

Report & Financial Statements

For the year ended 31 December 2008

GMO UK Limited

Company Number: 4658801

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GMO UK LIMITED

CONTENTS

| | Page |
|--------------------------------------|-------------|
| Directors' Report | 1 - 4 |
| Independent Auditors' Report | 5 - 6 |
| Consolidated Profit and Loss Account | 7 |
| Consolidated Balance Sheet | 8 |
| Company Balance Sheet | 9 |
| Consolidated Cash Flow Statement | 10 |
| Notes to the Financial Statements | 11 - 22 |

DIRECTORS' REPORT**For the year ended 31 December 2008**

The Directors present their report and the audited financial statements of GMO UK Limited (the "Company") and its subsidiaries, GMO Woolley Limited and GMO Investment Management Company (Ireland) Limited (together the "Group") for the year ended 31 December 2008.

REVIEW OF THE BUSINESS

The Company is a wholly owned subsidiary of Grantham, Mayo, Van Otterloo & Co. LLC, a Limited Liability Company organised under the laws of Massachusetts, USA.

The Group's principal activity is that of investment management. There have not been any changes in the Group's principal activity in the year under review. The Directors are not aware, at the date of this report, of any likely major changes in the Group's activities in the next year.

As shown in the consolidated profit and loss account, the Group's turnover has decreased by 20%, which is the primary reason why the Group's profit after tax has decreased by 64%. The Company's profit for the financial year after taxation is £3,967,638 (2007: £6,711,003). Total dividends of £3,000,000 (2007: £9,000,000) were paid to Grantham, Mayo, Van Otterloo & Co. LLC during the year. The consolidated balance sheet shows that net assets are lower at the year end compared to the prior year as a result of a transfer from reserves to cover the dividend paid. The total amount of investments in gilts and cash balances at year end has fallen by 20% reflecting lower net assets.

At 31 December 2007, all assets and liabilities of GMO Woolley Limited were transferred to the Company and the distributable reserves paid up as a dividend in February 2008. At 17 December 2008, GMO Woolley Limited reduced its share capital from £360,000 to £1 and the cost of the investment in GMO Woolley Limited was written down in the Company. There have been no significant events since the balance sheet date.

The Group manages its operations, investment and non-investment (business) activities, by means of regular corporate reporting.

Key performance indicators of the GMO UK Group in 2008 were:

Assets Under Management (Serviced by GMO UK Group) as at 31 December 2008-

| | |
|------------|---------------------------|
| Segregated | £3.55 bn (2007: £5.03 bn) |
| Pooled | £1.65 bn (2007: £1.66 bn) |
| Total | £5.20 bn (2007: £6.69 bn) |

Change in Assets Under Management (Serviced by GMO UK Group) from 31 December 2007 to 31 December 2008 -

| | | |
|------------|------|--------------|
| Segregated | -29% | (2007: -16%) |
| Pooled | -1% | (2007: +76%) |
| Total | -22% | (2007: -3%) |

New business won by GMO UK Limited in 2008 (Managed by GMO group companies globally) -

| | |
|------------|----------------------------|
| Segregated | £0.09 bn (2007: +£0.28 bn) |
| Pooled | £0.11 bn (2007: +£0.20 bn) |
| Total | £0.20 bn (2007: +£0.48 bn) |

DIRECTORS' REPORT (continued)
For the year ended 31 December 2008**PRINCIPAL RISKS AND UNCERTAINTIES**

The Group's primary objective is to deliver superior investment performance and advice to its clients. In this context the main threats to its business are poor investment performance, changes in the demand of clients which may lead them to allocate their assets away from the Group and the loss of clients related to unsatisfactory service. From an operational perspective the main risks are related to trading and to managing client cash flows. The Group's success is to a large extent based on its employees. The Directors strive to ensure that the Group's key employees are incentivised to stay with the Group and with regard to its clients, that strong relationships are developed beyond the provision of strong investment results.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group closely monitors its exposure to financial risk. The Group does not enter into any hedging transactions. The Group has no borrowings and therefore its exposure to interest rate risk is limited to returns achieved on its investments in gilts and its cash balances. The Group's principal financial assets are UK Treasury Stock, bank balances and trade and other receivables. These represent the Group's maximum exposure to credit risk in relation to financial assets. This risk is closely monitored by the finance function and in the present climate, we continue to invest excess liquid capital in UK government bond positions. The Group is exposed to some currency risk from the conversion of the fees received in currency but this does not materially impact the results.

EMPLOYEES

Details of the number of employees and related costs can be found in note 5 to the financial statements.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Company operates a programme of matching employees' charitable gifts (up to a salary-related limit). During the year the Group made charitable contributions of £60,650 (2007:£56,938).

DIRECTORS

The Directors who held office during the year and to the date of this report, unless otherwise stated, are given below:

P J Bostock

S Eston

R J G Grantham

S Harris

B Hilsabeck

U Mueller

A Orus (Resigned 13 January 2009)

DIRECTORS' REPORT (continued)
For the year ended 31 December 2008**DIRECTORS' RESPONSIBILITIES**

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' INDEMNITY

The Company's Articles of Association, subject to the provisions of, and to the extent permitted by, UK legislation provide every director or other officer (excluding an auditor) of the Company an indemnity out of the assets of the Company against any liability incurred by him in the actual or purported execution, or discharge of his duties, or the exercise or purported exercise of his powers, or otherwise in relation to, or in connection with his duties, powers or office, but:

- this indemnity shall not apply to any liability to the extent that it is recovered from any other person; and
- the indemnity is subject to such officer taking all responsible steps to effect such recovery, so that the indemnity shall not apply to the extent that an alternative right of recovery is capable of being enforced.

Appropriate directors' and officers' liability insurance cover is in place in respect of the Company's directors.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

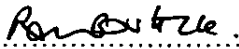
We have taken all the necessary steps to make us aware, as Directors, of any relevant information and to establish that the auditors are aware of that information.

As far as the Directors are aware, there is no relevant information of which the Company's auditors are unaware.

DIRECTORS' REPORT (continued)
For the year ended 31 December 2008

AUDITORS

A resolution to reappoint Mazars LLP as auditors to the Company and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.


.....

P J Bostock
Director
24 March 2009
Registered Office:
One Angel Court
Throgmorton Street
London
EC2R 7HJ

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF GMO UK LIMITED

We have audited the financial statements of GMO UK Limited for the year ended 31 December 2008, which comprise the Consolidated Profit and Loss account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's member in accordance with Section 235 of Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also 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 Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF GMO UK LIMITED
(continued)**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the Company's and the Group's affairs as at 31 December 2008 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's report is consistent with the financial statements.

Mazars LLP
.....

MAZARS LLP
CHARTERED ACCOUNTANTS
and Registered Auditors
Tower Bridge House
St Katharine's Way
London E1W 1DD

25 March 2009

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2008

| | Notes | 2008 £ | 2007 £ |
|---|-------|--------------|--------------|
| TURNOVER | 3 | 19,278,569 | 24,004,321 |
| Administrative expenses | | (16,951,774) | (17,649,388) |
| OPERATING PROFIT | 4 | 2,326,795 | 6,354,933 |
| Interest receivable and similar income | | 413,809 | 450,021 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 2,740,604 | 6,804,954 |
| Taxation | 7 | (811,437) | (1,406,357) |
| PROFIT FOR THE FINANCIAL YEAR | 15 | 1,929,167 | 5,398,597 |

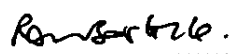
The Group has no recognised gains or losses other than the result for the year.

All activities relate to continuing operations.

CONSOLIDATED BALANCE SHEET
as at 31 December 2008

| | Notes | 2008 £ | 2007 £ |
|---|-------|-------------------|-------------------|
| FIXED ASSETS | | | |
| Tangible assets | 9 | 216,104 | 220,917 |
| CURRENT ASSETS | | | |
| Debtors | 11 | 7,205,508 | 7,352,655 |
| Investments | 12 | 5,909,711 | - |
| Cash at bank and in hand | | 1,942,740 | 9,807,313 |
| | | <u>15,057,959</u> | <u>17,159,968</u> |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 13 | (9,325,832) | (10,001,821) |
| NET CURRENT ASSETS | | <u>5,732,127</u> | <u>7,158,147</u> |
| NET ASSETS | | <u>5,948,231</u> | <u>7,379,064</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 14 | 2,500,000 | 2,500,000 |
| Profit and loss account | 15 | 3,448,231 | 4,519,064 |
| Merger reserve | 15 | - | 360,000 |
| EQUITY SHAREHOLDER'S FUNDS | 16 | <u>5,948,231</u> | <u>7,379,064</u> |

Approved by the Board of Directors on 24 March 2009
and signed on their behalf by:


.....
P J Bostock
Director

COMPANY BALANCE SHEET
as at 31 December 2008

| | Notes | 2008 £ | 2007 £ |
|---|-------|-------------------|-------------------|
| FIXED ASSETS | | | |
| Tangible assets | 9 | 216,104 | 220,917 |
| Investments | 10 | 84,153 | 84,152 |
| | | <u>300,257</u> | <u>305,069</u> |
| CURRENT ASSETS | | | |
| Debtors | 11 | 7,558,936 | 7,384,409 |
| Investments | 12 | 5,909,711 | - |
| Cash at bank and in hand | | 1,440,242 | 9,665,346 |
| | | <u>14,908,889</u> | <u>17,049,755</u> |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 13 | (9,298,201) | (12,411,517) |
| NET CURRENT ASSETS | | <u>5,610,688</u> | <u>4,638,238</u> |
| NET ASSETS | | <u>5,910,945</u> | <u>4,943,307</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 14 | 2,500,000 | 2,500,000 |
| Profit and loss account | 15 | 3,410,945 | 2,443,307 |
| EQUITY SHAREHOLDER'S FUNDS | 16 | <u>5,910,945</u> | <u>4,943,307</u> |

Approved by the Board of Directors on 24 March 2009
and signed on their behalf by:

P J Bostock
.....
P J Bostock
Director

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2008

| | Notes | 2008 £ | 2007 £ |
|---|-------|-------------|-------------|
| Net cash inflow from operating activities | 17 | 2,581,054 | 7,637,256 |
| Returns on investments and servicing of finance: | | | |
| - Interest received | | 338,901 | 450,021 |
| Taxation: | | | |
| - Tax paid | | (1,767,893) | (1,285,011) |
| Capital expenditure: | | | |
| - Payments to acquire tangible fixed assets | 9 | (106,924) | (114,641) |
| Equity dividends paid | 8 | (3,000,000) | (9,000,000) |
| | | <hr/> | <hr/> |
| Net cash outflow before use of liquid resources and financing | | (1,954,862) | (2,312,375) |
| Management of liquid resources: | | | |
| - Redemption of liquid funds | 12 | - | 9,729,076 |
| - Purchase of UK Treasury Stock | | (8,674,514) | - |
| - Sale of UK Treasury Stock | | 2,764,803 | - |
| | | <hr/> | <hr/> |
| (Decrease)/increase in cash in the year | 18 | (7,864,573) | 7,416,701 |
| | | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008**1. ACCOUNTING POLICIES**

These financial statements have been prepared under the historical cost convention as modified to include the revaluation of current asset investments. The financial statements have been prepared on a going concern basis and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

(a) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings made up to 31 December 2008.

The profits and losses of subsidiary undertakings, other than GMO Woolley Limited, are consolidated from the date of acquisition to the date of disposal using the acquisition method of accounting. When the Company's shares are issued in respect of an acquisition, the share premium is computed on the basis of the market value of the shares at the date of acquisition. The difference between the cost of acquisition of shares in these subsidiaries and the fair value of the separable net assets acquired is amortised through the profit and loss account in equal instalments over its estimated useful life.

In respect of GMO Woolley Limited, the Group financial statements have been prepared in accordance with the principles of merger accounting set out in Financial Reporting Standard 6: 'Acquisitions and Mergers' and Schedule 4A to the Companies Act 1985.

(b) Accounting convention

These financial statements have been prepared under the historical cost convention as modified to include the revaluation of current asset investments. They have been prepared in accordance with applicable Statements of Standard Accounting Practice and Financial Reporting Standards.

(c) Investments

Investments held as fixed assets by the Group and Company are carried at the lower of cost and net realisable value. Current asset investments are stated at current value at the balance sheet date.

(d) Turnover

Turnover represents fees receivable from discretionary and advisory segregated client accounts (net of VAT) and net fees receivable from GMO pooled funds.

Turnover from the provision of asset management services is recognised when the services have been provided and the fees can be ascertained and charged.

The Group has entitlement to earn performance fees from a number of clients where the actual fund performance of the clients' assets exceeds certain benchmarks by an agreed level of performance in a set time period. Performance fees are recognised when the quantum of the fee can be ascertained and charged, which is normally at the end of the performance period when this occurs on or before the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

(e) Depreciation

Tangible fixed assets are depreciated over their expected useful lives on the straight line basis using the following rates per annum:

| | | |
|------------------------|---|----------------------------|
| Leasehold premises | - | Over the life of the lease |
| Office equipment | - | 25% |
| Furniture and fittings | - | 25% |

(f) Deferred taxation

The Company applies FRS 19 'Deferred Tax' in the financial statements. Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date. No provision is made for taxation on permanent differences. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

(g) Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Differences arising on the translation of such items are dealt with in the profit and loss account.

(h) Pension costs

The Company operates a defined contribution scheme, the assets of which are held separately from those of the Company in an independently administered fund. Contributions are charged to the profit and loss account as they become payable. Contributions paid in the year are shown in note 19 to the financial statements.

(i) Operating Lease

All operating lease costs are charged to the profit and loss account over the term of the lease.

(j) Liquid Resources

The following current asset investments are included in liquid resources for the purpose of preparing the cash flow statement:

- UK Treasury Stock

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

2. COMPANY RESULT

The Company is exempt under Section 230 of the Companies Act 1985 from disclosing its own Profit and Loss Account. The profit of the Company for the year which includes dividend income, was £3,967,638 (2007: £6,711,003).

3. TURNOVER

| | 2008 | 2007 |
|------------------------|-------------------|-------------------|
| Turnover | £ | £ |
| United Kingdom | 16,288,394 | 20,516,080 |
| Europe & Rest of World | 2,990,175 | 3,488,241 |
| | <u>19,278,569</u> | <u>24,004,321</u> |

4. OPERATING PROFIT

| | 2008 | 2007 |
|--|----------------|----------------|
| | £ | £ |
| Operating profit is stated after charging / (crediting): | | |
| Staff costs (see note 5) | 16,013,042 | 16,686,872 |
| Depreciation of tangible fixed assets | 108,859 | 119,021 |
| Loss on disposal of fixed assets | 2,878 | - |
| Profits from foreign currency conversion | (128,359) | (22,566) |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 34,000 | 34,000 |
| Fees payable to the Company's auditor audit and its associates for other services: | | |
| - The audit of the Company's subsidiaries pursuant to legislation | 5,559 | 5,380 |
| - Tax services | 4,000 | 8,000 |
| Operating lease charges: | | |
| - Property | <u>365,897</u> | <u>370,860</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

5. EMPLOYEE INFORMATION

| | 2008 | 2007 |
|-----------------------|-------------------|-------------------|
| | £ | £ |
| Wages and salaries | 14,128,984 | 14,758,553 |
| Social security costs | 1,799,912 | 1,869,817 |
| Pension costs | 84,146 | 58,502 |
| | <u>16,013,042</u> | <u>16,686,872</u> |

The average monthly number of persons (including executive Directors) employed by the Group during the period was:

| | 2008 | 2007 |
|-------------------------------|-------------|-------------|
| | No. | No. |
| By activity: | | |
| Management and administration | 17 | 17 |
| Investment professionals | 10 | 9 |
| | <u>27</u> | <u>26</u> |

6. DIRECTORS' EMOLUMENTS

| | 2008 | 2007 |
|---|------------------|------------------|
| | £ | £ |
| Emoluments | | |
| Aggregate emoluments | 6,996,962 | 6,573,841 |
| Total emoluments of the highest paid Director | <u>3,073,196</u> | <u>2,826,340</u> |
| Pension Contributions | | |
| Aggregate contributions made by the Company during the year to Directors' defined contribution pension schemes | 10,938 | 7,812 |
| Contributions made by the Company during the year to defined contribution pension schemes in respect of the highest paid Director | <u>-</u> | <u>-</u> |

During the year, one Director received accrued benefits under Directors' defined contribution pension schemes (2007: One).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

7. TAXATION ON THE PROFIT FOR THE YEAR

| | 2008 | 2007 |
|--|----------------|------------------|
| | £ | £ |
| (a) Tax on the profit of ordinary activities comprised: | | |
| Current tax: | | |
| UK corporation tax on profits of the period | 739,762 | 2,044,001 |
| Foreign tax | 3,912 | 1,637 |
| Adjustment in respect of previous periods | 71,700 | (642,447) |
| | <hr/> | <hr/> |
| Current tax charge for the year | 815,374 | 1,403,191 |
| Deferred tax: | | |
| Origination and reversal of timing differences | (3,937) | 3,166 |
| | <hr/> | <hr/> |
| Total deferred tax | (3,937) | 3,166 |
| | <hr/> | <hr/> |
| Tax charge on profit on ordinary activities | <u>811,437</u> | <u>1,406,357</u> |

(b) Factors affecting the tax calculation for the year

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (28.5%). The differences are explained below:

| | | |
|---|----------------|------------------|
| Profit on ordinary activities before tax | 2,740,604 | 6,804,954 |
| | <hr/> | <hr/> |
| Profit on ordinary activities multiplied by standard rate in the UK 28.5% (2007: 30%) | 781,072 | 2,041,487 |
| <i>Effects of:</i> | | |
| Expenses not deductible for tax purposes | 32,064 | 11,806 |
| Depreciation in excess of / (less than) capital allowances | 1,909 | (5,683) |
| Lower tax rates on overseas earnings | (4,791) | (2,051) |
| Other timing differences | (66,580) | 79 |
| Prior year under / (over) provision | 71,700 | (642,447) |
| | <hr/> | <hr/> |
| Current tax charge for the year | <u>815,374</u> | <u>1,403,191</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

| | 2008 | 2007 |
|--|---------------|---------------|
| | £ | £ |
| (c) The deferred tax included in the balance sheet is as follows: | | |
| Included in debtors (note 11) | 14,620 | 10,683 |
| | <u>14,620</u> | <u>10,683</u> |
| Total recognised deferred tax asset | <u>14,620</u> | <u>10,683</u> |
| Accelerated capital allowances | 11,136 | 9,260 |
| Other timing differences | 3,484 | 1,423 |
| | <u>14,620</u> | <u>10,683</u> |
| Total recognised deferred tax assets | <u>14,620</u> | <u>10,683</u> |
| Deferred tax asset at the start of the year | 10,683 | 13,849 |
| Deferred tax credit / (charge) in profit and loss account for the year | 3,937 | (3,166) |
| | <u>14,620</u> | <u>10,683</u> |
| Deferred tax asset at the end of the year | <u>14,620</u> | <u>10,683</u> |

8. DIVIDEND

| | 2008 | 2007 |
|--|------------------|------------------|
| | £ | £ |
| Dividend paid on 2,500,000 ordinary shares - £1.20 per share (2007: £3.60 per share) | 3,000,000 | 9,000,000 |
| | <u>3,000,000</u> | <u>9,000,000</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

9. FIXED ASSETS – TANGIBLE ASSETS

| GROUP & COMPANY | Leasehold improvements £ | Office equipment £ | Furniture and fittings £ | Total £ |
|----------------------------|---|-----------------------------------|---|--------------------|
| COST | | | | |
| As at 1 January 2008 | 26,615 | 288,432 | 173,528 | 488,575 |
| Additions | 10,830 | 96,094 | - | 106,924 |
| Disposals | - | (33,039) | - | (33,039) |
| As at 31 December 2008 | 37,445 | 351,487 | 173,528 | 562,460 |
| DEPRECIATION | | | | |
| As at 1 January 2008 | 26,615 | 152,115 | 88,928 | 267,658 |
| Charge for the year | 1,814 | 64,431 | 42,614 | 108,859 |
| Disposals | - | (30,161) | - | (30,161) |
| As at 31 December 2008 | 28,429 | 186,385 | 131,542 | 346,356 |
| NET BOOK VALUE | | | | |
| As at 31 December 2008 | 9,016 | 165,102 | 41,986 | 216,104 |
| As at 31 December 2007 | - | 136,317 | 84,600 | 220,917 |

10. FIXED ASSET INVESTMENTS – GROUP UNDERTAKINGS

| | Company 2008 £ |
|---|-------------------------------|
| Investments in group undertakings | |
| At 1 January 2008 | 84,152 |
| Transfer of investment in GMO Woolley Limited | 360,000 |
| Write down of investment in GMO Woolley Limited | (359,999) |
| At 31 December 2008 | 84,153 |

Additional information on principal subsidiaries held by GMO UK Limited:

| Name of Company | Country of incorporation / registration and operation | Class of shares held | Percentage of shares held | Nature of business |
|---|--|---------------------------------|--------------------------------------|-------------------------------|
| GMO Woolley Limited | United Kingdom | Ordinary | 100% | Investment management |
| GMO Investment Management Company (Ireland) Limited | Ireland | Ordinary | 100% | Investment management |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

11. DEBTORS

| | Group | | Company | |
|-------------------------------------|------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £ | £ | £ | £ |
| Due within one year: | | | | |
| Trade debtors | 1,112,227 | 1,582,366 | 1,052,600 | 1,529,705 |
| Other debtors | 123,713 | 114,589 | 123,713 | 114,589 |
| Amounts due from group undertakings | - | 1,058,907 | 413,194 | 1,143,322 |
| Prepayments and accrued income | 5,954,948 | 4,586,110 | 5,954,809 | 4,586,110 |
| | <u>7,190,888</u> | <u>7,341,972</u> | <u>7,544,316</u> | <u>7,373,726</u> |
| Due after one year: | | | | |
| Deferred tax asset | 14,620 | 10,683 | 14,620 | 10,683 |
| | <u>7,205,508</u> | <u>7,352,655</u> | <u>7,558,936</u> | <u>7,384,409</u> |
| The deferred tax asset represents: | | | | |
| Capital allowances | 11,136 | 9,260 | 11,136 | 9,260 |
| Other timing differences | 3,484 | 1,423 | 3,484 | 1,423 |
| | <u>14,620</u> | <u>10,683</u> | <u>14,620</u> | <u>10,683</u> |

12. CURRENT ASSETS: INVESTMENTS

| | Group | | Company | |
|----------------------------------|------------------|-------------|------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £ | £ | £ | £ |
| Liquid funds as at 1 January | - | 9,729,076 | - | 7,146,594 |
| Investments in UK Treasury Stock | 5,909,711 | - | 5,909,711 | - |
| Net liquid funds redeemed | - | (9,729,076) | - | (7,146,594) |
| | <u>5,909,711</u> | <u>-</u> | <u>5,909,711</u> | <u>-</u> |
| Liquid funds as at 31 December | <u>5,909,711</u> | <u>-</u> | <u>5,909,711</u> | <u>-</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|----------------------------------|------------------|-------------------|------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £ | £ | £ | £ |
| Trade creditors | 73,554 | 35,579 | 73,554 | 35,579 |
| Other creditors | 12,444 | 110,600 | 12,444 | 110,600 |
| Amount due to parent undertaking | 799,577 | - | 799,577 | 2,425,092 |
| Taxation and social security | 1,689,496 | 1,507,989 | 1,689,496 | 1,507,989 |
| Corporation tax | 38,629 | 991,148 | 39,583 | 989,511 |
| Accruals and deferred income | 6,712,132 | 7,356,505 | 6,683,547 | 7,342,746 |
| | <u>9,325,832</u> | <u>10,001,821</u> | <u>9,298,201</u> | <u>12,411,517</u> |

14. CALLED UP SHARE CAPITAL

| | Group and Company 2008 £ | Group and Company 2007 £ |
|---|---|---|
| Authorised 2,500,000 ordinary shares of £1 each | <u>2,500,000</u> | <u>2,500,000</u> |
| Allotted and fully paid 2,500,000 ordinary shares of £1 each | <u>2,500,000</u> | <u>2,500,000</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

15. RESERVES

| Group | Merger reserve £ | Profit and loss account £ | Total £ |
|---|---------------------------------|--|--------------------|
| At 1 January 2008 | 360,000 | 4,519,064 | 4,879,064 |
| Profit for the financial year | - | 1,929,167 | 1,929,167 |
| Credit arising from transfer of investment in group undertaking | (360,000) | - | (360,000) |
| Dividend paid | - | (3,000,000) | (3,000,000) |
| At 31 December 2008 | - | 3,448,231 | 3,448,231 |

On 17 December 2008, the share capital of GMO Woolley Limited, a subsidiary of the Company, was reduced by the cancellation of 359,999 of the 360,000 £1 Ordinary Shares in issue.

| Company | Profit and loss account £ |
|-------------------------------|--|
| At 1 January 2008 | 2,443,307 |
| Profit for the financial year | 3,967,638 |
| Dividend paid | (3,000,000) |
| At 31 December 2008 | 3,410,945 |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

| | Group | | Company | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £ | £ | £ | £ |
| Profit for the year | 1,929,167 | 5,398,597 | 3,967,638 | 6,711,003 |
| Dividend | (3,000,000) | (9,000,000) | (3,000,000) | (9,000,000) |
| Merger reserve transfer | (360,000) | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net increase / (decrease) in the year | (1,430,833) | (3,601,404) | 967,638 | (2,288,997) |
| Opening shareholder's funds as at 1 January | 7,379,064 | 10,980,467 | 4,943,307 | 7,232,304 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Closing shareholder's funds at 31 December | 5,948,231 | 7,379,064 | 5,910,945 | 4,943,307 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

17. RECONCILIATION OF GROUP OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2008 | 2007 |
|---|-------------------|-------------------|
| | £ | £ |
| | Group | Group |
| Operating profit | 2,326,795 | 6,354,933 |
| Revaluation of UK Treasury Stocks | 74,908 | - |
| Loss on disposal of fixed assets | 2,878 | - |
| Depreciation | 108,859 | 119,021 |
| Change in debtors | 151,084 | (1,070,650) |
| Change in creditors | (83,470) | 2,233,952 |
| | <u> </u> | <u> </u> |
| Net cash inflow from operating activities | 2,581,054 | 7,637,256 |
| | <u> </u> | <u> </u> |

18. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

| | 2008 | 2007 |
|---|-------------------|-------------------|
| | £ | £ |
| | Group | Group |
| Net funds as at 1 January | 9,807,313 | 2,390,612 |
| (Decrease)/increase in cash in the year | (7,864,573) | 7,416,701 |
| | <u> </u> | <u> </u> |
| Net funds as at 31 December | 1,942,740 | 9,807,313 |
| | <u> </u> | <u> </u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

19. PENSION COMMITMENTS

The Company operates a defined contribution pension scheme with assets held in a separately administered fund. Contributions totalling £12,444 (2007: £11,379) were payable to the fund at year end. Contributions charged to the consolidated profit and loss account for the year were £84,145 (2007: £58,502).

20. CAPITAL AND OTHER COMMITMENTS

As at 31 December 2008 the Group had the following annual commitments under non cancellable operating leases:

| | 2008 | 2007 |
|--------------------|-------------------|-------------------|
| | £ | £ |
| Land and buildings | | |
| Expiring within: | | |
| Two and five years | 383,150 | - |
| Over five years | - | 365,897 |
| | <u> </u> | <u> </u> |

A break clause exists and could be exercised on 24 June 2012.

21. ULTIMATE PARENT UNDERTAKING

The immediate and ultimate parent undertaking and controlling party is Grantham, Mayo, Van Otterloo & Co. LLC, incorporated in the U.S.A., Grantham, Mayo, Van Otterloo & Co. LLC, is the parent of both the smallest and largest group for which group accounts are drawn up.

22. RELATED PARTY TRANSACTIONS

During the year, the Group received net transfer pricing income totalling £908,218 (2007: paid charges of £972,312) from Grantham, Mayo, Van Otterloo & Co. LLC. As at 31 December 2008, a net amount of £799,577 was due from (2007: £1,058,907) that Company in respect of transfer pricing charges and other re-charges.

During the year the Group received fee income in the ordinary course of business from GMO Funds Plc (an investment company with variable capital incorporated in Ireland), to which GMO UK Limited has been appointed the investment manager. U Mueller was a Director of GMO Funds Plc from his appointment on 5 January 2007. Fees receivable in the year amounted to £3,970,579 (2007: £5,451,297). At the balance sheet date, the Group was owed £133,974 net (2007: £435,860 net).

P Bostock was a Director of Inquire UK in 2008. Fees payable in the year to this company amounted to £4,800 (2007: £4,800).

The Company has taken advantage of the exemptions available under FRS 8 not to disclose related party transactions with its subsidiary undertakings on the basis that the subsidiary undertakings are wholly owned.

