 June 2009 (up from 76% as at 30 June 2008). This reflects the considerable success of our European-based sales force in their marketing efforts across the region. Asian/Australian clients accounted for 7% (down from 16%). This relative decline is largely attributable to the automatic redemptions of emerging market principal protected funds, which had been widely sold to Japanese investors. With emerging market index declines in excess of 20% in the month of October 2008 alone, the formulas which govern the operation of these funds triggered full redemptions of emerging market units. The Americas' clients accounted for 4% (down from 7%). See Figure (7).

Product and strategy mix

Given the significant changes that have taken place in BlueBay's business over the course of this financial year, we thought it would be helpful to change the format that we use to report our AuM to focus on investment strategies. This enables us to break down the long-only AuM into four strategies: investment grade, high yield, emerging markets and convertibles; and the long/short into two: distressed debt and multi-strategy.

This breakdown mirrors the structure of the investment management teams at BlueBay with the exception of multi-strategy. Each of the five investment management teams is responsible for managing one or more of the compartments of the Multi-Strategy Funds.

The table alongside provides a breakdown of AuM into the various strategies along with the flagship funds which belong to each of those strategies.

BlueBay's AuM by strategy for the periods indicated:

	AuM 30 June 2009 $m	% of total AuM	AuM 30 June 2008 $m
BlueBay Investment Grade Bond Fund	9,958	41.0	3,055
BlueBay Investment Grade Libor Fund	127	0.5	80
Other**	1,802	7.4	1,236
Total Investment Grade	**11,887**	**48.9**	**4,371**
BlueBay High Yield Bond Fund	2,475	10.2	1,726
BlueBay High Yield Enhanced Bond Fund	256	1.1	135
BlueBay High Income Loan Fund	355	1.5	0
Other**	1,989	8.2	2,255
Total High Yield	**5,075**	**21.0**	**4,116**
BlueBay Emerging Market Bond Fund	643	2.6	1,038
BlueBay Emerging Market Local Currency Bond Fund	780	3.2	1,745
SIM BlueBay Emerging Market Local Currency Bond Fund	1,046	4.3	1,280
BlueBay Emerging Market Select Bond Fund	372	1.5	476
BlueBay Emerging Market Corporate Bond Fund	45	0.2	44
Other**	1,547	6.4	3,525
Total Emerging Markets	**4,433**	**18.2**	**8,108**
BlueBay Global Convertible Bond Fund	125	0.5	0
Total Convertibles	**125**	**0.5**	**0**
BlueBay Value Recovery Fund*	1,799	7.4	2,625
Total Distressed Debt	**1,799**	**7.4**	**2,625**
BlueBay Multi-Strategy Funds*	979	4.0	1,747
Total Multi-Strategy	**979**	**4.0**	**1,747**
Total AuM	**24,298**	**100**	**20,967**

* Long/short funds.

**Prior year comparatives include balances in respect of long/short funds.

B. Investment performance

The absolute and relative investment performance achieved by our funds during the year to 30 June 2009 appears in the table opposite. The third column of the table gives this annual performance information and a cursory glance down the column would suggest that we had operated in a reasonably benign investment environment during the year. It is difficult to talk about the investment performance over this period without splitting it into two halves, reflecting the split we discussed in the market performance section above. The first two columns in the table below provide investment performance for each of these two halves split between the various funds in each of the six strategies.

1. Investment grade

The BlueBay Investment Grade Bond Fund had consistent strong performance throughout the year. In the first half, the index had a negative return of 2.6%, reflecting the general market turmoil of the period while the fund returned a positive return of almost 2%. The second half was marked by a well-publicised rally in investment grade corporate bonds during which the fund still managed to achieve index outperformance of almost 4%. Its newer floating rate sibling, the BlueBay Investment Grade Libor Fund, underperformed its short-term interest rate index by 5% during the first half but has come back strongly in the second half to generate double-digit alpha.

2. High yield

High yield markets generally fell significantly during the first half of the financial year reflecting the generalised risk aversion and lack of investor appetite during the period. The defensive positioning of the high yield portfolios during this period enabled them to generate significant alpha thereby mitigating the capital losses suffered by their investors. The market turmoil of the latter part of 2008 had a disproportionate effect on the financial sector, which led to many of its constituents migrating to the high yield index by the end of the year. Their share of the index jumped from 9.5% at the end of October 2008 to 33.2% at the end of June 2009. In our view, many of these names are not investable from a practical point of view. During the first half of calendar 2009, the BlueBay High Yield Bond Fund and the BlueBay High Yield Enhanced Bond Fund generated strong positive absolute performance; however they have both lagged their indices due to their underweight positioning in financial sector issues.

3. Emerging markets

During the first half of the financial year all the emerging market indices used by our funds experienced losses and our funds generally continued to underperform them. The exception to this was the newly launched BlueBay Emerging Market Corporate Bond Fund which generated positive alpha of 1.2% over the period. In the second half of the financial year, all of these indices have rallied strongly and all of our funds have generated strong positive alpha ranging from 5.5% for the BlueBay Emerging Market Bond Fund to 10% for the BlueBay Emerging Market Corporate Bond Fund.

4. Convertibles

Global Convertibles, set up at the end of 2008, is a new long-only strategy for BlueBay and a new sub-fund of BlueBay's Luxembourg UCITS umbrella fund. The performance during the second half of the financial year has been strong with the BlueBay Global Convertible Bond Fund generating a positive absolute investment return of 15.9%, which represented positive alpha of 8.6%.

5. Distressed debt

The BlueBay Value Recovery Fund had a negative absolute investment return of 20.6% net of fees over the course of the year due largely to the year-on-year relatively suppressed valuations of the distressed for control positions held by the fund.

6. Multi-Strategy

In the first half of the financial year, the BlueBay Multi-Strategy Fund had a negative investment return of 19.5% net of fees. During this period, its performance was particularly affected by the emerging market external debt strategy which suffered from the same issues which had affected the BlueBay Emerging Market Total Return Fund. In the second half of the financial year, investment performance has rallied strongly so that the overall performance net of fees for the financial year was negative 1.5%. This strong performance has continued since the end of the financial year and by the end of July 2009, the fund had regained its high water mark. The leveraged version of the fund, the BlueBay Multi-Strategy PLUS Fund, generated overall performance net of fees for the financial year of negative 5%.

Fund performance for periods indicated:

		Performance %				
		Return six months to Dec 2008	Return six months to June 2009	Return year ended 30 June 2009	Annualised return since inception	Risk ratios[3]
Investment Grade[1]	BlueBay Investment Grade Bond Fund	1.9	11.2	13.3	6.1	2.2
	Index: iBoxx Euro Corporates	-2.6	7.4	4.6	2.9	
	Alpha	4.5	3.8	8.7	3.2	
	BlueBay Investment Grade Libor Fund	-2.3	13.0	10.4	9.7	1.8
	Index: Merrill Lynch 3-month Libor	2.9	1.3	4.2	4.3	
	Alpha	-5.1	11.7	6.2	5.4	
High Yield[1]	BlueBay High Yield Bond Fund	-18.7	26.1	2.5	11.9	1.0
	Index: Merrill Lynch European Currency High Yield Constrained Hedged in Euro[4]	-29.0	39.4	-1.1	7.5	
	Alpha	10.3	-13.3	3.6	4.4	
	BlueBay High Yield Enhanced Bond Fund	-21.4	31.9	3.7	1.4	0.7
	Index: Merrill Lynch European Currency High Yield Constrained Hedged in Euro	-29.0	39.4	-1.1	-4.1	
	Alpha	7.6	-7.5	4.8	5.5	
	BlueBay High Income Loan Fund[5]	n/a	25.4	n/a	25.0	6.7
	BlueBay High Yield Credit Opportunity Fund	-32.2	19.0	-19.3	-13.5	-1.4
Emerging Markets[1]	BlueBay Emerging Market Bond Fund	-23.1	21.2	-6.7	11.0	0.3
	Index: JP Morgan EMBI Global Diversified	-11.8	15.7	2.1	10.2	
	Alpha	-11.3	5.5	-8.8	0.8	
	BlueBay Emerging Market Corporate Bond Fund	-14.6	31.6	12.4	11.6	1.1
	Index: JP Morgan CEMBI Diversified	-15.8	21.6	2.4	1.8	
	Alpha	1.2	10.0	10.0	9.8	
	BlueBay Emerging Market Local Currency Bond Fund	-16.2	14.1	-4.4	8.3	-0.1
	Index: JP Morgan GBI-EM Broad Diversified USD Unhedged	-5.1	6.3	0.8	9.0	
	Alpha	-11.1	7.8	-5.2	-0.7	
	BlueBay Emerging Select Bond Fund	-15.3	20.1	1.7	6.1	0.1
	Index: 50% JPM EMBI Global Diversified and 50% JPM GBI-EM Broad Diversified USD Unhedged	-8.4	11.0	1.7	5.8	
	Alpha	-6.9	9.1	0.0	0.3	
	BlueBay Emerging Market Opportunity Fund	-12.1	35.5	19.2	12.3	0.6
Convertibles[1]	BlueBay Global Convertible Bond Fund	n/a	15.9	n/a	21.2	5.7
	Index: UBS Global Convertible Focus Index USD	n/a	7.3	n/a	13.4	
	Alpha	n/a	8.6	n/a	7.8	
Distressed Debt[2]	**BlueBay Value Recovery Fund**	-14.7	-7.0	-20.6	3.1	-0.0
Multi-Strategy[2]	**BlueBay Multi-Strategy Fund**	-19.5	22.4	-1.5	0.6	-0.2
	BlueBay Multi-Strategy PLUS Fund	-30.1	35.9	-5.0	-1.9	-0.3

Notes

(1) All performance and risk data shown on a 'gross of fees' basis. Alpha is the fund return versus the return on the benchmark index.

(2) All performance and risk data shown on a 'net of fees' basis.

(3) Risk Ratios:

Long-only (excluding Opportunity funds and the High Income Loan Fund):

The information ratio measures the added return per unit of added relative risk.

Long/short, Opportunity funds and the High Income Loan Fund:

The Sharpe ratio is the risk-adjusted measure which is calculated using standard deviation and excess return to determine reward per unit risk.

Standard deviation indicates the volatility of a portfolio's total return as a measure against its mean performance.

(4) Index prior to July 2004 was GS European HY index.

(5) Fund launched November 2008.

C. Business risk management

In common with all other asset management firms, BlueBay faces a number of business risks which we manage actively. The principal risk areas are investment risk and operational risk.

Investment risk

Poor investment performance in the funds that we manage could result in a reduction in the management and performance fees that we earn and ultimately in a reduction of our AuM. This is a fundamental risk to our business which we actively manage by:

- → Recruitment and retention of highly talented portfolio managers who wholeheartedly embrace our investment approach of generating attractive risk-adjusted returns with an absolute return mentality.
- → The establishment of an active and robust investment process which combines a top-down approach guided by the Investment Committee with in-depth bottom-up credit analyses performed by asset class specialists to create optimised portfolio construction and investment decisions.
- → An independent risk team which provides sophisticated risk analyses to the portfolio managers and the Risk Committee (chaired by the Chief Investment Officer).

Operational risk
Since the inception of BlueBay, we have taken the approach that in order to manage operational risk effectively, a fast growing business operating in broad and complex markets needs the underpinning of a high quality operational infrastructure. We believe the key ingredients to this are:

→ The recruitment, retention and motivation of high quality infrastructure professionals.
→ The implementation of a modular IT environment which scales as the business grows in size and complexity.
→ The continual review and upgrading of internal controls and procedures.

During the year, we have continued to review the business risks we face as well as our approach to mitigating and/or managing them. The internal risk reviews have been supplemented by recommendations made by our internal auditors (KPMG) and the reporting accountants (PwC) arising from their review undertaken under the framework set out in AAF 01/06 issued by the Institute of Chartered Accountants in England and Wales ("ICAEW"). For further detail on our approach to risk management refer to the section entitled Risk Management and Internal Control on pages 50 to 53.

D. Employees
In the light of declining revenues and profitability, BlueBay carried out a review of its cost base during the course of the financial year. In common with most other asset management businesses, BlueBay's principal cost driver is compensation of permanent employees and contractors. The objective of the review was to reduce BlueBay's overall costs without impairing the ability of any of its core businesses to take full advantage of the start of the new credit cycle. From the peak reached in October 2008, the number of permanent employees and contractors was reduced by 20.5% to a total of 217 at the end of June 2009.

We are dependent for our success on our ability to attract, retain and motivate the highest quality industry professionals. We believe that the three following ingredients are crucial in this regard:

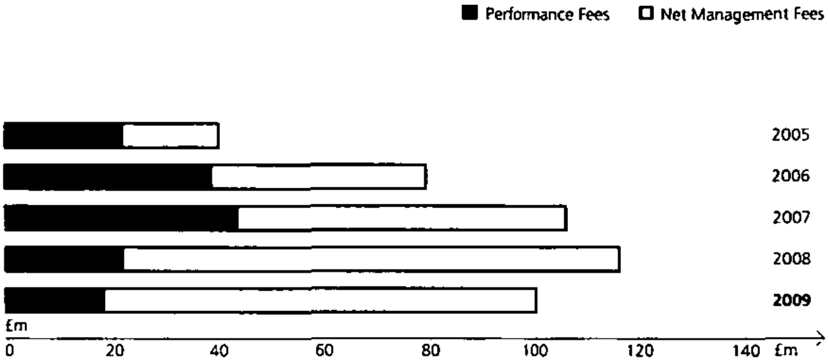
→ *Competitive compensation structures.* During the financial year, we carried out a comprehensive review of the compensation arrangements for our investment professionals. We continue to operate bonus pools for each of the investment teams; however, our approach has evolved so that it no longer just captures investment performance but also takes account of the profitable growth of each of their individual businesses.

Although the computation of each bonus pool is formulaic (subject to annual reviews), the allocation of each bonus pool amongst its participants is determined on a discretionary basis. In addition, a proportion of bonuses is recommended to be awarded by the Employee Benefit Trust ("EBT") in the form of either shares of funds managed by BlueBay or shares of BlueBay Asset Management plc, both of which vest over a three year deferral period. We believe this helps to ensure that the interests of employees are closely aligned with those of investors in BlueBay funds or BlueBay shares.

→ *Widespread employee share ownership.* As at 30 June 2009, employees and Directors of BlueBay had an interest in approximately 55% of its shares. Although this percentage is likely to decline over time, we remain committed to ensuring that employees retain a meaningful interest in BlueBay's issued share capital. Our primary EBT is able to purchase shares from the market in order to make future equity awards.

→ *A collegiate working environment.* BlueBay has established a distinctive, friendly working environment based around a small, centralised management team and an equity-driven incentive culture, such that given our size and specialisation we believe BlueBay has become a blue-chip employer of choice for ambitious and talented professionals.

Figure (8) Fee revenue trend



Source: BlueBay Asset Management plc

Financial business drivers

Summary of results

During the year, total fee income (net of trail commissions) decreased by 12.3% to £100.9 million. Total administrative expenses increased by 10.3% to £76.1 million leading to a decrease in profit before exceptional items and tax of 55.4% to £22.3 million. Exceptional costs are those costs associated with redundancies and the relocation of the US office from New York City to Connecticut and amounted to £4.8 million. Profit on ordinary activities before tax decreased by 65.0% to £17.5 million.

The following table is based on the Group Income Statement contained in the Financial Accounts section of this report on page 58. The report has been presented in a format used by BlueBay's Management Team to assess the financial performance of the Group.

Summary Group Income Statement for the year ended 30 June:

	2009 £m	2008* £m
Net management fees**	82.4	91.0
Performance fees	18.5	24.0
Total fee income	**100.9**	**115.0**
Other net operating income/expense	(3.8)	0.7
Net operating income	**97.1**	**115.8**
Salaries	(19.6)	(17.5)
Current calendar year bonus accruals	(7.6)	(7.3)
Prior calendar year cash bonus	(9.5)	(9.2)
Fixed compensation charges from prior calendar year awards ***	(16.6)	(12.7)
Total compensation expenses	**(53.3)**	**(46.7)**
Total non-compensation related expenses	(22.8)	(22.3)
Total administrative expenses	**(76.1)**	**(69.0)**
Operating profit before exceptional items	**21.0**	**46.8**
Net financing income	1.3	3.3
Profit before tax and exceptional items	**22.3**	**50.1**
Exceptional items	(4.8)	0.0
Profit on ordinary activities before taxation	**17.5**	**50.1**
Taxation	(5.5)	(16.2)
Profit for the year attributable to ordinary equity shareholders	**12.0**	**33.9**

* Restated for change in accounting policy. Please refer to note 1 of the Notes to the Group Financial Statements.
** Net of rebates and trail commissions.
***Fixed charges in relation to equity awards and fund awards up to and including calendar year 2008.

Key financial drivers

The key financial drivers of the business are net management fees, performance fees and the management of expenses.

Net management fees

BlueBay experienced a 9.5% decline in net management fees (net of trail commissions) during 2009 to £82.4 million (2008: £91.0 million). Net management fees represented 81.7% of total fee income. See Figure (8).

During the course of the year, there were significant changes in the net management fees generated by each of the strategies. The increase in AuM in both investment grade and high yield led to corresponding increases in net management fees for each of these strategies. Despite the fall in the year-end AuM in Multi-Strategy from 2008 to 2009, net management fees increased by 29.8% to £16.1 million. This reflects higher average AuM in the financial year ended 30 June 2009 than in the financial year ended 30 June 2008 for this fund.

Net management fees are analysed as indicated for the year ended 30 June:

By strategy	2009 £m	%*	2008 £m	%*
Investment grade	13.4	16.3	6.0	6.6
High yield	15.9	19.3	11.7	12.8
Emerging market	23.0	27.9	31.7	34.8
Convertibles	0.1	0.1	n/a	n/a
Distressed debt	13.9	16.9	29.3	32.2
Multi-Strategy	16.1	19.5	12.3	13.6
Total net management fees	**82.4**	**100.0**	**91.0**	**100.0**

*Percentage of total net management fees.

By product	2009 £m	%*	2008 £m	%*
Long-only	47.0	57.0	34.4	37.8
Long/short	35.4	43.0	56.6	62.2
Total net management fees	**82.4**	**100.0**	**91.0**	**100.0**

*Percentage of total net management fees.

Management fee yields by strategy for June 2009 are as follows:

Strategy	Management fee yield on management fee classes only bps	Management fee yield on performance based classes bps	Aggregate net management fee yield bps	% of AuM with performance fee classes	June 2008 aggregate net management fee yield bps
Investment grade	38	18	36	12.6	33
High yield	84	37	63	45.1	76
Emerging market	80	34	56	52.5	91
Convertibles	73	45	56	61.4	n/a
Distressed debt	n/a	85	85	100.0	100
Multi-Strategy	n/a	200	200	100.0	200

Net management fees generated by the Emerging Markets strategy fell by 27.5% to £23.0 million in the year ended 30 June 2009, mainly as a result of the winding down of the BlueBay Emerging Market Total Return Fund. Net management fees generated by the distressed debt strategy declined by 52.5% to £13.9 million in the year ended 30 June 2009. This reflects the decline in average AuM in the BlueBay Value Recovery Fund as well as the discounted management fee that was applied to this fund during the whole of the financial year.

Management fees on the BlueBay Multi-Strategy Fund were charged at 2% per annum on all assets attributable to unrelated parties. Certain share classes which are only eligible to a defined group of related parties (essentially Directors and employees), do not attract management (or performance) fees. As outlined above, the management fees on the converted shares of the BlueBay Value Recovery Fund were discounted to 100 basis points for the year ended 30 June 2009 and will be further reduced from 1 July 2009 onwards (see page16).

The management fees charged on long-only products are more varied, ranging between 30 and 175 basis points, depending on factors such as sub-asset class, share class and the levels of rebates offered.

Management fees are reported net of rebate payments (which are contractually-agreed fee discounts for large fund investments), expense cap reimbursements (which is where BlueBay reimburses a fund for the excess of its administrative expenses over a pre-determined maximum level) and trail commissions (where BlueBay pays a third party distributor a commission based on the management fees earned on the product). These trail commissions are disclosed as cost of sales on the Group Income Statement.

We calculate management fee yields on management fees net of rebates, expense cap reimbursements and trail commissions payments. The table alongside gives the run-rate management fee yields for June 2009, adjusted for any significant one-off items recognised in that month. Long-only products are offered either in a format which has management fees only or in one that has a lower management fee plus a performance fee generally based on benchmark outperformance, at the choice of the investor. The table alongside distinguishes between the management fee yield on management fee only products and the lower management fee yield on those products offered with a performance fee. It also gives the percentage of the AuM in each strategy which carried a performance fee class at 30 June 2009.

Performance fees

Performance fee revenues dropped by 22.9% to £18.5 million in the year to 30 June 2009. There were no performance fees generated on either of the long/short strategies; however, performance fees generated by long-only products increased by 165.4% to £18.5 million.

Performance fees by strategy for the years ended 30 June as indicated:

Strategy	2009 £m	2008 £m
Investment grade	6.6	2.6
High yield	10.0	4.7
Emerging market	1.4	10.4
Convertibles	0.5	n/a
Distressed debt	0.0	0.0
Multi-Strategy	0.0	6.3
Total performance fees	**18.5**	**24.0**

Subject to performance, performance fees are chargeable on both long/short funds. On the BlueBay Multi-Strategy Fund they are chargeable at a rate of 20% of the absolute return generated. As outlined above, the performance fee rate on the BlueBay Value Recovery Fund is chargeable at 15%.

Where BlueBay's long-only products are offered to investors with a lower management fee and a performance fee, the performance fee is generally structured to pay out 20% of the annual investment return in excess of the benchmark return.

Other operating income and expense

During the course of the year, we made two changes to the items we include in Other Operating Income and Expense in order to improve the transparency of our financial statements. The first was to remove trail commission payments made to distributors from Other Operating Expense and to show them separately as Cost of Sales. This enables them to be directly identified as a component of Total Fee Income (Gross Profit), which we believe is where they belong. As mentioned above, trail commissions are calculated by reference to the management fees BlueBay earns on a product.

The second was to change the accounting treatment of deferred fund awards under the deferred compensation scheme. Previously, fund units purchased were classified as financial assets held at fair value through the profit and loss and therefore the mark-to-market of the financial asset and corresponding liability used to be recognised as part of Other Operating Income and Expense. Due to the mismatch in the timing of the recognition of the asset and the liability, this would give rise to temporary profits or losses arising solely as a result of this timing difference. Each year the terms of the Group's deferred compensation scheme are evaluated and may be modified if deemed necessary. Management has reassessed the extent to which the Group may exercise control over the fund units held under the scheme and concluded that, as the Group may only acquire an interest in the units if they are forfeited by an employee, these fund units are now not considered to be controlled by the Company and the accounting policy was therefore changed to recognise fund units purchased as prepayments rather than financial assets. The Financial Statements have been restated to show the payment for deferred fund units as prepayments in the Balance Sheet which are recorded at cost on the date of purchase and released to the Income Statement over the vesting period. As a result of this change, Income Statement volatility caused by the inconsistent measurement of fair value gains and losses on the Group's financial assets and liabilities is eliminated. The accounting treatment of the release to the Income Statement over the vesting period is unchanged from previous years and is a component of Administrative Expenses. (Please refer to note 1 of the Group Financial Statements for further information.)

For the year ended 30 June 2009, Other Operating Income and Expense includes an exchange rate loss arising on translation of £3.0 million (on foreign currency fee receivables), the mark-to-market gains on forward foreign exchange contracts of £0.3 million and mark-to-market losses on forfeited fund units of £1.1 million (following on from the explanation above forfeited fund units are reclassified from Prepayments to Financial Assets).

Expense management

Administrative expenses

During the financial year 2009, BlueBay's Administrative Expenses (before exceptional items) have increased by £7.1 million or 10.3%, with total compensation costs increasing by £6.6 million or 14.2% and non-compensation costs increasing by £0.5 million or 2.2%.

a) Compensation expenses

By far the largest component of our cost base is compensation expense. In common with most other companies operating in the financial services industry, our compensation cycle operates on a calendar year basis. The results of each financial year therefore contain charges which relate to two different calendar years. The compensation charges for the financial year ended 30 June 2009 contain the charges for the second half of calendar year 2008 as well as the accruals for the first half of calendar year 2009. As we have discussed earlier in this review, for awards that will be made for calendar year 2009, we have amended the bonus pool arrangements for investment professionals in order to align them with the profitable growth and investment performance of each of their businesses rather than solely on investment performance. This means that the compensation charges for each of the two halves of the current financial year are not directly comparable.

As we have developed our bonus pool methodology we believe the split of compensation charges between a performance -based component and a non-performance based component is no longer useful. Instead, we present the following components of the compensation which we hope will be more informative:

- → salaries charged to the income statement during the financial year (including National Insurance);
- → the current calendar year cash bonus and deferral charge accruals (i.e. the total bonuses accrued for the period from 1 January to 30 June each year);
- → the actual cash bonus charge for the prior calendar year that was charged to the current financial year (i.e. the total bonuses charged to the Income Statement for the period from 30 June to 31 December); and
- → fixed compensation charges resulting from prior year awards.

As is set in the Remuneration Report on page 41, our intention is to maintain total cash equivalent compensation in any given calendar year in a range of between 40% and 50% of Total Fee Income. Given the dramatic changes that are currently underway in the mix of our business, we anticipate that the actual ratio for calendar year 2009 is likely to be towards the upper end of this range.

The Summary Group Income Statement set out on page 22 provides the breakdown of the compensation charge for the financial year ended 30 June 2009. The majority of the increase is due to an increase of £3.9 million in the fixed compensation charge from prior calendar year awards. A further £2.1 million is due to an increase in salaries which reflected an average headcount that was 9.3% higher during the year ended 30 June 2009 than in the previous financial year.

Estimated future deferral charges for the period 30 June as indicated:

	2010 £m	2011 £m	2012 £m	2013 £m
Estimated fund award deferrals to be charged in future periods	3.3	1.9	0.7	0.0
Estimated equity award deferrals to be charged in future periods	9.2	6.5	3.6	0.8

b) Fixed compensation resulting from prior calendar year awards

i. Awards of fund units
Awards made under the deferred compensation scheme which vest over a three year period are required to be charged to the Group Income Statement over the vesting period under International Financial Reporting Standards ("IFRS"). The impact of this accounting treatment is that each year the Group Income Statement will contain a broadly fixed pre-determined charge which is derived from deferred bonus awards made in prior years.

ii. Awards of plc shares (equity awards)
As part of our ongoing programme of ensuring widespread share ownership amongst the employees of the Group, a number of equity awards were made to employees during previous calendar years up to and including 2008. Under IFRS, the cost of these awards is spread over their vesting period. The impact of this is that each year the Group Income Statement will also contain a broadly fixed pre-determined charge which is derived from equity awards made in prior years.

These fixed compensation costs increased from 11.0% of Total Fee Income in the year to 30 June 2008 to 16.5% in the current financial year.

The fixed elements to be charged to the Income Statement in future years relating to prior year deferred bonus awards (excluding NI) and prior year equity awards (excluding NI) are as detailed above.

c) Non-compensation expenses
During the financial year, non-compensation expenses increased by 2.2% to £22.8 million, representing 22.5% of total fee income. Occupancy costs increased by 24.9% to £6.5 million as this was the first financial year to recognise the full cost of the London office in Grosvenor Street and the expanded office in New York. IT expenses also increased by 27.4% to £4.8 million. However, expenditure on temporary and contracting staff was reduced by 28.9% to £1.9 million and travel and entertaining expenses were reduced by 29.5% to £1.9 million reflecting tighter cost control in these areas.

In the medium term, we anticipate non-compensation expenses will grow modestly in absolute terms but trend down to between 15% and 20% of total fee income.

d) Exceptional items
During the financial year, we made reductions to the Group's permanent headcount which resulted in termination related charges of £2.0 million. We also decided to relocate the US office from New York City to Connecticut. This resulted in a combined charge of £2.8 million but will result in lower US occupancy charges in future years.

We anticipate that these initiatives will result in annual cost savings of between £3.5 and £4.0 million.

e) Taxation
The effective tax rate has decreased to 31.4% for the year ended 30 June 2009 (from 32.4% for the year ended 30 June 2008). It has also decreased significantly from the effective rate of 42.1% recorded for the six months ended 31 December 2008. This is in part due to prior year tax adjustments recognised in the current financial year, with the remaining decrease attributable to a reduction in the mismatch between the disallowable IFRS2 charge on equity awards granted and the deferred tax asset on those shares which is recognised at a share price of 211.75 pence prevailing on 30 June 2009.

We estimate that a share price of 300 pence or more would bring the effective tax rate broadly inline with the prevailing corporation tax rate of 28%.

f) Operating margins
The Group's operating margin before exceptional items decreased to 20.8% (2008: 40.7%) and after exceptional items it was 16.1%. Our goal is to return to an operating margin of around 40%, in the next year or two.

Capital and capital management
Significant movements in shareholders' equity
As we have explained above, we believe it is essential that share ownership is widely distributed amongst employees and that key professionals retain meaningful interests in BlueBay's equity. BlueBay provides financing to its primary Employee Benefit Trust ("EBT") and, where appropriate, to its Share Incentive Plan ("SIP") to enable them to purchase BlueBay's shares in the market so that they could make equity awards to selected new joiners and to permanent UK employees as part of the compensation round for the calendar year 2008.

We believe it is essential that share ownership is widely distributed amongst BlueBay employees.

During the course of the year, the EBT purchased shares at a cost of £6.0 million (EBT and SIP 2008: £32.4million), which are disclosed under Own Shares in the Group Statement of Changes in Shareholders' Equity on page 60 of the Financial Statements. Details of the awards made during the course of the year and the balance of shares that were still to be awarded at 30 June 2009 are disclosed in notes 21 and 23 of the Financial Statements.

During the financial year, the Group recognised an after tax profit of £12.0 million and recorded dividends of £12.2 million. Retained earnings increased from £43.4 million at 30 June 2008 to £47.9 million at 30 June 2009.

Capital management policy
BlueBay intends to use its capital primarily to support the growth of the business and to provide it with a cushion to shield it from adverse market conditions. In order to determine its primary capital requirements, BlueBay uses multi-year financial models to determine the capital requirements of its anticipated growth. We also develop a number of potential adverse scenarios in order to determine their effect on various financial measures, including the Group's capital base. This enables us to determine the amount of the capital that should be retained in the business for prudential purposes.Once this primary objective has been met, we intend to use available distributable reserves for purposes such as paying dividends to shareholders, funding our equity incentivisation programme (the EBT and the SIP as discussed above) and providing seed capital for new funds.

Over time, the Directors intend to pursue a dividend policy which takes into account the profitability of the business, its capital requirements and an appropriate level of dividend cover. They currently anticipate paying out between 50% and 75% of the profit for each year attributable to ordinary equity shareholders.

Regulatory capital
The Group has been in compliance with, and maintained a comfortable excess over, the minimum regulatory capital requirements at all times during the year.

Cash flow
Our business continues to be cash generative. The cash position at 30 June 2009 was £62.3 million, an increase of 40.7% from the previous year end. As the Group Cash Flow Statement shows on page 61 of the Financial Statements, cash generated from operations decreased by 26.4% during the year to £35.6 million. Corporation tax paid during the year decreased from £11.1 million in the year to 30 June 2008 to £8.2 million in the year to 30 June 2009.

The cash used for financing activities was used for the purchase of Own Shares by the EBT and the SIP for £6.0 million and for the payment of dividends of £11.7 million.

Returns to shareholders
Total share return is measured as the change in value of a share plus the value of the dividends paid, assuming that the dividends are reinvested in the Company's shares on the date on which they were paid. For the financial year to 30 June 2009, this represented a return of +6.1%. This compares to a return on the FTSE 250 Financials Index of -22.4% for the same period. For the period from the date of admission of BlueBay to the Official List of the UK Listing Authority to 30 June 2009, BlueBay shares generated a total shareholder return of -16.5% which compares to a return on the FTSE 250 Financials Index of -41.2% for the same period.

Dividends
It is the intention of the Directors to recommend to the Annual General Meeting to maintain the payment of a final dividend of 4.8 pence per share to all shareholders on the register as at 6 November 2009. This will bring the total dividend per share for the financial year to 6.5 pence per share and represent dividend payments of approximately £12.4 million or approximately 81.2% of the normalised (pre-exceptional) profit after tax for the year.

Subject to shareholder approval, the dividend will be paid on 4 December 2009.

Accounting standards and policies
The Board and Audit Committee review and update, where appropriate, the Group's accounting policies and disclosures. The Group's principal accounting policies are detailed in the Financial Statements section on pages 62 to 66. The preparation of the Financial Statements in accordance with IFRS requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas where a higher degree of judgement or complexity arise or areas where assumptions and estimates are significant are: the valuation and amortisation of intangible assets; estimating the future liability for bonuses and other employee incentive schemes, the determination of the worldwide provision for income taxes and estimating the provision for surplus premises based upon discounted future cash flows. For further detail refer to page 63 in the Financial Statements section.

Corporate responsibility report

The Board and management of BlueBay recognise that through its actions, the Company has an impact on its people, its marketplace, the community and the environment. In pursuing our business activities, we have a responsibility to minimise the impact of these activities on the environment and to treat our employees, clients, business associates and the communities in which we work as long-term partners.

Employees

In order to be successful in our business, we need to recruit and retain the best professionals in the marketplace to fill each of the positions we have at BlueBay. We have a diverse workforce and as at 30 June 2009, we employed 211 permanent employees from 23 different nationalities in a ratio of approximately $^{2}/_{3}$ male; $^{1}/_{3}$ female. We aim to ensure that all employees benefit from a working environment that positively contributes to their wellbeing. We have adopted employment policies aimed at promoting equal opportunities and tackling and preventing harassment or discrimination.

Our clients place a high level of trust in us and we recognise both the responsibility this brings and the resulting demands on our people. We acknowledge that to continue to be effective we must provide the necessary support and development for our employees. Appropriate training is made available to employees to ensure they maintain and develop their professional abilities. In addition, constructive feedback is provided to employees and performance objectives agreed through the annual appraisal process.

It is important for all of us to participate in the success of BlueBay and therefore a majority of permanent employees have direct or indirect stakes in the equity of the Company. For the compensation year ending in December 2008, deferred awards were made to certain employees which vest over a three-year period either into BlueBay equity or into fund shares managed by BlueBay. These awards help us to align our interests with those of our shareholders or of our fund investors.

We recognise our health & safety obligations to everyone who either works in or visits our premises. Hugh Willis, Chief Executive is responsible for health & safety, assisted by the Head of our Human Resources department and a fully qualified professional external advisor.

Marketplace

BlueBay's funds and products are predominantly distributed to institutional investors globally as well as via a number of third party distributors. These relationships are important to us and we consider that establishing a reputation for reliability, integrity and transparency are key ingredients to our success.

Compliance culture and processes

We believe that the compliance culture should be embedded within the organisation from how we communicate and promote our products through to managing clients' investments.

Our dedicated compliance team is involved at all stages of marketing, including reviewing our promotional and sales literature, providing training to promote better understanding of the regulatory framework, ensuring that anti-money laundering regulations are adhered to and investment mandates are managed in accordance with applicable restrictions and mandate guidelines.

Client and distributor relationships and communication

We have established a dedicated team of client relations managers whose principal objective is to be the first point of contact for all investor enquiries including the provision of clear and concise investment reporting, conducting regular client review meetings and ensuring investors are kept up to date on developments at BlueBay. Furthermore, we invite both existing and prospective clients to conduct due diligence visits with us to review our investment teams and operational infrastructure.

Product development

Our strategy to maintain our position as one of the leading fixed income credit specialists in Europe is supported by innovative product development. New products are launched following extensive internal due diligence and consultation with our clients to ensure that they are appropriately designed.

Community

During the course of the year, we made a charitable contribution of £2,000 to CLIC Sargent (which cares for children with cancer). We also sponsored those employees that participated in the annual JP Morgan Chase Corporate Challenge where monies are raised for the "Sports Aid" charity.

During the course of 2009-10, we will look into opportunities to enable the Group and its employees to contribute to the wider community.

Environment

We are committed to limiting and ultimately reducing the impact of our business on the environment.

Considerable care was taken in evaluating the design of the building we occupy in London in order to limit wasteful use of water and electricity. We anticipate that in future years, quantifiable information will be available which will provide a better understanding of the success of this undertaking.

We try to minimise the volume of waste we produce by operating a procurement strategy aimed at reducing the generation of waste and recycling where it is practicable to do so.

Board of Directors

Hans-Jörg Rudloff
Non-executive Chairman [1 3]

Hans-Jörg Rudloff was appointed Chairman of the Company on 3 July 2001. He is also Chairman of Barclays Capital and of the International Capital Markets Association (ICMA), chairing its Compensation Committee. He is Vice Chairman of Novartis, one of the world's largest pharmaceutical companies and sits on the Chairman's Committee, Compensation Committee and Audit Committee. Hans-Jörg joined Rosneft, Russia's largest state controlled oil company and became Chairman of the Audit Committee. He is also a Board Member of the Thyssen Bornemisza Group (TBG) and sits on the Advisory Board of Landeskreditbank Baden-Wurttemberg and the Beirat of Energie Baden-Wurttemberg (EnBW). He is Chairman of Marcuard SA and President of ABD Capital SA, a family investment company and also sits on the Board of New World Resources N.V, Europe's largest coal mining company.

Terence Eccles
Non-executive Senior Independent Director [1* 2 3*]

Terence Eccles was appointed non-executive director of the Company upon listing on the London Stock Exchange on 22 November 2006. He is currently non-executive director of The Paragon Group of Companies PLC. He was formerly Vice Chairman of JPMorgan Cazenove, having previously been Vice Chairman of Investment Banking at JPMorgan Chase, following the merger between Chase Manhattan and JPMorgan. He started his career at JPMorgan in 1970 and has worked in JPMorgan's London, New York and Hong Kong offices. During his career, he advised on numerous transactions, specialising in the European financial services industry.

Tom Cross Brown
Independent Director [1 2 3]

Tom Cross Brown was appointed non-executive director of the Company upon the Company's listing on the London Stock Exchange. Until 2003, he was Chief Executive Officer of ABN AMRO Asset Management and prior to joining ABN AMRO Asset Management in 1997, he was Chief Executive Officer of Lazard Brothers Asset Management. He is currently non-executive Chairman of Pearl Assurance plc, National Provident Life Limited, NPI Limited, London Life Limited and Just Retirement (Holdings) plc. He is also a non-executive director of Pearl Group Limited and of Artemis Alpha Trust plc.

Alan Gibbins
Independent Director [1 2* 3]

Alan Gibbins was appointed non-executive director of the Company on 5 November 2007. He has extensive experience of public company reporting and financial services spanning 35 years with Price Waterhouse and PricewaterhouseCoopers LLP, having been a Partner since 1985 and an Audit and Business Assurance Partner until June 2006. He qualified as a chartered accountant in 1974. His outside interests include Membership of Council and Chairman of the Audit Committee of Queen Mary, University of London, non-executive director of NASDAQ OMX Europe Limited and he is a trustee and the Treasurer of Emmaus Medway.

[1] Member of the Nomination Committee
[2] Member of the Audit Committee
[3] Member of the Remuneration Committee
[*] Committee Chairman

Hugh Willis
Chief Executive Officer

Hugh Willis is one of the co-founders of the Company and has been a director and Chief Executive Officer of the Company since inception. He spent eight years at JPMorgan, latterly as Co-Head of its European Credit Arbitrage Group. He has subsequently held senior positions within the Global Credit Arbitrage Group of Kleinwort Benson and the Fixed Income Management Groups of both Banca della Svizzera Italiana (BSI) and Daiwa Securities Trust and Banking (DSTB), London.

Mark Poole
Chief Investment Officer

Mark Poole is one of the co-founders of the Company and has been a director and Chief Investment Officer of the Company since inception. He spent several years at Credit Suisse First Boston and JPMorgan, latterly as Co-Head of its European Credit Arbitrage Group. He subsequently held senior positions within the Global Credit Arbitrage Group of Kleinwort Benson and the Fixed Income Management Groups of both BSI and DSTB.

Nick Williams
Chief Financial Officer

Nick Williams was appointed Chief Financial Officer of the Company in October 2001 and an executive director of the Company on 1 November 2006. Prior to this he spent 15 years at Goldman Sachs, latterly as Chief Financial Officer of Goldman Sachs Asset Management (Europe). He previously served as Chief Financial Officer and was a member of the Management Committee of Goldman Sachs & Co Bank, Zurich. He qualified as a chartered accountant with Ernst & Young.

Alex Khein
Chief Operating Officer

Alex Khein is Chief Operating Officer of the Company with responsibility for Operations, Risk and Performance, IT and Treasury and was appointed an executive director of the Company on 1 November 2006. He joined the Company in June 2004 as Head of Structured Products before taking up the role of Chief Operating Officer in October 2005. Previously he spent seven years at Morgan Stanley where he was an executive director within the Securitised Products Group.

Directors' Report

The Directors submit their report together with the audited Financial Statements for the year ended 30 June 2009 as required by section 992 of the Companies Act 2006. The Directors' responsibilities for preparing this report are set out on page 54 of the Corporate Governance Report.

Principal activities and business review
BlueBay Asset Management plc is the parent company of an independent asset management group which provides investment management services to institutions and high net worth individuals. The Company was admitted to the Official List of the UK Listing Authority and to trading on the main market of the London Stock Exchange on 22 November 2006.

A review of BlueBay's business during the financial year 2008-09, likely future developments and the information which fulfils the Business Review requirements is contained in the following sections of the Annual Report, which are incorporated into the Directors' Report by reference:
- → Chairman's Statement on pages 6 and 7.
- → Chief Executive's Review on pages 8 to 11.
- → Business Review on pages 12 to 29.
- → Risk Management and Internal Control Report on pages 50 to 53.
- → Corporate Governance Statement on pages 34 to 37.
- → Disclosure of information to auditors on page 54.

Results and dividends
The profit after tax attributable to equity holders for the year ended 30 June 2009 amounted to £12.0 million (2008: £33.8 million).

The Directors recommend a final dividend of 4.8 pence per ordinary share. Subject to shareholder approval at the AGM, the proposed dividend will be paid on 4 December 2009 to shareholders on the register on 6 November 2009, the ex-dividend date being 4 November 2009.

During the financial year, the Company declared £12.2 million (2008: £17.5 million) in dividends to shareholders on the register.

Annual General Meeting
The Company's AGM will be held at 11.00 am on Wednesday, 25 November 2009 at 77 Grosvenor Street, London W1K 3JR.

Capital structure
At 30 June 2009 the Company had issued share capital of 193,768,462 (2008: 192,965,962). The Company has only one class of shares; being the ordinary 0.1pence share listed on the London Stock Exchange. No special rights are attached to any of the Company's shares. The Company is not aware of any arrangements that would restrict the voting rights of the ordinary shares in issue. Transferability of the shares is otherwise unfettered except where these shares are issued subject to the rules of any of the Company's share or incentive schemes.

A total of 802,500 shares were issued during the period in order to satisfy the Company's obligations to holders under the Unapproved Share Option Plan. A further 81,250 were issued in the period up to the publication of this report.

The Company does not anticipate an increase in its issued share capital except to the extent required to satisfy the exercise of remaining options under the Unapproved Share Option Plan. Information relating to the number of shares over which options remain unexercised can be found on page 84.

Own shares
During the year, the number of own shares purchased by employee trusts and share incentive plans was 2,929,130 (2008: 9,029,426), at a cost of £6.0 million (2008: £31.4 million). Own shares are held by employee trusts and share incentive plans for the purposes of satisfying certain equity-based awards where shares have not vested unconditionally to employees of the Group.

The Company also holds own shares through its arrangements with a number of employees who have subscribed for shares which have not vested unconditionally. Under the terms of each subscription, the shares are held in a nominee account on behalf of each employee until such shares are no longer subject to forfeiture. The number of own shares held under such arrangements as at 30 June 2009 was 30,756,311 (2008: 52,395,569). Appleby Trust (Jersey) Limited has waived its entitlement to receive dividends from the Company in respect of shares held to meet future award requirements under the Company's employee benefit arrangements.

Substantial shareholdings
As at 1 September 2009 the following voting interests were held in the ordinary share capital of the Company; Pershing Nominees Limited 37.48%, Strand Nominees Limited 20.63%, Janus Capital Management LLC 5.72%, Lehman Brothers International (Europe) in Administration 4.90%, Aegon Asset Management plc 3.80% and William Blair & Co LLC 3.33%.

Pershing Nominees Limited is nominee in relation to certain of the Company's employee benefit schemes and within this holding two employees of the Company, Gina Germano and Alberto Francioni each have disclosable interests in 3.09% and 3.24% respectively of the ordinary share capital. Interests of the Directors, including options, are set out in the Remuneration Report on pages 41 to 49.

There have been no changes in the Directors' share interests between 30 June 2009 and the date of this report.

Directors
The Directors sitting on the Board throughout the financial year were Hans-Jörg Rudloff, Terence Eccles, Tom Cross Brown, Alan Gibbins, Hugh Willis, Mark Poole, Nick Williams and Alex Khein. Directors' biographies can be found on pages 30 and 31. There were no changes in the membership of the Board or its Committees during the period.

The appointment and termination of directors is governed by the Articles of the Company in compliance with the relevant legislation. The Articles can only be amended with the consent of the shareholders and any such alterations are usually proposed at the AGM.

The Directors of the Company are empowered to exercise all the powers of directors as vested in them by both the Articles and applicable legislation. The authority to allot new shares is granted by the shareholders at the AGM, as is any authority to make market purchases of own shares.

The appointments of the non-executive directors are terminable without entitlement to compensation (and without notice, in accordance with the Articles of the Company). Service agreements are in place between the Group and the executive directors. The agreements do not have a fixed term, but provide for termination on the expiry of not less than nine months notice by either party. The agreements contain no contractual entitlement for the executive directors to be paid any fixed amount of bonus or any fixed provision for termination compensation.

There are no signification agreements impacted by change of control provisions.

Retirement and re-election of directors
At the 2008 AGM, Hans Jörg Rudloff, Hugh Willis and Mark Poole all resigned by rotation and being the first opportunity since his election to the Board, Alan Gibbins also resigned. All four directors being eligible offered themselves for re-election.

The Articles provide that each year those directors who held office at the time of the two preceding AGMs and did not retire by rotation will retire. Any non-executive director who has held office for nine years or more and who is not required to retire by rotation will also retire from office. Given that Hans-Jörg Rudloff, Terence Eccles, Tom Cross Brown, Hugh Willis, Mark Poole, Nick Williams and Alex Khein all offered themselves for re-election at the first AGM of the Company since Listing on the London Stock Exchange on 22 November 2006 and since the Directors considered it inappropriate that no director should stand for re-election at the following two AGMs, the directors have continued to offer themselves for re-election by rotation on a shorter basis than prescribed by the Articles in order to establish regular rotation amongst the directors. At the 2009 AGM, Terence Eccles, Nick Williams and Alex Khein will offer themselves for re-election.

The names and biographical details of the Directors of the Company are given on pages 30 and 31. As at 30 June 2009, the Board comprised four executive directors and four non-executive directors (including the Chairman). There have been no changes to the composition of the Board since that date.

Directors' interests and indemnity arrangements
At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than service agreements between each executive director and the Company and letters of engagement between each non-executive director and the Company.

The Company maintains appropriate directors and officers liability insurance and has entered into a deed poll of indemnity in favour of the executive and non-executive directors. The Directors also have the benefit of the indemnity provision in the Company's Articles of Association. These provisions, which are qualifying third party indemnity provisions as defined by s232 of the Companies Act 2006, were in force throughout the year and are currently in force. Details of Directors' remuneration and interests in the shares of the Company are set out in the Remuneration Report on pages 41 to 49.

Auditors
The audit partner at PricewaterhouseCoopers LLP ("PwC") retired by rotation on completion of the 2007-08 audit. At this point formal consideration was given to a change in auditors and after due process, it was decided to retain the services of PwC as auditor and the resolution was put to the shareholders at the 2008 AGM.

The Directors have considered the performance of PwC and the new audit partner during the 2008-09 audit and will recommend their reappointment to the shareholders at the 2009 AGM. The resolution will also seek the authority for the Directors to determine the remuneration of the auditors for 2009-10.

Employees
The Company seeks to operate fair practices, reasonable working conditions and to be responsive and flexible to the needs of its employees. The Company is an equal opportunities employer and treats no job applicant or employee on less favourable terms than any other.

Further details relating to the Group's employee policies can be found on pages 28 to 29 of the Business Review within the Corporate responsibility report.

Political and charitable donations
Charitable donations of £2,000 were made by the Group during the year (2008: £52,000). Details are included in the Corporate responsibility report.

No political donations or contributions were made or expenditure incurred by the Group during the year (2008: nil).

Credit payment policy
It is the Group's policy to honour all of its contractual commitments and this includes paying suppliers according to agreed terms. Average creditor days at 30 June 2009 were five days for the Company and six days for the Group (2008: Company: five days, Group: eight days).

For and on behalf of the Board

James Brace
Company Secretary
17 September 2009

Corporate Governance Report

The Board is accountable to the Company's shareholders for sound corporate governance and is committed to ensuring the integrity of the business, maintaining its ethical standards and continuing the high degree of professionalism across the Company.

During the course of 2008 the Financial Reporting Council issued an updated version of the Combined Code which became applicable to accounting periods beginning on or after 29 June 2008. A complete copy of the Code can be obtained from the Financial Reporting Council or downloaded from their website.

This is the first year the Company will report against the provisions of the 2008 Code. The Directors consider that the Group has applied the main principles of the Combined Code 2008 ("the Code") throughout the reporting period and outline below how these have been complied with, where they have not been fully met and why this is the case.

The role of the Board
The Board is collectively responsible to shareholders for creating and delivering sustainable long-term shareholder value through strong leadership, financial performance and the approval of the Company's strategic objectives. It is also responsible for ensuring that adequate resources are made available to ensure these objectives are met and for ensuring that management maintains systems of internal control which provide assurance of effective and efficient operations, strong internal financial controls and compliance with applicable laws and regulations.

The executive directors are responsible for developing the business, day-to-day operations and delivering performance according to the strategic objectives established by the Board as a whole. To the development of these activities, the non-executive directors bring objectivity and constructive debate.

The Board has a formal schedule of matters reserved for its decision. This is reviewed annually and amended accordingly. The schedule includes items such as:
→ the approval of the interim, preliminary and annual reports and accounts;
→ any material changes to the Company's overall commercial strategy and business plan;
→ any major Group re-organisations or changes in the control structure;
→ setting the risk management and internal control policies for the Group;
→ consideration of any increases in borrowings beyond the limits previously adopted;
→ determining the dividend policy;
→ consideration of any appointment or removal from the Board, including the selection of Chairman, Senior Independent Director and Chief Executive; membership of board committees and their respective chairmen on recommendation by the Nomination Committee; and
→ delegation of the Board's powers as well as the assessment of its performance.

The Board fulfils its duties to the Company's shareholders by means of direct intervention or by delegating its responsibilities to the principal committees of the Board. These are the Audit, Remuneration and Nomination Committees. A more detailed report of the activities of each committee is included later in this report on pages 38 to 42.

The Company Secretary is responsible for ensuring Board procedures are followed.

The Composition of the Board
As at 30 June 2009, the Board comprised four non-executive directors, including the Chairman, and four executive directors. The Board considers its size both suitable and appropriate for the effective control and conduct of the business.

The Board recognises that it is not fully compliant with the provisions of the Code in regards to the composition of the Board in terms of the number of independent directors but remains confident that the strength of its independent non-executive directors continues to be sufficient to ensure that no individual or small group can dominate the Board's decision-making. The composition of the Board as outlined above was the position throughout the year. Profiles of the Directors can be found on pages 30 and 31.

Terence Eccles is the Company's senior independent director and was appointed to the Board in November 2006. He is available to shareholders if they have concerns which have not or cannot be resolved through normal channels with the Chairman or Chief Executive. The senior independent director is responsible for leading the performance review of the Chairman.

Apart from the Chairman, the Board considers all three of the remaining non-executive directors, namely Terence Eccles, Tom Cross Brown and Alan Gibbins to be independent.

The Company expects a high level of constructive input and intelligent questioning from its non-executive directors. If Directors were to have concerns that could not be resolved about the running of the Company, these would be recorded in the minutes as a matter of Board practice.

The Chairman's other significant commitments are described on page 30. There have been no material changes to such commitments during the period and these commitments are not considered to impact on his duties. The Company is aware of the external commitments of the independent non-executive directors and does not believe that these impinge upon their duties to the Company.

Provisions relating to the Directors' Duties on Conflicts of Interest as set out in the Companies Act 2006 came into force on 1 October 2008. In light of the new changes, the Board considered and authorised, in accordance with the Company Articles, the external directorships and other interests held by individual directors which might be regarded as giving rise to actual or potential areas of conflict. In addition, Directors will absent themselves from any discussion relating to the areas or issues which may give rise to a conflict or potential conflict.

Directors are aware of their continuing obligations to the Company in this respect.

Chairman and Chief Executive
The roles of Chairman and Chief Executive are distinct and separate. The Chairman, Hans-Jörg Rudloff, has been Chairman of the Company since July 2001 and is responsible for leading the Board and ensuring its effectiveness. The role of Chief Executive is held by Hugh Willis, one of the co-founders of the Company, who has been a director and the Chief Executive since its inception in 2001. He is responsible for the executive management of the Company which includes the formulation of the Company's strategy for building shareholder value over the long term.

Operation of the Board
The Board held eight scheduled meetings during the year ended 30 June 2009. The Board is collectively responsible for setting its own agenda. At each Board meeting, the Chief Executive generally provides a review of the business and its performance as well as an overview of the financial position of the Company. The range of topics discussed during the period under review included, for example, the strategic development of the Company, the approval and review of new business, regulatory and compliance matters, the approval of the preliminary and the interim Financial Statements as well as corporate governance issues and discussion of the resourcing and administrative issues of the Company.

Attendance at the Board meetings is set out in the table below.

Meetings attended	
Hans-Jörg Rudloff	8/8
Terence Eccles	7/8
Tom Cross Brown	7/8
Alan Gibbins	7/8
Hugh Willis	8/8
Mark Poole	7/8
Nick Williams	8/8
Alex Khein	7/8

Any Director who was unable to attend a Board meeting received appropriate and timely information in advance of the meeting in order that their views could be taken into consideration.

Information to the Board
The Chairman, with the assistance of the Company Secretary, is responsible for ensuring that the Directors receive accurate, timely and clear information on all relevant matters. In addition to the regular Board and Committee packs, Directors receive detailed monthly updates on the financial performance of the Group, its Assets under Management and portfolio and fund performances. Directors also receive copies of the minutes of principal Committee meetings and copies of proposed press releases relating to the financial performance of the Group for review and comment before publication. Updates to changes in or developments to compliance and regulatory matters are also provided to Directors.

On appointment to the Board, Company marketing literature and financial reports are made available to new Directors. Given the skill and experience of the Company's non-executive directors, the Board believes it a matter best left to the discretion of each individual Director to determine general training requirements, except where such weaknesses have been identified during the annual Board performance evaluation.

All Directors have access to the advice and services of the Company Secretary and may seek independent professional advice, if necessary, at the Company's expense.

The appointment and removal of the Company Secretary is a matter for the Board as a whole, following recommendation of the Nomination Committee.

Chairman's Committee
The Chairman met with the non-executive directors without the presence of the executive directors prior to the publication of the annual results.

Board Committees
The Board formally delegates certain responsibilities to Committees by way of written terms of reference. The three principal Committees are the Audit, Remuneration and Nomination Committees. Details of each principal Committee, its membership and terms of reference are summarised on the following pages together with details of significant activities undertaken during the year. The Directors receive copies of the minutes to all the Committee meetings.

Board performance
An annual performance review was conducted evaluating the effectiveness of the Board and its Committees. The review covered aspects such as the Board and Committee performance throughout the period and whether the Directors had contributed sufficient time and brought a suitable mix of knowledge and skills in order for the Board and its Committees to fulfil their duties.

The process included a review of the performance of the Board as a whole and an evaluation of the performance of the Chairman, led by the Senior Independent Director.

The appraisals were conducted making use of tailored questionnaires which covered a number of wide ranging issues followed by face-to-face meetings.

Each year prior to the commencement of the review, consideration is given as to whether this method continues to be effective and add value to the evaluation. Any action points stemming from the process are passed to the Company Secretary to action.

Having completed the review, the Board is confident that it continues to operate effectively and the Company benefits both from having the objectiveness brought by each non-executive director and the leadership of the executive directors.

The Board views the annual performance evaluation as a highly useful tool in ensuring the ongoing effectiveness of the Board and assisting it in determining if the right balance of skills is brought to the oversight of the Company.

Shareholder relations
During the year, the Chief Executive, the Chief Financial Officer and the Chief Operating Officer met and made presentations to institutional investors, analysts and prospective shareholders. Feedback from these meetings was given to the Board. The senior independent non-executive director is also available to meet institutional shareholders if requested. The Directors, with the assistance of the Company Secretary, ensure that all appropriate communications are released to the London Stock Exchange and shareholders.

The Company maintains a corporate website www.bluebayinvest.com which contains a wide range of information on the Company, including regulatory announcements and published financial information and also details on the net asset values of the funds it manages, as well as contact details for both the Company's registrars and for queries submitted directly to the Company.

The AGM is due to be held on 25 November 2009 and the Board and Chairman of each of the principal Committees welcome the opportunity to answer questions put forward to them by shareholders of the Company. The Annual Report and Accounts and the notice of the AGM will be sent to shareholders at least 20 working days prior to the date of the meeting.

Capital structure disclosure
In line with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulation 2008 (SI 2008/410), disclosures on the share capital of the Group have been made in the Directors' Report on page 32.

Re-election
On recommendation of the Nomination Committee following the annual performance review, the Board confirms that the Directors subject to re-election at the 2009 AGM, namely Terence Eccles, Nick Williams and Alex Khein, continue to perform their duties effectively and demonstrate commitment to their respective roles. The Board will recommend the re-election of the Directors named above at the AGM.

Going concern
The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly continue to adopt the going concern basis in preparing the Financial Statements.

Internal control
The Board has overall responsibility for the Company's systems of internal control and risk management, although responsibility for designing, operating and maintaining the framework of control and mitigation is delegated to management. Both the Board and management recognise that the framework mitigates the risk associated with the Company's activities rather than eliminating it and can objectively provide reasonable but not absolute assurances.

Strategic decisions relating to risk management and internal control are embedded in the matters reserved for consideration by the Board. In overseeing these functions, the Board has delegated some of these activities to the Audit Committee. The Committee annually conducts a review of the effectiveness of the procedures in place and seeks assurances from management that the system is fit for purpose.

The Audit Committee and Board review, at least annually, the effectiveness of the controls in place in accordance with the Turnbull Guidance 2005. During the course of its review of the internal controls, the Board has not identified or been advised of any failings or weaknesses which have been determined as being significant.

The management of BlueBay is responsible for establishing and maintaining adequate internal control over financial reporting. BlueBay's internal controls over financial reporting include policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRSs and that receipts and expenditures are being made only in accordance with authorisations of management and the Directors of BlueBay.

Explanations of the Directors' responsibilities for preparing the Financial Statements are given in the Directors' Responsibility Statement on page 54 and for the auditors' responsibility for reporting on those statements are given in the Independent Auditors Report on pages 56 to 57.

Further information on the risk management and internal control framework can be found in the Risk Management and Internal Control Report on pages 50 to 53.

Whistle-blowing measures
In accordance with the FSA rules the Company has had a whistle-blowing policy in place for a number of years. This enables staff to raise concerns about possible improprieties relating to the Company's operations. The Code requires the Audit Committee to review the adequacy of the Company's whistle-blowing arrangements.

Regulation
The Company is authorised and regulated in the United Kingdom by the FSA. The Company is registered as an investment advisor with the US Securities and Exchange Commission. To facilitate the activities of the Company's operation in Japan, one of the Company's subsidiaries, BlueBay Asset Management Japan Limited, is registered with the relevant authority in that country, the Financial Services Agency.

The Company also provides financial services (but does not have a physical presence) in the various EU states but as these services are provided on a cross-border basis and the Company does not have a physical presence in an EU state other than the UK, it is only subject to the rules of these various EU states to a limited degree having obtained the appropriate European investment services 'passport'. This passport derives from the pan-European regime established by the Markets in Financial Instruments Directive ("MiFID").

The Company is the Promoter, Investment Manager and Principal Sales Agent of the BlueBay Funds and is subject to supervision by the Commission de Surveillance du Secteur Financier in Luxembourg.

BlueBay considers the main areas in which it can apply its principles of marketplace good governance and ethical conduct to be:
→ BlueBay's own risk controlled investment processes;
→ due diligence and ongoing monitoring of third parties with which BlueBay conducts business;
→ transparent dialogue with shareholders and investors in its products;
→ ongoing compliance with all relevant external legislative and regulatory requirements, including those relating to the fair treatment of investors;
→ ongoing compliance with the investment strategies and guidelines set out in the relevant fund prospectus or instructions of its segregated client mandates; and
→ adherence to the relevant principles and code of ethics relating to due care towards all those who have an interest in the Group.

The Board is committed to achieving and building on the high standards of corporate governance adopted following Listing.

For and on behalf of the Board

James Brace
Company Secretary
17 September 2009

Nomination Committee Report

This Nomination Committee Report sets out the role of the Nomination Committee, its membership and what it considered during the year.

Role of the Committee
The purpose of the Nomination Committee is to consider, and make recommendations to the Board concerning its composition, proposed appointees and whether any vacancies that may arise should be filled.

The principal duties of the Nomination Committee include the following:
→ to review regularly the structure, size and composition of the Board (including its skills, knowledge and experience) and make recommendations to the Board with regard to any changes;
→ to identify, nominate and recommend for the approval of the Board, appropriate candidates to fill Board vacancies as and when they arise;
→ to satisfy itself with regard to succession planning that processes and plans are in place with regard to both Board and senior management appointments;
→ to review annually the time required to fulfil the role of the Chairman, senior independent director and each non-executive director and to use performance evaluation to assess whether each non-executive director has devoted sufficient time to their duties;
→ to recommend the re-election (or not) by shareholders of any director under the retirement and re-election provisions in the Company's Articles of Association;
→ to make a statement in the Annual Report about its activities;
→ to make available its Terms of Reference upon request and display them on the Company's website; and
→ to ensure that on appointment to the Board, non-executive directors receive formal written terms of appointment.

The Committee has written Terms of Reference which are available for inspection on the Company's website. The Terms are reviewed on an annual basis both by the Committee and the Board as a whole.

Membership
The Nomination Committee comprises the non-executive directors, Terence Eccles, as Chairman, Hans-Jörg Rudloff, Tom Cross Brown and Alan Gibbins.

Meetings
The Committee met once during the financial year, with apologies received from Hans-Jörg Rudloff on that occasion.

Report of the Committee's activities
During the reporting period, the Committee fulfilled its duties as outlined below:
→ undertook a rigorous review of the composition and structure of the Board and its Committees, giving consideration to the skills and knowledge of the current members and the time required by each to fulfil their duties;
→ made recommendations to the Board for re-election of Directors at the 2009 AGM; and
→ reviewed the relevant sections of the Report and Accounts prior to publication.

Support to the Committee
When required, the Committee receives information from senior management, and external advisors as necessary, to enable it to carry out its duties and responsibilities effectively.

The Company Secretary is the Secretary of the Committee and his services are available to the Committee Chairman.

Audit Committee Report

This Audit Committee Report sets out the role of the Audit Committee, its membership and what it considered during the year.

Role of the Committee

The Board has delegated to the Committee responsibility for overseeing the financial reporting and internal control of the Group and for maintaining an appropriate relationship with the Group's auditors. The main role of the Committee is to encourage and safeguard the highest standards of financial reporting integrity, risk management and internal control. In doing this the principal responsibilities of the Committee include:

- → reviewing the form, content and integrity of the Group and Company's Financial Statements;
- → monitoring and reviewing the effectiveness of the external and internal audit functions;
- → recommending to the Board the appointment, reappointment or removal of the external auditor;
- → reviewing the adequacy and effectiveness of the Group's internal controls and risk management systems; and
- → ensuring that suitable procedures are in place for employees to raise concerns about improprieties in matters pertaining to any area of operation within the Company.

Membership

The Committee is chaired by Alan Gibbins. His biography, and that of the other members of the Committee, can be found on page 30.

As at 30 June 2009, the Committee was comprised solely of the independent non-executive directors, Alan Gibbins, Terence Eccles and Tom Cross Brown.

The Board is satisfied that at least one member of the Committee has recent and relevant financial experience.

The Committee has written Terms of Reference which are reviewed annually by both the Committee itself and the Board as a whole. The Terms are available on the Company's website.

Meetings

The Committee met four times during the financial year and invited the Chairman, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, General Counsel, Compliance Officer and senior members of both the internal and external auditors to attend several of the meetings. The Committee met with each of the internal and external auditors without the presence of any executive directors or other senior members of staff present prior to the publication of the year-end financial statements.

Attendance by Committee members is indicated in the table below.

Meetings attended	
Terence Eccles	3/4
Tom Cross Brown	4/4
Alan Gibbins	4/4

The minutes of each Committee meeting are circulated to all Board members.

Report of the Committee's activities

During the year the Audit Committee discharged its responsibilities as set out in its terms of reference by undertaking the following work:

- → meeting prior to the release of the Group's financial information, including the annual and interim reports, and each of the interim management statements in order to review the content; thereby also considering the suitability of the accounting policies and reviewing any reporting issues or areas of judgement applied in compiling the statements;
- → reviewing the annual report disclosures on items relevant to the Committee;
- → reviewing the internal audit plan for the period;
- → receiving and reviewing internal audit reports, discussing their findings and management's responses;
- → reviewing the scope and nature of the audit with the auditors prior to the commencement of the audit, as well as receiving the auditors' engagement letter and agreeing the relevant fees;
- → evaluating the continued independence of the external auditors with a view to recommending (or not) their continued appointment;
- → receiving regular reports from the Compliance Officer in relation to the Company's compliance with relevant regulation;
- → reviewing the effectiveness of the internal control and risk management procedures in accordance with the Turnbull guidance 2005; and
- → reviewing and approving the Assurance Report on Internal Controls.

Non-audit services and external auditor independence
The Committee monitors the level of non-audit work carried out by the auditors and seeks assurances from the auditors that they and their staff have no family, financial, employment, investment or business relationship with the Company outside of the normal course of business. Furthermore, the Committee also seeks assurances that the auditors themselves maintain suitable policies and processes ensuring independence and monitoring compliance with the relevant regulatory requirements on an annual basis.

The Company operates on the basis whereby the provision of non-audit services by the auditor is permissible where no conflict of interest arises, where the independence of the auditors is not likely to be impinged by undertaking the work and the quality and objectivity of both the non-audit work and audit work will not be compromised.

A new audit partner was in place for the review of the Interim Financial Statement and the statutory audit for 2009. Given the performance of the auditors, including the new partner during the course of the financial year, a resolution will be proposed at the 2009 AGM to reappoint PwC for 2010 and also allow the Board to set their remuneration.

The Committee is satisfied that the external auditors remain independent.

Support to the Committee
The Committee received information and support from management during the year to enable it to carry out its duties and responsibilities effectively. The Committee Chairman met regularly with the Chief Financial Officer throughout the period.

The Assistant Company Secretary is Secretary to the Committee.

Remuneration Report

Letter to Shareholders from the Committee Chairman

Dear Shareholder,

The Company's key assets are its employees. The Company's objective is to operate an appropriately tailored remuneration policy which is linked to the attainment of a combination of individual, team and corporate goals.

The Committee adopted the following principles in designing the Company's remuneration strategy for calendar year 2008:

- → to retain our goal of universal employee share ownership;
- → to provide a high proportion of total compensation in the form of variable compensation in either cash, deferred bonuses or both;
- → to operate a salary cap of £100,000 per annum which applies to all the executive directors and almost all employees; and
- → to offer limited benefit schemes to employees on a fully contributory basis only.

We recognise the need to operate market competitive and financially prudent remuneration arrangements. We have reviewed the market positioning and effectiveness of the executive directors' reward packages and have considered benchmarking data comparing their arrangements against other executive directors operating in similar businesses. The benchmarking data included compensation mix, retention value, probability analysis of different levels of pay out and volatility of pay out.

The bonus pool available for payment to the executive directors is wholly dependent on the profitability of the Company. The Company's bonus year and financial accounting year cover different periods and we have therefore adopted a transparent approach to our reporting in order to clarify the remuneration arrangements. The bonus year runs from 1 January to 31 December and the financial accounting year runs from 1 July to 30 June. Bonuses in relation to executive directors which have been accrued in the Financial Statements (excluding NI) but not paid for the period 1 January 2009 to 30 June 2009 amounted to £1,058,000 of which £423,000 is treated for accounting purposes as being deferred in accordance with the deferred compensation scheme which forms part of the bonus deferral programme.

For executive directors and all other employees whose bonuses reached a specified level, a deferral of 40% was applied. Deferral awards vest on 31 January 2012. A limited number of retention awards were also made by the Employee Benefit Trust (EBT) and these also vest on 31 January 2012. No retention awards were made to executive directors.

Looking forward to next financial year we recognise there are a number of proposals and factors that may impact remuneration in our sector, for example the FSA Code of Practice on Remuneration. Consequently, the Remuneration Committee will review the appropriateness of the remuneration philosophy and may make some changes in light of these factors.

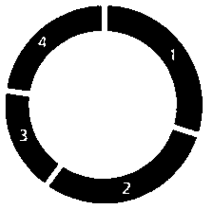
The Committee made the decision in January 2009 to freeze salaries in the January 2009 salary review. For the bonus year 2009 (1 January 2009 to 31 December 2009) we are also aiming for an annual total cash equivalent compensation target of 40-50% of Total Fee Income and the Committee has introduced a cap of 50% of Total Fee Income. In addition, we are implementing a new profit share based methodology in order to determine investment team bonus pools. This takes account of investment performance and management fees together with appropriate deductions for certain defined direct costs; the main ones being salaries and National Insurance Contributions.

The Committee believes this will stand us in good stead for the coming financial year and will ensure that we remunerate employees competitively while recognising the need to balance this with shareholder and investor interests.

As part of the Board effectiveness review, the Committee has been evaluated and I am pleased to report that it is operating effectively.

Terence Eccles
Chairman

Figure (9) Executive directors' 2008 calendar year total bonus



1 £1,600,000 Hugh Willis
2 £1,600,000 Mark Poole
3 £ 933,000 Nick Williams
4 £1,200,000 Alex Khein

Source: BlueBay Asset Management plc

This Remuneration Report sets out the Company's overall remuneration policy and gives details of the compensation arrangements for executive and non-executive directors for the period from 1 July 2008 to 30 June 2009. The report has been prepared on behalf of the Board and will be put to an advisory vote of the Company's shareholders at the AGM to be held on 25 November 2009.

Role of Committee
The role of the Remuneration Committee ("the Committee") is to review and approve the remuneration philosophy and policies of the Company. The Committee is responsible for setting the remuneration of all executive directors and for determining the level and structure of remuneration for senior employees.

Membership
The members of the Committee during the 2008-09 financial year were Terence Eccles (Committee Chairman), Hans-Jörg Rudloff, Tom Cross Brown and Alan Gibbins.

Meetings
During the 2008-09 financial year, the Committee met on four occasions, with all members attending. Other regular attendees who attended by invitation were Hugh Willis (CEO), Mark Poole (CIO), Nick Williams (CFO), Alex Khein (COO), Natalie Godfrey (Head of Human Resources) and James Brace (Company Secretary). No executive directors were present during meetings at which their remuneration was determined and approved.

Support to the Committee
The Committee has retained the services of and considered advice from Herbert Smith LLP and PwC in relation to remuneration matters. The Company is again participating in PwC's Investment Management Reward Survey and the McLagan's Hedge Fund survey.

Key developments in the financial year

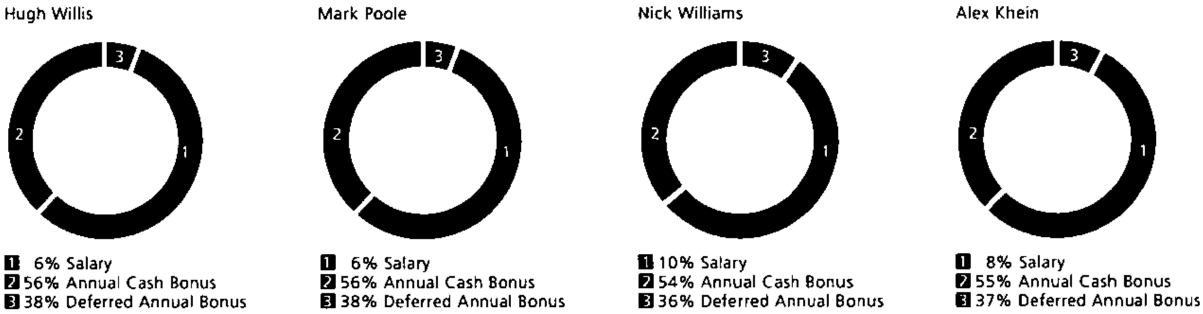
→ For bonuses relating to calendar year 2008, 40% of each bonus in excess of a given threshold was awarded on a deferred basis and invested in shares of funds managed by the Company (referred to as the deferred compensation scheme) and/or BlueBay Asset Management plc ordinary restricted shares (referred to as the plc share award scheme). The shares vest on 31 January 2012. In common with the majority of the sector vesting is not conditional on meeting pre-set performance criteria. However, the value of fund shares on vesting is linked to performance of the relevant BlueBay fund and the value of equity on vesting is linked to BlueBay's share price. Shares may be forfeited on resignation or termination of employment before 31 January 2012.

→ No executive directors received deferred bonus awards over BlueBay Asset Management plc shares as part of the plc share award scheme and, except as required as a result of the exercise of unapproved options awarded pre-IPO, no new BlueBay Asset Management plc shares were issued or transferred from treasury.

→ In addition, recognising the need to retain key talent, the EBT also deemed it appropriate to make a limited number of retention awards. These awards were made in the form of ordinary restricted shares in BlueBay Asset Management plc and vest on 31 January 2012 but were not made available to the executive directors.

Please refer to section u) of the significant accounting policies on pages 65 to 66 for further details on the accounting treatment of these compensation schemes.

Figure (10) Executive directors' 2008 calendar year annual compensation analysis – split of annual compensation



Source: BlueBay Asset Management plc

Executive directors' 2008 calendar year total compensation:

Executive directors	Salary	Annual cash bonus	Deferred annual bonus
Hugh Willis	£100,000	£960,000	£640,000
Mark Poole	£100,000	£960,000	£640,000
Nick Williams	£100,000	£560,000	£373,000
Alex Khein	£100,000	£720,000	£480,000

Service agreements

The executive directors' service agreements are dated 22 November 2006 and do not have a fixed term but provide for termination on the expiry of not less than nine months' notice by either party. The service agreements contain no contractual entitlement for the executive directors to be paid any fixed amount or bonus for termination compensation.

During the year to 30 June 2009, Nick Williams held directorships in several of the funds with which the Company has investment management agreements and for which the right to remuneration was waived.

Non-executive directors are appointed by the Board. Hans-Jörg Rudloff, Terence Eccles, Tom Cross Brown and Alan Gibbins have all entered into letters of appointment with the Company. The appointments of the non-executive directors are terminable without contractual entitlement to compensation (and without notice, in accordance with the Articles of the Company) although it is envisaged that the appointments will be for an initial term of no more than three years. The terms and conditions of each appointment will be made available at the AGM to be held on 25 November 2009.

Elements of the compensation package

Salaries and fees

All four executive directors receive annual salaries of £100,000 per annum in line with our salary cap.

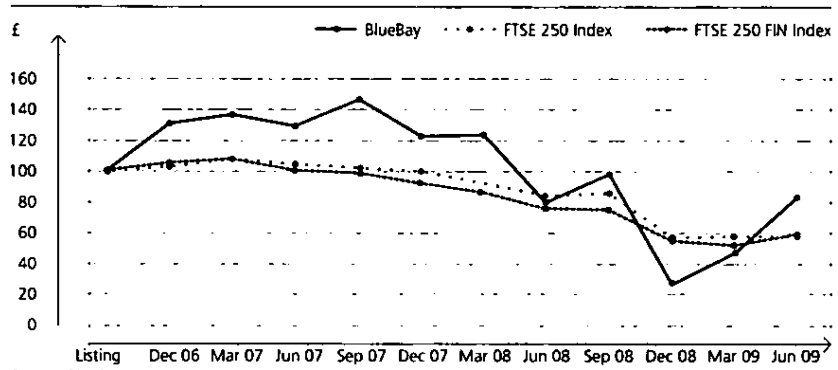
Fees for the Chairman of the Board are set at £75,000 per annum and £50,000 per annum for the remaining non-executive directors.

Discretionary bonuses

In common with most of the financial services industry, the Company operates an annual compensation cycle which broadly coincides with the calendar year (so that all bonuses are accrued and paid on a calendar year basis). The bonus pool available for payment to the executive directors is wholly dependent on the profitability of the Company and has the potential to be a significant element of their total compensation. All executive directors participate in a management bonus pool which is determined as a percentage of the pre-tax profits for the calendar year before deduction of the management pool.

The allocation of the pool amongst the participants is determined by the Committee. All executive directors participated in the 2008 bonus deferral programme described above and 60% of their bonus entitlements were paid in the form of cash bonuses and the remaining 40% was deferred and invested in shares in a variety of BlueBay funds managed by the Company. The shares vest on 31 January 2012 (referred to as the bullet plan). Vesting is not conditional on meeting pre-set performance criteria; however the shares are subject to forfeiture provisions and the value is linked to actual performance of the relevant funds. See Figures (9) and (10).

Figure (11) Shareholder return



Source: BlueBay Asset Management plc

Benefits

The executive directors are entitled to participate in the various contributory Company benefit schemes (such as health care cover). The Company operates a defined contribution pension scheme to which the Company does not contribute. Nick Williams is the only executive director to participate in the pension scheme.

Share and option awards

No new share or option awards were made to any of the executive directors during the course of the financial year.

Performance graph

The performance graph compares the Company's total shareholder return performance against the FTSE 250 Index and the FTSE 250 Financials Index. The FTSE 250 comprises the 250 medium sized quoted companies by market capitalisation not covered by the FTSE 100. It has been chosen because it is a widely recognised performance comparison for medium sized UK companies. The FTSE 250 Financials Index comprises the financial companies which form part of the FTSE 250 Index and has been selected as the companies contained within this index face similar market conditions to the Company.

Figure (11) shows the change in value of a hypothetical £100 invested in the Company's ordinary shares plus the value of dividends reinvested compared with the FTSE 250 Index and FTSE 250 Financial Index for the same period.

Directors' interests in ordinary shares
The market price of the Company's shares at the end of the financial year was 211.75 pence. The highest and lowest daily closing share price during the financial year was 298.00 pence and 63.5 pence respectively.

There have been no changes to the Directors' interests in ordinary shares between 30 June 2009 and the date of this report.

In addition to the below, each executive director is deemed to have an interest in all shares held by the BlueBay Asset Management plc Employee Benefit Trust as potential beneficiaries of the trust.

20,000,000 of the ordinary shares in which Hugh Willis and Mark Poole are interested are held by Strand Nominees Limited. In addition to the 286,667 ordinary shares shown; Hans-Jörg Rudloff has an economic interest in 1,000,000 ordinary shares.

Executive directors	As at 30 June 2009	As at 30 June 2008
Hugh Willis	23,380,000	23,380,000
Mark Poole	23,380,000	23,380,000
Nick Williams	3,004,977	3,004,720
Alex Khein	6,004,977	6,004,720
Non-executive directors		
Hans-Jörg Rudloff	286,667	286,667
Terence Eccles	16,000	16,000
Tom Cross Brown	33,333	33,333
Alan Gibbins	10,000	10,000

Audited section of Remuneration Report

£'000	Salary/ fees	Annual cash bonus	Total 2009	Total 2008
Executive directors				
Hugh Willis	100	960	1,060	2,082
Mark Poole	100	960	1,060	2,082
Nick Williams	100	560	660	513
Alex Khein	100	720	820	1,228
Non-executive directors				
Hans-Jörg Rudloff	75	–	75	75
Terence Eccles	50	–	50	50
Tom Cross Brown	50	–	50	50
Alan Gibbins	50	–	50	33
Total 30 June 2009	**625**	**3,200**	**3,825**	
Total 30 June 2008	608	5,505		6,113

Directors' emoluments
The emoluments (not including the deferred fund awards on page 47) of the Directors of the Group in respect of the period for which they were in office in the relevant year as detailed in the above table.

In line with market practice in this sector the Company's bonus year is based on the calendar year. We recognise that the bonus year and financial accounting year do not run concurrently and therefore in this report we have adopted a transparent approach to our reporting in order to clarify the remuneration arrangements. The Company's financial year runs from 1 July to 30 June.

The table above shows the cash bonuses paid in the 2009 financial year in respect of the 2008 calendar year. Consequently, the table above includes some cash bonus payments which relate to the 2008 financial year.

Bonuses in relation to executive directors which have been accrued in the Financial Statements but not paid for the period 1 January 2009 to 30 June 2009 (a description of which is given on page 41) amounted to £1,058,000 of which £423,000 are treated for accounting purposes as being deferred in accordance with the deferred compensation scheme. The percentage of the bonus pool allocated to each executive director is determined by the Committee.

No cash benefits, benefits in kind or termination payments were made in respect of the period each director was in office in the relevant period.

Fund units	Rights held as 1 July 2008	Rights granted during the year	Rights held as as at 30 June 2009	Unit fair value at grant date (US$)	Vesting date
Executive directors					
Hugh Willis	18,679	–	18,679	100.00	31 Jan 2010
	22,988	–	22,988	111.81	31 Jan 2011
		3,341	3,341	136.47	31 Jan 2012
		4,537	4,537	100.00	31 Jan 2012
Mark Poole	18,679	–	18,679	100.00	31 Jan 2010
	22,988	–	22,988	111.81	31 Jan 2011
		9,074	9,074	100.00	31 Jan 2012
Nick Williams	1,194	–	–	100.00	31 Jan 2009
	1,194	–	1,194	100.00	31 Jan 2010
	4,706	–	4,706	111.81	31 Jan 2011
		974	974	136.47	31 Jan 2012
		820	820	162.12	31 Jan 2012
		1,059	1,059	100.00	31 Jan 2012
		532	532	100.00	31 Jan 2012
		510	510	104.23	31 Jan 2012
		373	373	142.55	31 Jan 2012
Alex Khein	10,235	–	10,235	100.00	31 Jan 2010
	13,045	–	13,045	111.81	31 Jan 2011
		6,805	6,805	100.00	31 Jan 2012

* No changes have been made as at 18 September 2009.

Deferred compensation schemes
Directors' rights to fund awards
The executive directors had the following rights to deferred cash awards under the deferred compensation scheme as detailed above.

Fund awards were invested in a variety of BlueBay funds. Fund awards are rights to deferred shares and so do not give rise to any immediate entitlement on grant. The 'rights granted during the year' refer to awards made in respect of 2008 calendar year which mirrors the Company's bonus year.

For 2008 awards the vesting schedule is a three year bullet (due to vest in 2012) and the funds are subject to forfeiture provisions. In common with this sector the right to the award on vesting is not conditional on achieving any pre-set performance criteria.

On 31 January 2009, the rights to 1,194 fund units held by Nick Williams vested. The fair value on vesting date was US$87.37 per unit.

The bonus deferral programme is only available to employees of the Group and is therefore not available to the non-executive directors.

Number of plc shares	UAO Scheme	Date of grant	Held at 1 July 2008	Rights granted during year	Rights exercised during year	Held at 30 June 2009*	Exercise price of outstanding rights	Earliest exercise date	Latest exercise date	Exercise date
Executive directors										
Hugh Willis		–	–	–	–	–	–	–	–	–
Mark Poole		–	–	–	–	–	–	–	–	–
Nick Williams	UAO	27.04.06	1,000,000	–	–	1,000,000	22.26p	30.01.07	26.4.16	–
Alex Khein		–	–	–	–	–	–	–	–	–

*No charges have been made as at 18 September 2009.

Directors' rights to plc shares under option
These rights to shares do not give rise to any immediate entitlement on grant and are subject to forfeiture provisions.

All options were granted before Listing at nil cost and therefore the right to exercise Unapproved ("UAO") options is not conditional on achieving pre-set performance criteria.

Un-exercised unapproved options vest as follows: 25% on or after each 30 January 2007, 30 January 2008, 30 January 2009 and 30 January 2010. The unapproved options in relation to executive directors will lapse to the extent they are not exercised by the day before the tenth anniversary of the date of grant, being 26 April 2016.

The market price of the Company's shares at the end of the financial year was 211.75 pence. The highest and lowest daily closing share price during the financial year was 298.00 pence and 63.5 pence respectively.

	Outstanding restricted shares at 1 July 2008	Awarded in year	Transferred in year	Lapsed/ forfeited in year	25% vesting in year	Outstanding restricted shares at 30 June 2009	Total equity settled shares held at at 30 June 2009
Executive directors							
Hugh Willis	1,860,000	–	–	–	620,000	1,240,000	2,480,000
Mark Poole	1,860,000	–	–	–	620,000	1,240,000	2,480,000
Nick Williams	1,575,000	–	–	–	525,000	1,050,000	2,100,000
Alex Khein	4,500,000	–	–	–	1,500,000	3,000,000	6,000,000

Equity-settled share award scheme (formerly 'D' shares)
The executive directors had the above rights to equity-settled share awards:

The executive directors were eligible to purchase shares which were subject to forfeiture provisions and only vest unconditionally as follows: 25% on or after each of 22 November 2007, 22 November 2008, 22 November 2009 and 22 November 2010.

The fair value of shares on subscription was 23.68 pence. The market value of the shares on the second vesting date (24 November 2008) was 116.00 pence.

	Free, matched and dividend shares held as at 1 July 2008	Free shares granted during the year	Matched shares granted during the year	Dividend shares granted during the year	Shares transferred in year	Free, matched and dividend shares held as at 30 June 2009
Executive directors						
Hugh Willis	–	–	–	–	–	–
Mark Poole	–	–	–	–	–	–
Nick Williams	3,791	–	–	257	–	4,048
Alex Khein	3,791	–	–	257	–	4,048

Share incentive plan ("SIP")
Under the SIP, the executive directors have the above rights to free and matching shares:

The SIP is an HMRC approved plan which offers eligible employees (including executive directors), a way to acquire shares in the Company with possible tax advantages to the employee.

Free shares are awarded to eligible employees at no cost. Matching shares are awarded at a ratio of 2 to 1, based on partnership shares purchased by the employee. The partnership shares have an initial subscription of £1,500 or 10% of annual salary, if less. The rights to free shares and matching shares are not conditional on achieving any performance criteria but are subject to forfeiture provisions and must be held and remain in trust for at least three years from the date on which the right was acquired. Dividends are automatically reinvested and must be held and remain in trust for three years from the date of reinvestment.

The fair value of the SIP awards at grant date is as follows:

Grant date	Fair value of shares on grant date
13 February 2007	£402.25
22 February 2008	£321.50

There were no SIP awards granted in this financial year.

Approved and signed on behalf of the Board

Terence Eccles
Chairman, Remuneration Committee
17 September 2009

Risk Management and Internal Control

The Board places a high priority on a strong risk management culture within the Group. The Board recognises that risk is inherent in the Group's business and the markets in which it specialises. Effective risk management and strong internal controls are therefore central to the Group's business model.

The tone of BlueBay's internal control environment is set through:

→ a clear definition of management and staff responsibilities, with reporting lines incorporating segregation of duties;
→ recruitment procedures to ensure that BlueBay recruits only staff of appropriate skills and experience;
→ transaction processing functions that focus on timely processing and recording of investment transactions, including the maintenance of consistent records and accurate reporting of holdings to clients;
→ proactive and professionally-staffed compliance and risk management teams; and
→ the encouragement of a culture of openness and mutual trust between colleagues.

The Board is ultimately responsible for the risk management process at BlueBay. This responsibility is primarily fulfilled by two of its sub-committees: the Audit Committee, which is responsible for the oversight of the risk management process and for assessing its effectiveness for BlueBay; and the Management Committee, which is responsible for the identification, assessment and management of risks.

The Management Committee (which comprises the executive directors) relies on the support provided by three internal committees to assist it in carrying out its responsibilities:

→ The Investment Committee which is responsible for reviewing the investment strategies of each of the portfolio management teams and is described in more detail in the 'Investment risk management' section.
→ The Risk Committee which is responsible for reviewing the investment risks and performance of client portfolios and is described in more detail in the 'Portfolio risk management' section.
→ The Compliance and Control Committee which is responsible for BlueBay's operational risk management processes and internal control framework and is described in more detail in the 'Operational risk management' section.

The main risks and the way they are managed are described below:

Investment risk management

One of BlueBay's key corporate objectives is to generate attractive risk-adjusted investment performance over the term of the credit cycle. The investment process is designed to help meet this objective.

The investment process combines a series of top-down inputs with bottom-up security specific analysis. The top-down inputs are provided through the Investment Committee, which comprises all senior portfolio managers and the Chief Investment Officer. It meets on a regular basis to formulate a common view on the macro-economic backdrop and market conditions against which BlueBay makes its investment decisions. Each of the portfolio management teams comprises a number of dedicated credit analysts who are sub-asset class specialists.

Portfolio risk management

Ultimate responsibility for investment risk lies with the Risk Committee, which is chaired by the Chief Investment Officer. Membership includes the Chief Operating Officer, the Head of Risk and the Head of Hedge Fund Strategies. The Risk Committee operates under defined Terms of Reference and meets at least once a month.

The Risk Committee is responsible for:

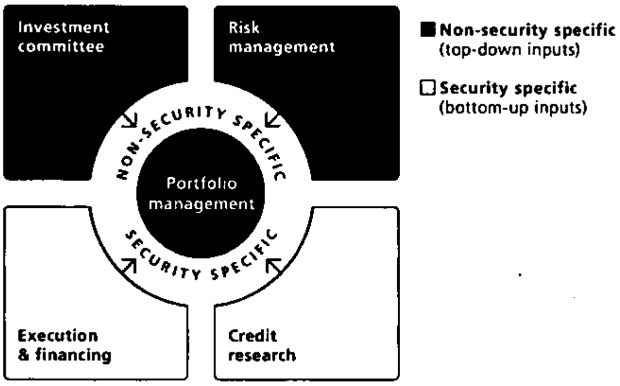
→ setting policies relating to BlueBay's risk management framework;
→ establishing mandates and guidelines for BlueBay fund products;
→ providing ongoing review and oversight of investment risks and performance;
→ approving all counterparty relationships; and
→ approving new products.

Senior portfolio managers are accountable for all risks assumed within their area of responsibility. They must ensure appropriate risk management discipline within the framework of policy and guidelines established by the Risk Committee.

Day-to-day independent assessment and monitoring of investment risk and policy is provided by the Risk and Performance Department. This department is functionally independent from the investment business and reports to the Chief Operating Officer. The Risk Committee ensures that the department has the appropriate resources and tools available to perform their function.

Each portfolio management team is responsible for ensuring its portfolio is in compliance with client investment restrictions. To assist them in this task, the investment restrictions which govern positions in securities and relate to the majority of the portfolio's investment transactions are programmed into BlueBay's portfolio management system, the Charles River Investment Management System (the "Portfolio Management System").

Figure (12) Risk management and internal control



Portfolio managers originate orders but do not execute trades. This is done by the trade execution desk, a team made up of dedicated traders with specialised market knowledge by sub-asset class. The execution team receives orders which are then traded in the market. The segregation of the portfolio management and trade execution functions is an integral and fundamental part of BlueBay's risk management policy.

The majority of the investment guidelines and restrictions are programmed into the Portfolio Management System by the compliance team. Any guidelines or restrictions that cannot be programmed into Charles River are monitored using alternative methods adopted or reviewed by the compliance team.

When a portfolio manager enters an investment order in the Portfolio Management System, the system runs a compliance check on the order before electronically passing it to the BlueBay trade execution team. Trade orders for certain securities, including loans and swaps, are transmitted to the execution team by Bloomberg or email, rather than in Charles River, which means that these securities are not subject to pre-trade compliance checking in Charles River. The post-executed trade details are input to Charles River by the trade execution desk.

If the executed order were to bring a portfolio holding close to an investment limit, the Portfolio Management System would issue a warning which the portfolio manager has to override in order to transmit the trade to the execution team. If the executed order were to cause a breach of an investment restriction, the Portfolio Management System would issue an alert which the portfolio manager would be unable to override and transmission of the order to the trade execution team would be prevented. Occasionally, there are circumstances where an alert may be justifiably overridden but this can only be carried out by a member of the compliance team.

The compliance team monitors the compliance of portfolios with investment guidelines on an ongoing post-trade basis using Charles River or alternative methods where the guidelines cannot be programmed into Charles River.

Market risk management
Risk is measured by calculating the sensitivity of every trade or position to changes in the relevant risk factors. On a daily basis, a set of standard risk reports is produced and distributed to the portfolio management teams and the Management Committee. These daily risk reports include sensitivities to relevant risk factors, an assessment of overall value at risk ("VaR") and the VaR contribution of every position and a range of historical and customised stress tests. On a regular basis the results are back tested in order to validate the risk figures.

Independent risk monitoring is carried out by the Risk and Performance Department. The department uses RiskManager®, an application developed by the RiskMetrics Group™. RiskManager® models every instrument as a function of underlying risk factors, i.e. interest rates, credit spreads, FX rates, equity prices and (implied) volatilities.

Senior management monitor the Group's exposure to foreign exchange risk on a regular basis and take appropriate measures, by way of derivative contracts, to mitigate any such risk if it is considered necessary. The Group does not have any debt financing and is therefore not exposed to interest rate risk.

Liquidity risk management
Client liquidity risk is managed by monitoring the amount of available cash held in each client on a daily basis and targeting an amount that is deemed to be sufficient to cover the cash needs of the clients including margin payments and potential redemptions under stressed market conditions without being forced to liquidate assets.

The Group's liquidity risk is also monitored on a daily basis to ensure that it has the ability to meet its current and anticipated short and long-term financial liabilities. The business has continued to be cash generative under the stressed market conditions experienced during the financial year.

Counterparty credit risk management
BlueBay funds only enter into over-the-counter ("OTC") derivative transactions with highly rated institutions with which they have signed International Swap Dealers Association ("ISDA") Master Agreements. Each new OTC and Delivery Versus Payment ("DVP") counterparty requires the approval of the Risk Committee before a trade with that counterparty may be executed. The Risk Committee reviews the credit rating, financial condition and regulatory status of the counterparty; details of any legal or regulatory action (based on publicly available information); and the Financial Action Task Force status of the country in which the counterparty is situated. The Risk Committee approves the counterparty if it considers the counterparty to be of sufficiently high standing.

Failure of a counterparty (including, as applicable, prime brokers, custodians, derivatives dealers, trading, cash management and depositor counterparties) can have a serious impact on the performance of a client portfolio. We use various techniques to mitigate this risk, such as credit assessment, netting under ISDA agreements, collateral management and diversification. The Risk team provides accurate measurement of all exposures and ongoing assessment of the credit quality of OTC and depositor counterparties via monitoring of their credit default swap spreads.

Counterparty risk is measured as the net replacement value of open OTC contracts, unsettled trades, margins and deposits, taking into account any collateral we may hold. Limits on counterparty risk, which are monitored daily, ensure that no client is unduly exposed to any single counterparty.

The Group is exposed to credit risk with respect to its cash and cash equivalents being held with major UK banks. Cash is held in several accounts, with transactions and balances monitored on a daily basis. The return and risk associated with the accounts are reviewed by senior management in the light of available market information.

The Group is also exposed to counterparty credit risk in regards to the settlement of management and performance fees owed by related parties and segregated mandates.

The Group's counterparty credit risk exposure is managed by the Financial Control department.

Operational risk management

The Group's Compliance and Control Committee is responsible for safeguarding the capital of the Company by ensuring that appropriate high level standards, systems and controls are established and maintained to enable the Company to minimise the risk of financial crime and breach of legal or regulatory requirements. This is done by identifying the major risks to which the Group is exposed and by developing cost-effective policy proposals to manage those risks. The Committee is responsible for developing and refining BlueBay's internal control policies and procedures. The Committee comprises the senior infrastructure managers, the head of the trade execution desk, the Compliance Officer, the Chief Operating Officer and is chaired by the Chief Financial Officer.

The purpose of the Committee is to:

→ identify material compliance, operational, control and other non-investment related risks to which BlueBay is subject;
→ review the effectiveness of the policies and procedures to manage and mitigate those risks; and
→ enhance staff awareness of the risks and mitigating policies and procedures.

During the course of the financial year, the Committee carried out three major initiatives:

→ Review and update of the Group's internal control procedures. In the UK, asset managers' internal control procedures are typically reviewed by external reporting accountants in accordance with the framework set out by the Audit and Assurance Faculty of the Institute of Chartered Accounts in England and Wales ("ICAEW") in its Technical Release AAF01/06 on Assurance Reports on Internal Controls of Service Organisations Made Available to Third Parties. BlueBay prepared its second AAF 01/06 report for the period 1 April 2008 to 31 March 2009. The Company took the opportunity to review and further enhance its internal control environment.
→ Review and update of the Group's compliance manual and procedures. The Committee reviewed and approved the June 2009 updated version of BlueBay's compliance manual. The compliance policies were updated to incorporate new FSA guidance and changes in industry practices. The Committee also ratified a number of new and updated BlueBay policies which are provided to our clients, including the BlueBay Order Execution Policy and the BlueBay Conflicts of Interest Policy.
→ Annual review and update of the Group's risk register.

Compliance
In addition to maintaining the investment restrictions for each mandate in the Portfolio Management System, the department performs a monitoring role focusing on procedures and controls in place to ensure compliance with applicable legal and regulatory standards. The compliance arrangements which are designed to promote compliance with regulations are set out in BlueBay's compliance manual. The compliance manual incorporates the code of ethics which includes policies on personal account dealing, gifts and entertainment and insider trading policies. All staff are required to sign an undertaking that they are familiar with and will comply with the compliance manual.

The key responsibilities of the compliance team are:

- → ensuring that business is conducted in accordance with FSA and other applicable regulations through implementation of policies designed to promote compliance with regulations and education of employees on those requirements;
- → ensuring that investment mandates are managed in accordance with applicable regulations and mandate restrictions;
- → reviewing and monitoring changes in regulations and laws and ensuring update of policies and communication of relevant changes to the business units;
- → monitoring of business areas to determine whether compliance policies and regulatory requirements have been complied with;
- → assisting in the resolution of rule breaches and client complaints and following up to ensure that controls are amended to prevent recurrence;
- → keeping senior management informed of regulatory changes and issues impacting the business;
- → working with senior management to ensure that compliance arrangements are appropriate and that any regulatory issues arising are appropriately addressed; and
- → serving as the primary contact with external regulators.

Disaster recovery and backup procedures
The Group operates a robust disaster recovery platform that is tested twice a year. In the event of a local disaster, or failure to gain access to the Group's current location, SunGard Availability Services provide a dedicated workspace for the Group's use. The Group currently has several methods of server and data recovery in place which vary depending on the nature of the event. This includes an off-site high availability facility which hosts replicated services for core servers and trade systems. Back-up servers for the Group's file server, email and core trading systems are resident at the high availability site. Independent tape backups are also maintained.

The Group has uninterruptible power sources at head office for all desktops, servers and communications equipment. In case of any power failures, a backup power generator is available for all the Group's systems and the head office, capable of running for a period of at least eight hours. The Group has invested substantially in a robust server environment with redundant cooling, advanced monitoring, plus fire and leak detection and fire suppression.

Internal control reviews: AAF
PwC acted as reporting accountant for the AAF 01/06 report for 1 April 2008 to 31 March 2009. PwC reported on the design of control procedures and the achievement of specified control objectives if the described control procedures were complied with. They also reported on the effectiveness of the control procedures which were tested.

Internal audit reviews
The Company appointed KPMG to provide internal audit services to the Company. KPMG completed a number of reviews during the course of the financial year, the findings of which were presented to the Audit Committee.

Audit Committee
The Audit Committee conducted a review of the Internal Control and Risk Management procedures in accordance with the Turnbull Guidance 2005. For further details of the activities of the Audit Committee please refer to the appropriate section in the Corporate Governance Report on page 39.

Directors' Responsibility Statement

The following statement, which should be read in conjunction with the Independent Auditors' Report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and the auditors in relation to the Annual Report and the Financial Statements contained within.

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the Financial Statements in accordance with applicable laws, and International Financial Reporting Standards ("IFRS") as adopted by the EU. Company law requires the Directors to prepare financial statements for each financial year and to ensure these give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. The Directors have responsibility for ensuring that the Group keeps proper accounting records which enable them to ensure the Financial Statements and Directors' Remuneration Report comply with the Companies Act 2006 and as regards the Group Financial Statements, Article 4 of the IAS Regulations and are able to disclose with reasonable accuracy at any time the financial position of the Company and the Group. They are also responsible for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are also required by the Disclosure and Transparency Rules of the Financial Services Authority to include a management report containing a fair review of the performance and development of the business and position of the Group and a description of the principal risks and uncertainties facing the Group and Company.

The Directors remain satisfied that the Group has adequate resources to continue in business and, accordingly, that the Financial Statements should be drawn up on a going concern basis. Further, appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates have been used in the preparation of these Financial Statements and applicable accounting standards have been followed. These policies and standards, for which the Directors accept responsibility, have been discussed with the auditors. The Directors, having prepared the Financial Statements, have requested the auditors to take whatever steps and to undertake whatever inspections they consider appropriate for the purpose of giving their report.

Disclosure of information to auditors
Each Director has responsibility for ensuring that, as far as he is aware, there is no relevant audit information of which the auditors are unaware, and that he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information (that is, relevant to the preparation of the auditors' reports) and to establish that the Group's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

Other disclosures
Pages 32 to 33 inclusive contain the Directors' Report and pages 41 to 49 inclusive contain the Remuneration Report, both of which have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the Directors in connection with those reports shall be subject to the limitations and restrictions provided by such law.

The statement from the Chairman and the Chief Executive on pages 6 to 7 and 8 to 11 respectively and the Business Review on pages 12 to 29, which form part of the Directors' Report, contain certain forward-looking statements with respect to the financial condition, and results of, operations and businesses of the Group. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Forward-looking statements and forecasts are based on the Directors' current view and information known to them at the date of this report. The Directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Nothing in this document should be construed as a profit forecast.

The Financial Statements for the year ended 30 June 2009 are included in the Annual Report 2009, which is published in hard copy form and made available on the Group's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the Group's website in accordance with UK legislation governing the preparation and dissemination of Financial Statements. It should be noted that information published on the Internet is accessible in many countries, some of which have different legal requirements relating to the preparation and dissemination of Financial Statements. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that have occurred to the Financial Statements since they were initially presented on the website.

By order of the Board

James Brace
Company Secretary
17 September 2009

Independent Auditors' Report to the members of BlueBay Asset Management plc

We have audited the Financial Statements of BlueBay Asset Management plc for the year ended 30 June 2009 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Shareholders' Equity, the Group and Parent Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of Directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 54, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements.

Opinion on Financial Statements
In our opinion:

→ the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2009 and of the Group's profit and Group's and Parent Company's cash flows for the year then ended;

→ the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

→ the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

→ the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 36, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

P. S. Purewal (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 September 2009

Group Income Statement For the year ended 30 June 2009

	Note	2009 £000's	2008 £000's Restated*
Revenue	2	107,430	117,152
Cost of sales – commissions		(6,536)	(2,086)
Gross profit		100,894	115,066
Other operating income	5	345	703
Other operating expenses	5	(4,140)	(3)
Administrative expenses	3	(80,885)	(68,963)
Operating profit		**16,214**	**46,803**
Operating profit before exceptional items		21,006	46,803
Exceptional items	4	(4,792)	–
Operating profit		**16,214**	**46,803**
Finance income	7	1,331	3,267
Finance expense	7	–	(6)
Profit on ordinary activities before taxation		**17,545**	**50,064**
Taxation	8	(5,503)	(16,216)
Profit for the year attributable to ordinary equity shareholders	24	**12,042**	**33,848**
Earnings per share			
Basic	9	**8.7p**	**26.6p**
Diluted	9	**6.1p**	**17.0p**
Memo			
Dividends	10	**12,195**	**17,478**

*Restated for change in accounting policy – note 1.

The notes on pages 67 to 87 are an integral part of these Group Financial Statements.

All Group operations during the financial period were continuing operations.

Group Balance Sheet As at 30 June 2009

	Note	2009 £000's	2008 £000's Restated*
Assets			
Non-current assets			
Property, plant and equipment	12	4,551	6,618
Intangible assets	13	1,100	1,469
Deferred tax asset	20	7,672	6,543
Non-current receivables	15	2,616	3,123
Total non-current assets		15,939	17,753
Current assets			
Trade and other receivables	15	33,650	37,905
Current tax asset		26	9
Derivative financial instruments	16	303	–
Financial assets	14	122	–
Cash and cash equivalents	17	62,270	44,253
Total current assets		96,371	82,167
Total assets		**112,310**	**99,920**
Liabilities			
Non-current liabilities			
Trade and other payables	18	1,252	608
Deferred tax liability	20	228	–
Provisions	19	1,890	–
Total non-current liabilities		3,370	608
Current liabilities			
Trade and other payables	18	23,554	17,287
Dividends declared and unpaid	10	456	–
Current tax liabilities		1,565	3,786
Provisions	19	387	–
Total current liabilities		25,962	21,073
Total liabilities		**29,332**	**21,681**
Shareholders' equity			
Share capital	22	194	193
Share premium	24	32,484	32,279
Retained earnings	24	47,866	43,361
Other reserves	24	2,434	2,406
Total shareholders' equity		**82,978**	**78,239**
Total liabilities and shareholders' equity		**112,310**	**99,920**

*Restated for change in accounting policy – note 1.

The notes on pages 67 to 87 are an integral part of these Group Financial Statements.

The Financial Statements on pages 58 to 87 were approved by the Board of Directors and authorised for issue on 18 September 2009 and signed on its behalf by:

Director: **Hugh Willis** Director: **Nick Williams**

Group Statement of Changes in Shareholders' Equity

	Note	Share capital £000's	Share premium £000's	Retained earnings £000's	Own shares £000's	Other reserves £000's	Total £000's
Balance at 1 July 2008 (Restated*)		193	32,279	43,361	–	2,406	78,239
Currency translation adjustments		–	–	43	–	–	43
Net income recognised directly in equity:		–	–	43	–	–	43
Profit for the year		–	–	12,042	–	–	12,042
Dividends	10	–	–	(12,195)	–	–	(12,195)
Total recognised loss for the year		–	–	**(110)**	–	–	**(110)**
Share-based payments	21	–	–	10,275	–	–	10,275
Deferred tax on share-based payments	20	–	–	–	–	348	348
Exercise of share options		1	205	–	–	–	206
Purchase of own shares by Employee Benefit Trust	23	–	–	–	(5,969)	–	(5,969)
Purchase of own shares for Share Incentive Plan	21	–	–	–	(11)	–	(11)
Deferred tax utilised against current year profits	20	–	–	320	–	(320)	–
Transfer of own shares		–	–	(5,980)	5,980	–	–
Balance at 30 June 2009		**194**	**32,484**	**47,866**	**–**	**2,434**	**82,978**

	Note	Share capital £000's	Share premium £000's	Retained earnings £000's	Own shares £000's	Other reserves £000's	Total £000's
Balance at 1 July 2007		190	31,551	48,620	–	7,238	87,599
Change in accounting policy adjustment	1	–	–	(153)	–	–	(153)
Balance at 1 July 2007 (Restated*)		190	31,551	48,467	–	7,238	87,446
Currency translation adjustments		–	–	4	–	–	4
Net income recognised directly in equity:		–	–	4	–	–	4
Profit for the year (Restated*)		–	–	33,848	–	–	33,848
Dividends	10	–	–	(17,478)	–	–	(17,478)
Total recognised income for the year		–	–	**16,374**	–	–	**16,374**
Share-based payments	21	–	–	4,832	–	–	4,832
Deferred tax on share-based payments	20	–	–	–	–	1,100	1,100
Exercise of share options		3	689	–	–	–	692
Purchase of own shares by Employee Benefit Trust	23	–	–	–	(31,382)	–	(31,382)
Purchase of own shares for Share Incentive Plan	21	–	–	–	(1,037)	–	(1,037)
Disposal of own shares for Share Incentive Plan	21	–	–	–	214	–	214
Deferred tax asset utilised against current year profits	20	–	–	2,594	–	(2,594)	–
Deferred tax asset carried back against prior year's profits	20	–	–	2,552	–	(2,552)	–
Transfer of own shares		–	39	(32,244)	32,205	–	–
Transfer between reserves		–	–	786	–	(786)	–
Balance at 30 June 2008 (Restated*)		**193**	**32,279**	**43,361**	**–**	**2,406**	**78,239**

*Restated for change in accounting policy – note 1.

The notes on pages 67 to 87 are an integral part of these Group Financial Statements

In accordance with the Companies Act 2006, own shares are offset against retained earnings.

Group Cash Flow Statement For the year ended 30 June 2009

	Note	2009 £000's	2008 £000's Restated*
Cash flows from operating activities			
Cash generated from operations	25	43,828	59,505
Corporation tax paid		(8,197)	(11,075)
Net cash inflows from operating activities		35,631	48,430
Cash flows from investing activities			
Purchase of property, plant and equipment		(479)	(6,556)
Purchase of intangible assets		(96)	(161)
Sale of current financial assets	14	474	–
Net cash outflows from investing activities		(101)	(6,717)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		206	692
Purchase of own shares by Employee Benefit Trust	23	(5,969)	(31,382)
Purchase of own shares by Share Incentive Plan	21	(11)	(1,037)
Sale of own shares by Share Incentive Plan	21	–	214
Dividends paid	10	(11,739)	(17,478)
Net cash outflows from financing activities		(17,513)	(48,991)
Net increase /(decrease) in cash and cash equivalents		**18,017**	**(7,278)**
Cash and cash equivalents at beginning of year		44,253	51,531
Cash and cash equivalents at end of the year	17	**62,270**	**44,253**

*Restated for change in accounting policy – note 1.

The Group did not have any overdrafts repayable on demand at the end of each accounting period.

The notes on pages 67 to 87 are an integral part of these Group Financial Statements.

Significant Accounting Policies

BlueBay Asset Management plc ("the Company") is a company incorporated in the United Kingdom under the Companies Act 2006. The Group Financial Statements for the year ended 30 June 2009 comprise the Company and its subsidiaries ("the Group").

The investment products sold by the Group are issued by independent fund entities for whom the Company acts as the investment manager. The fund entities have Boards of Directors comprising a majority of independent directors, with independent governance and decision making powers. The Group does not have a controlling interest in any of its funds. The fund entities' results, assets and liabilities are therefore separate from the Group and are not consolidated into the Group Financial Statements.

The results of investment management activities are reflected in the Group Financial Statements as performance fees and management fees and associated receivables.

The investment performance of the fund products managed by the Group is detailed in the Business Review section of the Annual Report, and represents a key indicator of the Group's overall performance and future sustainability of results.

The significant accounting policies are summarised below. These policies have been consistently applied to all the years presented except as noted in e) and u)(iii) below.

a) Basis of preparation
The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations issued by either the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") or their predecessors, as adopted by the European Union ("EU") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Group Financial Statements have been prepared under the historical cost convention, except for the measurement at fair value of derivative financial instruments and certain financial assets that are held at fair value through profit or loss. The Group Financial Statements have been prepared on a going concern basis, as discussed in the Corporate Governance Report on page 36.

b) Basis of consolidation
The Group Financial Statements incorporate Financial Statements of the Company and entities controlled by the Company (its subsidiaries) prepared to 30 June each year. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Financial Statements of subsidiaries are included in the Group's Financial Statements from the date that control begins to the date that control ceases.

The subsidiaries of the Company are:
BlueBay Funds Management Company S.A.
BlueBay Asset Management Japan Limited
BlueBay Asset Management USA LLC

The Group's Employee Benefit Trusts are also consolidated in the Group Financial Statements.

All intra-group transactions and balances are eliminated in full on consolidation.

c) Changes to existing IFRS standards and interpretations
IFRIC interpretations and amendments to existing standards that became effective during the year have been applied by the Group. None of the Standards and Interpretations adopted had any significant impact on the Group's Financial Statements or accounting policies.

d) New IFRS standards and interpretations not applied
The following IFRSs and interpretations (with the exception of IFRS 3 (Revised), which has not yet been endorsed by the EU) were available for early application but have not been applied in these Financial Statements. The Group has assessed the impact of these new standards and interpretations and has concluded that they are not likely to have a significant impact on the Group's results.

(i) IFRS 8 'Operating segments' was issued in November 2006 and is required to be adopted by the Group for reporting in its financial year ending 30 June 2010. The new standard adopts a 'management approach' under which segmental information is to be disclosed on the same basis as that used for internal reporting purposes.
(ii) IAS 1 (Revised) 'Presentation of financial statements' was issued by the IASB in September 2007 and is required to be adopted by the Group for reporting in its financial year ending 30 June 2010. The amendment to the standard requires the preparation of a statement of comprehensive income either to replace or to complement the current income statement. In addition, restatements or reclassifications of comparative balance sheet information will include a restatement of the opening balance sheet of the comparative period.
(iii) IFRS 3 (Revised) 'Business combinations' and IAS 27 (Revised) 'Consolidated and separate financial statements' on acquisition accounting were issued by the IASB in January 2008 and, subject to approval from the EU, are required to be adopted by the Group for reporting in its financial year ending 30 June 2011. The revisions to IFRS 3 and IAS 27 are applied prospectively and will result in changes to accounting policies in relation to future acquisitions.
(iv) The IASB issued an amendment to IFRS 2 'Share-based Payment' in January 2008. The amendment, which is required to be adopted by the Group for reporting in its financial year ending 30 June 2010, clarifies that vesting conditions comprise only service conditions and performance conditions, and specifies the accounting treatment for a failure to meet a non-vesting condition.
(v) The IASB issued amendments to IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements–Puttable Financial Instruments and Obligations Arising on Liquidation', in February 2008. The amendments are required to be adopted by the Group for reporting in its financial year ending 30 June 2010.
(vi) The IASB issued amendments to IFRS 7, Improving Disclosures about Financial Instruments, in March 2009 introducing a three-level hierarchy for fair value measurement disclosure, as well as enhanced disclosure of liquidity risk. These amendments are effective for accounting periods starting on or after 1 January 2009, and will be implemented in the Group's disclosures on financial instruments in its financial year ending 30 June 2010.
(vii) The IASB issued amendments to IAS 39, 'Financial instruments: Recognition and measurement', and IFRS 7, 'Financial instruments: Disclosures', on the 'Reclassification of financial assets'. This amendment allows the reclassification of certain financial assets previously classified as 'held-for-trading' or 'available-for-sale' to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as 'at fair value through profit or loss' under the fair value option are not eligible for this reclassification. These amendments are effective for accounting periods starting on or after 1 January 2009, and will be implemented in the Group's disclosures on financial instruments in its financial year ending 30 June 2010.

(viii) IFRIC 16 'Hedges of a Net Investment in a Foreign Operation', IFRIC 17 ' Distributions of Non-cash Assets to Owners' and IFRIC 18 'Transfers of Assets from Customers' (for transfers received on or after 1 July 2009) will apply to the Group in its financial year ending 30 June 2010.

The IASB issued various improvements to IFRSs in April 2009. These comprise twelve amendments to existing standards, on issues which the IASB considers not of an urgent nature, but necessary, with required implementation dates for Group reporting purposes through to its financial year ended 30 June 2011.

e) Changes in presentation and accounting policy

In the Financial Statements for the year ended 30 June 2008 commission payments, as described in s) below were reported within other operating expenses. In the Financial Statements for the year ended 30 June 2009 commission payments have been reclassified out of other operating expense, and shown as a separate category on the face on the Income Statement as a cost of sale. The comparatives have been restated accordingly.

The Group has changed its accounting policy in respect of units in funds purchased under its deferred compensation scheme. Units purchased are now treated as a prepayment, rather than financial assets at fair value through the profit and loss account. This is explained in further detail in u(iii) below and in note 1 to the Financial Statements.

f) Critical accounting estimates and judgements

The preparation of the Financial Statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on management's best judgement at the date of preparation of the Financial Statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. The areas where a higher degree of judgement or complexity arise, or areas where assumptions and estimates are significant to the Group Financial Statements, are discussed below.

(i) Intangible assets

The valuation and amortisation periods of intangible assets on acquisition, such as computer software, and the impairment testing are based on value in use calculations prepared on the basis of management's assumptions and estimates of future cash flows and discount rates.

(ii) Staff costs

An estimate of the current portion of the future liability for bonuses and other employee incentive schemes is included in staff costs.

(iii) Income taxes

The Group is subject to income taxes in different jurisdictions. Judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations 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.

(iv) Surplus premises

The Group periodically reviews its premises requirements and makes provisions where necessary if the Group has no current need for premises to which the Group is already contractually committed under the terms of an operating lease agreement. The calculation of any required provision requires significant judgement, as the Group needs to estimate the provision based upon discounted future cash outflows due to be paid under the lease less any potential cash inflows from sub-letting arrangements that the Group is able to negotiate. These cash flows are then discounted for the remaining lease period. In estimating these cash flows, the Group consults with external advisers in the relevant location to understand the potential to sub-let the premises, the rental rates which could be achieved and the potential amount and time period of any leasehold inducements which may need to be offered to successfully secure a sub-tenant.

g) Income Statement presentation

The Group presents separately on the face of the Income Statement in accordance with IAS 1 paragraph 86 those items which the Directors consider are exceptional. Exceptional items are defined as those material items which, by virtue of their size or nature, the Group considers should be presented separately in order to aid comparability between periods. These items for the year ended 30 June 2009 are explained in note 4 to the Financial Statements.

h) Segment reporting

The business segment is the primary reporting segment. A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. The principal activity of the Group is the provision of investment management services and as this is the only business segment in which the Group operates, no additional business segmental analysis has been shown.

A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of components operating in other economic environments. The Group operates in Europe, Asia and North America. The analyses by geographical segment are based on the location of the customer. This is the location where the fund product entities are registered, or segregated client accounts are domiciled, from which fee income is earned.

Significant accounting policies continued

i) Intangible assets

Computer software licences acquired are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight line method over their estimated useful lives.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. 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 contractor costs.

Computer software development costs recognised as assets are amortised on a straight line basis over their estimated useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Balance Sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount.

The following useful lives have been determined for the intangible assets acquired during the year:

Computer software licences	3-5 years
Software development costs	5 years

j) Property, plant and equipment

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 reduce the cost of each asset to its residual value over its useful life as follows:

Leasehold improvements	5 years
Furniture, fixtures and fittings	3 years
Information and communication technology equipment	3-5 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. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the Income Statement.

k) Investments

(i) Classification

All Group financial assets are initially recognised and subsequently classified as financial assets at fair value through profit or loss to reduce accounting mismatches. These include the financial assets which have been forfeited as part of 'deferred compensation awards' made on behalf of employees and shown on the Balance Sheet, (see note 14). Assets in this category are classified as current assets if they are realisable within 12 months of the Balance Sheet date.

(ii) Measurement

Purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset or the date on which financial assets are forfeited back to the Group under the deferred compensation scheme. Financial assets are initially recognised at fair value plus transaction costs. Financial assets 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 the risks and rewards of ownership.

Gains and losses arising from changes in the fair value of financial assets are included in other operating income/expense in the Income Statement in the period in which they arise

l) Derivative financial instruments

(i) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and does not hold or issue derivative financial instruments for speculative purposes. The Group does not designate any derivatives as hedging instruments and does not apply hedge accounting. Derivatives are, therefore, initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value at each Balance Sheet date. The resulting gains or losses are recognised immediately in the Income Statement within other operating income/expense. Derecognition of derivative assets and liabilities occurs on the expiry date of the derivative contract or when contracts have subsequently been cancelled.

(ii) Financial risk factors

A qualitative analysis of the financial risks facing the Group is provided in the Risk Management section to this Annual Report.

m) Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade 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 assets' carrying amounts and the present value of their estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Income Statement.

n) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short-term, highly liquid investments with original maturities of three months or less.

o) Trade and other payables
Trade and other payables are recorded initially at fair value and subsequently at amortised cost.

p) Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Management reassesses the amounts of these provisions at each Balance Sheet date in order to ensure that they are measured at the current best estimate of the expenditure required to settle the obligation at the Balance Sheet date. Any difference between the amounts previously recognised and the current estimates is recognised immediately in the Income Statement.

For provisions for surplus space, where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

q) Income recognition
(i) Revenue
Revenue comprises the fair value for the provision of services, net of any value added tax, rebates, and discounts and after the elimination of sales within the Group. Revenue is recognised as follows:
(a) Management fees – which include all non-performance related fees, are recognised in the period in which the services are rendered.
(b) Performance fees – are calculated by reference to the appreciation in the net asset value of the relevant fund during 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 relevant fund could move significantly, as a result of market movements, between the Group's Balance Sheet date and the end of the performance period.

(ii) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(iii) Other income
The Group receives fees in circumstances where employees of the Group act as directors of external investee companies. The fees are recognised in the period in which the services are rendered.

r) Fair value estimation
The fair value of quoted financial assets is based on current bid prices.

The fair value of unlisted financial assets (investments in the funds) is based on the net asset valuations of the funds at the Balance Sheet date.

s) Distribution agreements
The Group operates a number of distribution agreements. Commission payments made to intermediaries for ongoing services under these distribution agreements are charged to the Income Statement as a cost of sale in the period in which they are incurred. There are no arrangements where commission payments are not for ongoing services.

t) Leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. All the Group's leases are operating leases and the rental charges are included in the Income Statement on a straight line basis over the term of the lease.

As lessee, costs under operating leases are charged to the Income Statement in equal amounts over the periods of the leases. Incentives received to enter into leases are amortised on a straight line basis over the term of the lease.

u) Employee benefits
(i) Pension costs
The Group operates a defined contribution scheme. Employees may contribute directly to this scheme. The Group makes no contributions to the scheme and there is therefore no cost in the Group accounts.

(ii) Share-based compensation
The Group operates equity-settled, share-based compensation plans. These are explained in note 21 of these Financial Statements. 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 retained earnings within shareholders' 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. At each Balance Sheet date, the Group revises its estimates of the number of options that are expected to become exercisable and the number of shares awarded that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the Income Statement, and a corresponding adjustment to shareholders' equity.

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

Significant accounting policies continued

(iii) Deferred compensation scheme
The Group also operates a deferred compensation scheme for certain employees under which a portion of an employee's bonus is invested in units in funds managed by the Group.

The amount invested in the nominated fund is initially recognised in full as a prepayment. This prepayment is subsequently released over the vesting period as the charge for the deferred compensation scheme is recognised in the Income Statement. This treatment represents a change in accounting policy as fund units were previously held as financial assets at fair value through profit and loss account. This is discussed in more detail in note 1 of the Group Financial Statements.

Units in the funds are purchased and held in the name of a nominee company for the benefit of relevant employees. Units are subject to forfeiture provisions. As and when units are forfeited, they are reclassified from a prepayment to a financial asset as described in k) above.

(iv) Profit-sharing and bonus plans
The Group operates non-contractual bonus pools based on formulas that take into consideration either Group profitability or strategy profitability (with reference to investment performance), on a calendar year basis. The formulas are reviewed and approved annually by the Remuneration Committee. At the end of the financial year, the Group recognises a liability for bonus pools accrued but not yet paid.

v) Foreign currency translation
(i) Functional and presentation currency
Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group Financial Statements are presented in Great Britain Pounds ("GBP"), which is the Company's functional and presentation currency and the currency in which the Group's assets, liabilities and funding are predominantly denominated.

(ii) Transactions and balances
Foreign currency transactions are translated into the relevant Group entity's functional currency using the exchange rate prevailing at the date of the transactions or, where it is more practical, a group entity may use an average rate for the week or month for all transactions in each foreign currency occurring during that week or month (as long as the relevant exchange rates do not fluctuate significantly). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in other operating income or losses in the Income Statement.

(iii) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
(a) assets and liabilities for each Balance Sheet are translated at the closing rate at the date of that Balance Sheet;
(b) income and expenses for each Income Statement are translated at average exchange rates for the relevant accounting periods;
(c) all resulting exchange differences are recognised as a separate component of equity.

w) Taxation
(i) Income tax
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted or substantively enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax
Deferred tax is provided in full, using the liability method, on all taxable and deductible temporary differences at the Balance Sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

x) Dividend distribution
Dividend distributions to the Company's shareholders are recognised in the Group's Financial Statements in the period in which the dividend is paid or approved by the Company's shareholders.

y) Share capital and share premium
Ordinary shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the share premium account.

z) Own shares
Employee trusts have been established for the purposes of satisfying certain equity-based awards. The holdings of these trusts include shares (own shares) that have not vested unconditionally with employees of the Group.

Own shares are held for the short-term to meet future award requirements and are recorded, at cost, as a deduction from equity. Own shares are recognised on a trade date basis. Own shares are offset against retained earnings in line with Companies Act 2006.

aa) Other reserves
Other reserves comprise deferred tax in respect of tax deductions available on those share-based remuneration arrangements. The deferred tax recognised in the Income Statement in respect of the share schemes is limited to the corresponding cumulative share-based payments expense recognised multiplied by the ruling tax rate. Any excess is taken to other reserves. The deferred tax deduction recognised in other reserves is transferred to retained earnings when utilised against current and prior year tax charges.

Notes to the Group Financial Statements

1. Change in accounting policy

Each year the terms of the Group's deferred compensation scheme are evaluated and may be modified if deemed necessary. Following each evaluation, management reassesses the extent to which the Group may exercise control over fund units held under the scheme. Under the scheme arrangements, employees acquire a beneficial interest in these fund units while the legal interest is held by a nominee company on their behalf. The Group may only acquire an interest in any units if they are forfeited by an employee, which requires some form of action by that employee. Previously, the fund units were recognised as financial assets, fair valued through the profit and loss and expensed over the vesting period with a corresponding credit entry made to financial liabilities. Both the financial assets and financial liabilities recognised under the scheme were fair valued at each Balance Sheet date, with any gains and losses being taken through the Income Statement within other operating income/expense.

In the opinion of management, since the Group has no control over an employee's fund units except as a result of action by that employee, the accounting policy needed to be changed to recognise fund units purchased as prepayments rather than financial assets. This represents an advance payment for services to be provided by the employee over the vesting period. The prepayment is recorded at its cost on the date of purchase and released to the Income Statement over the vesting period. As a result of this change, Income Statement volatility caused by the inconsistent measurement of fair value gains and losses on the Group's financial assets and liabilities is eliminated.

This change in accounting policy has been retrospectively applied, and the comparative statements for the year ended 30 June 2008 have been restated. The effect of the change on the results for the years ended 30 June 2009 and 30 June 2008 is tabulated below. Opening reserves as at 30 June 2008 have been reduced by £153,000, which is the amount of the adjustment relating to periods prior to 30 June 2007.

	Year ended 30 June 2009 £000's	Year ended 30 June 2008 £000's	At 1 July 2007 £000's
Income Statement			
Decrease in other operating income	(715)	(98)	–
Decrease in other operating expense	571	551	–
Increase in administrative expenses	(13)	(58)	–
(Decrease)/increase in profit before tax	**(157)**	**395**	**–**
Decrease /(increase) in tax	44	(116)	–
(Decrease)/increase in profit for the year	**(113)**	**279**	**–**

	2009 £000's	2008 £000's	2007 £000's
Balance Sheet			
Assets			
Non-current assets			
Increase in trade and other receivables	2,406	2,974	3,716
Increase in non-current assets	2,406	2,974	3,716
Current assets			
Increase in trade and other receivables	3,838	6,470	3,523
Increase in current tax assets	–	–	66
Decrease in financial assets	(18,029)	(22,066)	(13,876)
Decrease in total current assets	(14,191)	(15,596)	(10,287)
Decrease in total assets	**(11,785)**	**(12,622)**	**(6,571)**
Liabilities			
Non-current liabilities			
Decrease in trade and other payables	(5,535)	(9,063)	(5,948)
Decrease in total non-current liabilities	(5,535)	(9,063)	(5,948)
Current liabilities			
Decrease in trade and other payables	(6,269)	(3,735)	(470)
Increase in current tax liabilities	6	50	–
Decrease in total current liabilities	(6,263)	(3,685)	(470)
Decrease in total liabilities	**(11,798)**	**(12,748)**	**(6,418)**
Shareholders' equity			
Increase/(decrease) in retained earnings at the start of the year	126	(153)	(153)
(Decrease)/increase in retained earnings movement in the year	(113)	279	–
Increase/(decrease) in total shareholders' equity	13	126	(153)
Decrease in total liabilities and shareholders' equity	**(11,785)**	**(12,622)**	**(6,571)**
Earnings per share			
Basic	–	**26.6p**	–
Diluted	–	**17.0p**	–

Notes to the Group Financial Statements continued

2. Segmental reporting

(a) Primary format – business segment

The Group has one distinguishable business segment, that being the provision of investment management services. This is considered by management to be the Group's primary and only segment. The result of that business segment is therefore disclosed in these accounts in the Primary Statements on pages 58 to 61.

Revenue can be broken down as follows:

	2009 £000's	2008 £000's
Management fees after rebates	88,893	93,109
Performance fees	18,537	24,043
Total revenue	107,430	117,152

(b) Secondary format – geographical segments

Although the Group's principal offices are located in London, investment management fees are generated in the jurisdiction either where fund product entities are registered or where clients who mandate the Group through segregated accounts are domiciled.

	2009 £000's	2008 £000's
Segment revenue		
Europe		
Luxembourg	51,208	31,544
Other Europe	16,454	7,203
The Americas		
Cayman Islands	37,270	78,096
United States of America	624	88
Rest of the World	1,874	221
Total segment revenue	107,430	117,152

	2009 £000's	2008 £000's
Segment assets – fees receivable at 30 June		
Europe		
Luxembourg	15,422	8,528
Other Europe	3,697	4,330
The Americas		
Cayman Islands	5,966	15,100
United States of America	178	76
Rest of the World	1,000	221
Total segment assets – fees receivable at 30 June	26,263	28,255

	2009 £000's	2008 £000's
Property, plant and equipment expenditure and intangible assets		
Europe		
Luxembourg	–	–
Other Europe	436	6,306
The Americas		
Cayman Islands	–	–
United States of America	139	403
Rest of the World	–	8
Total property, plant and equipment expenditure and intangible assets	575	6,717

3. Administrative expenses

	Note	2009 £000's	2008 £000's
The following items have been included in administrative expenses:			
Staff costs	6	55,055	46,478
Depreciation	12	2,112	2,390
Amortisation	13	465	439
Loss on disposal of property, plant and equipment	12	–	109
Other operating lease rentals payable:			
Property		4,636	3,815
Computer software		582	377

Audit and non-audit fees

	2009 £000's	2008 £000's
Fees payable to the Group's auditor for the audit of the Group's Financial Statements	142	215
Fees payable to the Group's auditor for other services:		
The audit of the Company's subsidiaries pursuant to legislation	14	19
Other services pursuant to legislation	73	67
Taxation services	154	305
Other services	114	184
Total auditors' remuneration	489	790

The fees payable to the Group's auditor for the audit of the Group's Financial Statements relates entirely to the 2009 audit (2008: £43,000 was paid in 2008 but related to the 2007 audit).

Other services pursuant to legislation relates to £69,000 for the review of the interim financial information under the Listing Rules of the Financial Services Authority and in accordance with IAS 34 'Interim Financial Reporting' (2008: £63,000). Also included is £4,000 (2008: £4,000) in respect of the annual regulatory audit.

Taxation services include compliance services such as tax return preparation and advisory services.

Other services for the year ended 30 June 2009 include £75,000 (2008: £125,000) for the controls audit under the framework of the Audit and Assurance Faculty ("AAF") and compliance and general advice of £39,000 (2008: £59,000).

4. Exceptional items

	Note	2009 £000's	2008 £000's
Exceptional items comprise:			
Fixed asset disposals	12	556	–
Provision against surplus premises	19	2,277	–
Redundancy costs	6	679	–
Accelerated prepaid charges in respect of the deferred compensation scheme	6	54	–
Accelerated IFRS 2 charges in respect of the Plc share award scheme	21	1,070	–
Social security costs on redundancy, deferred compensation scheme and IFRS 2 charges	6	156	–
Total exceptional items		4,792	–

The Group believes that the cost of redundancies and the associated accelerated IFRS 2 and deferred compensation scheme charges in respect of employees who left the Group as good leavers, together with a provision against surplus premises and fixed asset disposals in New York arising from the relocation of the Group's US operations to Connecticut, were made as a direct consequence of the deterioration of the world financial markets that occurred during the financial year. As such, these have been classified as exceptional items in the Income Statement within administrative expenses.

Notes to the Group Financial Statements continued

5. Other operating income and expenses

	2009 £000's	2008 £000's Restated
Other operating income includes the following items:		
Other income	42	21
Net foreign exchange differences recognised	–	682
Gains on derivative financial instruments	303	–
Total other operating income	345	703
Other operating expenses include the following items:		
Other expenses	(100)	–
Financial assets at fair value – forfeited shares	(1,062)	–
Net foreign exchange differences recognised	(2,978)	–
Loss on derivative financial instruments	–	(3)
Total other operating expenses	(4,140)	(3)

Fair value losses recognised on financial assets which were previously awarded under the deferred compensation scheme and which have since been forfeited, amount to £1,062,000 (2008: nil).

6. Staff costs

	Note	2009 £000's	2008 £000's
Wages and salaries		39,365	36,441
Social security costs		5,415	5,205
Share-based payments	21	10,275	4,832
Total staff costs		55,055	46,478

Included within wages and salaries is £679,000 (2008: nil) in relation to redundancy costs and £54,000 (2008: nil) in relation to accelerated deferred compensation scheme charges. There are shown within exceptional items (note 4)

Included within social security costs is £156,000 (2008: nil) in relation to redundancy costs, accelerated deferred compensation scheme charges and accelerated share award charges. These are shown within exceptional items (note 4). Also included within social security costs is £687,000 in relation to employee share-based payment schemes (2008: £527,000).

All employees are eligible for an annual discretionary bonus. In addition to cash bonuses, the group operates various non-cash remuneration schemes:

(i) Plc share award scheme

These schemes are described in the Remuneration Report (on pages 41 to 49).

(ii) Deferred compensation scheme (Fund units)

The Group operates a deferred compensation programme. Under the terms of this scheme the Group has purchased units in various funds for which the Company acts as investment manager. The units in the funds purchased are held in the name of a nominee company for the benefit of relevant employees. Units are subject to forfeiture provisions.

Wages and salaries include all amounts paid to employees, salaries, cash bonuses, deferred compensation and share-based payments. These costs include Directors' remuneration, details of which can be found within the audited part of the Remuneration Report and form part of these Financial Statements.

The average number of persons employed by the Group during the year was as follows:

	2009	2008
Asset Management	73	64
Sales and Marketing	44	41
Administration and Finance	111	104
Total average number of employees	228	209

7. Finance income and expense

	2009 £000's	2008 £000's
Finance income:		
Interest on cash and cash equivalents	1,176	3,241
Interest on corporation tax instalments	155	–
Interest on rent deposits	–	26
Total finance income	1,331	3,267
Finance expense:		
Interest payable	–	(6)

8. Taxation

Analysis of charge in period:

	2009 £000's	2008 £000's Restated
Current tax:		
UK corporation tax on profits for the year	6,760	17,920
Adjustments to tax charge in respect of previous periods	(725)	2,001
Foreign tax	320	116
Adjustments to foreign tax charge in respect of previous periods	15	32
Total current tax	6,370	20,069
Deferred tax:		
Origination and reversal of temporary differences	914	(1,463)
Adjustments in respect of previous periods	5	(1,827)
IFRS 2 share-based payments credit	(1,802)	(579)
Foreign tax	16	16
Total deferred tax	(867)	(3,853)
Total tax expense	5,503	16,216

The effective UK tax rate for the Group for the year ended 30 June 2009 is 28% (2008: 29.5%). This follows a change in the standard rate of corporation tax in the UK which was reduced from 30% to 28% from 1 April 2008.

The tax on the Group's profit before tax differs from amounts that would arise using the effective UK tax rate applicable to profits of the Group companies, as follows:

	2009 £000's	2008 £000's Restated
Profit on ordinary activities before tax	17,545	50,064
Theoretical tax charge at UK rate of 28% (2008: 29.5%)	4,913	14,769
Effects of:		
Expenses not deductible for tax purposes	71	111
Depreciation in excess of capital allowances	210	307
Capital items in revenue	21	48
Share-based payments	1,004	694
Research and development tax credits	(91)	–
Adjustment in respect of previous period	(705)	206
Adjustment in respect of foreign tax rates	166	40
Other	(86)	41
Total tax expense	5,503	16,216

Notes to the Group Financial Statements continued

9. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders for the relevant period by the weighted average number of ordinary shares in existence less the weighted average number of own shares.

Diluted earnings per share is calculated as for basic earnings per share with further adjustments to the weighted average number of ordinary shares to reflect the effects of all dilutive ordinary shares.

There are no differences between the profit for each financial year attributable to equity holders used in the basic and diluted earnings per share calculations.

The reconciliation of the figures used in calculating basic and diluted earnings per share is given below:

		2009		2008
	Total number (thousands)	Weighted average (thousands)	Total number (thousands)	Weighted average (thousands)
Number of shares at 1 July 2008 (and 1 July 2007)	192,966	192,966	190,373	190,373
Issue of shares	803	364	2,593	1,267
Number of shares at 30 June 2009 (and 30 June 2008)	193,769	193,330	192,966	191,640
Shares owned by employee trusts (note 23)	(968)	(4,314)	(2,502)	(2,633)
Shares held under Share Incentive plan	(545)	(522)	(517)	(351)
Shares held in nominee account under the Share award scheme (note 21(iii))	(14,590)	(9,443)	(7,431)	(2,445)
Shares held in nominee account on behalf of employees (note 23)	(30,756)	(40,239)	(52,396)	(59,084)
Basic number of shares	**146,910**	**138,812**	**130,120**	**127,127**
Shares owned by employee trusts (note 23)	968	4,314	2,502	2,633
Shares owned by Share Incentive plan	545	522	517	351
Shares held in nominee account under the Share award scheme (note 21(iii))	14,590	9,443	7,431	2,445
Shares held in nominee account on behalf of employees (note 23)	30,756	40,239	52,396	59,084
Employee share options	4,879	4,752	6,632	7,454
Dilutive number of shares	**198,648**	**198,082**	**199,598**	**199,094**
Earnings attributable to equity holders of the Group (£000's)	12,042	12,042	33,848	33,848

10. Dividends

	2009 £000's	2008 £000's
Declared and paid during the year		
Equity dividends and ordinary shares		
Interim dividend paid for 2009 – 1.7p (2008: 3.2p)	3,187	6,043
Final dividend paid for 2008 – 4.8p (2008: 6.0p)	8,552	11,435
Total declared and paid	11,739	17,478
Declared and unpaid during the year		
Equity dividends and ordinary shares:		
Final dividend paid for 2008 – 4.8p (2008: nil)	456	–
Total declared and unpaid	456	–
Total dividends declared	12,195	17,478

Dividends declared and paid in 2009 and 2008 were paid out of post-listing distributable reserves.

Of the total dividends declared and paid of £11,739,000, £3,504,000 was paid on shares which are classified as own shares, as described in note 23 (2008: £4,937,400).

Throughout the current and previous year, the trustees of the Group's Employee Benefit Trusts and Share Incentive Plan ("SIP") waived their rights to receive any dividends on ordinary shares registered in their name at the relevant date for eligibility. The total number of shares held by the Group's Employee Benefit Trusts and SIP at the relevant eligible interim dividend date for the year ended 30 June 2009 was 5,797,694 (2008: 3,438,758). The total number of shares held by the Group's Employee Benefit Trusts and SIP at the relevant eligible final dividend date for the year ended 30 June 2008 was 5,571,519 (2008: 606,543).

Dividends declared and unpaid relate to the dividends due on 9,509,200 shares held at that time by Lehman Brothers International (Europe) in Administration. These dividends will be paid upon the receipt of bank account details from the shareholder's Administrators.

The Directors have proposed a final dividend of 4.8 pence in respect of 30 June 2009 (2008: 4.8 pence).

Notes to the Group Financial Statements continued

11. Financial risk management

A qualitative analysis of the financial risks, which include credit, market and liquidity risks, facing the Group is provided in the Risk Management and Internal Control section to this Annual Report.

(a) Credit risk management

Credit risk is the possibility that the Group may suffer a loss from the failure of one of our counterparties to meet its contractual obligations. The Group is primarily exposed to credit risk in respect of amounts owed by related parties and segregated mandates and from cash deposits with banks.

(i) Counterparty credit rating and ageing according to the contractual due date

Financial assets subject to credit risk are:

	Note	2009 £000's	2008 £000's
Cash and cash equivalents	17	62,270	44,253
Derivative financial instruments	16	303	–
Total excluding trade receivables		62,367	44,253
Amounts owed by related parties	15	21,119	23,452
Other trade receivables	15	5,144	4,803
Total trade receivables		26,263	28,255
Total		88,630	72,508

Cash and cash equivalents comprise short-term bank deposits and cash in hand. At 30 June 2009, 99% of cash is held with a counterparty that is a major UK bank and is externally rated AA-[1] (2008: 99%).

Amounts owed by related parties and other trade receivables relate to management and performance fees owed by funds and segregated mandates managed by the Group. The ageing profile of amounts owed by these counterparties at the end of the period is as follows:

	2009 £000's	2008 £000's
Not older than 30 days	23,844	27,665
Older than 30 days not older than 60 days	1,206	118
Older than 60 days not older than 90 days	1,213	445
Older than 90 days but not older than 120 days	–	–
Older than 120 days but not older than 180 days	–	9
Older than 180 days	–	18
Total	26,263	28,255

Amounts not older than 30 days are neither past due nor impaired.

Amounts older than 30 days are past due but not impaired. This represents 9% of the total fees outstanding (2008: 2%). Factors considered in determining whether impairment has taken place include the deterioration in the credit quality of a counterparty and knowledge of specific events that could influence a debtor's ability to repay an amount due. No impairments were recorded on items exposed to credit risk in either the current or comparative financial years.

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

(ii) Concentrations of credit risk

The Group's largest counterparty exposure at the end of each period is as follows:

	2009 £000's	2008 £000's
AA-[1] rated bank	61,467	43,870

[1] Standard & Poor's ratings

The amount of these exposures can change significantly each month.

(b) Market risk management

(i) Investments in funds

Under the deferred compensation scheme, the Group awards shares in a range of BlueBay investment funds to employees. Awards made to employees are subject to forfeiture provisions. Where shares have been forfeited (note 14), they are held in one of the Group's Employee Benefit Trusts until the shares are either subsequently realised or used for future awards to employees.

At 30 June 2009 a 100 basis point strengthening/(weakening) of the US Dollar against sterling, with all other variables held constant, would have resulted in a fair value adjustment of +/- £1,000, with a corresponding impact on the Income Statement.

At 30 June 2009 a 100 basis point strengthening/(weakening) of the net asset valuation of the fund, with all other variables held constant, would have resulted in a fair value adjustment of +/- £1,000 , with a corresponding impact on the Income Statement.

(ii) Foreign exchange and interest rate risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

The Group's financial assets and liabilities are denominated in the following currencies:

Year ended 30 June 2009:

Financial assets	Note	Sterling £000's	US Dollar £000's	Euro £000's	Japanese Yen £000's	Other £000's	Total £000's
Cash and cash equivalents	17	55,519	3,431	3,124	149	47	62,270
Current financial assets	14	–	122	–	–	–	122
Trade receivables	15	229	9,337	15,697	–	1,000	26,263
Derivative financial instruments	16	–	(382)	685	–	–	303
Total financial assets		55,748	12,508	19,506	149	1,047	88,958

Financial liabilities	Sterling £000's	US Dollar £000's	Euro £000's	Japanese Yen £000's	Other £000's	Total £000's
Trade and other payables due within one year	4,525	1,561	7,271	7	4	13,368
Total financial liabilities	4,525	1,561	7,271	7	4	13,368

Year ended 30 June 2008:

Financial assets (Restated)	Note	Sterling £000's	US Dollar £000's	Euro £000's	Japanese Yen £000's	Other £000's	Total £000's
Cash and cash equivalents	17	41,310	1,635	1,118	182	8	44,253
Trade receivables	15	–	16,372	11,662	–	221	28,255
Total financial assets		41,310	18,007	12,780	182	229	72,508

Financial liabilities	Sterling £000's	US Dollar £000's	Euro £000's	Japanese Yen £000's	Other £000's	Total £000's
Trade and other payables due within one year	4,869	793	2,610	6	–	8,278
Total financial liabilities	4,869	793	2,610	6	–	8,278

Financial liabilities comprise current trade payables and accruals. They do not include provisions which are explicitly excluded from the definition of a financial instrument under IFRS 7.

Financial assets as at 30 June 2008 have been restated due to the change in accounting policy (note 1).

The Group's revenue is received in US dollars and Euros. From time to time, the Group may put in place short-term forward foreign exchange contracts to hedge these future receivables. At 30 June 2009 a 100 basis point strengthening/(weakening) of the US Dollar and Euro against sterling, with all other variables held constant, would have resulted in an additional foreign exchange loss/(gain) of +/- £250,000, with a corresponding impact on the Income Statement.

Interest rate risk is the risk arising from unexpected or untoward movements in interest rates. The Group's monetary assets earn interest at 20 basis points below the base rate. As the Group does not have any debt financing, it is not exposed to interest rate risk. Management believes that movements in interest rates will not result in any significant risk to the Group.

Notes to the Group Financial Statements continued

11. Financial risk management continued

(c) Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances.

(i) Financial assets and liabilities

The table below analyses the Group's financial assets and liabilities. The amounts disclosed are the contractual undiscounted cash flows and are all due within one year.

Financial assets	Note	2009 £000's	2008 £000's Restated
Cash and cash equivalents	17	62,270	44,253
Current financial assets	14	122	–
Trade receivables	15	26,263	28,255
Derivative financial instruments	16	303	–
Total financial assets		88,958	72,508

Financial liabilities	2009 £000's	2008 £000's
Trade and other payables	13,368	8,278

The Group's total financial assets exceed its total financial liabilities in the ratio of 6.7: 1 (2008: 8.8:1).

(ii) Commitments

(a) Operating leases

The Group leases office premises and computer software under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases disclosed as contractual undiscounted cash flows are as follows:

	2009 Leasehold property £000's	2008 Leasehold property £000's
Commitments under non-cancellable operating leases expiring:		
Within one year	4,861	4,695
Later than one year and less than five years	19,326	18,755
After five years	33,032	37,612
Total	57,219	61,062

A provision of £2,277,000 has been made against surplus premises in respect of the New York office (note 19).

	2009 Computer software £000's	2008 Computer software £000's
Commitments under non-cancellable operating leases expiring:		
Within one year	124	245
Later than one year and less than five years	–	63
Total	124	308

(b) Capital commitments and contingent liabilities

The Group did not have any capital commitments or contingent liabilities as at the end of either accounting period.

(d) Capital Management

The Group uses its capital primarily to support the growth of the business and to provide it with a cushion to shield it from adverse market conditions. In order to determine its primary capital requirements, the Group uses multi-year financial models to determine the capital requirements of its anticipated growth. The Group develops a number of potential adverse scenarios in order to determine their effect on various financial measures, including the Group's capital base. This enables the Group to determine the amount of capital that should be retained in the business for prudential purposes.

Once this primary objective has been met, the Group uses available distributable reserves for purposes such as paying dividends to shareholders, funding the equity incentivisation programme and providing seed capital for new funds, if required.

From time to time the Group has provided financing to the EBT and its SIP to enable them to purchase BlueBay's shares in the market. The timing of these purchases depends on market prices. The shares are intended to be used for awarding shares to employees under the Group's share-based incentive schemes. There is no specific buy back plan.

The Group also manages its capital requirements in line with the regulatory capital limits set by the Financial Services Authority. The Group believes that the changes made to its accounting policy in respect of its deferred compensation scheme, as described in note 1 do not result in any breaches in regulatory capital limits in the current or previous years. The Group has been in compliance with the regulatory capital requirements at all times during the year.

There were no changes to the Group's approach to capital management in the year.

Notes to the Group Financial Statements continued

12. Property, plant and equipment

	Leasehold improvements £000's	Furniture fixtures & fittings £000's	Information & communication technology equipment £000's	Total £000's
Cost				
At 1 July 2008	5,952	873	1,957	8,782
Additions	233	67	179	479
Disposals	(551)	(148)	(299)	(998)
Write offs	–	(102)	(641)	(743)
Currency translation difference	101	22	70	193
At 30 June 2009	5,735	712	1,266	7,713
Accumulated depreciation				
At 1 July 2008	826	265	1,073	2,164
Depreciation charge	1,237	294	581	2,112
Disposals	(112)	(67)	(263)	(442)
Write offs	–	(102)	(641)	(743)
Currency translation difference	15	10	46	71
At 30 June 2009	1,966	400	796	3,162
Net book amount as at 30 June 2009	3,769	312	470	4,551

	Leasehold improvements £000's	Furniture fixtures & fittings £000's	Information & communication technology equipment £000's	Total £000's
Cost				
At 1 July 2007	2,336	758	2,213	5,307
Additions	5,322	702	532	6,556
Disposals	–	(304)	–	(304)
Write offs	(1,714)	(285)	(799)	(2,798)
Currency translation difference	8	2	11	21
At 30 June 2008	5,952	873	1,957	8,782
Accumulated depreciation				
At 1 July 2007	934	494	1,325	2,753
Depreciation charge	1,601	250	539	2,390
Disposals	–	(195)	–	(195)
Write offs	(1,714)	(285)	(799)	(2,798)
Currency translation difference	5	1	8	14
At 30 June 2008	826	265	1,073	2,164
Net book amount as at 30 June 2008	5,126	608	884	6,618

Assets disposed of as at 30 June 2009 relate to the relocation of the Group's New York office during the year (note 4).

Assets written off as at 30 June 2009 relate to those which are no longer in use in the business.

The property leases have been classified as operating leases in these Financial Statements, in accordance with IAS 17. At 30 June 2009 and 2008, none of the above assets were held under finance leases.

13. Intangible assets

	Licences and development costs £000's
Cost	
At 1 July 2008	2,227
Additions	96
Write off	(59)
At 30 June 2009	2,264
Amortisation	
At 1 July 2008	758
Amortisation in the year	465
Write off	(59)
At 30 June 2009	1,164
Net book amount as at 30 June 2009	1,100

	Licences and development costs £000's
Cost	
At 1 July 2007	2,250
Additions	161
Write off	(184)
At 30 June 2008	2,227
Amortisation	
At 1 July 2007	503
Amortisation in the year	439
Write off	(184)
At 30 June 2008	758
Net book amount as at 30 June 2008	1,469

Assets written off as at 30 June 2009 relate to those which are no longer in use in the business.

All amortisation charges in the year are included in note 3.

Notes to the Group Financial Statements continued

14. Financial assets

	2009 £000's	2008 £000's Restated
Fair value through profit or loss:		
At 1 July 2008 and 2007	–	–
Additions	1,658	–
Fair value adjustment	(1,062)	–
Disposals	(474)	–
At 30 June	122	–

Financial assets held at fair value are designated as such upon initial recognition. The fair values of the investments in funds are determined by using the net asset values of the funds at the Balance Sheet date.

The investments held relate to forfeited fund units under the Group's 'deferred compensation scheme' which is discussed in more detail in note 6. Where shares have been forfeited under the scheme, they are held in one of the Group's Employee Benefit Trusts until such shares are either subsequently realised or used for future awards to employees. Disposals relate to shares which have been realised.

15. Trade and other receivables

	Note	2009 £000's	2008 £000's Restated
Trade receivables:			
Amounts owed by related parties	26	21,119	23,452
Other trade receivables		5,144	4,803
Other receivables		1,794	655
Prepayments		5,593	8,995
Total amounts falling due within one year		33,650	37,905
Prepayments		2,406	2,974
Other receivables		210	149
Total amounts falling due after more than one year		2,616	3,123

Included within prepayments falling due within one year is £3,208,000 (2008: £6,446,000) in relation to the deferred compensation scheme (note 1).

Prepayments falling due after more than one year relate entirely to the deferred compensation scheme.

16. Derivative financial instruments

	2009 £000's	2008 £000's
Assets:		
Forward foreign exchange contracts	303	–

Sensitivity analysis on the Group's forward foreign exchange contracts can be found in note 11(b).

17. Cash and cash equivalents

	2009 £000's	2008 £000's
Cash at bank and in hand	6,144	3,966
Short-term bank deposits	56,126	40,287
Total cash and cash equivalents	62,270	44,253

18. Trade and other payables

	2009 £000's	2008 £000's Restated
Trade payables	356	228
Other tax and social security payable	817	718
Other payables	12,500	7,040
Accruals	9,881	9,301
Total trade and other payables due within one year	23,554	17,287
Accruals	1,252	608
Total amounts due after more than one year	1,252	608

Rebate and commission payables of £8,196,000 (2008: £3,244,000) are included within other payables.

19. Provisions

	2009 £000's	2008 £000's
At 1 July 2008 and 2007	–	–
Provisions charged in the year	2,277	–
At 30 June	2,277	–
Current	387	–
Non-current	1,535	–
Total provisions	2,277	–

The Group's provisions are expected to mature in the following time periods:

	2009 £000's	2008 £000's
Within one year	387	–
Later than one year and less than five years	1,535	–
Greater than five years	355	–
Total provisions	2,277	–

A provision of £2,277,000 (2008: £nil) has been made against surplus premises in respect of the Group's New York office, following its relocation to Connecticut. The provision has been made taking into account residual lease commitments, other outgoings and sub-letting/lease surrender arrangements. In arriving at the provision, the cash flows have been discounted at rates representing an estimate of the interest rates relevant to the period of provision. The weighted average of these rates is 2%. (2008: n/a). It is envisaged that the provision will be utilised on an even basis until 2015 in line with the remaining lease term.

The calculation of the surplus premises provision involves two principal assumptions: an estimation of the time value of money to the Group, and the mitigating effects of sub-letting income receivable. Cash inflows and outflows are predominantly contractually agreed fixed amounts. The effect on the provision of an increase/decrease of 1%. in the discount rate used in the calculation would be +/- £110,000. The sensitivity of the carrying amounts of surplus space provisions to the methods and assumptions used in their estimation is therefore not considered to be significant.

Notes to the Group Financial Statements continued

20. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using an effective tax rate of 28% (2008: 28%).

Deferred tax assets have been recognised where the tax deduction in the current year has exceeded the current taxable profits. The recognition of deferred tax assets is based on the probability that the Group will derive taxable profits in the future.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below.

(a) Deferred tax assets

The movement on the deferred tax asset account is as follows:

	Temporary differences £000's
At 1 July 2008	6,543
Income Statement credit	1,095
Deferred tax asset utilised in current year	(320)
Deferred tax on share-based payments taken to equity	348
Currency translation differences	6
At 30 June 2009	7,672

	Temporary differences £000's
At 1 July 2007	6,731
Income Statement credit	3,853
Deferred tax asset utilised in current year	(2,594)
Deferred tax asset carried back against prior year profits	(2,552)
Deferred tax on share-based payments taken to equity	1,100
Currency translation differences	5
At 30 June 2008	6,543

The deferred tax credited to equity during the year is as follows:

	2009 £000's	2008 £000's
Share option scheme	23	1,100
Share award scheme	325	–
Total deferred tax credited to equity	348	1,100

An analysis of the deferred tax asset is as follows:

	2009 £000's	2008 £000's
Accelerated depreciation for tax purposes	230	134
Share-based payments	4,923	3,093
Deferred compensation scheme	2,516	3,303
Other	3	13
Total deferred tax asset	7,672	6,543

(b) Deferred tax liability

The movement on the deferred tax liability account is as follows:

	Temporary differences £000's
At 1 July 2008	–
Income Statement charge	228
At 30 June 2009	228

	Temporary differences £000's
At 1 July 2007 and 30 June 2008	–

An analysis of the deferred tax liability is as follows:

	2009 £000's	2008 £000's
Derivative financial instruments	228	–

21. Share-based payments

The Group seeks to facilitate significant equity ownership by management and employees, principally through various equity settled, share-based compensation schemes. Details of these schemes can be found in the Remuneration Report on pages 41 to 49 to these Financial Statements and are summarised in the notes below.

The fair value of the employee services rendered in exchange for the share awards and options granted previously under these schemes is recognised as an expense through the Income Statement. The expense is based on the fair value of the share-based payment transactions on grant date, spread over the vesting period.

During the year, the following expense was charged to the Income Statement in respect of equity-settled, share-based transactions:

	2009 £000's	2008 £000's
EMI Scheme (i)	–	–
Unapproved option award scheme (ii)	76	156
Share award scheme (iii)	9,920	4,120
SIP Scheme (iv)	279	556
Total	10,275	4,832

Of the total charges of £10,275,000 (2008: £4,832,000), £1,070,000 (2008: nil) of share award scheme charges are shown within exceptional items in the Income Statement as they relate to accelerated charges with respect to good leavers (note 4).

(i) Enterprise Management Incentive (EMI) Option Award Scheme

The Group issued share options through its EMI scheme in December 2005. A total of 20,700,000 options under this scheme were exercised when the Company listed on the London Stock Exchange on 22 November 2006. As a condition of exercise, the Company required the holders of the EMI options to enter into an agreement not to sell their resulting shares for a period of up to four years following Listing (although 25% of these ordinary shares became available for sale on each anniversary of the date of exercise of the EMI options). As at 30 June 2009, selling restrictions on 50% of the shares held by employees had been lifted.

The scheme is no longer operative and there are no options outstanding under this scheme.

During the year, the movement in respect of restricted ordinary shares issued under the scheme was as follows:

	Note	2009 Number of shares	2008 Number of shares
Balance at 1 July		15,387,500	20,675,000
Shares sold on open market		(274,016)	(5,964)
Shares vested unconditionally		(5,075,000)	(5,162,500)
Shares forfeited to Group Employee Benefit Trust	23	(950,984)	(119,036)
Restricted shares unsold at 30 June		9,087,500	15,387,500

(ii) Unapproved Option Award Scheme

The Group operated a second option award scheme, not approved by HMRC, where selected employees were eligible to participate. All grants under this scheme were made in 2006, prior to Listing and there have been no new awards during the year. In general terms, providing an optionholder remains an employee of the Group, options may be exercised in accordance with a vesting schedule as follows: 25% on or after each of 30 January 2007, 30 January 2008, 30 January 2009 and 30 January 2010. All 'Unapproved' options expire on the business date preceding the tenth anniversary of the date of grant.

Movements in the number of share options outstanding granted under the Unapproved Option award scheme are as follows:

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Share options outstanding at 1 July	6,631,538	£0.2539	9,612,500	£0.2586
Granted	–	–	–	–
Forfeited	(950,000)	£0.2688	(387,500)	£0.2853
Exercised	(802,500)	£0.2560	(2,593,462)	£0.2666
Share options outstanding 30 June	4,879,038	£0.2506	6,631,538	£0.2539

Notes to the Group Financial Statements continued

21. Share-based payments continued

The following unapproved share options were exercised during the financial year:

Exercise date	Exercise Price	Share price at exercise date	Number exercised
16 July 2008	£0.2853	£2.19	125,000
16 July 2008	£0.2226	£2.19	125,000
27 November 2008	£0.2226	£0.70	25,000
27 November 2008	£0.2853	£0.70	25,000
26 February 2009	£0.2853	£0.93	37,500
2 March 2009	£0.2853	£0.95	25,000
4 March 2009	£0.2853	£0.97	50,000
11 March 2009	£0.2853	£0.98	100,000
13 March 2009	£0.2853	£1.12	25,000
27 May 2009	£0.2853	£2.16	40,000
5 June 2009	£0.2226	£1.90	225,000
Total			802,500

The share options outstanding at the end of the year have exercise prices and expected remaining lives as follows:

	2009		2008	
	Number of options	Weighted average expected remaining life	Number of options	Weighted average expected remaining life
Option exercise price				
£0.2226	2,700,000	1.8 years	3,325,000	2.6 years
£0.2853	2,179,038	3.3 years	3,306,538	2.6 years
Total	4,879,038		6,631,538	

(iii) Plc Share Award Scheme

During the year, one of the Group's Employee Benefit Trusts purchased shares in the open market in order to satisfy restricted share awards to existing employees as part of the annual compensation round and to selected new joiners (note 23).

Shares awarded during the current and previous financial year vest unconditionally with employees over a period of four to five years after the grant date (with either 25% of the shares vesting on each anniversary of the date of award, commencing two years after the grant date or 100% of the shares vesting on the third anniversary after the grant date). Shares are held in a nominee account on behalf of each employee until such shares are no longer subject to forfeiture. In respect of good leavers, shares continue to follow the original vesting schedule although forfeiture provisions are lifted so that such shares are no longer restricted.

The fair value of the shares is measured on the grant date and spread over the period during which the employees become unconditionally entitled to the underlying shares. The fair value of the shares granted is taken to be the market price at the date of award. The amount recognised in the Income Statement is adjusted to reflect the expected and actual number of shares that vest.

Movements in the number of shares outstanding granted under the Share Award scheme are as follows: .

	2009		2008	
	Number of shares	Weighted average award price	Number of shares	Weighted average award price
Shares outstanding at 1 July	7,431,263	£3.57	–	–
Granted	8,242,670	£1.22	7,431,263	£3.57
Forfeited	(422,488)	£3.45	–	–
Unrestricted shares in respect of good leavers	(661,766)	£3.14	–	–
Shares outstanding 30 June	14,589,679	£2.26	7,431,263	£3.57

The following share awards were granted during the financial year:

Grant date	Share price at grant date	Number awarded
15 October 2008	£1.82	200,978
19 December 2008	£0.72	558,472
24 March 2009	£1.23	5,098,330
27 March 2009	£1.24	2,296,640
22 April 2009	£1.74	88,250
Total		8,242,670

(iv) Share Incentive Plan ("SIP")

The Group SIP is an HMRC approved plan which allows employees, including Directors, to acquire shares in the Company. The scheme is open to UK based employees and provides free shares from the Group to each participating employee, based on an award of £3,000 worth of shares per employee. The Group also provides free shares that match the employee purchase up to a maximum of £1,500 per annum in the ratio of two to one. The Group purchases shares on the open market in order to satisfy such share awards.

The Group did not make awards under its SIP scheme during the financial year. In 2009, the Group purchased shares totalling £11,000 relating to shares forfeited back to the SIP by leavers. In 2008, the Group purchased shares totalling £1,037,000 and disposed of 79,268 shares to employees as part of the matching shares concept, realising proceeds of £214,000.

The fair value of the shares is measured on the grant date and spread over the period during which the employees become unconditionally entitled to the underlying shares. The fair value of the shares granted is taken to be the market price at the date of award. The amount recognised in the Income Statement is adjusted to reflect the expected and actual number of shares that vest.

Movements in SIP scheme shares are as follows:

	2009 Number of shares	2008 Number of shares
Shares at 1 July	2,679	85,379
Purchased	–	337,453
Shares previously awarded forfeited back to SIP (net of withdrawals)	56,385	28,931
Awarded	–	(369,816)
Sold to employees as part of the matching shares concept	–	(79,268)
Balance of unawarded shares remaining in SIP scheme	59,064	2,679

The Group holds the unawarded shares in order to satisfy future share awards to employees.

The weighted average award price of SIP scheme shares for the year ended 30 June 2008 was £2.70.

Notes to the Group Financial Statements continued

22. Share capital

	2009 £000's
Authorised	
250,000,000 ordinary shares of £0.001 each	250
Called up, allotted and fully paid	
193,768,462 ordinary shares of £0.001 each	194

	2008 £000's
Authorised	
250,000,000 ordinary shares of £0.001 each	250
Called up, allotted and fully paid	
192,965,962 ordinary shares of £0.001 each	193

Ordinary shares in issue in the Company rank pari passu. All of the ordinary shares in issue carry the same right to receive dividends and other distributions declared, made or paid by the Company. All of the ordinary shares have equal voting rights.

23. Own shares

Own shares are held by employee trusts and share incentive plans for the purposes of satisfying certain equity-based awards.

Details of the shares purchased by the share incentive plan can be found in note 21(iv).

During the year, the number of own shares purchased by Employee Benefit Trusts ("EBT's") was 2,929,130 shares at a cost of £5,969,000 (2008: 9,029,426 shares at a cost of £31,382,000).

Movements in shares held by EBT's are as follows:

	2009		2008	
	Number of shares	Weighted average price	Number of shares	Weighted average price
Balance at 1 July	2,502,474	£3.19	785,275	£0.35
Purchased	2,929,130	£2.04	9,029,426	£3.48
Forfeited restricted EMI shares (note 21(i))	950,984	–	119,036	–
Forfeited restricted share award scheme shares (note 21(iii))	422,488	–	–	–
Forfeited restricted ordinary shares	2,405,235	–	–	–
Awarded to employees (note 21(iii))	(8,242,670)	£1.51	(7,431,263)	£3.19
Balance at 30 June	967,641	£1.51	2,502,474	£3.19

The Group also holds own shares through its arrangements with a number of employees who have subscribed for shares which have not vested unconditionally. Under the terms of each subscription, the shares are held in a nominee account on behalf of each employee until such shares are no longer subject to forfeiture. The number of own shares held under such arrangements were 30,756,311 (2008: 52,395,569). The number of shares forfeited during the year was 2,405,235 (2008: nil).

24. Reserves

The Group's reserves are shown in the Group's Statement of Changes in Shareholders' Equity.

25. Cash generated from operations

	2009 £000's	2008 £000's Restated
Continuing operations		
Operating profit for the year	16,214	46,803
Adjustments for:		
Financial assets at fair value	1,062	–
Derivatives at fair value	(303)	3
Share-based payments	10,275	4,832
Finance income	1,267	3,267
Finance expense	–	(12)
Depreciation	2,112	2,390
Amortisation of intangibles	465	439
Loss on disposal of property, plant and equipment	556	109
Currency translation differences on property, plant and equipment	(122)	–
	15,312	11,028
Changes in working capital:		
Decrease in receivables	3,192	2,080
Increase/(decrease) in payables	9,110	(406)
Cash generated from operations	43,828	59,505

26. Related party transactions

The following transactions were carried out with related parties:

(a) Transactions and balances with related entities during the year

During the year the following categories of related party transactions occurred:

Description of relationship	Description of service	Description of transactions
Funds managed by the Group and related through key management personnel	Provision of investment management and investment services by Group companies.	Management and performance fees earned

Sales of services during the financial year

	2009 £000's	2008 £000's
Investment management fees	96,880	115,186

Year end balances arising during the financial year

	2009 £000's	2008 £000's
Funds managed by the Group	21,119	23,452

All transactions with related parties were on an arm's length basis.

(b) Key management compensation

The remuneration of key management personnel during the year can be found in the audited part of the Remuneration Report of this Annual Report.

27. Principal group investments

The names of the principal investments of BlueBay Asset Management plc, together with the Group's controlling interest and voting rights are given below. All of these entities are directly owned by BlueBay Asset Management plc.

Principal operating subsidiaries	Country of incorporation	Effective group interest %
BlueBay Funds Management Company S.A.	Luxembourg	99
BlueBay Asset Management Japan Limited	United Kingdom	100
BlueBay Asset Management USA LLC	United States of America	100

Company Balance Sheet As at 30 June 2009

	Note	2009 £000's	2008 £000's Restated*
Assets			
Non-current assets			
Property, plant and equipment	33	4,540	6,085
Intangible assets	34	1,100	1,469
Deferred tax asset	40	7,669	6,530
Trade and other receivables	36	2,402	2,958
Financial assets	35	80	80
Total non-current assets		15,791	17,122
Current assets			
Trade and other receivables	36	33,455	38,190
Derivative financial instruments	37	303	–
Financial assets	35	122	–
Cash and cash equivalents	38	62,003	43,892
Total current assets		95,883	82,082
Total assets		**111,674**	**99,204**
Liabilities			
Non-current liabilities			
Trade and other payables	39	1,252	608
Deferred tax liability	40	228	–
Total non-current liabilities		1,480	608
Current liabilities			
Trade and other payables	39	26,133	16,924
Dividend declared and unpaid	10	456	–
Current tax liabilities		1,474	3,786
Total current liabilities		28,063	20,710
Total liabilities		**29,543**	**21,318**
Shareholders' equity			
Share capital	42	194	193
Share premium	43	32,484	32,279
Retained earnings	43	47,019	43,008
Other reserves	43	2,434	2,406
Total shareholders' equity		**82,131**	**77,886**
Total liabilities and shareholders' equity		**111,674**	**99,204**

*Restated for change in accounting policy – note 30.

The notes on pages 91 to 100 are an integral part of these Company Financial Statements.

The Financial Statements on pages 88 to 100 were approved by the Board of Directors and authorised for issue on 18 September 2009 and signed on its behalf by:

Director: **Hugh Willis** Director: **Nick Williams**

Company Statement of Changes in Shareholders' Equity

	Note	Share capital £000's	Share premium £000's	Retained earnings £000's	Other reserves £000's	Total £000's
Balance at 1 July 2008 (Restated*)		193	32,279	43,008	2,406	77,886
Profit for the year		–	–	11,844	–	11,844
Dividends	10	–	–	(12,195)	–	(12,195)
Total recognised loss for the year		**–**	**–**	**(351)**	**–**	**(351)**
Share-based payments		–	–	10,022	–	10,022
Deferred tax on share-based payments	40	–	–	–	348	348
Exercise of share options		1	205	–	–	206
Funding of own shares for Employee Benefit Trust	23	–	–	(5,969)	–	(5,969)
Funding of own shares for Share Incentive Plan	21	–	–	(11)	–	(11)
Deferred tax asset utilised against current year profits	40	–	–	320	(320)	–
Balance at 30 June 2009		**194**	**32,484**	**47,019**	**2,434**	**82,131**

	Note	Share capital £000's	Share premium £000's	Retained earnings £000's	Other reserves £000's	Total £000's
Balance at 1 July 2007		190	31,551	48,431	7,250	87,422
Change in accounting policy adjustment		–	–	(153)	–	(153)
Balance at 1 July 2007 (Restated*)		190	31,551	48,278	7,250	87,269
Profit for the year (Restated*)		–	–	33,676	–	33,676
Dividends	10	–	–	(17,478)	–	(17,478)
Total recognised income for the year		**–**	**–**	**16,198**	**–**	**16,198**
Share-based payments		–	–	4,832	–	4,832
Deferred tax on share-based payments	40	–	–	–	1,100	1,100
Exercise of share options		3	689	–	–	692
Funding of own shares for Employee Benefit Trust	23	–	–	(31,382)	–	(31,382)
Funding of own shares for Share Incentive Plan	21	–	–	(1,037)	–	(1,037)
Disposal of own shares for Share Incentive Plan	21	–	–	214	–	214
Deferred tax asset utilised against current year profits	40	–	–	2,594	(2,594)	–
Deferred tax asset carried back against prior year's profits	40	–	–	2,552	(2,552)	–
Transfer between reserves		–	39	759	(798)	–
Balance at 30 June 2008 (Restated*)		**193**	**32,279**	**43,008**	**2,406**	**77,886**

*Restated for change in accounting policy – note 30.

The notes on pages 91 to 100 are an integral part of these Company Financial Statements.

Own shares have been reclassified from other reserves to retained earnings in accordance with the Companies Act 2006.

Company Cash Flow Statement For the year ended 30 June 2009

	Note	2009 £000's	2008 £000's Restated*
Cash flows from operating activities			
Cash generated from operations	44	43,522	58,646
Corporation tax paid		(7,936)	(10,841)
Net cash inflows from operating activities		35,586	47,805
Cash flows from investing activities			
Purchase of property, plant and equipment		(340)	(6,145)
Purchase of intangible assets		(96)	(161)
Sale of current financial assets	35	474	–
Net cash inflows/(outflows) from investing activities		38	(6,306)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		206	692
Funding of Employee Benefit Trust		(5,969)	(31,382)
Funding of Share Incentive Plan		(11)	(1,037)
Sale of shares by Share Incentive Plan		–	214
Dividends paid		(11,739)	(17,478)
Net cash outflows from financing activities		(17,513)	(48,991)
Net increase/(decrease) in cash and cash equivalents		**18,111**	**(7,492)**
Cash and cash equivalents at beginning of year		43,892	51,384
Cash and cash equivalents at end of the year	38	**62,003**	**43,892**

*Restated for change in accounting policy – note 30.

The notes on pages 91 to 100 are an integral part of these Company Financial Statements.

Notes to the Company Financial Statements

28. Basis of accounting
The Company applies Group accounting policies with the exception of those listed below. The Group's accounting policies can be found in the Group Financial Statements on pages 62 to 66.

The Company Financial Statements have been prepared in accordance with IAS 27 'Consolidated and Separate Financial Statements'.

(a) Investments in subsidiaries
Investments in subsidiaries are held at cost, less provision for impairment

(b) Funding of share schemes
The Company provides funding for employee share schemes to facilitate the acquisition and holding of its own shares in anticipation of delivering the shares under the share-based payment arrangements. The cost of such funding is offset against retained earnings.

29. Profits of the Company
The profit for the financial year dealt with in the Company was £11,844,000. The profit for the financial year ended 30 June 2008 was £33,676,000. This profit has been restated due to the change in accounting policy to reclassify units purchased under the deferred compensation scheme from financial assets to prepayments. This is explained in further detail in note 1 to the Group Financial Statements.

In accordance with Section 408 of the Companies Act 2006, a separate Income Statement has not been presented for the Company.

Notes to the Company Financial Statements continued

30. Change in accounting policy

Details of the change in Group accounting policy to reclassify units purchased under the deferred compensation from financial assets to prepayments can be found in note 1.

Where the Company's transactions differ from those of the Group, these are shown below.

	Year ended 30 June 2009 £000's	Year ended 30 June 2008 £000's	At 1 July 2007 £000's
Income Statement			
Decrease in other operating income	(715)	(101)	–
Decrease in other operating expense	566	551	–
Increase in administrative expenses	(9)	(57)	–
(Decrease)/increase in profit before tax	**(158)**	**393**	–
Decrease/(increase) in tax	44	(116)	–
(Decrease)/increase in profit for the year	**(114)**	**277**	–

	2009 £000's	2008 £000's	2007 £000's
Balance Sheet			
Assets			
Non-current assets			
Increase in trade and other receivables	2,402	2,958	3,716
Increase in non-current assets	2,402	2,958	3,716
Current assets			
Increase in trade and other receivables	3,823	6,446	3,523
Increase in current tax assets	–	–	66
Decrease in financial assets	(17,965)	(21,986)	(13,876)
Decrease in total current assets	(14,142)	(15,540)	(10,287)
Decrease in total assets	**(11,740)**	**(12,582)**	**(6,571)**
Liabilities			
Non-current liabilities			
Decrease in trade and other payables	(5,511)	(9,019)	(5,948)
Decrease in total non-current liabilities	(5,511)	(9,019)	(5,948)
Current Liabilities			
Decrease in trade and other payables	(6,245)	(3,737)	(470)
Increase in current tax liabilities	6	50	–
Decrease in total current liabilities	(6,239)	(3,687)	(470)
Decrease in total liabilities	**(11,750)**	**(12,706)**	**(6,418)**
Shareholders' equity			
Increase/(decrease) in retained earnings at the start of the year	124	(153)	(153)
(Decrease)/increase in retained earnings movement in the year	(114)	277	–
Increase/(decrease) in total shareholders' equity	10	124	(153)
Decrease in total liabilities and shareholders' equity	**(11,740)**	**(12,582)**	**(6,571)**

31. Segmental reporting

The Company need not present segmental information in accordance with IAS 14 'Segment Reporting' as it has taken the exemption from publishing its Income Statement and related notes under Section 408 of the Companies Act 2006.

32. Financial risk management

The Company provides full disclosures in accordance with IFRS 7 in its Consolidated Financial Statements. Details can be found in note 11 to the Consolidated Financial Statements. Where the Company's transactions differ from those of the Group, these are shown below.

(a) Credit risk management

(i) Counterparty credit rating

Financial assets subject to credit risk are:

	Note	2009 £000's	2008 £000's
Cash and cash equivalents	38	62,003	43,892

Cash and cash equivalents comprise short-term bank deposits and cash in hand. At 30 June 2009, 99% of cash is held with a counterparty that is a major UK bank and is externally rated AA-[1] (2008: 99%).

(ii) Concentrations of credit risk

The Company's largest counterparty exposure at the end of each period is as follows:

	Note	2009 £000's	2008 £000's
AA-[1] rated bank		61,408	43,794

[1] Standard & Poor's ratings

The amount of these exposures can change significantly each month.

Notes to the Company Financial Statements continued

32. Financial risk management continued

(b) Market risk management

(i) Foreign exchange risk

The Company's financial assets and liabilities are denominated in the following currencies:

Year ended 30 June 2009:

Financial assets	Note	Sterling £000's	US Dollar £000's	Euro £000's	Japanese Yen £000's	Other £000's	Total £000's
Cash and cash equivalents	38	55,518	3,358	3,078	2	47	62,003
Current financial assets	35	–	122	–	–	–	122
Trade receivables	36	229	9,337	15,697	–	1,000	26,263
Derivative financial instruments	37	–	(382)	685	–	–	303
Total financial assets		55,747	12,435	19,460	2	1,047	88,691

Financial liabilities	Sterling £000's	US Dollar £000's	Euro £000's	Japanese Yen £000's	Other £000's	Total £000's
Trade and other payables due within one year	4,512	1,561	7,271	–	4	13,348
Total financial liabilities	4,512	1,561	7,271	–	4	13,348

Year ended 30 June 2008:

Financial assets (Restated)	Note	Sterling £000's	US Dollar £000's	Euro £000's	Japanese Yen £000's	Other £000's	Total £000's
Cash and cash equivalents	38	41,310	1,412	1,161	1	8	43,892
Trade receivables	36	–	16,372	11,662	–	221	28,255
Total financial assets		41,310	17,784	12,823	1	229	72,147

Financial liabilities	Sterling £000's	US Dollar £000's	Euro £000's	Japanese Yen £000's	Other £000's	Total £000's
Trade and other payables due within one year	4,869	751	2,611	–	–	8,231
Total financial liabilities	4,869	751	2,611	–	–	8,231

Financial liabilities comprise trade payables and accruals which are payable within one year and which are not explicitly excluded from the definition of a financial instrument under IFRS 7.

Financial assets as at 30 June 2008 have been restated due to the change in accounting policy (note 30).

(c) Liquidity risk management

(i) Financial assets and liabilities

The table below analyses the Company's financial assets and liabilities. The amounts disclosed are the contractual undiscounted cash flows and are all due within one year.

Financial assets	Note	2009 £000's	2008 £000's Restated
Cash and cash equivalents	38	62,003	43,892
Current financial assets	35	122	–
Trade receivables	36	26,263	28,255
Derivative financial instruments	37	303	–
Total financial assets		88,691	72,147

Financial liabilities	2009 £000's	2008 £000's
Trade and other payables	13,348	8,231

The Company's total financial assets exceed its total financial liabilities in the ratio of 6.6:1 (2008: 8.8:1).

33. Property, plant & equipment

	Leasehold improvements £000's	Furniture fixtures & fittings £000's	Information & communication technology equipment £000's	Total £000's
Cost				
At 1 July 2008	5,498	782	1,655	7,935
Additions	168	–	172	340
Write off	–	(86)	(583)	(669)
At 30 June 2009	5,666	696	1,244	7,606
Accumulated depreciation				
At 1 July 2008	759	223	868	1,850
Depreciation charge	1,144	251	490	1,885
Write off	–	(86)	(583)	(669)
At 30 June 2009	1,903	388	775	3,066
Net book amount as at 30 June 2009	3,763	308	469	4,540

	Leasehold improvements £000's	Furniture fixtures & fittings £000's	Information & communication technology equipment £000's	Total £000's
Cost				
At 1 July 2007	2,224	707	1,961	4,892
Additions	4,988	664	493	6,145
Disposals	–	(304)	–	(304)
Write off	(1,714)	(285)	(799)	(2,798)
At 30 June 2008	5,498	782	1,655	7,935
Accumulated depreciation				
At 1 July 2007	896	470	1,213	2,579
Depreciation charge	1,577	233	454	2,264
Disposals	–	(195)	–	(195)
Write off	(1,714)	(285)	(799)	(2,798)
At 30 June 2008	759	223	868	1,850
Net book amount as at 30 June 2008	4,739	559	787	6,085

Assets written off relate to those which are no longer in use in the business.

Notes to the Company Financial Statements continued

34. Intangible assets

	Licences and development costs £000's
Cost	
At 1 July 2008	2,227
Additions	96
Write off	(59)
At 30 June 2009	2,264
Amortisation	
At 1 July 2008	758
Amortisation in the year	465
Write off	(59)
At 30 June 2009	1,164
Net book amount as at 30 June 2009	1,100

	Licences and development costs £000's
Cost	
At 1 July 2007	2,250
Additions	161
Write off	(184)
At 30 June 2008	2,227
Amortisation	
At 1 July 2007	503
Amortisation in the year	439
Write off	(184)
At 30 June 2008	758
Net book amount as at 30 June 2008	1,469

Assets written off relate to those which are no longer in use in the business.

35. Financial assets

	2009 £000's	2008 £000's Restated
Current financial assets		
Fair value through profit or loss:		
At 1 July 2008 and 2007	–	–
Additions	1,658	–
Fair value adjustment	(1,062)	–
Disposals	474	–
At 30 June	122	–
Non-current financial assets		
Wholly owned subsidiaries:		
At 1 July 2008 and 2007	80	80
At 30 June	80	80
Total	202	80

Financial assets held at fair value are designated as such upon initial recognition. The fair values of the investments in funds are determined by using the net asset values of the funds at the Balance Sheet date.

The investments held relate to forfeited fund units under the Group's 'deferred compensation scheme' which is discussed in more detail in note 6.

36. Trade and other receivables

	2009 £000's	2008 £000's Restated
Trade receivables:		
Amounts owed by related parties (note 26)	21,119	23,452
Other trade receivables	5,144	4,803
Other receivables	1,662	634
Amounts owed by subsidiaries (note 45)	40	435
Prepayments	5,490	8,866
Total amounts falling due within one year	33,455	38,190
Prepayments		
Total amounts falling due after more than one year	2,402	2,958

Included within prepayments falling due within one year is £3,188,000 (2008: £6,446,000) in relation to the deferred compensation scheme.

Prepayments falling due after more than one year relate entirely to the deferred compensation scheme.

37. Derivative financial instruments

Details of the Company's derivative financial instruments can be found in note 16 to the Group Financial Statements.

38. Cash and cash equivalents

	2009 £000's	2008 £000's
Cash at bank and in hand	5,878	3,605
Short-term bank deposits	56,125	40,287
Total cash and cash equivalents	62,003	43,892

39. Trade and other payables

	2009 £000's	2008 £000's Restated
Trade payables	349	223
Amounts owed to subsidiaries (see note 45)	2,858	26
Other tax and social security payable	749	648
Other payables	12,387	7,040
Accruals	9,790	8,987
Total trade and other payables due within one year	26,133	16,924
Amounts falling due after more than one year		
Accruals	1,252	608
Total amounts due after more than one year	1,252	608

Rebate and commission payables of £8,196,000 (2008: £3,244,000) are included within other payables.

Notes to the Company Financial Statements continued

40. Deferred taxation
Deferred tax is calculated in full on temporary differences under the liability method using an effective tax rate of 28% (2008: 28%).

Deferred tax assets have been recognised where the tax deduction in the current period has exceeded the current forecast taxable profits. The recognition of the deferred tax asset is based on the probability that the Company will derive taxable profits in the future.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below.

(a) Deferred tax assets
The movement on the deferred tax asset account is as follows:

	Temporary differences £000's
At 1 July 2008	6,530
Income Statement credit	1,111
Deferred tax asset utilised in current year	(320)
Deferred tax on share-based payments taken to equity	348
At 30 June 2009	7,669

	Temporary differences £000's
At 1 July 2007	6,706
Income Statement credit	3,870
Deferred tax asset utilised in current year	(2,594)
Deferred tax asset utilised in prior year	(2,552)
Deferred tax on share-based payments taken to equity	1,100
At 30 June 2008	6,530

The deferred tax income tax credited to equity during the year is as follows:

	2009 £000's	2008 £000's
Share option scheme	23	1,100
Share award scheme	325	–
Total deferred income tax credited to equity	348	1,100

An analysis of the deferred tax asset is as follows:

	2009 £000's	2008 £000's
Accelerated depreciation for tax purposes	230	134
Share-based payments	4,923	3,093
Deferred compensation scheme	2,516	3,303
Total deferred tax asset	7,669	6,530

(b) Deferred tax liability
The movement on the deferred tax liability account is as follows:

	Temporary differences £000's
At 1 July 2008	–
Income Statement charge	228
At 30 June 2009	228

	Temporary differences £000's
At 1 July 2007 and 30 June 2008	–

An analysis of the deferred tax liability is as follows:

	2009 £000's	2009 £000's
Derivative financial instruments	228	–

41. Statutory and other information

The Company's total staff costs, including redundancy, accelerated deferred compensation scheme charges and accelerated IFRS 2 costs during the year were £53,430,000 (2008: £45,280,000).

The average number of persons employed by the Company during the year was 216 (2008: 198).

Directors' remuneration is disclosed within the audited section of the Remuneration Report of this Annual Report.

The Company's audit fees are disclosed in note 3.

42. Share capital

	2009 £000's
Authorised	
250,000,000 ordinary shares of £0.001 each	250
Called up, allotted and fully paid	
193,768,462 ordinary shares of £0.001 each	194

	2008 £000's
Authorised	
250,000,000 ordinary shares of £0.001 each	250
Called up, allotted and fully paid	
192,965,962 ordinary shares of £0.001 each	193

Details of the shares are given in note 21 to the Group Financial Statements.

43. Reserves

The Company's reserves are shown in the Company's Statement of Changes in Shareholders' Equity.

44. Cash generated from operations

	2009 £000's	2008 £000's Restated
Continuing operations		
Operating profit for the year	15,675	46,475
Adjustments for:		
Financial assets at fair value	1,062	–
Derivatives at fair value	(303)	3
Share-based payments	10,022	4,832
Finance income	1,257	3,259
Finance expense	–	(12)
Depreciation	1,885	2,264
Amortisation of intangibles	465	439
Loss on disposal of property, plant and equipment	–	109
	14,388	10,894
Changes in working capital:		
Decrease in receivables	3,634	1,801
Increase/(decrease) in payables	9,825	(524)
Cash generated from operations	43,522	58,646

Notes to the Company Financial Statements continued

45. Related party transactions

The Company provides related party disclosures in note 26 to its Group Financial Statements. Where the Company's transactions differ from those of the Group, these are shown below.

Transactions and balances with related entities during the year

Description of relationship	Description of service	Description of transactions
Subsidiary undertakings	Provision of financial support	Transfer pricing agreement fees Cash transfers from the Company to its subsidiaries

Purchases of services during the financial year

	2009 £000's	2008 £000's
Fee charged by subsidiary undertakings	6,781	2,787
Reimbursement of capital	–	26

Year end balances arising during the financial year

	2009 £000's	2008 £000's
Receivable from subsidiary undertakings	40	435
Payable to subsidiary undertakings	2,858	26

Shareholder and Company Information

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The Registry,
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Dates for 2008 dividend

Ex dividend date	4 November 2009
Record date	6 November 2009
AGM	25 November 2009
Payment date	4 December 2009

Annual general meeting
The AGM will be held at 11.00 am on Wednesday 25 November 2009 at 77 Grosvenor Street, London W1K 3JR.

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