BlueBay
asset management

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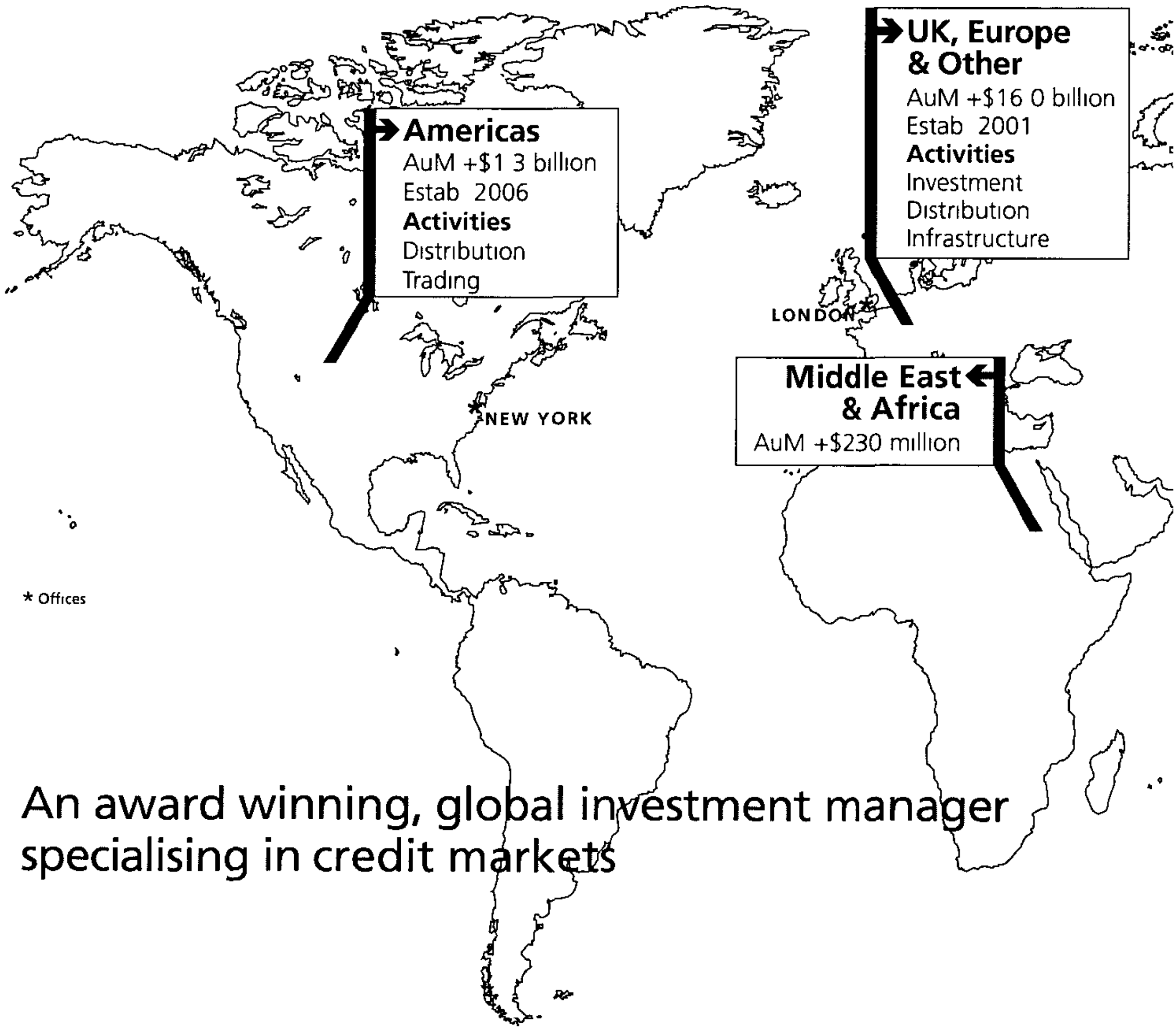
BlueBay Asset Management plc
Annual Report 2008

Our Business at a Glance

BlueBay is one of the leading specialist managers of European corporate and global emerging market debt products.

- ➔ A clear product focus across two distinct investment management styles of long-only and long/short.
- ➔ We seek to provide asset management services characterised by active management and a focus on absolute returns.
- ➔ We have invested significantly in developing a comprehensive infrastructure and risk framework to support our investment expertise.

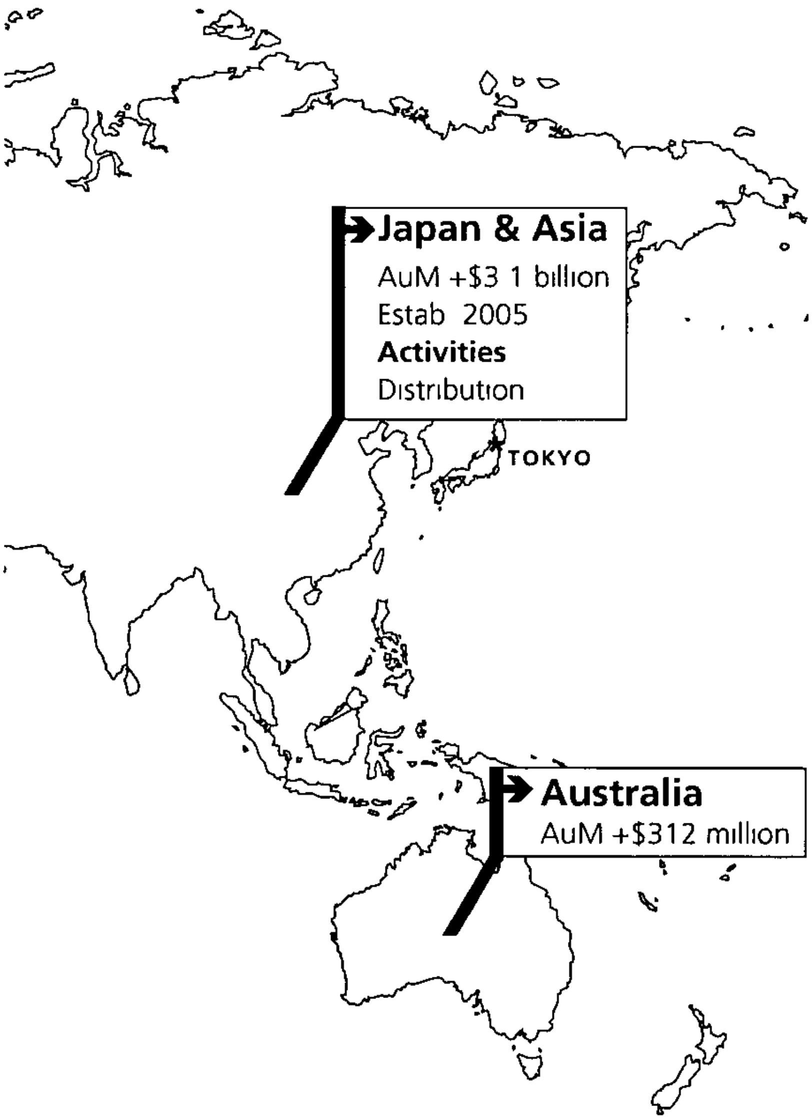


An award winning, global investment manager specialising in credit markets

Financial Highlights

	June 2008	June 2007
Assets under management	$21.0bn	$13.1bn
Net management fees *	£93.1m	£61.0m
Performance fees	£24.0m	£48.2m
Total fee revenue	£117.1m	£109.2m
Profit before tax **	£49.7m	£51.6m
Profit after tax	£33.6m	£35.2m
Operating margin **	39.6%	45.2%
Diluted earnings per share	16.9p	18.5p
Dividend per share ***	8.0p	6.0p

* Stated net of rebates and expense cap reimbursements For further details refer to page 23 of Business Review
** Stated after exceptional items
***Includes proposed dividend per share of 4 8 pence which is subject to shareholder approval



Who we are

Founded in 2001, BlueBay is one of the leading fixed income credit managers in Europe specialising in two major sub-asset classes of credit – European corporate debt and emerging market debt Based in London with offices in Tokyo and New York, we manage in excess of $21 billion of assets and employ over 230 staff globally 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 The mix of long-only and long/short management disciplines within a single asset class ensures we have sufficient investment flexibility to deliver strong risk-adjusted performance over the credit cycle with a continued focus on absolute returns. We recognise that capital preservation is key to our investors and our active management style aims to produce consistency of returns rather than a series of highs and lows within a disciplined risk-controlled environment

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 dedicated 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

- ➔ Effective global distribution
- ➔ Strong risk-adjusted investment performance
- ➔ Effective management of business risk
- ➔ Recruitment, motivation & retention of highly talented people

Our Opportunities

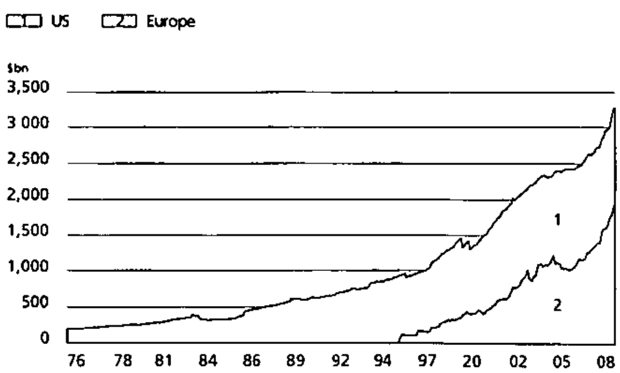
BlueBay's business model is positioned to take advantage of strong secular growth trends in both the European corporate and global emerging debt markets.

Credit Markets and Global Assets
Fixed income markets satisfy the financing needs of the world's governments, agencies, and corporations and have expanded significantly over the last decade, particularly in Europe and developing markets

- European corporate debt markets have grown rapidly from a nominal size to an estimated size in excess of $2 trillion in the last decade, outpacing growth of their more established US equivalents
- Global emerging market debt, historically a hard-currency sovereign market, has grown rapidly in the last decade, driven by growth of global high yield issuance and local currency financing, and is now estimated at over $5 trillion in size
- Rapid growth of derivative instruments across corporate and emerging markets have provided additional liquidity and market depth

BlueBay's specialisation in credit, across the spectrum of European corporate credit and emerging market debt, has allowed us to benefit from the growth in debt markets and ensuing demand for specialist managers in this area Our expertise and ability to manage the full range of debt instruments enables us to offer products spanning both highly scalable long-only funds as well as higher-margin alternative investment products

US vs European corporate debt market



Source Merrill Lynch

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 deep 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 from liability driven institutions such as insurance companies and pension funds
- growing disintermediation of the banking sector from the corporate lending process
- leveraged buyout (LBO) activity growth over the last decade

Emerging market debt has matured as an asset class in the last decade such that it is now considered a mainstream asset class across sovereign and corporate issuers in a variety of hard and, increasingly, local currencies

Over the last few years emerging market economies have experienced

- sustained and robust domestic economic growth
- increased foreign exchange reserves
- 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

As these markets have grown, so has the demand for specialist managers such as BlueBay with the expertise to manage the full range of debt instruments on behalf of investors

BlueBay manages a full range of European corporate debt instruments through funds specialising in investment grade, high yield and distressed debt 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

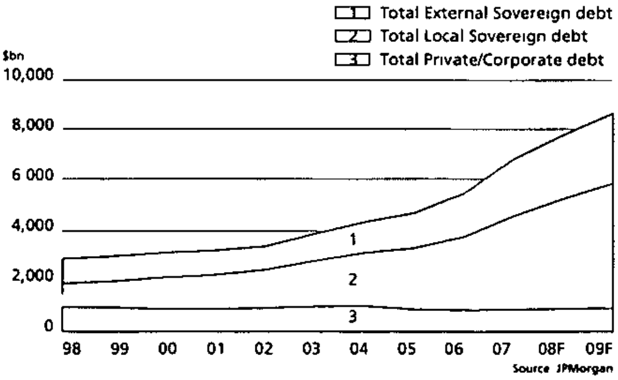
Cyclical Opportunities

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

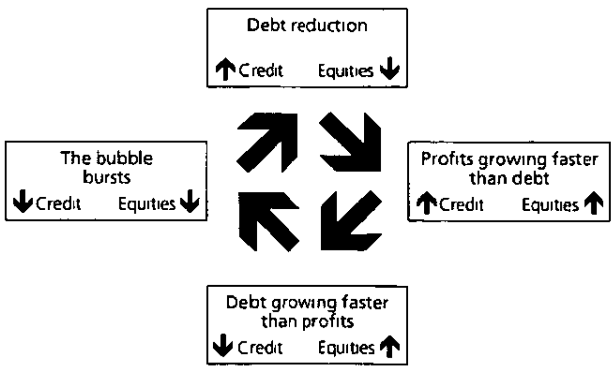
Market downturns typically precede periods of attractive investment conditions, which, if properly managed, allow for the generation of attractive risk-adjusted returns These conditions in turn are likely to attract interest from investors seeking cyclical investment opportunities at the bottom of the 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

Global emerging market debt



Market outlook - The leverage cycle



BlueBay Asset Management plc has had a good year, given the extremely challenging environment in the debt markets in which it operates No meaningful comments can be made about BlueBay's performance during this financial year without reference to the external market environment The start of the financial year coincided with the start of the market turmoil engendered by the credit crunch The signs of excess in financial markets had been there to see for some time abundant liquidity, a competitive spiral of declining lending standards and the use of financial engineering to generate attractive returns in a low yield environment This was a house of cards that was waiting to collapse However, the speed at which the crisis eventually spread from the sub-prime sector of the US housing market to the rest of the financial markets took most market participants by surprise It is hard to underestimate the severity of the ensuing crisis During my career in the financial markets, I cannot remember any episode quite as challenging as the current one

In this environment BlueBay attracted net inflows of over $7 billion to reach total Assets under Management ("AuM") of $21 0 billion at the end of the financial year, a truly remarkable achievement Investment performance was particularly strong in long-only European corporate debt products Both the investment grade and the high yield long-only flagship funds continue to perform at the top of the competitive universe in their respective sub-asset classes The environment proved more difficult for BlueBay's long/short funds resulting in modest negative investment performance across the platform for the year This led to lower performance fee revenues than in the previous year and profits before tax of £49 7 million, slightly lower than the £51 6 million made in the previous financial year to 30 June 2007

We will be proposing a final dividend of 4 8 pence per share payable to all shareholders on the register at 24 October 2008 Following the interim dividend of 3 2 pence, this will bring the total dividend for the year to 8 0 pence per share

A salient feature of the credit crunch has been the disappearance of market liquidity for many debt instruments, including some that had previously received the highest credit rating from the rating agencies This created challenges for all market participants who are required to value their portfolios using fair value principles A considerable amount of work has been done at BlueBay to adapt and refine the valuation policies applied to the funds managed, in response to this dramatically different market environment Market illiquidity became particularly acute for the BlueBay Value Recovery Fund, which is generally reliant on corporate finance transactions to realise the value of its core investments This will now require a longer time horizon than in the benign markets of recent years, so BlueBay secured the agreement of most of this fund's investors to extend the liquidity terms of their shareholdings in exchange for a temporary fee discount A difficult but crucial decision to ensure that the value built up in the portfolio was preserved for all investors

Financial institutions need robust controls and solid business risk management to succeed at the best of times These become even more important in times of market turmoil I am pleased to note that BlueBay has continued to make progress in developing its risk management culture during the course of the year In addition to the continual risk management process undertaken at BlueBay, a comprehensive annual review of the principal risks inherent in the business has become a cornerstone of its risk management framework The Company's internal control environment was reviewed and reported on by PricewaterhouseCoopers LLP under the framework of the Audit and Assurance Faculty's standard 01/06 ("AAF) which has control objectives specifically applicable to asset management businesses

During the course of the year, we were delighted to welcome Alan Gibbins to the Board of Directors of BlueBay and as the new chairman of its Audit Committee The Board also welcomed James Brace who was appointed as Company Secretary in July 2007 No other changes were made to the Board or to the Company Secretary and none are planned for the coming year I am pleased to note that the Board has evolved well since the listing and has provided BlueBay with constructive support through this challenging market environment

All asset managers are essentially people businesses Over the years, BlueBay has managed to attract and retain an exceptionally talented group of professionals in the investment management, sales and marketing and infrastructure teams The results that BlueBay achieved during this challenging year would not have been possible without the dedication and hard work of all its employees I would like to thank them for their continuing commitment to BlueBay I would also like to thank our shareholders for their ongoing confidence in the Company

Hans-Jorg Rudloff
Chairman's Statement

A good year, given the challenging market environment.

2008 – Another year of growth
2008 was a challenging but ultimately satisfactory year for BlueBay The start of the Group's financial year in July 2007 coincided with the onset of what has arguably become the most comprehensive credit market crisis that the world has seen since the 1930s This gave rise to an extremely demanding backdrop for a specialist credit manager to operate against It is a tribute to the strength of BlueBay's brand and the calibre of its people that, despite such a backdrop, the Group achieved record AuM growth (up 60% to $21 0 billion) over the course of the year together with pre-tax profits only marginally lower than those of the previous year (down 4% at £49 7 million)

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 In doing so, we are riding two particularly strong, medium-term growth trends in global fixed income markets the birth and growth of European corporate credit as a major new global asset class, and secular growth in institutional investor appetite for emerging market debt

Alongside this clear product focus, the Group continues to invest in its infrastructure We believe that modern institutional investors have a strong preference for employing asset managers able to deliver state-of-the-art systems, process, compliance and risk management, alongside 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 Group's resilience in the face of unprecedented market disruption over the course of the year has reinforced further our belief that our strategy is appropriate and strong It remains, as a result, unchanged

2008 results
Our product focus and the strength of our infrastructure together drove the increase in AuM experienced over the course of the year In a period in which many managers saw net outflows and in which significant net inflows were rare, the Group's performance in attracting $7 1 billion of net inflows – well over 50% of assets at the start of the period – was exceptional Reflecting the relative scalability of the products concerned, the bulk of this came in the Group's long-only funds, where AuM almost doubled to $15 1 billion Respectable growth was also however, seen in the long/short funds, with AuM up 14% to $5 8 billion

Investment performance was less strong than in the previous year reflecting difficult market conditions The Group's long/short funds returned a negative 3 4% for the year, net of fees, while long-only performance was mixed On the one hand, our flagship long-only investment grade and high yield corporate bond funds delivered outstanding returns, out-performing their indices by 4 1% and 7 7% respectively and ranking number one or two in their universes over one, three and five-year time periods or since fund inception On the other, our flagship emerging market long-only funds performed less well, under-performing their indices, but in all cases nevertheless delivering positive absolute returns for the period

While lower performance fees resulted in lower overall operating margins for the business than in the previous year, the Group s core operating margins continued to improve as a function of growing management fee revenues and the increasing benefits of scale with both non-performance related compensation and non-compensation costs falling as a percentage of management fees earned This allowed pre-tax profits and diluted earnings per share to hold only slightly below the previous year s levels, at £49 7 million and 16 9 pence respectively It is also encouraging to note that the Group's quality of income continued to improve, with the proportion of overall management fees deriving from long-only products rising again from 33% to 39% and the proportion of total revenues represented by management rather than performance fees increasing from 56% to 79%

Awards
While investment performance for the Group was less strong than in the previous year, this was of course the case for most, if not all, managers operating in fixed income credit markets The relative performance of the Group's funds was recognised by a string of industry awards, including the Global Investor Award For Investment Excellence 2007 Emerging Market Fixed Income House of the Year and the Specialist and Alternative Investment Manager Awards 2007 Eurozone Fixed Income Manager of the year (Non-Government) We are also particularly proud to have been awarded, just after the financial year end Fixed Income Manager of the Year at the 2008 European Pensions Awards This latter award, adjudged by our core client base, demonstrated eloquently the progress that BlueBay has made since being founded only seven years ago

New products
While the Group's product strategy is highly focused, it continues to develop new products within its fields of expertise Our fastest growing new fund during the year was the BlueBay Multi-Strategy Fund, a long/short offering launched in April 2007 This fund, which moves BlueBay into the fast-growing multi strategy space, had reached over $1 7 billion in assets by year end and has already attained flagship status within the Group s product range Other notable product launches included a floating rate version of BlueBay s highly successful investment grade corporate bond fund and a new fund in the nascent but promising area of emerging market corporate debt, both in long-only format

Hugh Willis
Chief Executive's
Review

Record AuM growth over the course of the year.

Outlook

As previously noted, the start of our 2008 financial year coincided with the onset of the credit crisis currently underway At the time of our last Annual Report we expressed concern at the environment developing and expected that difficult market conditions might last for some time What began as a liquidity crisis (with problems residing principally on the balance sheets of lenders) has now morphed into a fully fledged credit crunch (with the damage spreading both to the balance sheets of borrowers and to the real economy globally) At the heart of the matter has been a massive contraction in the availability of and the increase in price of credit, as the financial system de-leverages and seeks to work through the lending excesses of the past few years It seems likely that this process of catharsis will last into calendar year 2009

Having said this, considerable value has been and is being generated in fixed income credit markets as these events unfold and it seems highly likely that credit investors who have successfully navigated the downturn will, at some stage over the next six to 12 months be rewarded by the best investment conditions seen in the asset class in a very long time At the trough of previous credit cycles, we have seen investors enjoy a two to three year period in which equity style returns are on offer for the assumption of credit risk, and where excellent risk adjusted returns characterise the credit spectrum from investment grade through to distressed debt We expect this time will be no different and the winning managers will be those that emerge from that trough point with the right products and a strong investor following

While we do not underestimate the challenges that continue to lie ahead, we are optimistic that this is an environment in which BlueBay should thrive The strength of the Group's distribution and the relative resilience of its fund performance during the credit crisis to date have been reassuring We have seen a further $1 9 billion of net inflows during the first two months (July and August) of the new financial year and the Group's long/short funds registering only marginally negative returns in the period, against a backdrop of heavy losses for the industry as a whole For the full financial year 2009, we expect total net inflows to be similar to those seen in the financial year just ended and that they will all be in long-only products With the Group's secular product drivers of European corporate credit and global emerging markets debt remaining firmly in place, an overlay of cyclical investor interest in and demand for credit seems likely to be added at some stage during this financial year This promises to create at the appropriate point, a very interesting environment for both asset raising and fund performance and one that should – once in train – last for some time

BlueBay's fundamentals remain strong
The strength of our specialist investment expertise, the quality of our infrastructure and risk management capabilities, and the power of our brand in the credit markets means that BlueBay is well positioned to manage the current market conditions and to take advantage of the investment opportunities that these conditions will present

A thank you

Any asset management firm is dependent upon its people for its success and BlueBay is fortunate to have an exceptional group of employees Strongly aligned with the Groups investors (BlueBay employees own almost 60% of the firm and have more than $100 million of their own money invested in BlueBay funds), it is their skill and dedication upon which we rely for our success I would therefore like to thank all BlueBay's people for their outstanding efforts over the course of a very demanding year

Hugh Willis
Chief Executive

→ A thank you
I would like to thank all BlueBay's people for their outstanding efforts over the course of a very demanding year.

Business Review

Introduction

BlueBay is one of the largest independent managers of fixed income credit funds and products in Europe, with a total of \$21 0 billion of Assets under Management as at 30 June 2008

BlueBay specialises in two major sub-asset classes of credit – European corporate debt and emerging market debt Within each sub-asset class, BlueBay offers two distinct product lines long/short funds and long-only funds Its long/short funds are designed as low volatility products by industry standards, intended to produce attractive high risk-adjusted returns to investors over the long-term 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 The Company also manages a number of segregated long-only accounts on behalf of large institutional clients BlueBay's overall aim is to provide a broad range of credit products that gives the modern investor strong risk-adjusted performance over time

BlueBay distributes its products directly through wholesalers and via intermediaries It does so through its sales and marketing teams based in London, Tokyo and New York

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

The global corporate debt market comprises all publicly traded debt instruments other than those issued by governments and supra-national 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 3 trillion (Source Merrill Lynch) The European corporate debt market is estimated to be over half this size with approximately \$1 9 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) the trend of growing disintermediation of the banking system from the credit process, and until recently, leveraged buyout activity (which has been significantly funded through the debt markets) 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 also been enhanced by the increasing issuance of securities denominated in local currencies

Market performance in 2007-08
Our financial year 2007-08 started on 1 July 2007 This coincided with the start of the credit crunch and debt markets have been extremely challenging throughout the whole of the financial year A considerable amount has already been written about developments in the debt markets during the course of this year and doubtless much more will be written in the years to come about what has arguably turned out to be the worst credit crisis in the last 70 years

The dramatic growth in structured credit over the past few years had led to a wide distribution of credit risk among financial market participants Along with many other forms of debt, US sub-prime mortgages had been repackaged and distributed to many investors who were often ill-equipped to assess the risks of the assets they were holding and in some cases, were unaware of the exposure they had to this particular market segment The rising default rates on US sub-prime mortgages led to considerable uncertainty about which participants did in fact have exposure to this market segment Confidence in trading counterparties evaporated leading to a liquidity crisis which was evidenced by the rapid increase in credit spreads in both investment grade and sub-investment grade debt markets

Central bank intervention during the autumn of 2007 succeeded in stabilising sentiment for a while however, at the start of the new year, credit spreads widened still further in many cases reaching historic highs A significant turning point was reached in mid-March when the US Federal Reserve ("Fed") stepped in to engineer the rescue of Bear Stearns by JP Morgan For the following two months debt and equity markets experienced an unexpectedly strong rally which, in our view, was not supported by economic fundamentals The dramatic rise in food and commodity prices, coupled with slowing global growth expectations led to further deterioration in the debt and equity markets during the final months of our financial year

Nick Williams Chief Financial Officer's Business Review

Despite the current credit crisis the secular credit market opportunities remain intact.

Emerging debt markets fared better than their developed counterparts From their historic lows reached in May 2007, index credit spreads had merely doubled by March 2008 compared to the almost five-fold increase in European investment-grade spreads over the same period The effect on absolute returns in emerging markets was substantially mitigated by the dramatic fall in Treasury yields caused by sequential falls in US interest rates and a flight to quality by investors However, there was a wide dispersion of outcomes amongst emerging market countries, most notably between those which are commodity exporters and those which are commodity importers

Market performance since June 2008
Events since the end of June 2008 have demonstrated that the effects of the credit crunch are far from over Our views on these events are set out in the Chief Executive's review on pages 8 to 10

The indices against which we benchmark our flagship long-only funds recorded the following returns during the financial year Page 19 shows a detailed analysis of long-only fund performance against benchmark indices

Long-only flagship funds index returns

	%
iBoxx Euro Corporates Index	–1 2%
Merrill Lynch European Currency High Yield Constrained Index	–7 9%
JP Morgan EMBI Global Diversified Index	4 9%
JP Morgan GBI EM Broad Diversified USD Unhedged Index	10 8%
50% JPM GBI EM Global Diversified Index 50% JPM GBI-EM Broad Diversified USD Unhedged Index	7 9%

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 an investment adviser with the Kanto Local Finance Bureau in Japan

Regulatory developments
On 1 November 2007, the Markets in Financial Instruments Directive ("MiFID") was implemented throughout the EU, replacing the Investment Services Directive ("ISD") We carried out an assessment of the impact of the directive on our business which led us to make a number of changes to our policies in order to comply with the new requirements

On 1 January 2007, the EU Capital Requirements Directive ("CRD") came into force in the UK The new capital framework consists of three 'pillars' Pillars 1 and 2 introduced new rules for the calculation of base capital, fixed overhead, market risk, credit risk and operational risk requirements Firms were given the option to defer certain elements of the new credit risk and operational risk requirements to 1 January 2008, including calculation of operational risk requirement based on an Internal Capital Adequacy Assessment Process ("ICAAP") BlueBay carried out an ICAAP review and its results were incorporated into the ongoing calculations of regulatory capital requirements from 1 January 2008 As we had anticipated, this did not result in any significant change in these capital requirements

In addition to the Pillar 1 and Pillar 2 requirements of the CRD set out above, Pillar 3 requires investment firms such as BlueBay to publish certain details of their risks, capital and risk management processes These Pillar 3 disclosures can be found on our corporate website at www bluebayinvest com

Core business drivers

- Effective global distribution
- Strong risk-adjusted investment performance
- Effective management of business risk
- Recruitment, motivation & retention of highly talented people

As part of its move to Principle Based Regulation ("PBR"), the FSA has placed particular emphasis on Treating Customers Fairly ("TCF") which is covered by one of its core Principles for Business – Customers' Interests A firm must pay due regard to the interests of its customers and treat them fairly

BlueBay has commenced a review to ensure that we can demonstrate to the FSA and to our clients that TCF is central to our corporate culture, based on the six outcomes identified by the FSA The FSA has set a deadline of 31 December 2008 by which it expects all firms to demonstrate that they are delivering the six specified TCF outcomes

Strategic objective

Our strategic objective is to continue to be a leading provider of European and emerging market 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 principal-protected long-only fund derivatives

Our business strategy focuses on four core elements

Effective global distribution

- ➔ Focus primarily on institutional clients
- ➔ Creation of strong relationships with investment consultants
- ➔ Development of different geographical areas
- ➔ Dedicated ongoing client relationship management

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

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

Recruitment, motivation and retention of highly talented people

- ➔ Recruitment 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

Delivering our strategy

Success in global distribution

AuM growth

During the course of the financial year, AuM increased by $7 8 billion to reach $21 0 billion at 30 June 2008 Both products contributed to this increase with long/short increasing by $0 7 billion to $5 8 billion and long-only products increasing by $7 1 billion to reach $15 1 billion (see figure 1)

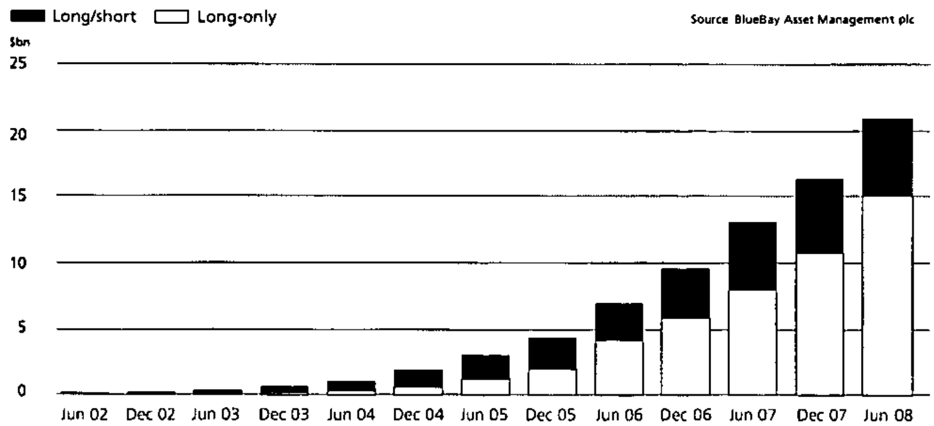
Components of AuM growth

Of the increase in AuM of $7 8 billion during the year, net subscriptions contributed $7 1 billion while net fund performance contributed $0 7 billion The tables overleaf 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 between investment funds managed by BlueBay

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

	2008 $m	2007 $m
Beginning of period AuM	**13,118**	6 959
Subscriptions	12 216	6 429
Redemptions	(5 118)	(1 353)
Net subscriptions	**7,098**	5 076
Net fund performance	**751**	1,083
End of period AuM	**20,967**	13 118

Figure 1 AuM growth by product



We estimate that approximately 38% of the gross redemptions represent switches from one BlueBay product into another After adjusting for these switches, the annual redemption rate expressed as a percentage of average AuM has increased from 8% for the year ended 30 June 2007 to 17% for the year ended 30 June 2008 Although we are not always privy to the motivation that leads to redemptions we understand that a proportion of the redemptions that we experienced during the course of this financial year was due to the marked deterioration in market conditions which led a number of investors to become forced redeemers due to significant problems they experienced in their overall investment portfolios

Long/short funds

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

	2008 $m	2007 $m
Beginning of period AuM	**5,124**	2 804
Subscriptions	**2,559**	2 607
Redemptions	**(1 753)**	(656)
Net subscriptions	**806**	1,951
Net fund performance	**(94)**	369
End of period AuM	**5,836**	5 124

Of the $0 7 billion increase in long/short AuM, net subscriptions contributed $0 8 billion and net fund performance contributed a negative $0 1 billion The BlueBay Multi-Strategy Funds experienced significant growth from $0 7 billion at 30 June 2007 to $1 7 billion at 30 June 2008 Further strategy diversification was provided to the Funds by the addition of two new sub-strategies during the course of the year a convertible arbitrage strategy and a deep value equity strategy Conversely as a less well diversified credit strategy platform, the BlueBay Global Credit Fund saw its assets shrink during the course of the year to the point where it was no longer an economically viable unit

Following the end of the financial year the remaining investors were given the option to switch into the BlueBay Multi-Strategy Funds or to receive a cash redemption after which the Fund was closed

The AuM of the BlueBay Value Recovery Fund declined slightly from $2 8 billion at 30 June 2007 to $2 6 billion at 30 June 2008 During the course of the financial year, in the face of the dramatic decrease in market liquidity for the type of asset managed by the Fund, a Share Conversion was undertaken Under the terms of the Conversion, which were voluntarily subscribed for by in excess of 80% of the Fund s shareholders, BlueBay has agreed to reduce its management and performance fees on the Fund to 1% per annum and 15% per annum respectively for a limited period of 30 months commencing 1 July 2008 In exchange, shareholders have agreed to amended liquidity terms, which (inter alia) prohibit redemptions prior to July 2009 and significantly restrict them thereafter The Conversion is designed to ensure that the Fund – which has a strong book of assets a good performance track record, is unleveraged and has unused, committed financing facilities available to it – is strongly positioned ahead of the upcoming, fresh distressed debt cycle

Long-only funds

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

	2008 $m	2007 $m
Beginning of period AuM	**7,994**	4 155
Subscriptions	**9 657**	3 822
Redemptions	**(3 365)**	(697)
Net subscriptions	**6 292**	3 125
Net fund performance	**845**	714
End of period AuM	**15,131**	7 994

Of the $7 1 billion increase in long-only AuM, $6 3 billion arises from net subscriptions and $0 8 billion from net fund performance 2008 saw the introduction of three new long-only sub-funds (the BlueBay High Yield Enhanced Fund, the BlueBay Emerging Markets Corporate Bond Fund and the BlueBay Investment Grade Libor Fund), and seven new segregated mandates

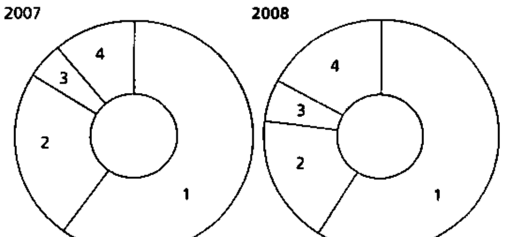
Client base

BlueBay's fund investors are primarily institutional clients making up 59% of BlueBay's AuM as at 30 June 2008 (down from 60% as at 30 June 2007) with fund of funds clients making up 18% (down from 24%), private clients at 6% (up from 5%) and distribution/white labelling and other 17% (up from 11%) (see figure 2)

During the year, BlueBay has been particularly successful in attracting pension fund investors both into its funds and into new and existing segregated mandates These now represent 31% of BlueBay's total AuM

By geographical region European clients accounted for 76% of BlueBay s AuM as at 30 June 2008 (up from 68% as at 30 June 2007), Asian/Australian clients accounted for 16% (down from 19%) and the US accounted for 6% (down from 10%) (see figure 3)

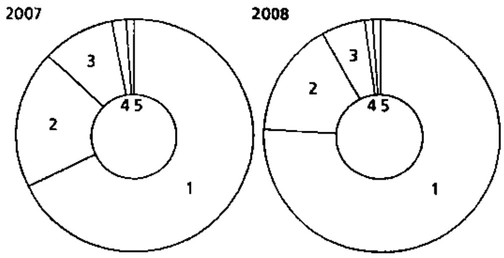
Figure 2 **Investor analysis by investor type (2007-08)**



	2007	2008
1 Institutional	60%	**59%**
2 Fund of Funds	24%	**18%**
3 Private client	5%	**6%**
4 Distribution/White Labelling/Other	11%	**17%**

Source BlueBay Asset Management plc

Figure 3 **Investor analysis by geographical region (2007-08)**



	2007	2008
1 Europe	68%	**76%**
2 Asia/Australia	19%	**16%**
3 US	10%	**6%**
4 Middle East/Africa	2%	**1%**
5 Other	1%	**1%**

Source BlueBay Asset Management plc

BlueBay's AuM by product/sub-asset class mix as at 30 June 2008

Product Lines	European Corporate debt $m	Emerging Market debt $m	Subtotals by product line $m	% of total AuM
Long/short funds				
BlueBay Global Credit Fund	61	-	61	0 3
BlueBay Value Recovery Fund	2 625	-	2,625	12 5
BlueBay Emerging Market Total Return Fund	-	1 403	1 403	6 7
BlueBay Multi-Strategy Funds	1 178	569	1,747	8 3
Total long/short funds	**3,864**	**1,972**	**5,836**	**27 8**
Long-only funds and accounts				
BlueBay Investment Grade Bond Fund	3,055	-	3,055	14 6
BlueBay Investment Grade Libor Fund	79	-	79	0 4
BlueBay High Yield Bond Fund	1 861	-	1 861	8 9
BlueBay Emerging Market Bond Fund	-	1 038	1 038	5 0
BlueBay Emerging Market Local Currency Bond Fund	-	1 745	1 745	8 3
SIM BlueBay Emerging Market Local Currency Bond Fund	-	1 280	1 280	6 1
BlueBay Emerging Market Select Bond Fund	-	476	476	2 3
BlueBay Emerging Market Corporate Bond Fund	-	44	44	0 2
Fund derivatives linked to long-only	567	962	1 529	7 3
Hybrid funds	607	162	769	3 6
Long-only funds	**6,169**	**5,707**	**11,876**	**56 7**
Segregated accounts	2 257	998	3 255	15 5
Total long-only funds and accounts	**8,426**	**6 705**	**15 131**	**72 2**
Total by sub-asset class	**12,290**	**8 677**	**20,967**	
Sub-asset class share of total	***58.6%***	***41 4%***		***100***

Product and sub-asset class mix
The breakdown of our AuM between European corporate debt products and emerging market debt products is illustrated by the table above

The ratio of the sub-asset class mix for European corporate debt and emerging market debt was virtually unchanged at 59/41 as at 30 June 2008 compared to 58/42 as at 30 June 2007

Investment performance – a varied picture in a challenging investment environment

Long/short funds
For the financial year to 30 June 2008, the annual returns net of fees were 4 35% for the BlueBay Emerging Market Total Return Fund, negative 7 75% for the BlueBay Value Recovery Fund (US$ share class) and negative 5 12% for the BlueBay Global Credit Fund The BlueBay Multi-Strategy Fund and the BlueBay Multi-Strategy PLUS Fund generated returns net of fees of 0 91% and negative 1 44% respectively The blended long/short annual return was negative 3 41%

Long-only funds
For the long-only flagship funds, as shown in the table, the relative returns for the year to 30 June 2008 were mixed The European corporate debt funds all had their best year ever and outperformed their benchmarks by wide margins All benchmarks generated negative returns for the year The relative returns for the year were 413 basis points ahead of the index for the BlueBay Investment Grade Bond Fund, 772 basis points ahead of the index for the BlueBay High Yield Bond Fund and 496 basis points ahead of the index for the BlueBay High Yield Enhanced Fund

All the flagship emerging market debt funds generated positive absolute returns during the year, however, these were insufficient to exceed returns generated by their benchmarks and as a result these funds all generated negative relative returns These were 224 basis points behind the index for the BlueBay Emerging Market Bond Fund, 377 basis points behind the index for the BlueBay Emerging Market Local Currency Fund and 212 basis points behind the index for the BlueBay Emerging Market Select Bond Fund

The two new sub-funds launched in April 2008 both generated positive relative returns in the period to 30 June 2008, these were 33 basis points ahead of the index for the BlueBay Investment Grade Libor Fund and 211 basis points ahead of the index for the BlueBay Emerging Market Corporate Bond Fund

Finally, the BlueBay European Credit Opportunity Fund generated a negative return of 11 24% and the BlueBay Emerging Market Opportunity Fund generated a positive return of 7 14% for the year to 30 June 2008

1

1 BlueBay has built one of the most experienced teams of credit specialists in Europe We recognise that our ability to retain and grow this pool of industry talent is crucial to our ongoing success

Fund performance for periods indicated

Product	Fund	Return year ended 30 June 2008	Performance (%) Annualised return since inception	Annualised volatility since inception	Risk ratios[3]
Long/short[1]	BlueBay Global Credit Fund	-5 1	5 5	5 3	0 5
	BlueBay Emerging Market Total Return Fund	4 4	12 6	7 6	1 2
	BlueBay Value Recovery Fund	-7 7	9 0	5 3	1 0
	BlueBay Multi-Strategy Fund	0 9	2 3	4 8	-0 5
	BlueBay Multi-Strategy PLUS Fund	-1 4	0 6	7 1	-0 6
Long-only[2]	BlueBay Investment Grade Bond Fund	3 0	4 6	2 6	2 5
	Index iBoxx Euro Corporates	-1 2	2 6	2 6	
	Alpha	4 1	2 0		
	BlueBay Investment Grade Libor Fund	1 2			
	Index iBoxx Euro Corporates	0 9			
	Alpha	0 3			
	BlueBay High Yield Bond Fund	0 2	13 6	3 7	1 5
	Index Merrill Lynch European Currency High Yield Constrained Index	-7 9	9 0	4 9	
	Alpha	7 7	4 6		
	BlueBay High Yield Enhanced Bond Fund	-1 1			
	Index Merrill Lynch European Currency High Yield Constrained Index	-6 1			
	Alpha	5 0			
	BlueBay Emerging Market Bond Fund	2 7	14 3	5 5	1 5
	Index JP Morgan EMBI Global Diversified	4 9	11 6	5 6	
	Alpha	-2 2	2 7		
	BlueBay Emerging Market Corporate Bond Fund	2 0			
	Index JP Morgan EMBI Global Diversified	-0 1			
	Alpha	2 1			
	BlueBay Emerging Market Local Currency Bond Fund	7 1	13 7	8 8	0 4
	Index JP Morgan GBI-EM Broad Diversified USD Unhedged	10 8	12 3	7 3	
	Alpha	-3 8	1 4		
	BlueBay Emerging Select Bond Fund	5 8	9 0	5 8	0 2
	Index 50% JPM EMBI Global Diversified and 50% JPM GBI-EM Broad Diversified USD Unhedged	7 9	8 5	5 1	
	Alpha	-2 1	0 5		
	BlueBay European Credit Opportunity Fund[1]	11 2	3 0	5 1	-0 1
	BlueBay High Yield Credit Opportunity Fund[1]	-3 3			
	BlueBay Emerging Market Opportunity Fund[1]	7 1	6 2	5 0	0 5

Notes
1 All performance and risk data shown on a net of fees' basis
2 All performance and risk data shown on a gross of fees' basis Alpha is the fund return versus the return on the benchmark index
3 Risk Ratios
Long-only (excluding structured funds)
The information ratio measures the added relative return per unit of added relative risk
Long/short and Opportunity funds
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 portfolios total return as a measure against its mean performance

2

2 BlueBays investment process combines top-down analysis with bottom-up security specific analysis within a single homogenous decision making structure

'Our European corporate debt funds had their best year ever'

Business risk management – a continuous cycle of enhancement

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 team which provides sophisticated risk analyses to the portfolio managers and 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) for 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 48 to 51

Employees – the maturing organisation

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, performance based compensation structures*
  The remuneration of all our investment professionals is highly correlated with fund performance In addition, a proportion of bonuses are awarded in the form of shares of funds managed by BlueBay which vest over a three year deferral period We believe this ensures that the interests of employees are closely aligned with those of investors in BlueBay funds
- ➔ *Widespread employee share ownership*
  At the present time, employees and Directors of BlueBay have an interest in approximately 60% 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 Employee Benefit Trust ("EBT") regularly purchases shares from the market in order to make future equity awards All permanent UK based employees on the payroll on 31 January 2008 had interests in BlueBay equity
- ➔ *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 professionals

1

2

1&2 Effective risk management strong internal controls and a robust operational infrastructure are central to BlueBay's business model

3 BlueBay set out to construct a highly scalable business platform based on the implementation of a modular IT environment which scales as the business grows in size and complexity

Financial business drivers

Summary of results

During the year, total fee revenues increased 7 3% to £117 1 million Total administrative expenses increased by 19% to £68 8 million leading to a decrease in operating profit after exceptional items of 6% to £46 4 million Profit on ordinary activities before tax decreased by 3 8% to £49 7 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 regularly used by BlueBay s Management Team to assess the financial performance of the Group

Key financial drivers

The key financial drivers of the business are the growth in net management fees performance fees and the management of our operating margins

Growth in net management fees

BlueBay continued to experience strong growth in net management fees during 2008 which increased by £32 2 million or 53 0% to £93 1 million (2007 £61 0 million) The continued growth in net management fee income is a result of the strong growth in AuM particularly in long-only products (see figure 4)

Through a combination of strong net management fee growth and disappointing performance fee revenues, net management fees represented nearly 80% of total fee revenues a significant increase on the 56% they represented in 2007

Over time, the share of total net management fee revenue generated by long-only products has as indicated by the table above, increased We expect this trend to continue over the coming years

Summary Group Income Statement for the year ended 30 June

	2008 £m	2007 £m
Net management fees	93 1	61 0
Performance fees	24 0	48 2
Total fee income	**117 1**	**109 2**
Other net operating income/expense	(1 9)	(0 9)
Total operating income	**115 2**	**108 3**
Non performance based compensation expenses	(26 0)	(20 9)
*Performance based compensation expenses**	(8 4)	(15 1)
*Fixed compensation charges from prior calendar years' awards***	(12 8)	(6 6)
Total compensation expenses	(47 2)	(42 6)
Total non-compensation related expenses	(21 6)	(15 2)
Total administrative expenses	**(68 8)**	**(57 8)**
Operating profit before exceptional items	**46 4**	**50 5**
Exceptional items	0 0	(1 1)
Operating profit after exceptional items	**46 4**	**49 4**
Net financing income	3 3	2 2
Profit on ordinary activities before taxation	**49 7**	**51 6**
Taxation	(16 1)	(16 4)
Profit for the year attributable to ordinary equity shareholders	**33 6**	**35 2**

excludes equity and fund awards made in relation to calendar years up to and including 2007

* equity and fund rela ed bonuses to calendar year 2007 (including fixed charges relating to prior year awards)

1

1 We have established a distinctive friendly working environment based around a small, centralised management team and an equity-driven incentive culture

'Net management fees increased by 53%'

Net management fees by product are analysed as indicated for the year ended 30 June				
Product	2008 £m	%*	2007 £m	%*
Long/short	56 7	60 8	40 6	66 6
Long-only	36 4	39 2	20 4	33 4
Total net management fees	93 1		61 0	

*percentage of total net management fees

Management fees on long/short products 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 (mainly 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 will be discounted to 100 basis points for a period of 30 months starting on 1 July 2008 For the other share classes of this fund as well as all other long/short funds, the management fees remain at 200 basis points

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 on long-only and structured products (which are contractually-agreed fee discounts for large investments) and of expense cap reimbursements (which is where BlueBay reimburses a fund for the excess of its administrative expenses over a pre-determined maximum level) Where funds are distributed by third party distributors, BlueBay will typically pay the distributor a commission based on the management fees earned on the product (typically called a trailer fee) These commissions are disclosed under other operating expenses

We calculate management fee yields on management fees net of rebates, expense cap reimbursements and trailer fee payments Fee yields on long-only products are monitored for signs of erosion The average management fee yield on our long-only products dropped to 61 basis points for the six months to 30 June 2008 (six months to 30 June 2007 67 basis points) The drop is mainly attributable to a change in product and sub-asset class mix

Performance fees

Performance fee revenues dropped by just over 50% to £24 0 million in the year to 30 June 2008 However performance fees generated by long-only products more than trebled to £7 0 million whereas performance fees generated on long/short products dropped to £17 0 million As a result, performance fees generated by long/short funds represented 71% of total performance fee revenues, down from 97% in the year to 30 June 2007

Performance fees by product are analysed as indicated for the year ended 30 June		
Product	2008 £m	2007 £m
Long/short	17 0	46 6
Long-only	7 0	1 6
Total performance fees	24 0	48 2

Performance fees are charged on all long/short funds The standard rate for long/short funds is 20% of the absolute return generated As outlined above, the performance fee rate on the converted shares of the BlueBay Value Recovery Fund will be discounted to 15% for a period of 30 months starting on 1 July 2008 Performance fees combined with lower management fees are also offered on long-only funds as an alternative to management fee only fee structures

Operating margins

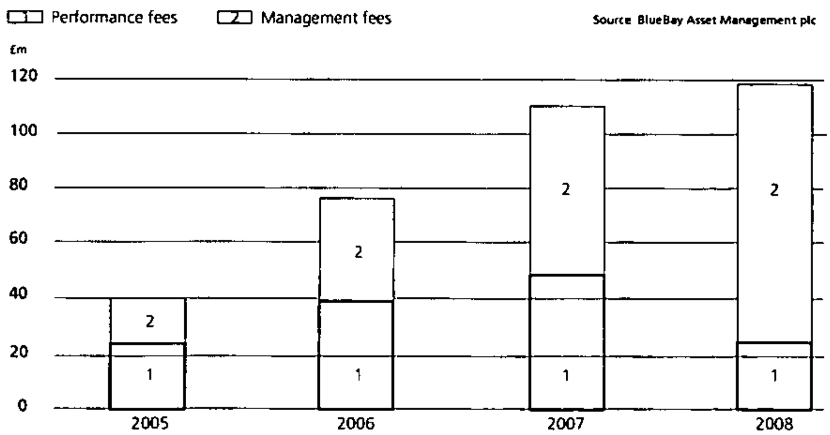
During the financial year 2008, BlueBay's administrative expenses have increased by £11 0 million or 19 0%, with total compensation costs increasing by £4 6 million or 10 7% and non-compensation costs increasing by £6 4 million or 42 3%

In common with most other asset management businesses, by far the largest component of our cost base is compensation expense When we analyse our compensation expense, we find it useful to split it into a current-year portion which is linked directly or indirectly to investment performance (performance based compensation expense) a current-year portion which has no link to investment performance (non-performance based compensation expense) and the remainder which are the charges resulting from fund and equity awards made in previous years

Current year performance based compensation expenses

During the financial year the ratio of current-year performance based compensation expense to performance fees increased from 31 4% in the year to 30 June 2007 to 35 1% in the current financial year The strong long-only investment performance referred to above generated increases in performance based compensation However long-only funds and segregated mandates are often distributed in a format which only generates management fees Furthermore the annual compensation review led to some changes to the bonus pool arrangements for the compensation year ending on 31 December 2007

Figure 4 Fee revenue trend



Current year non-performance based compensation expenses
During the course of the financial year, the ratio of current-year non-performance based compensation expenses to net management fees improved from 34 3% in the year to 30 June 2007 to 27 9% in the current financial year This improvement reflects the continuing scaling of the business

Fixed compensation resulting from prior year awards
As we pointed out in our 2007 Annual Report, awards made under the bonus deferral programme 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 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 the course of the financial year, as described in more detail in the Remuneration Report on pages 40 to 47 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 contain a broadly fixed pre-determined charge which is derived from equity awards made in prior years

These fixed compensation costs increased from 6% of total fee income in the year to 30 June 2007 to 10 9% 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 are as follows

Estimated future bonus deferral charges

For the year ended 30 June	2009 £m	2010 £m	2011 £m
Estimated fund award deferrals to be charged in future periods	5 6	3 7	1 3

Non-compensation expenses
During the financial year the ratio of non-compensation expenses to net management fees improved to 23 2% from 26 7% (after exceptional items) in the previous year The biggest change in these expenses related to our London office move to significantly larger new premises at the end of calendar year 2007, resulting in a step change in our occupancy expenses during the financial year We anticipate that our new premises will meet our space requirements in the medium-term

The Group's operating margin after exceptional items decreased to 39 6% (2007 45 2%) This deterioration is in large part due to lower performance fees revenues which were not entirely matched by a commensurate drop in performance based compensation expenses due to their increasing fixed element

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 During the course of the financial year, BlueBay provided financing to its primary Employee Benefit Trust and 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 all permanent UK employees as part of the compensation round for the calendar year 2007

During the course of the year, the EBT and the SIP purchased shares at a cost of £32 4 million, 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 2008 are disclosed in notes 17 and 19 of the Financial Statements

During the financial year, the Group recognised an after tax profit of £33 6 million and paid dividends of £17 5 million Retained earnings decreased from £48 6 million at 30 June 2007 to £37 6 million at 30 June 2008

Estimated future equity award deferral charges

For the year ended 30 June	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m
Estimated equity award deferrals to be charged in future periods	9 4	8 0	4 8	2 5	0 9

2

1&2 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

'Share ownership is widely distributed among employees'

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 progressive dividend policy which takes into account the profitability of the business, its capital requirements and an appropriate level of dividend cover

Regulatory capital
By 1 January 2008, we had completed the ICAAP analysis as required by the implementation of the EU Capital Requirements Directive ("CRD") This enabled us to incorporate the new credit risk and operational risk requirements into our capital adequacy computations 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 2008 was £44 3 million a decrease of 14% from the previous year end As the Group Cash Flow Statement shows on page 61 of the Financial Statements, cash generated from operations increased by 20% during the year to £67 6 million Corporation tax paid during the year increased from £5 6 million in the year to 30 June 2007 to £11 1 million in the year to 30 June 2008 As a result of the quarterly instalment payment regime, the higher profits in respect of 30 June 2008 compared with 30 June 2006 resulted in the increased corporation tax payment during the 2008 financial year No tax was paid in respect of 30 June 2007 profits due to the tax credit generated by the exercise of the EMI options by employees at the time of Listing

The cash used for investing activities was mainly used for the purchase of units in funds managed by BlueBay of £9 6 million for the bonus deferral programme In connection with the move of the London office to new premises in Grosvenor Street, new fixed assets were purchased for £6 6 million

The cash used for financing activities was used for the purchase of Own Shares by the EBT and the SIP for £32 4 million and for the payment of dividends of £17 5 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 2008, this represented a return of -50 5% This compares to a return on the FTSE 250 Financials of -25 6% 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 2008, BlueBay shares generated a total shareholder return of -22 3% which compares to a return on the FTSE 250 Financials of -24 2% for the same period

Dividends

It is the intention of the Directors to recommend to the Annual General Meeting the payment of a final dividend of 4 8 pence per share to all shareholders on the register as at 24 October 2008 This will bring the total dividend per share for the financial year to 8 0 pence per share and represent dividend payments of approximately £15 1 million or 44 9% of the profit after tax for the year

Subject to shareholder approval, the dividend will be paid on 21 November 2008

Accounting standards and policies

The Board and Audit Committee review and update, where appropriate, the Group's accounting policies and disclosures The Group's significant accounting policies are detailed in the Financial Statements section on pages 62 to 65 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 and the determination of the worldwide provision for income taxes For further detail refer to page 63 in the Financial Statements section

1

1&2 We have dedicated client relationship and distribution teams located in each of our regional offices providing local-time client servicing for all investor enquiries

1 Hans-Jorg Rudloff
Non-Executive Chairman [1,3]

Hans-Jorg Rudloff, aged 67, was appointed Chairman of the Company on 3 July 2001 Hans-Jorg is also Chairman of the Executive Committee of Barclays Capital He is Vice Chairman of Novartis, is a Board member of Thyssen-Bornemiza Group and Roseneft OJSC, sits on the Advisory Board of Landeskreditbank Baden-Wurttemberg and is a member of the Beirat of Energie Baden-Wuttemberg

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

Terence Eccles, aged 62, was appointed a non-executive director of the Company upon listing He is currently a 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

3 Tom Cross Brown
Non-Executive, Independent Director [1,2,3]

Tom Cross Brown aged 60, was appointed non-executive director of the Company upon the Company's listing 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

4 Alan Gibbins
Non-Executive, Independent Director [1,2*,3]

Alan Gibbins, aged 58, 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 His outside interests include Membership of Council and Chairman of the Audit Committee of Queen Mary, University of London, 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

1 2 3 4

Board of Directors

5 Hugh Willis
Chief Executive Officer

Hugh Willis aged 48 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

6 Mark Poole
Chief Investment Officer

Mark Poole, aged 47, 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

7 Nick Williams
Chief Financial Officer

Nick Williams aged 52, 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

8 Alex Khein
Chief Operating Officer

Alex Khein, aged 39, is Chief Operating Officer of the Company with responsibility for Operations, IT, Risk and Performance, Treasury and Structured Products 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

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The Directors submit their report together with the audited Financial Statements for the year ended 30 June 2008 The Directors' responsibilities for preparing this report are set out on page 54

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 ("Listing")

A review of BlueBay's business during the financial year 2007-08 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 page 7
- → Chief Executive's Review on pages 8 to 10
- → Business Review on pages 13 to 26
- → Risk Management and Internal Control on pages 48 to 51
- → Corporate Responsibility Report on pages 52 and 53
- → 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 2008 amounted to £33 6 million (2007 £35 2 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 21 November 2008 to shareholders on the register on 24 October 2008, the ex-dividend date being 22 October 2008

During the financial year, the Company paid £17 5 million (2007 £14 4 million) in dividends to shareholders on the register

Annual General Meeting
The Company's AGM will be held at 11 00 am on Friday, 14 November 2008 at Sofitel St James, 6 Waterloo Place, London SW1Y 4AN

Capital structure
At 30 June 2008, the Company had issued share capital of 192 965,962 (2007 190 372,500)

A total of 2,593,462 shares were issued during the period in order to satisfy the Company's obligations to holders under the Unapproved Share Option Plan

In the period between year-end and the publication of this report, a further 250,000 shares were allotted under the Unapproved Share Option Plan

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 80

Apart from shares awarded under the Company's various employee incentive schemes and the statutory elements allowing the Directors to refuse to register a transfer, ordinarily or otherwise, there are no restrictions or limitations placed on the shares with regard to transferability or voting rights Voting deadlines for the Company's shares are determined by provisions in the Articles which meet the requirements of the Companies Act 2006 The Company is not aware of any agreements between shareholders that would inhibit the transfer of its shares

As at the date of this report, the Company has an unexpired authority from the 2007 Annual General Meeting to purchase own shares up to a maximum of 19,041,000 ordinary shares

Own shares
During the year, the number of own shares purchased by employee trusts was 9,029,426 (2007 762,194), at a cost of £31 4 million (2007 £0 3 million) A further 119,036 (2007 23,061) shares forfeited by employees were transferred to the employee trust, at no cost (2007 nil) Under the operation of the Share Incentive Plan, the Group also purchased 337,453 (2007 300,000) shares at a cost of £1 0 million (2007 £0 9 million) The Group sold 79,268 (2007 38,517) shares to employees as Partnership Shares, realising proceeds of £214,000 (2007 £155,000) Own shares are held by employee trusts and share incentive plans for the purposes of satisfying certain equity-based awards

Additionally, the Group purchased a further 2,912 206 shares at a cost of £5,948,592 in the period between the end of the financial year and the date of this report The shares were purchased with a view to the usual annual awards and offers made to employees under the various share schemes operated by the Group

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 as at 30 June 2008 was 52,395,569 (2007 69,587,000) Shares allocated to employees under these arrangements carry the same voting and financial rights as those held by ordinary shareholders however, restrictions are placed on the disposal of shares in accordance with the rules of the respective plans Further provisions are also made in the plan rules in the event of a change of control of the Company

Directors' Report

The Trustees of the Company's incentive plans may hold unallocated shares at any given time either as a result of forfeitures or purchases in the market made with a view to future award requirements Entitlement to dividends is waived in respect of these shares Furthermore, the Company does not issue the Trustees with any voting instructions in relation to these unallocated shares

Substantial shareholdings
As at 1 September 2008, the following voting interests in the ordinary share capital of the Company, disclosable under the Disclosure and Transparency Rules of the FSA had been notified to the Company being that of Pershing Nominees Limited 40 69%, Strand Nominees Limited 20 70% Shinsei Bank, Limited 5 18%, Lehman Brothers International 4 92%, Janus Capital Management LLC 4 89% and Artemis Investment Management Ltd (UK) 3 38%

Pershing Nominees Limited holds the shares as 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 11% and 3 15% respectively of the ordinary share capital Interests of the Directors, including options, are set out in the Remuneration Report on pages 40 to 47

There have been no changes in the Directors' share interests between 30 June 2008 and the date of this report

Directors
During the period one new non-executive director was appointed Alan Gibbins joined the Board on 5 November 2007

The appointment and termination of directors is governed by the Articles of the Company in compliance with the relevant legislation

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 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

None of the group companies are party to any significant contracts directly with major shareholders or directors, or in contracts in which these parties may have a material interest

Retirement and re-election of directors
At the 2007 AGM, being the first opportunity since the Companys shares were listed on the London Stock Exchange, Hans-Jorg Rudloff, Terence Eccles, Tom Cross Brown, Hugh Willis, Mark Poole, Nick Williams and Alexander Khein all resigned and being eligible offered themselves for re-election

Each year one-third of the directors will be required to retire by rotation with no more than a three-year period between each re-election in keeping with the Combined Code 2006 ("the Code") Any director with more than nine years' service will be subject to annual re-election as laid out in the Articles of the Company

At the 2008 AGM, Hans-Jorg Rudloff, Alan Gibbins, Hugh Willis and Mark Poole will offer themselves for re-election using the prescribed rotation of directors for resignation The third of directors required to retire excludes Alan Gibbins who will stand for re-election for the first time since his appointment

The names and biographical details of the Directors of the Company are given on pages 28 to 29 As at 30 June 2008, 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 s 309A of the Company Act 1985, 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

Company Secretary
James Brace, the Company's General Counsel, was appointed as Company Secretary on 13 July 2007 The position was previously held by Nick Williams, executive director and Chief Financial Officer

Auditors
PricewaterhouseCoopers LLP ("PwC") have indicated their willingness to continue in office and a resolution will be proposed at the AGM to reappoint them as auditors of the Group and Company and to authorise the Directors to determine their remuneration for the current year

Employees
The Company is an equal opportunities employer and treats no job applicant or employee on less favourable terms than any other

The Company operates on the basis that disabled people whether registered or not, receive full and fair consideration for all job vacancies for which they are suitable applicants All reasonable adjustments to accommodate newly appointed disabled employees and employees who become disabled during their employment with the Group, are considered so as to enable them to continue in their current roles

Political and charitable donations
Details of the Group's charitable donations in the year are included in the Corporate Responsibility Report set out on page 53

No political donations or contributions were made or expenditure incurred by the Group during the year (2007 nil)

Credit payment policy
It is the Group and Company policy to honour all of its contractual commitments and this includes paying suppliers according to agreed terms Average creditor days at 30 June 2008 were five days (Group four days) (2007 nine days, Group eight days)

For and on behalf of the Board

James Brace
Company Secretary

18 September 2008

Directors' Report continued

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

The past two financial years have seen significant changes in both the Group's capital structure and Board membership On 22 November 2006 the Company's ordinary shares were admitted to trading on the main market of the London Stock Exchange following a process of consolidation of the four different classes of shares previously issued by the Company In addition, the composition of the private company Board was reviewed and brought into line with the applicable requirements following the Listing Two executive directors, Nick Williams, Chief Financial Officer, and Alex Khein, Chief Operating Officer, were appointed to the Board on 1 November 2006 prior to Listing and two of the long standing directors, Roger Jenkins and Mark Militello who were respectively the representative directors for Barclays Bank PLC and Shinsei Bank, Limited, resigned on the same date The new independent non-executive directors, Terence Eccles and Tom Cross Brown joined the Board at the time of Listing and a further independent non-executive director, Alan Gibbins, was invited to join the Board in November 2007 These non-executive directors formed the core of the newly created principal Board committees which were brought into existence at the time of the Listing These committees have now completed their first full financial year of business and report back on those activities later in this report Hans-Jorg Rudloff remained as Chairman throughout the period of transition

During the course of 2006, the Financial Reporting Council issued an updated version of the Combined Code ("the Code") which became applicable to accounting periods beginning on or after 1 November 2006 This is the first year the Company will report against the provisions of the 2006 Code The Directors consider that the Group has applied the principles of the Combined Code 2006 ("the Code") throughout the reporting period and outline below how the provisions 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 make certain that 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 law 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 report 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 to 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 More detailed reports on the activities of each committee can be found on pages 38 to 39, 40 to 47 and 37 respectively

The Company Secretary is responsible for ensuring Board procedures are followed

The Composition of the Board
As at 30 June 2008, 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 as well as the stage of development of the Company The Board recognises that it is not fully compliant with the Combined Code in regards to the recommended composition of the Board in terms of the number of independent directors but remains confident that the strength of its independent non-executive directors is 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 period Profiles of the Directors can be found on pages 28 and 29

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 Where Directors have concerns that cannot be resolved about the running of the Company, these are recorded in the minutes as a matter of Board practice

The Chairman s other significant commitments are described in this report under the Board of Directors on page 28 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

Chairman and Chief Executive
The roles of Chairman and Chief Executive are distinct and separate The Chairman, Hans-Jorg 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 meetings during the year ended 30 June 2008 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 and the Chief Financial Officer, a review 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 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-Jorg Rudloff	7/8
Terence Eccles	7/8
Tom Cross Brown	8/8
Alan Gibbins*	5/5
Hugh Willis	7/8
Mark Poole	7/8
Nick Williams	8/8
Alex Khein	8/8

* Alan Gibbins joined the Board on 5 November 2007

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 receive copies of the minutes to 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 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 The Company aims to make available to Directors the various programmes of training offered by many of its advisers

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 during the reporting period

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 principal 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, the individual performance of each Director, including the respective Chairmen, and whether each 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, of each of the Directors led by the Chairman, an evaluation of the performance of the Chairman, led by the senior independent director and of each of the Audit, Nomination and Remuneration Committees with their respective Chairmen

The appraisals were conducted making use of tailored questionnaires which covered a number of wide ranging issues followed by various combinations of 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

The Nomination Committee, in making recommendations to the Board in respect of Directors for re-election, makes use of the feedback from the review process to assist it in evaluating the performance of Directors due for re-election

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 director is also available to meet major 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 14 November 2008 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

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 2008 AGM, namely Hans-Jorg Rudloff, Alan Gibbins, Hugh Willis and Mark Poole 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 to be held on 14 November 2008

Going concern
The Directors are satisfied that the Group and Company have 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 Group'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 Group's activities rather than eliminating it and can objectively provide reasonable but not absolute assurance against material misstatement or loss

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 identification, evaluation and management of these risks is an ongoing process and has been in place throughout the period and up to the date of this report In instances where the review process highlights any failing or weaknesses, suitable remedial action is taken

The Audit Committee and Board review, at least annually, the effectiveness of the controls in place in accordance with the Turnbull guidance 2005

Further information on the risk management and internal control framework can be found in the Risk Management and Internal Control Report on pages 48 to 51

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 recommends that the Audit Committee should review the adequacy of the Company's whistle-blowing arrangements The review was conducted during the 2007/08 financial year and again in the period between the year-end and publication of the 2008 Annual Report and Accounts

The policy was considered to meet current market practice in this area and no changes were recommended

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 (a Luxembourg incorporated entity) that is subject to supervision by the Commission de Surveillance du Secteur Financier in Luxembourg

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

18 September 2008

Corporate Governance Report continued

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 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 evaluate the balance of skills, knowledge and experience on the Board and in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment,
- 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 and the process used for appointments,
- 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

Composition of the Committee
The Nomination Committee comprises the non-executive directors, Terence Eccles, as Chairman, Hans-Jorg Rudloff, Tom Cross Brown and Alan Gibbins The Committee Chairman will attend the 2008 AGM and be able to respond to any queries raised regarding the activities of the Committee

Meetings
The Committee met four times during the financial year Attendance details are tabled below

Meetings attended	
Hans-Jorg Rudloff	4/4
Terence Eccles	3/4
Tom Cross Brown	4/4
Alan Gibbins	1/1

Alan Gibbins joined the Committee on 5 November 2007 following his appointment to the Board

The Committee regularly invites the Chief Executive Officer and Chief Financial Officer to attend its meetings

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

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 Committee, 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 2007 AGM
- gave consideration to the appointment of the Company Secretary during the period, on 13 July 2007, James Brace, General Counsel was appointed as Company Secretary The role had previously been held by Nick Williams, CFO,
- played a pivotal role in the selection and appointment of an additional independent non-executive director, Alan Gibbins was appointed to the Board in November 2007 following a careful selection process spanning several months During the process the Committee explored a number of recruitment alternatives which resulted in a shortlist of suitable candidates being identified Face-to-face meetings were arranged with the Chairman, senior independent director and a combination of executive and non-executive directors On completion of the meetings, the Committee and Board received feedback from all relevant parties which assisted them in making their final decision It was not considered necessary to utilise an external search consultancy or open advertising in order to fill this appointment, and
- the Committee also 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, 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

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 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,
- ➔ recommending to the Board the appointment, reappointment or removal of the internal auditors,
- ➔ 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

Composition of the Committee

The Committee is chaired by Alan Gibbins, who was appointed on 5 November 2007 His biography, and that of the other members of the Committee can be found on page 28 of this report Alan Gibbins will make himself available at the 2008 AGM to answer any questions relating to the Committee and its activities In addition, he will offer himself for re-election at the same shareholders' meeting

As at 30 June 2008, 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

At the beginning of the period owing to the recent Listing and substantial re-organisation within the Company it had been decided that the Chairman, Hans-Jörg Rudloff, be a member of the Committee in order to provide continuity between the pre and post-Listing Board structures In view of the progress made by the Company and in conformity with the Code, the Chairman stood down from the Audit Committee on 14 September 2007 Tom Cross Brown fulfilled the role of Chairman of the Committee prior to Alan Gibbins' appointment in November 2007

Meetings

The Committee met seven 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 on two separate occasions without the presence of any executive directors or other senior management employees Attendance by directors is indicated in the table below

Meetings attended

Hans-Jorg Rudloff	1/1
Terence Eccles	6/7
Tom Cross Brown	7/7
Alan Gibbins	4/4

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

Audit Committee Report

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
- ➔ appointing KPMG to provide internal audit services to the Company,
- ➔ agreeing the engagement letter of the internal auditors, as well as evaluating their performance over the engagement period
- ➔ reviewing the internal audit plan for the period and receiving regular updates thereon,
- ➔ considering the current internal auditors for reappointment based on their performance,
- ➔ reviewing the Company's whistle-blowing procedures,
- ➔ reviewing the scope and nature of the external 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,
- ➔ reviewing and approving the AAF 01/06, and
- ➔ receiving updates on the development of MiFID and the Company's processes for ensuring compliance, as well as receiving feedback on progress with implementing the new standards

Non-audit services and auditor independence
The Committee monitors the level of non-audit work carried out by the external 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

The Committee further considered the reappointment of PwC as auditors, taking into account the results of the auditor assessment process, the quality of work undertaken and the level of audit fees The Committee concluded that it was appropriate to recommend the reappointment of the auditors and that this recommendation be put to the shareholders at the AGM in November

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 and was available in the event that either the internal or external auditors wished to meet with the Chairman outside of the scheduled Committee meetings No such meetings were requested

As with the Nomination Committee, the Company Secretary is Secretary to the Committee

Remuneration Report

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 2007 to 30 June 2008 It also sets out the membership of the Remuneration Committee ("the Committee") and its role and remit 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 14 November 2008

Composition of the Committee
The members of the Committee during the 2008 financial year were Terence Eccles (Committee Chairman) Hans-Jorg Rudloff and Tom Cross Brown In addition, Alan Gibbins was appointed to the Committee on 5 November 2007

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

Meetings
During the financial year, the Committee met on two occasions, with all members attending both meetings Other regular attendees who attended by invitation were Hugh Willis (CEO), Nick Williams (CFO), Alex Khein (COO) and Natalie Godfrey (Head of Human Resources) In addition our corporate broker from Credit Suisse attended one meeting

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 will also be participating in the McLagan's Hedge Fund survey

Remuneration Policy
The Company s key assets are its employees and as such 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 We have adopted the following principles in designing the Company's remuneration strategy

➔ In order to align the interests of employees and shareholders we have adopted a goal of universal employee share ownership

➔ We aim to provide a high proportion of total compensation in the form of variable compensation in either cash, deferred bonuses or both

➔ We do not believe it is appropriate to establish any maximum percentage of salary payable by way of bonus

➔ We seek to limit the growth in fixed compensation by operating a salary cap of £100,000 per annum which applies to all the executive directors and almost all employees

➔ Limited benefits schemes are made available 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 those of 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

Key developments in the financial year

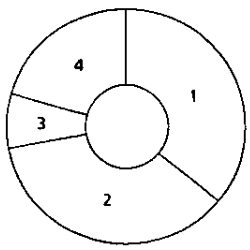
➔ For the 2007 annual compensation round, the Committee extended the bonus deferral into BlueBay funds programme to a wider group of employees Under this programme, a proportion of each bonus in excess of a given threshold was awarded on a deferred basis and invested in shares of funds managed by the Company The fund shares vest over a three year period Vesting is not conditional on meeting pre-set performance criteria However the shares may be forfeited on resignation or termination of employment For executive directors (and certain higher paid employees), the deferral rate was increased from 33 3% to 40% with the entitlement vesting at the end of the three year period

➔ In a change to the annual bonus awards for the bonus year 2006, some 2007 bonus awards were made in the form of shares in BlueBay Asset Management plc under the Restricted Share Award Scheme introduced in 2006 The vesting period is over five years with vesting in 25% tranches on each anniversary beginning with the second anniversary of the award Vesting is not conditional on meeting pre-set performance criteria However, un-vested plc shares may be forfeited on resignation or termination of employment These terms mirror the terms of the awards of shares to new joiners under the Restricted Share Award Scheme No executive directors received deferred bonus awards over BlueBay Asset Management plc shares and no new BlueBay Asset Management plc shares were issued or transferred from treasury

➔ In addition recognising the need to retain key talent, the Company deemed it appropriate to make a certain number of retention awards These awards were made in the form of shares in BlueBay Asset Management plc under the Restricted Share Award Scheme outlined above

Figure 5 Executive directors' 2007 calendar year total bonus

Total Bonus



1 Hugh Willis	£3 298 000
2 Mark Poole	£3,298 000
3 Nick Williams	£682 000
4 Alex Khein	£1 875 000

Source BlueBay Asset Management plc

Please refer to section s) of the significant accounting policies on page 64 for further details on the accounting treatment of these compensation schemes

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 2008, 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-Jorg 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 14 November 2008

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 2007 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 of one of the long/short funds managed by the Company The shares vest at the end of a three year period in 2011 (referred to as the bullet plan) Vesting is not conditional on meeting pre-set performance criteria, however, the shares are subject to forfeiture provisions (see figures 5 and 6)

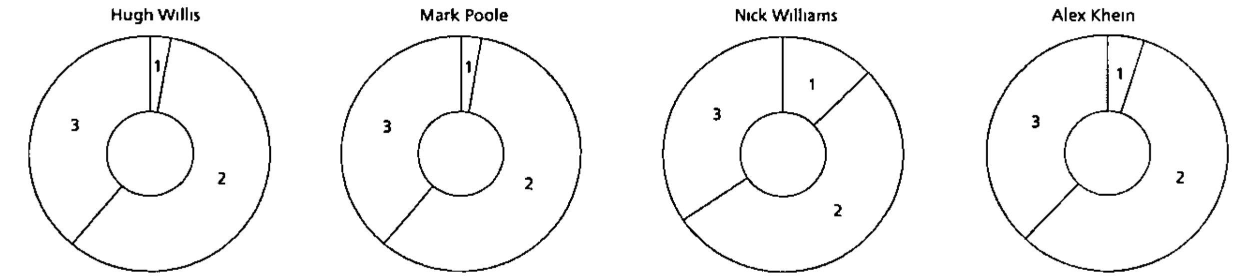
Benefits
The executive directors are entitled to participate in the various contributory Company benefit schemes (such as health care cover) The Company operates a defined contribution pension scheme to which the Company does not contribute Nick Williams is the only executive director to participate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

Share incentive plan (SIP)
The executive directors were eligible to participate in the SIP that was offered to all permanent UK-based employees in January 2008 Both Nick Williams and Alex Khein participated in the plan They each purchased partnership shares up to the maximum allowed by the SIP and were awarded matching shares and free shares Both Hugh Willis and Mark Poole waived their entitlements

Executive directors' 2007 calendar year total compensation

	Salary	Annual cash bonus	Deferred annual bonus
Executive directors			
Hugh Willis	£100 000	£1 982 000	£1 316 000
Mark Poole	£100 000	£1 982 000	£1 316 000
Nick Williams	£100 000	£413,000	£269 000
Alex Khein	£100 000	£1 128 000	£747 000

Figure 6 Executive directors' 2007 calendar year total compensation



Hugh Willis	
1 Salary	3%
2 Annual Cash Bonus	58%
3 Deferred Annual Bonus	39%

Mark Poole	
1 Salary	3%
2 Annual Cash Bonus	58%
3 Deferred Annual Bonus	39%

Nick Williams	
1 Salary	13%
2 Annual Cash Bonus	53%
3 Deferred Annual Bonus	34%

Alex Khein	
1 Salary	5%
2 Annual Cash Bonus	57%
3 Deferred Annual Bonus	38%

Source BlueBay Asset Management plc

Share and option awards

Except for the SIP described above, 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 BlueBay

Directors' interests in ordinary shares

The market price of the Company's shares at the end of the financial year was 224 75 pence The highest and lowest daily closing share price during the financial year was 501 pence and 224 75 pence respectively

There have been no changes to the Directors' interests in ordinary shares between 30 June 2008 and the date of this report

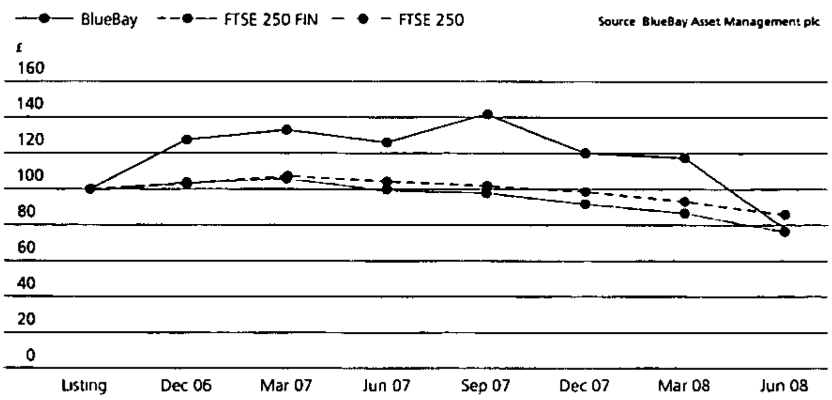
In addition to the above, each executive director is deemed to have an interest in all shares held by the BlueBay Asset Management plc Employee Benefit Trust as potential beneficiaries of the trust

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 below, Hans-Jorg Rudloff has an economic interest in 1,000,000 ordinary shares

Directors interest in ordinary shares

	As at 30 June 2008	As at 30 June 2007
Executive directors		
Hugh Willis	**23 380 000**	23,380 000
Mark Poole	**23,380,000**	23 380,000
Nick Williams	**3,004,720**	3 001 861
Alex Khein	**6 004,720**	6 001,861
Non-executive directors		
Hans-Jorg Rudloff	**286,667**	286 667
Terence Eccles	**16,000**	16 000
Tom Cross Brown	**33,333**	33,333
Alan Gibbins	**10,000**	–

Figure 7 Shareholder return



£'000	Salary/ fees	Annual cash bonus	Total 2008	Total 2007
Executive directors				
Hugh Willis	100	1 982	2 082	2 159
Mark Poole	100	1 982	2,082	2 159
Nick Williams	100	413	513	450
Alex Khein	100	1 128	1 228	1 159
Non-executive directors				
Hans-Jorg Rudloff	75	–	75	46
Terence Eccles	50	–	50	30
Tom Cross Brown	50	–	50	30
Alan Gibbins	33	–	33	–
Total 30 June 2008	**608**	**5,505**	**6,113**	
Total 30 June 2007	**576**	**5,457**		**6,033**

Directors' emoluments
The emoluments (not including the deferred fund awards and deferred share awards on pages 45 to 46) of the directors of the Group in respect of the period for which they were in office in the relevant year are detailed in the table above

Alan Gibbins was appointed to the Board as a non-executive director with effect from 5 November 2007

In line with market practice in this sector the Companys 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 2008 financial year in respect of the 2007 calendar year Consequently, the table above includes some cash bonus payments which relate to the 2007 financial year

Bonuses in relation to executive directors which have been accrued in the Financial Statements but not paid for the period 1 January 2008 to 30 June 2008 (a description of which is given on page 41) amounted to £3,640,132 of which £1,456,053 has been deferred as per the bonus deferral programme 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

Audited section of Remuneration Report

Fund units	Rights held as at 1 July 2007	Rights granted during the year	Rights held as at 30 June 2008	Rights granted as at 18 Sept 2008	Unit fair value at grant date (US$)	Vesting date
Executive directors						
Hugh Willis	–	–	–	–	–	31 Jan 2009
	18 679	–	18 679	–	100 00	31 Jan 2010
	–	22 988	22 988	–	111 81	31 Jan 2011
Mark Poole	–	–	–	–	–	31 Jan 2009
	18 679	–	18,679	–	100 00	31 Jan 2010
	–	22 988	22 988	–	111 81	31 Jan 2011
Nick Williams	1,194	–	–	–	100 00	31 Jan 2008
	1,194	–	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
Alex Khein	–	–	–	–	–	31 Jan 2009
	10 235	–	10 235	–	100 00	31 Jan 2010
	–	13,045	13 045	–	111 81	31 Jan 2011

Deferred compensation schemes
Directors' rights to fund awards
The executive directors' rights to deferred cash awards are detailed above

All fund awards were invested in the BlueBay Multi-Strategy Funds and as such provide the executive directors with a personal interest in the performance of the funds managed by the Group 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 2007 calendar year which mirrors the Company's bonus year For 2007 awards the vesting schedule is a three year bullet (due to vest in 2011) 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 2008, the rights to 1,194 fund units held by Nick Williams vested The fair value on vesting date was $111 67 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	Scheme	Date of grant	Held at 1 July 2007	Rights granted during year	Rights exercised during year	Held at 30 June 2008	Rights granted 18 Sept 2008	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		–	–	–	–	–	–	–	–	–	–

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 224 75 pence The highest and lowest daily closing share price during the financial year was 501 00 pence and 224 75 pence respectively

	Outstanding restricted shares at 1 July 2007	Awarded in year	Transferred in year	Lapsed/ forfeited in year	25% vesting in year	Outstanding restricted shares at 30 June 2008	Total equity settled shares held at at 30 June 2008
Executive directors							
Hugh Willis	2 480 000	–	–	–	620 000	1 860 000	2 480 000
Mark Poole	2 480 000	–	–	–	620 000	1 860 000	2 480 000
Nick Williams	2 100 000	–	–	–	525 000	1,575 000	2 100 000
Alex Khein	6,000,000	–	–	–	1 500 000	4,500 000	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 first vesting date (22 November 2007) was 364 00 pence

Audited section of Remuneration Report continued

	Free and matched shares held as at 1 July 2007	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 2008
Executive directors						
Hugh Willis	–	–	–	–	–	–
Mark Poole	–	–	–	–	–	–
Nick Williams	1 489	1 112	1 114	76	–	3 791
Alex Khein	1 489	1 112	1 114	76	–	3 791

Share incentive plan
The executive directors had 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

Hugh Willis and Mark Poole waived their entitlement to free and matching shares under the SIP

Approved and signed on behalf of the Board

Terence Eccles
Chairman, Remuneration Committee

18 September 2008

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 calibre and background,
- 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,
- Active 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 relies on the support provided by two 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 below
- 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 below

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 strong risk-adjusted investment performance over the term of the credit cycle The investment process is designed to help meet this objective (see figure 8)

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
Overall responsibility for portfolio risk rests with the Chief Investment Officer who retains responsibility for setting portfolio risk targets, in conjunction with the Investment Committee and senior portfolio managers

Each portfolio management team is responsible for ensuring its portfolio is in compliance with fund 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")

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 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 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

Risk Management and Internal Control

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 and the alternative methods used to monitor for compliance with guidelines that cannot be programmed into Charles River The post-trade checking incorporates trades in security types that are input post-execution but not pre-trade

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 team The team uses RiskManager® an application developed by the RiskMetrics Group™ RiskManager models every instrument as a function of underlying risk factors, ie 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 As at 30 June 2008, no such contracts were outstanding The Group does not have any debt financing and is therefore not exposed to interest rate risk

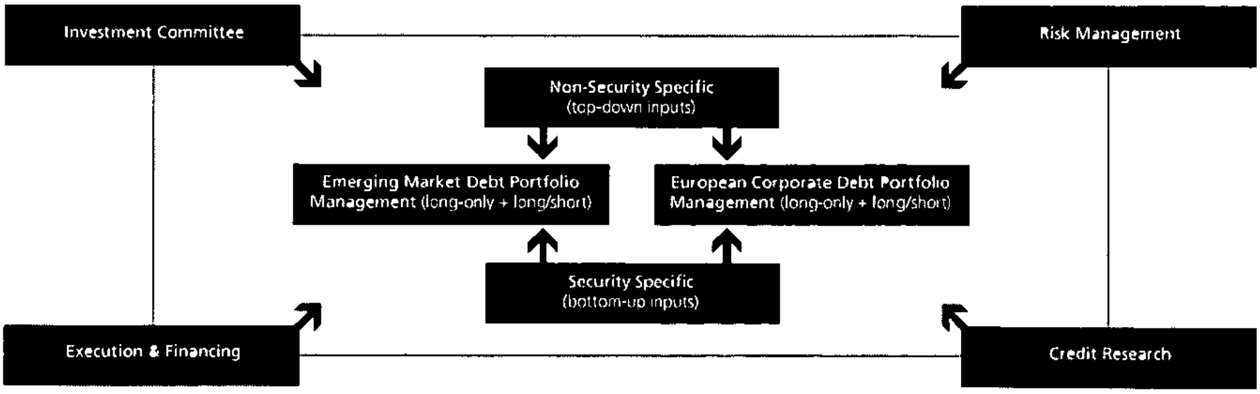
Liquidity risk management
Fund liquidity risk is managed by monitoring the amount of available cash held in each fund on a daily basis and targeting an amount that is deemed to be sufficient to cover the cash needs of the funds including margin payments and potential redemptions under stressed market 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 counterparty requires the approval of both the Chief Investment Officer and Compliance Officer before a trade with that counterparty may be executed BlueBay calculates portfolio credit risk exposure to particular counterparties on a daily basis, by taking into account current exposures and potential future exposures due to changes in market rates

The Group is exposed to credit risk with respect to its cash and cash equivalents being held with a single major UK bank The Group has actively placed its cash with a well established institution which is externally rated AA The 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

Figure 8 BlueBay's investment process



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 In regards to the latter, as with fund counterparty risk, each new counterparty requires the approval of both the Chief Investment Officer and Compliance Officer before a trade with that counterparty may be executed The Compliance Department 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 Chief Investment Officer reviews all information obtained and approves the counterparty if he considers the counterparty to be of sufficiently high standing

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 two major initiatives

- ➔ Review and update of the Group's internal control procedures In the UK, asset managers' internal control procedures are now 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 This framework, which applied to all reporting periods starting on or after 31 March 2007, requires asset managers to comply with demanding internal control procedures BlueBay has prepared its first AAF 01/06 report for the period 31 March 2007 to 31 March 2008 The Company took the opportunity to review and improve its internal control environment
- ➔ Review and update the Group's compliance manual and procedures During the financial year the EU Markets in Financial Instruments Directive ("MiFID") was implemented in the UK regulations This prompted a review of the BlueBay compliance manual to accommodate the additional and amended compliance requirements The BlueBay compliance manual is updated on a regular basis to reflect changes in applicable legislation and regulations

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

Risk Management and Internal Control continued

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 Groups 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 first AAF 01/06 report for 31 March 2007 to 31 March 2008 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

Financial risk management (IFRS 7)

Under IFRS 7 – Financial instruments Disclosure, the Company is required to provide a quantitative and qualitative analysis of the nature and extent of risks arising from financial instruments and the Company's approach to managing those risks This Risk Management and Internal Control report in conjunction with the Business Risk Management section on page 20 the Capital and Capital Management section on pages 25 to 26 and the Audit Committee report on pages 38 to 39 provide the qualitative analysis required under IFRS 7 The quantitative disclosure can be found under note 9 on pages 71 to 75 of the Financial Statements

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 on page 39

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 The way in which we discharge this responsibility will impact on our reputation We are keenly aware that once lost, a good reputation is hard to regain

Employees
In order to be successful in our business, we need to recruit the very best professionals in the marketplace to fill each and every one of the positions we have at BlueBay We aim to continue to recruit and retain the most accomplished professionals in the marketplace We recruit our employees based solely on professional ability objective criteria and without regard to any possible discriminatory factors We have a diverse workforce and as at 30 June 2008, we employed 235 people from more than 20 nationalities in a ratio of approximately $^{2}/_{3}$ male $^{1}/_{3}$ female We operate user friendly employment policies aimed at promoting equal opportunities and tackling and preventing harassment or discrimination These policies are available on our intranet to all employees, temporary workers and contractors

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 Having grown the business rapidly we acknowledge that to continue to be effective we must provide the necessary support and development for our employees Consequently appropriate training is made available to employees to ensure they are maintaining and developing their professional abilities In addition, we believe that an integral component of employee development is encouraging constructive feedback coupled with a requirement that all employees have agreed objectives To achieve this we have always operated an annual appraisal system and for several years we have also undertaken mid year reviews We consider that these tools enable employees to identify their strengths and the behaviours they need to address in order to attain their potential

It is important for all of us to participate in the success of BlueBay and this is demonstrated by the fact that almost all permanent employees have direct or indirect stakes in the equity of the Company For the compensation year ending in December 2007, we initiated our post-Listing equity incentivisation programme by making a number of equity awards to existing employees and new joiners which will vest over a five-year period We also believe it is important for our interests to be aligned with those of our fund investors, therefore, primarily for investment professionals, we continued our practice of offering part of the annual discretionary bonus awards in the form of deferred fund share awards which vest over several years

We are committed to providing our employees with a congenial workplace We feel it is crucial for us to maintain a collegiate working atmosphere based on mutual respect for all, regardless of the position a person has within the Company We believe that our corporate culture is an important aspect of our success and that it is best maintained by staying together During the course of the year, we moved the whole of our London office to new premises on 77 Grosvenor Street Similarly, in anticipation of the growth of our New York office (which engages in sales and client service activities), we have secured the lease of additional office space directly adjacent to the current office

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 advisor

Marketplace
BlueBay's funds and products are predominantly distributed to institutional investors globally (see breakdown in Business Review) as well as via a number of third party global and regional 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

The paragraphs below outline how we meet the requirements of the regulatory environments in which we operate, address the needs of our client and distributor relationships and ensure that we develop new and innovative products which cater to future investment requirements

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 providing input into our promotional and sales literature, ongoing training to promote better understanding of the regulatory framework ensuring that anti-money laundering and sanction 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 (based across London, Tokyo and New York) whose principal objective is to be the first point of contact for all investor enquiries including the provision of clear and concise investment reporting, completing 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

We maintain strict policies and procedures regarding fair treatment of investors in line with the FSA's principle of ' Treating Customers Fairly" Our client reporting is provided on a monthly basis and provides a straightforward and transparent assessment of clients' investments Reports are subject to rigorous checks and sign-off procedures to ensure accuracy prior to release Controls to monitor responsibilities to clients as well as all other internal controls within BlueBay are captured in BlueBay's annual Assurance Report on Internal Controls ("AAF 01/06") The report which describes the control environment, control objectives and procedures required to meet these objectives, allows clients to understand the controls in place to mitigate any risks within our business

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 their risk/ return objectives are adequately captured Above all, we remain focused on our core principle of capital preservation and delivering consistent performance within a disciplined, risk controlled environment Each year we invite Standard & Poors ("S&P") to review and rate our long-only funds and now have four of our flagship funds with S&P ratings, three of which are AA rated and one of which is AAA rated The performance of our long-only funds has also been recognised in Lipper's 2008 awards across the categories of "Best Bond – Small Group , "Best Bond Euro – Corporates Fund" and 'Best Bond Europe – High Yield"

Community

As we grow in size, we have become increasingly aware of our impact on the wider community We continued our theme of making charitable contributions to charities which focus on children In 2007-08, we made a combined contribution of £52,000 to the Great Ormond Street Children's Hospital, the Royal Free Hampstead Hospital and CLIC Sargent Charity (which cares for children and young people with cancer)

We sponsor those employees that wish to participate in the annual Chase Corporate Challenge where monies are raised for the Sports Aid charity

During the course of 2008-09, we will continue to look into opportunities to enable the Group and its employees to contribute to the wider community

Environment

We have become increasingly aware of the negative impact economic activity may have on the environment We are committed to limiting and ultimately reducing the impact of our business on the environment

The contractor we selected for the fit-out of our new premises is widely recognised for its environmental practice On completion of the refit, the building was evaluated using the Building Research Establishment Environmental Assessment Method (BREEAM) and achieved the second highest BREEAM rating in Category A

The fit-out was carbon neutral Data was collected over the period of the redevelopment in order to calculate the carbon emissions Offsetting 'carbon credits' were purchased in two particular projects the first, a methane capturing project in the Netherlands and the second, a hydro-electric power project in the Sichuan Province of China

Considerable time and care was taken in evaluating the design of the building which incorporates features such as control modules in the lighting system so that unoccupied space is not illuminated and solenoid valves which shut down the water supplies in the event a leak is detected

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 For the disposal of electrical goods, we work in partnership with a provider who holds ISO 14001 accreditation and can ensure environmentally friendly disposal of obsolete equipment

Reducing the environmental impact of our business is an ongoing responsibility and we will be exploring further ways of fulfilling this during the coming year

The following statement, which should be read in conjunction with the report of the independent auditors 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 therein

The Directors are responsible for preparing the Annual Report and ensuring it gives a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results of the year in accordance with applicable UK laws, United Kingdom Accounting Standards and those International Financial Reporting Standards adopted by the EU The Directors have responsibility for ensuring that proper accounting records are kept that disclose with reasonable accuracy at any time the financial position of the Group and Company, and which enable them to ensure the Financial Statements comply with the Companies Act 1985 They are also responsible for taking reasonable steps to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities

The Directors remain satisfied that the Group and Company have 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 section 234ZA of the Companies Act 1985

Other disclosures
Pages 30 to 32 inclusive contain the Directors' Report and pages 40 to 47 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 page 7 and 8 to 10 respectively and the Business Review on pages 13 to 26, 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 2008 are included in the Annual Report 2008, 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

18 September 2008

Directors' Responsibility Statement

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

We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of BlueBay Asset Management plc for the year ended 30 June 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets the Group and Parent Company Cash Flow Statements the Group and Parent Company Statements of Changes in Equity and the related notes These Financial Statements have been prepared under the accounting policies set out therein We have also audited the information in the Remuneration Report that is described as having been audited

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the Annual Report, the Remuneration Report and the Financial Statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Directors' Responsibilities Statement

Our responsibility is to audit the Financial Statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, 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

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements The information given in the Directors' Report includes that specific information presented in the Chief Executive's Review, Business Review, Risk Management and Internal Control Report, Corporate Responsibility Report and disclosure of information to auditors that is cross referred from the Principal activities and business review section of the Directors' Report

In addition we report to you if, in our opinion the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding remuneration and other transactions is not disclosed

We review whether the Corporate Governance Report reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements The other information comprises only the unaudited part of the Remuneration Report and the Chairman's Statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements Our responsibilities do not extend to any other information

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the part of the Remuneration Report to be audited It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements and the part of the Remuneration Report to be audited

Opinion

In our opinion

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 June 2008 and of its profit and cash flows for the year then ended,
- the Parent Company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 30 June 2008 and cash flows for the year then ended,
- the Financial Statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the Financial Statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

18 September 2008

Group Income Statement for the year ended 30 June 2008

	Note	2008 £000's	2007 £000's
Revenue	1	117,152	109,191
Other operating income	3	119	249
Other operating expenses	3	(2,089)	(1,161)
Administrative expenses	2	(68,774)	(58,901)
Operating profit		**46,408**	**49,378**
Operating profit before exceptional items		46,408	50,476
Exceptional items	2	–	(1,098)
Operating profit		46,408	49,378
Finance income	5	3,267	2,244
Finance expense	5	(6)	(6)
Profit on ordinary activities before taxation		**49,669**	**51,616**
Taxation	6	(16,100)	(16,448)
Profit for the year attributable to ordinary equity shareholders	20	**33,569**	**35,168**
Earnings per share			
Basic	7	**26 4p**	**29 3p**
Diluted	7	**16 9p**	**18 5p**
Memo			
Dividends paid in the period	8	**17,478**	**14,398**

The notes on pages 66 to 84 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 2008

	Note	2008 £000's	2007 £000's
Assets			
Non-current assets			
Property, plant and equipment	10	6,618	2,554
Intangible assets	11	1,469	1,747
Deferred tax asset	16	6,543	6,731
Non-current receivables	13	149	99
Total non-current assets		14,779	11,131
Current assets			
Trade and other receivables	13	31,435	35,771
Current tax asset		9	84
Derivative financial instruments	9	–	3
Financial assets	12	22,066	13,876
Cash and cash equivalents	14	44,253	51,531
Total current assets		97,763	101,265
Total assets		**112,542**	**112,396**
Liabilities			
Non-current liabilities			
Trade and other payables	15	9,671	6,353
Total non-current liabilities		9,671	6,353
Current liabilities			
Trade and other payables	15	21,022	18,367
Current tax liabilities		3,736	77
Total current liabilities		24,758	18 444
Total liabilities		**34,429**	**24,797**
Shareholders' equity			
Share capital	18	193	190
Share premium	20	32,279	31,551
Retained earnings	20	37,635	48,620
Other reserves	20	8,006	7,238
Total shareholders' equity		**78,113**	**87,599**
Total liabilities and shareholders' equity		**112,542**	**112,396**

The notes on pages 66 to 84 are an integral part of these Group Financial Statements

The Financial Statements on pages 58 to 84 were approved by the Board of Directors and authorised for issue on 18 September 2008 and signed on its behalf by

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

Group Statement of Changes in Shareholders' Equity

	Share capital £000s	Share premium £000s	Retained earnings £000s	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
Currency translation adjustments	–	–	4	–	–	4
Net income recognised directly in equity	–	–	4	–	–	4
Profit for the year	–	–	33,569	–	–	33,569
Dividends	–	–	(17,478)	–	–	(17 478)
Total recognised income for the year	–	–	**16,095**	–	–	**16,095**
Share-based payments	–	–	–	–	4,832	4,832
Deferred tax on share-based payments	–	–	–	–	1,100	1 100
Exercise of share options	3	689	–	–	–	692
Purchase of own shares by Employee Benefit Trust	–	–	–	(31,382)	–	(31,382)
Purchase of own shares for Share Incentive Plan	–	–	–	(1,037)	–	(1,037)
Disposal of own shares for Share Incentive Plan	–	–	–	214	–	214
Deferred tax asset utilised against current year profits	–	–	2,594	–	(2,594)	–
Deferred tax asset carried back against prior year's profits	–	–	2,552	–	(2,552)	–
Transfer of own shares	–	39	(32,244)	32,205	–	–
Transfer between reserves	–	–	18	–	(18)	–
Balance at 30 June 2008	**193**	**32,279**	**37,635**	–	**8,006**	**78,113**

	Share capital £000s	Share premium £000's	Retained earnings £000's	Own shares £000's	Other reserves £000s	Total £000s
Balance at 1 July 2006	12	15,587	12,531	–	447	28,577
Currency translation adjustments	–	–	(12)	–	–	(12)
Net expense recognised directly in equity			(12)			(12)
Profit for the year	–	–	35,168	–	–	35,168
Dividends	–	–	(14,398)	–	–	(14,398)
Total recognised income for the year	–	–	**20,758**	–	–	**20,758**
Share-based payments	–	–	–	–	687	687
Deferred tax on share-based payments	–	–	–	–	22,450	22,450
Reclassification of debt as equity (Note 20)	50	11 968	–	–	–	12 018
Exercise of share options	20	5,234	–	–	–	5,254
Bonus issue	108	(108)	–	–	–	–
IPO costs	–	(1,130)	–	–	–	(1,130)
Purchase of own shares by Employee Benefit Trust	–	–	–	(270)	–	(270)
Purchase of own shares for Share Incentive Plan	–	–	–	(900)	–	(900)
Disposal of own shares for Share Incentive Plan	–	–	–	155	–	155
Deferred tax asset utilised	–	–	16,447	–	(16,447)	–
Transfer of own shares		-	(1,015)	1,015	–	–
Transfer between reserves	–	–	(101)	–	101	–
Balance at 30 June 2007	**190**	**31,551**	**48,620**	–	**7,238**	**87,599**

The notes on pages 66 to 84 are an integral part of these Group Financial Statements

In accordance with the Companies Act 1985, own shares are offset against retained earnings

Group Cash Flow Statement For the year ended 30 June 2008

	Note	2008 £000's	2007 £000's
Cash flows from operating activities			
Cash generated from operations	21	67,571	56,118
Corporation tax paid		(11,075)	(5 564)
Exceptional items		–	(1,098)
		56,496	49,456
Cash flows from investing activities			
Purchase of property, plant and equipment		(6,556)	(1,348)
Purchase of intangible assets		(161)	(550)
Purchase of current financial assets		(9,560)	(10,199)
Sale of current financial assets		1,494	246
		(14,783)	(11,851)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		692	5,254
Purchase of own shares by Employee Benefit Trust	19	(31,382)	(270)
Purchase of own shares by Share Incentive Plan	17	(1 037)	(900)
Sale of own shares by Share Incentive Plan	17	214	155
IPO costs written off against share premium		-	(1 130)
Dividends paid	8	(17,478)	(14,398)
		(48,991)	(11,289)
Net (decrease)/increase in cash and cash equivalents		**(7,278)**	**26,316**
Cash and cash equivalents at beginning of year		51 531	25,215
Cash and cash equivalents at end of the year	14	**44,253**	**51,531**

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

The notes on pages 66 to 84 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 1985 The Group Financial Statements for the year ended 30 June 2008 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

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 1985 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

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 in accounting policies and disclosures
IFRIC interpretations and amendments to existing standards that became effective during the year have been applied by the Group Apart from the Standards listed below, which required the Group to amend its disclosures within the notes to the accounts none of the Standards and Interpretations adopted had any significant impact on the Group's Financial Statements or accounting policies

IFRS 7 'Financial instruments disclosure' and an amendment to IAS 1 'Presentation of financial statements on capital disclosures were issued by the IASB in August 2005 and have been adopted by the Group for reporting in its financial year ended 30 June 2008 This new standard and the revision to IAS 1 add further quantitative and qualitative disclosures in relation to financial instruments and how an entity manages its capital resources

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) IFRIC 16 Hedges of a Net Investment in a Foreign Operation' was issued in July 2008 and is required to be adopted by the Group for reporting in its financial year ending 30 June 2010 It provides guidance in circumstances where companies hedge the foreign currency risk arising from their net investment in foreign operations and wish to qualify for hedge accounting in accordance with IAS 39

e) 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

f) Presentation of exceptional items

The Group has shown exceptional items separately on the face of the Income Statement The Group defines exceptional items 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

g) 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

h) 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 programmes 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

i) 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 estimated 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

j) Investments

(i) Classification

All Group investments 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 originally purchased as part of "deferred compensation awards' on behalf of employees and shown on the Balance Sheet see note 12 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 investments are recognised on trade-date, the date on which the Group commits to purchase or sell the asset Investments are initially recognised at fair value plus transaction costs Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss are included in other operating income in the Income Statement in the period in which they arise

k) 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 remeasured at their fair value at each Balance Sheet date The resulting gains or losses are recognised immediately in the Income Statement 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

l) 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

m) 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

n) Provisions
Provisions for costs, such as legal claims, 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

o) 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) 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
(b) Management fees – which include all non-performance related fees, are recognised in the period in which the services are rendered

(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

p) 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

q) 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 in the period in which they are incurred There are no arrangements where commission payments are not for ongoing services

r) 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

s) 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 17 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 other reserves 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 the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium

(iii) Deferred compensation plans

The Group also operates deferred compensation plans for certain employees under which a portion of an employee's bonus is invested in one of the funds managed by the Group The fair value of the employee services received in exchange for the awards in the funds is recognised as an expense The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards, remeasured at each reporting date until the settlement date is reached The fair value of the awards equates to the fair value of the underlying investment in the nominated fund entity at the settlement date

(iv) Profit-sharing and bonus plans

The Group operates non-contractual bonus pools based on formulas that take into consideration either Group profitability or 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

t) 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

u) 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

v) 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

w) 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

x) 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 offset against retained earnings in line with Companies Act 1985

y) Other reserves

In addition to share-based payment credits taken to other reserves, as disclosed in s)(ii) above, 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 deductions 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 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 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

	2008 £000's	2007 £000's
Net management fees	93,109	60,950
Performance fees	24,043	48,241
Total revenue	117 152	109,191

(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

	2008 £000's	2007 £000's
Segment revenue		
Europe		
Luxembourg	31,544	12,573
Other Europe	7,203	4,409
The Americas		
Cayman Islands	78,096	92,209
United States of America	88	–
Rest of the World	221	–
Total segment revenue	117,152	109,191
Segment assets		
Europe		
Luxembourg	8 528	2,807
Other Europe	4,330	2,056
The Americas		
Cayman Islands	15,100	28,665
United States of America	76	–
Rest of the World	221	–
Total segment assets	28 255	33 528
Capital expenditure and intangible assets		
Europe		
Luxembourg	–	–
Other Europe	6 306	1,803
The Americas		
Cayman Islands	–	–
United States of America	403	62
Rest of the World	8	–
Total capital expenditure and intangible assets	6,717	1,865

2 Administrative expenses

	2008 £000's	2007 £000's
The following items have been included in administrative expenses		
Staff costs (note 4)	46,965	42 521
Depreciation (note 10)	2,390	1,312
Amortisation (note 11)	439	328
Loss on disposal of property, plant and equipment (note 10)	109	254
Other operating lease rentals payable		
Property	3 815	1,614
Computer software	377	343
Exceptional items – IPO fees	–	1,098
Net foreign exchange differences recognised	(682)	(54)

Audit and non-audit fees

	2008 £000's	2007 £000's
Fees payable to the Group s auditor for the audit of the Group s Financial Statements	215	125
Fees payable to the Group's auditor for other services		
The audit of the Company's subsidiaries pursuant to legislation	19	18
Other services pursuant to legislation	67	62
Taxation services	305	169
Other services	184	623
Total auditors remuneration	790	997

Included within fees payable to the Group's auditor for the audit of the Group's Financial Statements is an amount of £43,000 which was paid in 2008 but related to the 2007 audit (2007 £24,000 which was paid in 2007 but related to the 2006 audit)

Other services pursuant to legislation relates to £63,000 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' (2007 £58,000) Also included is £4,000 (2007 £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 2008 include £125,000 for the controls audit under the framework of the Audit and Assurance Faculty ("AAF ') and compliance and general advice of £59 000

Other services for the year ended 30 June 2007 include compliance and general advice of £61,000, the audit of the Financial Reporting and Auditing Guideline 21 ("FRAG 21) of £49,000 and reporting accountant's fees relating to the IPO of £513,000 Of the total fees of £513,000 £375,000 was written off against the share premium account

3 Other operating income and expenses

	2008 £000's	2007 £000 s
Other operating income includes the following items		
Other income	21	–
Investments at fair value	98	249
Total other operating income	119	249
Other operating expenses include the following items		
Commission payments	(2,086)	(818)
Loss on derivative financial instruments	(3)	(343)
Total other operating expenses	(2,089)	(1,161)

Commission payments of £818,000 have been reclassified from administrative expenses to other operating expenses for the year ended 30 June 2007

Notes to the Group Financial Statements continued

4 Staff costs

	2008 £000's	2007 £000's
Wages and salaries	36,928	37,158
Social security costs	5,205	4,676
Share-based payments (note 17)	4,832	687
Total staff costs	46,965	42,521

Included within social security costs is £527,000 in relation to employee share-based payment schemes (2007 nil)

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

(i) Long-term share-based incentive schemes
These schemes are described in full in the audited part of the Remuneration Report

(ii) Deferred compensation schemes
The Group operates a deferred compensation programme Under the terms of this scheme the Group has purchased units in various funds for which a Group company acts as investment manager The units in the funds purchased are held in the name of a nominee company for the benefit of selected employees The units are subject to certain 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 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

	2008	2007
Asset Management	64	47
Sales and Marketing	41	29
Administration and Finance	104	75
Total average number of employees	209	151

5 Finance income and expense

	2008 £000's	2007 £000's
Finance income		
Interest on cash and cash equivalents	3 241	2,198
Interest on rent deposits	26	46
Total finance income	3 267	2,244
Finance expense		
Interest payable	(6)	(6)

6. Taxation

Analysis of charge in period

	2008 £000's	2007 £000's
Current tax		
UK corporation tax on profits for the year	17,804	16,444
Adjustments to tax charge in respect of previous periods	2,001	63
Foreign tax	116	155
Adjustments to foreign tax charge in respect of previous periods	32	–
Total current tax	19,953	16,662
Deferred tax (note 16)		
Origination and reversal of temporary differences	(1,463)	(12)
Adjustments in respect of previous periods	(1,827)	(64)
IFRS 2 share-based payments credit	(579)	(126)
Foreign tax	16	(21)
Adjustments in respect of change to future tax rate	–	9
Total deferred tax	(3,853)	(214)
Total tax expense	16,100	16,448

A legislative change in the UK has reduced the main corporation tax rate from 30% to 28% with effect from 1 April 2008 The effect of this is that the theoretical effective UK tax rate for the Group for the year ended 30 June 2008 is 29 5% (2007 30%)

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

	2008 £000's	2007 £000's
Profit on ordinary activities before tax	49,669	51,616
Theoretical tax charge at UK rate of 29 5% (2007 30%)	14,652	15,485
Effects of		
Expenses not deductible for tax purposes	111	81
Depreciation in excess of capital allowances	307	381
Capital items in revenue	48	200
Exceptional items	–	329
Share-based payments	694	(126)
Deferred compensation scheme	48	–
Adjustment in respect of previous period	206	(1)
Adjustment in respect of foreign tax rates	40	54
Adjustments in respect of changes to UK tax rate	–	9
Other	(6)	36
Total tax expense	16 100	16 448

Notes to the Group Financial Statements continued

7 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

	2008		2007	
	Total number (thousands)	Weighted average (thousands)	Total number (thousands)	Weighted average (thousands) restated
Number of shares at 1 July 2007 (and 1 July 2006)	190,373	190,373	120,000	120,000
Issue of shares	2,593	1,267	20 763	12,547
Shares reclassified from debt	–	–	49,610	49 610
Number of shares at 30 June 2008 (and 30 June 2007)	192 966	191,640	190 373	182 157
Shares owned by employee trusts (note 19)	(2,502)	(2 633)	(785)	(495)
Shares held under Share Incentive plan	(517)	(351)	(261)	(167)
Shares held in nominee account under the Share award scheme (note 17(iii))	(7,431)	(2,445)	–	–
Shares held in nominee account on behalf of employees (note 19)	(52,396)	(59,084)	(69,587)	(61,446)
Basic number of shares	**130,120**	**127,127**	**119,740**	**120,049**
Shares owned by employee trusts (note 19)	2,502	2 633	785	495
Shares owned by Share Incentive trust	517	351	261	167
Shares held in nominee account under the Share award scheme (note 17(iii))	7 431	2,445	–	–
Shares held in nominee account on behalf of employees (note 19)	52,396	59,084	69,587	61 446
Employee share options	6,632	7,454	8,670	8,083
Dilutive number of shares	**199,598**	**199,094**	**199,043**	**190,240**
Earnings attributable to equity holders of the Group	33,569	33 569	35,168	35 168

8 Dividends

	2008 £000s	2007 £000s
Declared and paid during the year		
Equity dividends and ordinary shares		
Dividends paid pre-listing		
Interim dividend paid for 2007– 6 0p	–	10,177
Interim dividend paid for 2007– 2 5p	–	4,221
Total dividends paid pre-listing	–	14,398
Dividends paid post-listing		
Final dividend paid for 2007 – 6 0p	11,435	–
Interim dividend paid for 2008 – 3 2p	6,043	–
Total dividends paid post-listing	17 478	–
Total	17,478	14,398

Dividends declared and paid in 2008 were paid out of post-listing distributable reserves Dividends declared and paid in 2007 were paid out of pre-listing distributable reserves

The Directors have proposed a final dividend of 4 8 pence in respect of 30 June 2008 (2007 6 0 pence)

Of the total dividends declared and paid of £17,478,000, £4,937,400 was paid on shares which are classified as own shares, as described in note 19 (2007 £4 198,100)

9 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 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	2008 £000's	2007 £000's
Cash and cash equivalents	14	44,253	51,531
Derivative financial instruments		–	3
Total excluding trade receivables		44,253	51,534
Amounts owed by related parties	13	23,452	31,472
Other trade receivables	13	4 803	2,055
Total trade receivables		28,255	33 527
Total		72 508	85,061

Cash and cash equivalents comprise short-term bank deposits and cash in hand At 30 June 2008 99% of cash is held with a counterparty that is a major UK bank and is externally rated AA (2007 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

	2008 £000's	2007 £000's
Not older than 30 days	27,665	33,368
Older than 30 days not older than 60 days	118	159
Older than 60 days not older than 90 days	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	28,255	33,527

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 2% of the total fees outstanding (2007 0 5%) Historically, none of these counterparties have defaulted on their payments Due to the nature of the relationship between the Group and the counterparties, as disclosed in note 22, the Directors believe that no credit risk provision is required

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

	2008 £000's	2007 £000's
AA[1] rated bank	43 870	51,336

[1]Standard & Poor's ratings

The amount of these exposures can change significantly each month

Notes to the Group Financial Statements continued

9 Financial risk management continued

(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 The shares are subject to forfeiture and held until the point when the shares have vested unconditionally with the employee or until forfeiture (note 4)

The Group calculates the market risk on these investments using a value at risk ('VaR') methodology based on a one month time horizon, at a 95% confidence interval VaR is an estimate of the worst loss due to movements in market rates over a target horizon with a given level of confidence Volatilities and correlations of market rates including interest rates, credit spreads, foreign exchange rates and equity prices are estimated from past observations and projected forward over the target horizon using a technique known as Monte Carlo simulation VaR is then measured as a quantile of the projected distribution of gains and losses

The Monte Carlo simulation method estimates VaR by simulating random scenarios and revaluing all positions in the portfolio for each trial The method assumes lognormal price distributions of underlying risk factors and accounts for all non-linearities in portfolio positions (unlike the parametric VaR model which does not) This method accurately prices all types of complex non-linear positions as well as simple linear instruments It also provides a full distribution of potential portfolio gains and losses (which need not be symmetrical), but does not take into account any non-normality in the underlying factors for example fat-tails or mean-reversion The main disadvantage of the Monte Carlo method is that simulations are computationally intensive and, consequently, cannot be calculated instantaneously

The increase in the VaR in 2008 compared with 2007 reflects the increased investments in the funds

2008

VaR of Investments in the funds

	30 June 2008 £000 s	Average during the year £000 s	Maximum during the year £000 s	Minimum during the year £000 s
	450	657	1,106	408

2007

VaR of Investments in the funds

	30 June 2007 £000 s	Average during the year £000's	Maximum during the year £000's	Minimum during the year £000 s
	454	203	454	66

(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 2008

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	14	41 310	1,635	1,118	182	8	44,253
Financial assets	12	–	15,906	6,160	–	–	22,066
Trade receivables	13	–	16,372	11,662	–	221	28,255
Total financial assets		41,310	33,913	18,940	182	229	94,574

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

Year ended 30 June 2007

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	14	50,192	726	560	49	4	51,531
Financial assets	12	–	9,061	4,815	–	–	13 876
Derivative financial instruments		–	–	3	–	–	3
Trade receivables	13	–	21,015	12,512			33,527
Total financial assets		50,192	30,802	17,890	49	4	98 937

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	2,631	400	835	–	–	3,866
Total financial liabilities	2,631	400	835	–	–	3,866

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

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 There were no such contracts outstanding at the end of either accounting period

At 30 June 2007, the Group also partially hedged against the foreign exchange exposure of its investments held as financial assets under the deferred compensation scheme

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

Notes to the Group Financial Statements continued

9 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 Groups 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

Year ended 30 June 2008

Financial assets	2008 £000's	2007 £000s
Cash and cash equivalents	44,253	51,531
Financial assets	22,066	13 876
Derivative financial instruments	–	3
Trade receivables	28,255	33 257
Total financial assets	94,574	98,937

Financial liabilities	2008 £000s	2007 £000's
	8,278	3,866

The Group's total financial assets exceed its total financial liabilities in the ratio of 11 4 1 (2007 25 6 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 cashflows are as follows

	2008 Leasehold property £000's	2007 Leasehold property £000's
Commitments under non-cancellable operating leases expiring		
Within one year	4,695	1,807
Later than one year and less than five years	18,755	24,741
After five years	37,612	37,687
Total	61,062	64,235

	2008 Computer software £000's	2007 Computer software £000's
Commitments under non-cancellable operating leases expiring		
Within one year	245	298
Later than one year and less than five years	63	381
Total	308	679

(b) Capital commitments

	2008 £000's	2007 £000's
Expenditure contracted for but not provided for in the Financial Statements	–	406

(c) Contingent liabilities

The Group is not aware of any 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 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

10 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 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

	Leasehold improvements £000's	Furniture fixtures & fittings £000's	Information & communication technology equipment £000's	Total £000's
Cost				
At 1 July 2006	1,904	669	1,779	4,352
Additions	756	90	469	1,315
Disposals	(310)	–	(7)	(317)
Currency translation difference	(14)	(5)	(24)	(43)
Reclassification	–	4	(4)	–
At 30 June 2007	2,336	758	2,213	5,307
Accumulated depreciation				
At 1 July 2006	326	315	873	1,514
Depreciation charge	668	179	465	1,312
Disposals	(57)	–	(6)	(63)
Currency translation difference	(3)	(1)	(6)	(10)
Reclassification	–	1	(1)	–
At 30 June 2007	934	494	1 325	2,753
Net book amount as at 30 June 2007	1,402	264	888	2,554

Assets written off as at 30 June 2008 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 2008 and 2007, none of the above assets were held under finance leases

11. Intangible assets

	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

	Licences and development costs £000 s
Cost	
At 1 July 2006	1,700
Additions	550
At 30 June 2007	2,250
Amortisation	
At 1 July 2006	175
Amortisation in the year	328
At 30 June 2007	503
Net book amount as at 30 June 2007	1,747

Assets written off as at 30 June 2008 relate to those which are no longer in use in the business

All amortisation charges in the year are included in note 2

12 Financial assets

	2008 £000's	2007 £000's
Fair value through profit or loss		
At 1 July 2007 and 2006	13,876	3,674
Additions	9,560	10,199
Fair value adjustment	124	249
Disposals	(1,494)	(246)
At 30 June	22,066	13,876

Financial assets at fair value through profit or loss include the following

	2008 £000's	2007 £000's
Investment in funds	22,066	13,876

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

These investments are held in relation to the "deferred compensation scheme' which is discussed in more detail in note 4 Disposals relate to shares which have vested unconditionally

Notes to the Group Financial Statements continued

13 Trade and other receivables

	2008 £000's	2007 £000's
Trade receivables		
Amounts owed by related parties (Note 22)	23,452	31,472
Other trade receivables	4,803	2,055
Other receivables	655	1,269
Prepayments and accrued income	2,525	975
Total amounts falling due within one year	31,435	35,771
Total amounts falling due after more than one year	149	99

14 Cash and cash equivalents

	2008 £000's	2007 £000 s
Cash at bank and in hand	3 966	1,531
Short-term bank deposits	40,287	50,000
Total cash and cash equivalents	44 253	51,531

15 Trade and other payables

	2008 £000 s	2007 £000 s
Trade payables	228	304
Other tax and social security payable	718	560
Other payables	7,040	2,857
Accruals	13,036	14,646
Total trade and other payables due within one year	21,022	18 367
Total amounts due after more than one year	9 671	6,353

Amounts falling due after more than one year relate to costs accrued as part of the Group s deferred compensation plan

16 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007 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 £000s
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

	Temporary differences £000's
At 1 July 2006	631
Income Statement credit	97
Deferred tax asset utilised	(16,447)
Deferred tax on share-based payments taken to equity	22,450
At 30 June 2007	6,731

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

	2008 £000s	2007 £000's
Share option scheme	1 100	22,450

An analysis of the deferred tax asset is as follows

	2008 £000's	2007 £000s
Accelerated depreciation for tax purposes	134	146
Share-based payments	3 093	6,560
Deferred compensation scheme	3,303	–
Other	13	25
Total deferred tax asset	6,543	6 731

(b) Deferred tax liabilities

The movement on the deferred tax liability account is as follows

	Temporary differences £000's
At 1 July 2007	–
Income Statement expense	–
At 30 June 2008	–

	Temporary differences £000's
At 1 July 2006	(117)
Income Statement expense	117
At 30 June 2007	–

Notes to the Group Financial Statements continued

17 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 40 to 47 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

	2008 £000's	2007 £000 s
EMI Scheme (i)	–	266
Unapproved option award scheme (ii)	156	155
Share award scheme (iii)	4,120	–
SIP Scheme (iv)	556	266
Total	4,832	687

(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) On 22 November 2007, selling restrictions on the first 25% of the shares held by employees were 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 following the exercise of EMI options at listing was as follows

	2008 £000's	2007 £000 s
Balance at 1 July	20,675,000	–
EMI options exercised	–	20,700,000
Shares sold on open market	(5,964)	(1 919)
Shares vested unconditionally	(5,162 500)	–
Shares forfeited to Group employee benefit trust (Note 19)	(119,036)	(23 081)
Restricted shares unsold at 30 June	15,387 500	20 675 000

(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

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Share options outstanding at 1 July	9,612 500	£0 2586	7,375 000	£0 2330
Granted	–	–	2,750,000	£0 2853
Forfeited	(387 500)	£0 2853	(450,000)	£0 2853
Exercised	(2,593,462)	£0 2666	(62,500)	£0 2853
Share options outstanding 30 June	6,631,538	£0 2539	9,612 500	£0 2586

The following unapproved share options were exercised during the financial year

Exercise date	Exercise Price	Share price at exercise date	Number exercised
12 July 2007	£0 2853	£4 71	37,500
5 October 2007	£0 2853	£4 79	225,000
21 November 2007	£0 2853	£3 48	25,000
26 November 2007	£0 2853	£3 84	288,750
26 November 2007	£0 2226	£3 84	775,000
4 December 2007	£0 2853	£3 67	25,000
6 December 2007	£0 2853	£3 89	100,000
12 December 2007	£0 2853	£3 53	100,000
20 February 2008	£0 2853	£2 71	312,500
27 February 2008	£0 2853	£3 25	37,500
19 March 2008	£0 2853	£3 33	300,000
28 March 2008	£0 2853	£3 45	217,212
23 April 2008	£0 2853	£3 40	125,000
23 May 2008	£0 2853	£3 26	25 000
Total			2 593,462

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

	2008		2007	
	Number of options	Weighted average expected remaining life	Number of options	Weighted average expected remaining life
Option exercise price				
£0 2226	3,325,000	2 6 years	4,100,000	3 6 years
£0 2853	3,306,538	2 6 years	5,512,500	3 6 years
Total	6,631,538		9,612,500	

(iii) 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 19) Shares awarded vest unconditionally with employees over a period of five years after the grant date (with 25% of the shares vesting on each anniversary of the date of award, commencing two years after the grant date)

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

The following share awards are outstanding at the end of the financial year

Grant date	Share price at grant date	Number awarded
12 July 2007	£4 71	408,195
3 October 2007	£4 58	336,822
10 October 2007	£4 56	123,387
12 October 2007	£4 80	244,188
13 December 2007	£3 47	473,240
26 February 2008	£3 19	664,261
28 March 2008	£3 45	3,605,585
4 April 2008	£3 43	72,498
15 May 2008	£3 37	235,841
6 June 2008	£3 36	1,100,000
30 June 2008	£2 25	167,246
Total		7,431,263

There were no share awards made to employees under this scheme in the previous financial year

Notes to the Group Financial Statements continued

17 Share-based payments continued

(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 During the year the Group purchased shares totalling £1,037 000 (2007 £900,000) The Group also disposed of 79,268 shares to employees as part of the matching shares concept, realising proceeds of £214,000 (2007 38,517 shares realising proceeds of £155,000)

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

	2008		2007	
	Number of shares	Weighted average price	Number of shares	Weighted average price
Shares at 1 July	85,379	£3 00	–	–
Purchased	337 453	£3 05	300,000	£3 00
Shares previously awarded forfeited back to SIP	28 931	£3 00	–	–
Awarded	(369,816)	£2 70	(176,109)	£4 03
Sold to employees as part of the matching shares concept	(79,268)	£2 70	(38,512)	£4 03
Balance of unawarded shares remaining in SIP scheme	2,679	£3 04	85,379	£3 00

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

18 Share capital

	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

	2007 £000 s
Authorised	
250 000,000 ordinary shares of £0 001 each	250
Called up, allotted and fully paid	
190,372,500 ordinary shares of £0 001 each	190

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

19 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 17(iv)

During the year, the number of own shares purchased by employee trusts ("EBTs") was 9,029,426 shares at a cost of £31,382,000 (2007 762,194 shares at a cost of £270,000)

Movements in shares held by EBTs are as follows

	2008		2007	
	Number of shares	Weighted average price	Number of shares	Weighted average price
Balance at 1 July	785,275	£0 35	–	–
Purchased	9,029,426	£3 48	762,194	£0 35
Forfeited restricted shares (note 17(i))	119,036	–	23,081	–
Awarded to employees (note 17(iii))	(7,431,263)	£3 19	–	–
Balance at 30 June	2,502,474	£3 19	785,275	£0 35

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 52,395,569 (2007 69,587,000)

20 Reserves

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

21 Cash generated from operations

	2008 £000 s	2007 £000's
Continuing operations		
Operating profit for the year before exceptional items	46,408	50,476
Adjustments for		
Financial assets at fair value	(124)	(250)
Derivatives at fair value	3	(3)
Share-based payments	4,832	687
Finance income	3,267	2,257
Finance expense	(12)	(47)
Depreciation	2,390	1,312
Amortisation of intangibles	439	328
Loss on disposal of property, plant and equipment	109	254
	10,904	4,538
Changes in working capital		
Decrease/(Increase) in receivables	4,286	(3,259)
Increase in payables	5,973	4,363
Cash generated from operations	67 571	56,118

Notes to the Group Financial Statements continued

22 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

	2008 £000's	2007 £000's
Investment management fees	115,186	108 216

Year end balances arising during the financial year

	2008 £000's	2007 £000 s
Funds managed by the Group	23 452	31,472

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

23 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 2008

	Note	2008 £000's	2007 £000's
Assets			
Non-current assets			
Property plant and equipment	28	6 085	2 313
Intangible assets	29	1 469	1,747
Financial assets	30	80	80
Deferred tax asset	34	6,530	6,706
Total non-current assets		14,164	10,846
Current assets			
Trade and other receivables	31	31,744	35,703
Derivative financial instruments		-	3
Financial assets	30	21,986	13,876
Current tax asset		-	84
Cash and cash equivalents	32	43,892	51,384
Total current assets		97 622	101,050
Total assets		**111,786**	**111,896**
Liabilities			
Non-current liabilities			
Trade and other payables	33	9,627	6,353
Total non-current liabilities		9,627	6,353
Current liabilities			
Trade and other payables	33	20,661	18,121
Current tax liabilities		3,736	-
Total current liabilities		24,397	18 121
Total liabilities		**34,024**	**24,474**
Shareholders' equity			
Share capital	36	193	190
Share premium	37	32,279	31,551
Retained earnings	37	37,293	48,431
Other reserves	37	7 997	7,250
Total shareholders' equity		**77,762**	**87,422**
Total liabilities and shareholders' equity		**111,786**	**111,896**

The notes on pages 88 to 95 are an integral part of these Company Financial Statements

The Financial Statements on pages 85 to 95 were approved by the Board of Directors and authorised for issue on 18 September 2008 and signed on its behalf by

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

Company Statement of Changes in Shareholders' Equity

	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
Profit for the year	–	–	33 399	–	33,399
Dividends	–	–	(17 478)	–	(17,478)
Total recognised income for the year	**–**	**–**	**15,921**	**–**	**15,921**
Share-based payments	–	–	–	4,832	4,832
Deferred tax on share- based payments	–	–	–	1,100	1,100
Exercise of share options	3	689	–	–	692
Funding of own shares for Employee Benefit Trust	–	–	(31,382)	–	(31,382)
Funding of own shares for Share Incentive Plan	–	–	(1 037)	–	(1,037)
Disposal of own shares for Share Incentive Plan	–	–	214	–	214
Deferred tax asset utilised against current year profits	–	–	2,594	(2,594)	–
Deferred tax asset carried back against prior year s profits	–	–	2,552	(2,552)	–
Transfer between reserves	–	39	–	(39)	–
Balance at 30 June 2008	**193**	**32,279**	**37,293**	**7,997**	**77,762**

	Share capital £000's	Share premium £000's	Retained earnings £000's	Other reserves £000's	Total £000's
Balance at 1 July 2006	12	15,587	12,445	447	28,491
Profit for the year	–	–	35,065	–	35,065
Dividends	–	–	(14,398)	–	(14,398)
Total recognised income for the year	**–**	**–**	**20,667**	**–**	**20,667**
Share-based payments	–	–	–	687	687
Deferred tax on share-based payments	–	–	–	22,450	22,450
Reclassification of debt as equity	50	11,968	–	–	12,018
Exercise of share options	20	5,234	–	–	5,254
Bonus Issue	108	(108)	–	–	–
IPO costs	–	(1,130)	–	–	(1,130)
Funding of own shares for Employee Benefit Trust	–	–	(270)	–	(270)
Funding of own shares for Share Incentive Plan	–	–	(900)	–	(900)
Disposal of own shares for Share Incentive Plan	–	–	155	–	155
Deferred tax asset utilised	–	–	16,445	(16,445)	–
Transfer between reserves	–	–	(111)	111	–
Balance at 30 June 2007	**190**	**31,551**	**48,431**	**7,250**	**87,422**

The notes on pages 88 to 95 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 1985

Company Cash Flow Statement For the year ended 30 June 2008

	Note	2008 £000's	2007 £000's
Cash flows from operating activities			
Cash generated from operations	38	66,627	56,049
Corporation tax paid		(10,841)	(5 473)
Exceptional items		–	(1,098)
		55,786	49,478
Cash flows from investing activities			
Purchase of property, plant and equipment		(6,145)	(1,288)
Purchase of intangible assets		(161)	(550)
Purchase of current financial assets		(9 475)	(10,199)
Sale of current financial assets		1,494	246
		(14,287)	(11 791)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		692	5,254
Funding of Employee Benefit Trust		(31,382)	(270)
Funding of Share Incentive Plan		(1,037)	(900)
Sale of shares by Share Incentive Plan		214	155
IPO costs written off against share premium		–	(1,130)
Dividends paid		(17,478)	(14,398)
		(48,991)	(11,289)
Net (decrease)/increase in cash and cash equivalents		**(7,492)**	**26,398**
Cash and cash equivalents at beginning of year		51 384	24,986
Cash and cash equivalents at end of the year	32	**43,892**	**51,384**

The notes on pages 88 to 95 are an integral part of these Company Financial Statements

Notes to the Company Financial Statements

24 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 65

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

25 Profits of the Company
The profit for the financial year dealt with in the Company was £33,399 000 (2007 £35,065,000) In accordance with Section 230 of the Companies Act 1985, a separate Income Statement has not been presented for the Company

26 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 230 of the Companies Act 1985

27 Financial risk management
The Company provides full disclosures in accordance with IFRS 7 in its Consolidated Financial Statements Details can be found in note 9 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	2008 £000's	2007 £000's
Cash and cash equivalents	32	43 892	51,384

Cash and cash equivalents comprise short-term bank deposits and cash in hand At 30 June 2008, 99% of cash is held with a counterparty that is a major UK bank and is externally rated AA (2007 99%)

(ii) Concentrations of credit risk
The Company's largest counterparty exposure at the end of each period is as follows

	2008 £000's	2007 £000's
AA[1] rated bank	43,794	51,315

[1]Standard & Poor's ratings

The amount of these exposures can change significantly each month

(b) Market risk management

(i) Foreign exchange rate risk

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

Year ended 30 June 2008

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	32	41,310	1,412	1 161	1	8	43,892
Current financial assets	30	–	15,826	6,160	–	–	21,986
Trade receivables	31	–	16,372	11,662	–	221	28,255
Total financial assets		41,310	33,610	18,983	1	229	94 133

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

Year ended 30 June 2007

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	32	50 192	705	482	1	4	51,384
Current financial assets	30	–	9,061	4 815	–	–	13 876
Derivative financial instruments		–	–	3	–	–	3
Trade receivables	31	–	21,015	12,512	–	–	33,527
Total financial assets		50,192	30,781	17,812	1	4	98,790

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	2,620	400	835	–	–	3,855
Total financial liabilities	2,620	400	835	–	–	3 855

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

(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

Year ended 30 June 2008

Financial assets	2008 £000's	2007 £000's
Cash and cash equivalents	43,892	51,384
Financial assets	21,986	13,876
Derivative financial instruments	–	3
Trade receivables	28,255	33,527
Total financial assets	94 133	98,790

Financial liabilities	2008 £000's	2007 £000 s
Trade and other payables	8,231	3,855

The Company's total financial assets exceed its total financial liabilities in the ratio of 11 4 1 (2007 25 6 1)

Notes to the Company Financial Statements continued

28 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 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

	Leasehold improvements £000's	Furniture fixtures & fittings £000's	Information & communication technology equipment £000's	Total £000 s
Cost				
At 1 July 2006	1 778	623	1,547	3,948
Additions	756	84	414	1 254
Disposals	(310)	–	–	(310)
At 30 June 2007	2,224	707	1,961	4,892
Accumulated depreciation				
At 1 July 2006	308	306	830	1,444
Depreciation charge	645	164	383	1,192
Disposals	(57)	–	–	(57)
At 30 June 2007	896	470	1 213	2,579
Net book amount as at 30 June 2007	1 328	237	748	2,313

Assets written off as at 30 June 2008 relate to those which are no longer in use in the business

29 Intangible assets

	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

	Licences and development costs £000s
Cost	
At 1 July 2006	1,700
Additions	550
At 30 June 2007	2,250
Amortisation	
At 1 July 2006	175
Amortisation in the year	328
At 30 June 2007	503
Net book amount as at 30 June 2007	1,747

Assets written off as at 30 June 2008 relate to those which are no longer in use in the business

30 Financial assets

	2008 £000s	2007 £000s
Current financial assets		
Fair value through profit or loss		
At 1 July 2007 and 2006	13,876	3,674
Additions	9,475	10,199
Fair value adjustment	129	249
Disposals	(1,494)	(246)
At 30 June	21,986	13,876
Non-current financial assets		
Wholly owned subsidiaries		
At 1 July 2007 and 2006	80	79
Additions	–	1
At 30 June	80	80
Total	22,066	13,956

Financial assets at fair value through profit or loss include the following

	2008 £000's	2007 £000's
Investment in funds	21,986	13,876

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

These investments are held in relation to the 'deferred compensation scheme' which is discussed in more detail in note 4

Notes to the Company Financial Statements continued

31 Trade and other receivables

	2008 £000's	2007 £000 s
Trade receivables		
Amounts owed by related parties (Note 22)	23,452	31,472
Other trade receivables	4,803	2,055
Other receivables	634	1 252
Amounts owed by subsidiaries (Note 39)	435	13
Prepayments	2,420	911
Total amounts falling due within one year	31 744	35,703

32 Cash and cash equivalents

	2008 £000's	2007 £000 s
Cash at bank and in hand	3,605	1,384
Short-term bank deposits	40,287	50 000
Total cash and cash equivalents	43,892	51,384

33 Trade and other payables

	2008 £000's	2007 £000 s
Trade payables	223	302
Amounts owed to subsidiaries (see Note 39)	26	229
Other tax and social security payable	648	516
Other payables	7,040	2,859
Accruals	12,724	14,215
Total trade and other payables due within one year	20,661	18,121
Amounts falling due after more than one year		
Accruals	9,627	6 353
Total amounts due after more than one year	9,627	6,353

Amounts falling due after more than one year relate to costs accrued as part of the Company's deferred compensation plan

34 Deferred taxation

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007 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 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

	Temporary differences £000 s
At 1 July 2006	594
Income Statement credit	107
Deferred tax asset utilised	(16,445)
Deferred tax on share-based payments taken to equity	22,450
At 30 June 2007	6 706

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

	2008 £000's	2007 £000's
Share option scheme	1,100	22,450

An analysis of the deferred tax asset is as follows

	2008 £000's	2007 £000's
Accelerated depreciation for tax purposes	134	146
Share-based payments	3,093	6,560
Deferred compensation scheme	3,303	–
Total deferred tax asset	6,530	6,706

(b) Deferred tax liabilities

The movement on the deferred tax liability account is as follows

	Temporary differences £000's
At 1 July 2007	–
Income Statement expense	–
At 30 June 2008	–

	Temporary differences £000's
At 1 July 2006	(117)
Income Statement expense	117
At 30 June 2007	–

Notes to the Company Financial Statements continued

35 Statutory and other information

The Company's total staff costs during the year were £45,770,000 (2007 £41,036,000)

The average number of persons employed by the Company during the year was 198 (2007 143)

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

The Company's audit fees during the year were £80,000 (2007 £75,000)

36 Share capital

	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

	2007 £000s
Authorised	
250,000,000 ordinary shares of £0 001 each	250
Called up, allotted and fully paid	
190,372,500 ordinary shares of £0 001 each	190

Details of the shares are given in note 18 to the Group Financial Statements

37 Reserves

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

38 Cash generated from operations

	2008 £000s	2007 £000s
Continuing operations		
Operating profit for the year before exceptional items	46,082	50,210
Adjustments for		
Financial assets at fair value	(129)	(250)
Derivatives at fair value	3	(3)
Share-based payments	4,832	687
Finance income	3,259	2,254
Finance expense	(12)	(47)
Depreciation	2,264	1,192
Amortisation of intangibles	439	328
Loss on disposal of property, plant and equipment	109	254
	10 765	4,415
Changes in working capital		
Decrease/(Increase) in receivables	3,966	(2,789)
Increase in payables	5,814	4,213
Cash generated from operations	66,627	56,049

39 Related party transactions

The Company provides related party disclosures in note 22 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	Transfer pricing agreement	10% commission rate on expenses
	Provision of financial support	Cash transfers from the Company to its subsidiaries

Purchases of services during the financial year

	2008 £000's	2007 £000's
Fee charged by subsidiary undertakings	2,787	2,838
Reimbursement of capital	26	7

Year end balances arising during the financial year

	2008 £000 s	2007 £000 s
Receivable from subsidiary undertakings	435	13
Payable to subsidiary undertakings	26	229

Shareholder and Company Information

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Dates for 2008 dividend

Ex dividend date	22 October 2008
Record date	24 October 2008
AGM	14 November 2008
Payment date	21 November 2008

Annual general meeting
The AGM will be held at 11 00 am on Friday 14 November 2008 at Sofitel St James 6 Waterloo Place London SW1Y 4AN

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