ANNUAL REPORT

Man Group plc
for the year ended 31 December 2012

Man | AHL glg FRM
Innovating to perform

Welcome

Man Group Annual Report 2012

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Man is one of the world's leading investment management companies, offering a wide range of strongly performing investment products accessible through a variety of formats to meet client needs and regulatory requirements globally.

- Performance-driven investment culture
- $57.0 billion of funds under management (FUM) across a full range of investment styles
- Based in London with offices in every major region and approximately 1,400 employees
- A powerful distribution network that serves a highly diversified and global client base
- Constituent of the FTSE 250 Index (UK:EMG)

Group structure

AHL | GLG | FRM

Distribution

Operations & Group functions

AHL
AHL is Man's industry-leading quantitative managed futures manager. It aims to identify and profit from market trends and other inefficiencies by employing systematic trading models, which are backed by its unrivalled research capabilities and a unique collaboration with the University of Oxford.

GLG
GLG is a leading discretionary, multi-strategy global investment manager that offers a range of alternative and long only investment strategies. GLG has built up one of the world's most widely respected teams of investment professionals covering equity, macro, emerging markets, credit, convertible bond and thematic strategies.

FRM
FRM is a top 10 global industry allocator to hedge funds by FUM, and the largest independent European based fund of hedge funds managing commingled funds and advising institutional clients. The business offers clients a wide range of multi-manager investment services across the liquidity spectrum, from commingled fund of hedge funds through managed accounts (MACs) to risk management and manager seeding activities.

Overview 2012

- Further decline in profitability due to a 43% drop in high margin guaranteed product FUM and $7.3bn of net outflows
- $979 million goodwill impairment leads to a statutory loss
- Significant progress made in reshaping the business
- Acquisition of FRM completed in July and integration into the Multi-Manager business now complete
- $95 million of operating cost savings announced in January 2012 delivered and on track to deliver further annual cost savings of $100 million by the end of 2013
- Improvement in capital and liquidity through sale of assets in the Lehman estates and positive operating cash flow

Funds under management (FUM)

$57.0bn

Down 2% from $58.4bn at 31 December 2011 against a turbulent market and economic background. The decrease comprises: net outflows of $7.3bn de-gearing and other movements of $3.4bn, negative FX of $0.3bn, partly offset by acquired FRM FUM of $8.3bn and positive investment performance of $1.3bn.

Sales

$12.8bn

Split $9.0bn alternatives and $3.8bn long only. Net outflows of $7.3bn in total, with net outflows of $6.8bn out of alternatives and $0.5bn out of long only. Sales were $16.7bn for the prior nine month period.

Revenue

$1,299m

Gross revenue comprised $1,209m of management fees and $90m of performance fees. Revenue was impacted by: the decrease in FUM, a decline in the aggregate gross management fee margin from 230bps in the prior period to 209bps in 2012 (as a result of the continuing product mix shift), and the majority of our products remaining at below high water marks during the year. Revenue was $1,254m for the prior nine month period.

Adjusted profit before tax

$278m

Comprises adjusted net management fee income of $223m and net performance fee income of $55m. Adjusted profit before tax for the prior nine month period was $262m. Refer to Note 2 of the financial statements for additional information on adjusting items.

Adjusted diluted earnings per share

11.8 cents

This reflects the decline in our revenue streams. Adjusted diluted earnings per share for the nine months to 31 December 2011 was 10.7 cents.

Loss before tax

$(745)m

Reflects impairment of goodwill associated with GLG ($837m) and the Multi-Manager business ($142m), as well as other adjusting items including impairment of capitalised placement fees ($88m) and restructuring costs ($69m) net of the Lehman gain ($131m). A full reconciliation between the statutory loss and adjusted profit for the year is given in Note 2 of the financial statements. Profit before tax for the prior nine month period was $193m.

Diluted loss per share

(45.6) cents

Reflects the goodwill impairment and other impairment and restructuring charges incurred in the year. A reconciliation between statutory and adjusted diluted earnings per share is given in Note 10 to the financial statements. Diluted earnings per share for the prior nine month period was 7.6 cents.

Dividends relating to the year

22 cents

Maintained on a pro-rata basis. Proposed final dividend of 12.5 cents per share. Payable at a rate of 8.26 pence per share. Dividend information can be found on page 105.

Comparatives

This report covers the 12 months ended 31 December 2012. We are required, for comparative purposes, to include the prior reported period, which was for the nine months ended 31 December 2011 (following a change of financial year end). The two periods are therefore not directly comparable and we have explained changes that occurred during the year in absolute terms rather than in relation to the prior period.

New Group holding company

On 6 November 2012, under a Court approved scheme of arrangement between Man Group plc, our former holding company, and its shareholders under Part 26 of the Companies Act 2006, all the issued ordinary shares in the former holding company were cancelled. Shareholders received, for every ordinary share they held in the former holding company, one ordinary share in a new holding company which became the new listed holding company for the Man Group and has the same name as its predecessor, Man Group plc. No distinction is made for reporting purposes between the former and new holding companies so that the results for both companies are presented on a combined and continuous basis for the full year. Throughout the Annual Report, references to the Board, its Committees, the Company and the Group refer to the old holding company (and its subsidiaries) prior to 6 November 2012 and the new holding company (and its subsidiaries) from that date.

Business model and drivers of long-term growth

Performance

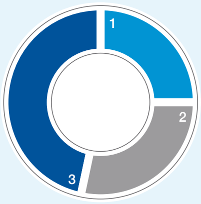
Man's business model begins and ends with investment performance. The ability of our investment managers to deliver strong long-term returns for our investors across a broad spectrum of alternative investment strategies is critical.

AHL is a systematic, trend following managed futures manager with a 25 year performance track record.

GLG has expertise across a wide range of discretionary investment strategies including equity long short and long only, credit and convertibles, fixed-income and macro.

FRM provides actively managed, thematic fund of hedge fund offerings and manages the guaranteed product range. Their extensive managed accounts platform offers institutional investors control, transparency and sophisticated risk management.

FUM by manager



1. AHL – $14.4bn
2. FRM – $16.0bn
3. GLG – $26.6bn

Fund Investors

Man's investor base is broadly split one third/two thirds between private investors and institutional investors. Man's private investor base is focused on the mass affluent market and high net worth individuals and we have around 870 institutional clients – predominantly pension funds, insurance companies, banks, asset managers, sovereign wealth funds and endowments.

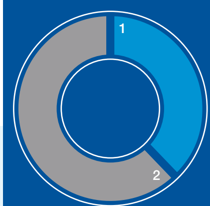
These investors invest in independent fund entities for which Man acts as the investment manager. The independent fund entities pay Man management fees and performance fees.

Management fees are charged for providing investment management services at a percentage of each entity's gross investment exposure. Gross investment exposure in this report is referred as FUM.

Performance fees are charged as a percentage of the investment performance earned above a benchmark return or a previous higher valuation 'high water mark'.

The fund entities are independently governed. Their investment performance, assets and liabilities are separate from Man and are not consolidated into Man's financial statements.

FUM by investor type



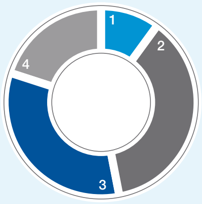
1. Private – 38%
2. Institutional – 62%

Products

Man is able to offer a wide range of liquid investment strategies and formats across geographies to meet the needs of the investor. These include quantitative and discretionary, long only and long short, single and multi-manager.

Investor priorities and regulatory regimes vary significantly between jurisdictions, meaning that investor solutions need to be carefully tailored to the needs of local markets. Having the scale and expertise to be able to package investment returns appropriately to meet investor and regulatory requirements is a key source of competitive advantage.

FUM by format



1. Guaranteed – $5.7bn
2. Open ended – $21bn
3. Institutional FoF and other – $18.9bn
4. Long only – $11.4bn

Infrastructure & capital

Surrounding our investment management and distribution is a strong operational infrastructure, risk management, people management and governance which ensures the sustainability of our business model and enables us to take advantage of new business opportunities.

Our surplus capital of $795m and liquidity resources of $3.5bn give us flexibility to support and grow our business across market cycles.

Surplus capital

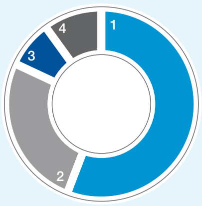
$795 million

Distribution

Our extensive global distribution network, long established local relationships and high quality technology-enabled investor reporting gives us competitive advantage.

We distribute our products and solutions to private investors via a unique global network of intermediaries, and directly to institutions. Intermediaries are rewarded through sales commission. Client service is an essential part of our growth strategy and we focus equally on expanding our investor base and serving existing investors.

FUM by geography



1. Europe – 56%
2. Asia Pacific – 26%
3. Americas – 8%
4. ME&A – 10%

Market backdrop

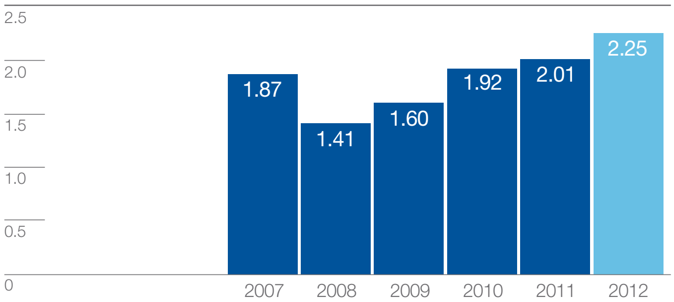
Investor demand overall for alternative investment products continues to grow steadily. However, since 2008 certain segments in which Man has historically benefited from a strong market position, for example fund of hedge funds and European retail investors, have reduced their exposure significantly.

Much of the demand for hedge fund products in recent years has come from the US institutional market place, which now accounts for over two thirds of all hedge fund assets. Institutions there are allocating a greater proportion of their assets to hedge fund managers; whilst Man is continuing to build its sales capability in the US, assets under management from US-based investors still account for only 5% of the firm's funds under management. Recent low absolute returns among hedge funds have, however, curbed demand in geographies where we have raised significant funds historically.

We anticipate that operating conditions for hedge fund firms will continue to be challenging in 2013 with investor sentiment remaining fragile and the risk on/risk off environment making it difficult to perform. Whilst this environment persists, it will remain relatively difficult to attract and retain clients' assets. In the long-term, however, Man continues to be well positioned to benefit from improved investor sentiment as and when risk appetite returns by virtue of our product set, performance, distribution capability and infrastructure.

In the meantime, we are focusing on the things that we can control: generating the best returns possible, expanding our product offering judiciously, enhancing our distribution and running our business as efficiently as possible.

Hedge fund industry assets 2007–2012
(US$ trillion)



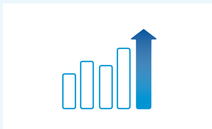
Source: HFR

Strategy and key priorities

Man's corporate strategy is to deliver strong long-term investment performance:
- **Across our range of alternative investment strategies and formats**
- **To a growing global investor base**
- **With a strong framework of risk and people management, governance, innovation and capital allocation**

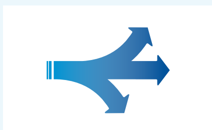
The actions we take to implement our strategy vary from year to year. In 2012 we identified five key priorities across our business which build on the three priorities we set out in our last report and accounts of investment performance, meeting client needs and efficiency. These priorities are aimed at positioning the firm for future growth, whilst controlling costs and maximising the efficiency of our balance sheet.

We have started to make progress against each of these priorities during 2012 and will continue to focus on them in 2013.



Investment performance
The quest for investment performance unites all of our investment managers and is evident in innovations such as Man Systematic Strategies (MSS).

Creating options for growth
In a rapidly evolving environment which remains difficult for some of our core products, creating and developing options for growth is key.



Distribution effectiveness
Reorienting the distribution effort to reflect the increasing weighting of sales to the institutional channel and away, in particular, from guaranteed products.

Cost reduction
Having looked in depth at the optimal configuration of the business, we are moving more decisively to align our costs to flows rather than inventory.

Balance sheet efficiency
As the mix of our business changes we will continue to focus on maximising the efficiency of our balance sheet.

Chairman's review

Jon Aisbitt
Chairman

Over the last three years, we have seen a fundamental change in the nature and profitability of our business, in particular as a result of the rapid decline in our book of high margin guaranteed products. A sustained low interest rate environment and difficult markets for trend following have contributed to a reduction in guaranteed product funds under management from some $34.3 billion in 2008 to $5.7 billion at 31 December 2012. Despite the positive impact of the acquisition of FRM, our total funds under management fell from $58.4 billion at the beginning of the year to $57.0 billion at the end. Adjusted profit before tax for the year was $278 million compared with $262 million for the nine months ended 31 December 2011. Weaker flows and investment performance led us to impair the GLG and Man Multi-Manager goodwill resulting in a pre-tax statutory loss of $745 million for the year. Against this backdrop of negative trends and decline in profitability, my review this year outlines the steps the Board has taken to address these impacts and position the business as strongly as possible for long-term growth.

To create a firm foundation for future earnings, our strategy has continued to be to improve investment performance, develop our product offering to meet investor needs, and drive cost efficiency throughout the business. Notwithstanding the difficult markets which persisted during 2012, and in particular the negative impact for trend followers of the sharp reversals triggered by monetary policy intervention, we have challenged management to improve investment performance and create opportunities for growth. We have overseen the reshaping of the business and rescaling of the cost base to match the economics of a reduced and different mix of asset flows. The acquisition of FRM has reinvigorated our fund of funds business. We have reviewed and redefined our dividend policy and ensured that the Group has an appropriate and efficient level of capital and liquidity for its potential future needs.

Investment performance

Our management team is very focused on the relative and absolute performance of our various funds. At every Board meeting we monitor relative performance and challenge management on any funds which might be underperforming. The relative performance of AHL versus its peers has received significant attention and recent changes to the team, research process and models have produced positive results. We recognise the central importance of AHL for the business and continue to invest in people to strengthen our research capabilities. The performance of GLG and FRM is similarly monitored at every meeting and members of all our investment teams are invited to discuss progress and future prospects with the Board.

Creating options for growth

Conscious of the need to continue to diversify the business, the Board identified and agreed at its annual strategy review a number of workstreams aimed at rationalising Man's product offering and launching new strategies with the aim of increasing funds under management and generating additional revenue. All these workstreams, which include the opportunity for further asset allocation to AHL Evolution and non-momentum trading, the build out of GLG's Asian Long–Short strategy and improving the sales focus for GLG's high performing Credit funds, are currently being implemented.

Midway through the year, the Board approved the acquisition of FRM. This successful acquisition created the opportunity to leverage extra value from Man's existing Multi-Manager business through enhanced client and manager access and a reinvigorated managed account pipeline. It also reinforced Man's position in the key Japanese market and facilitated a selective upgrade of talent.

Distribution effectiveness

A full review of distribution was one of the workstreams agreed at our Board strategy review. Following a presentation from the Head of Global Sales on current global trends in retail and institutional markets, the Board focused in particular on Man's strategy for growth in the US. They endorsed the appointment of John Rohal as Executive Chairman of Man North America and sought confirmation of the skills and experience of the US sales team and the ambition of their targets. The Board has debated with management their development of a new internal sales compensation structure, seeking to achieve an optimum model which fully aligns the long-term interests of fund investors, shareholders and sales teams. A new structure approved by the Board was introduced at the start of 2013 and its impact will be closely monitored in the year ahead.

Cost reduction

In late 2011 and January 2012 we announced our intention to implement a total of $95 million of cost savings by the end of 2012. In July, we announced a further $100 million of savings to be implemented by the end of 2013. The Board has reviewed and discussed management's proposals for delivering these commitments which will be achieved both through headcount reduction and non-compensation savings. We sought and obtained assurance that the reductions proposed would neither compromise the expertise and flexibility of our investment management teams nor prejudice the integrity of the Group's regulatory, compliance and risk management functions. Future options for growth will remain unconstrained. The first phase of the savings has now been completed and the Board will continue to monitor progress on the second phase through the remainder of this year.

Dividend policy

In March last year, following further consideration of Man's long-term earnings potential and future capital requirements, we reviewed and redefined our dividend policy. The new policy is that we will pay out at least 100% of adjusted net management fee earnings per share in each financial year by way of ordinary dividend. In addition, Man expects to generate significant surplus capital over time, primarily from net performance fee earnings. Available surpluses, after taking into account our required capital, potential strategic opportunities and a prudent buffer, will be distributed to shareholders over time, by way of higher dividend payments and/or share repurchases. Whilst the Board considers dividends as the primary method of returning capital to shareholders, it will continue to execute share repurchases when advantageous.

For the financial year to 31 December 2012, we have applied this policy to pay a total dividend of 22 cents. An interim dividend of 9.5 cents per share was paid in September 2012 and a final dividend of 12.5 cents per share will, subject to shareholder approval at the 2013 Annual General Meeting, be paid in May this year. Future distributions will be assessed against the Company's current and projected future earnings, its financial position and the Board's view of the long-term prospects for the business.

To continue our stated dividend policy and to provide flexibility in the capital structure of the Group, we announced in July our intention to put in place a new holding company by means of a scheme of arrangement and to reduce the capital of that new holding company to enhance our access to distributable reserves. Following the implementation of this restructuring, some $1.9 billion of distributable reserves were created in the new holding company.

Balance sheet efficiency

The Board continues to work to ensure that Man has a strong and efficient balance sheet with an appropriate level and mix of regulatory capital and liquidity for its potential future needs. To reduce the level of surplus liquidity and related interest cost, we approved the issue of a tender offer which resulted in the buyback of €166 million of our outstanding senior bonds. To increase future funding flexibility on favourable terms, we approved the extension of the maturity date of $1,320 million of our $1,525 million revolving credit facility by a year to 2017. We reduced our balance sheet exposures by approving the disposal of the BlueCrest Loan Notes for $92 million in cash and the residual claims in the Lehman estates for $456 million in cash.

Governance

Risk

The determination of risk appetite and the oversight of Man's risk exposures are an essential part of the Board's governance role. During the year we reviewed Man's risk appetite statements and quantified our operational and business risk tolerances as reported on page 22. In our annual Board risk review we received a presentation on the Company's risk management framework, organisation and policies. At every meeting we review an updated risk dashboard which summarises the current assessment of the likelihood and size of the key risks faced by the business. During 2012 the risk levels associated with counterparty risk and related Euro issues declined as credit spreads narrowed and the European leadership confirmed its commitment to holding the Eurozone together. The level of risk on the Group's balance sheet also declined following the sale of the exposure to the Lehman estates. We are intent on maintaining a forward focus on risk, including the potential impact on the business of the reduction in costs and resources in the current period. Further details of the Board's risk management activities are given in the Corporate governance and Audit and Risk Committee reports on pages 30 and 34.

Remuneration

Compensation for 2012 reflects the fall in company earnings with the compensation cost to revenue ratio maintained at 33% in line with the previous reporting period. Following the reshaping over time of Man's business strategy, and to reflect our current focus on investment performance and fund flows, the Board undertook and consulted with shareholders on a major review of our executive director incentive structure. The new proposals, which are discussed more fully in the Remuneration report on page 43, create a much simpler and more transparent structure for the delivery of short-term annual cash bonus and long-term deferred share awards. The Board has adopted a revised set of KPIs which are key to the success of the business and which form the backbone of the balanced scorecard against which executive performance will be measured. We believe that the new arrangements will support the delivery of the Company's strategy and that the extended five year vesting period for deferred awards will increase long-term alignment between executive and shareholder interests.

Board changes

Two very significant changes to the executive leadership were made during the year. In June the Board accepted Kevin Hayes' decision to step down from the Board and, following a lengthy and rigorous process to identify the best possible candidate, decided that Jonathan Sorrell, formerly Head of Strategy and Corporate Finance, should succeed him as Chief Financial Officer. The Board considered that Jonathan had, since joining Man, demonstrated the strong financial and commercial skills necessary for the role. We also recognised that his experience of financial markets and his deep working knowledge of the hedge fund industry would be extremely valuable in strengthening Man's position in the evolving hedge fund world. I should like to thank Kevin, on behalf of the Board, for his contribution as Finance Director over the previous five years and wish him every success in the future.

Later in the year, Peter Clarke advised the Board of his intention to retire as Chief Executive and to step down from the Board on the announcement of the Company's 2012 results. Following an evaluation process which involved the assessment of external as well as internal candidates, the Board decided that Peter should be succeeded as Chief Executive Officer by Emmanuel (Manny) Roman who was previously Man's President and Chief Operating Officer. We considered that Manny's commitment to improving fund performance, deepening client relationships and maintaining pressure on costs made him the ideal candidate to continue Peter's repositioning of the business. Following a handover period, Manny will be Chief Executive Officer from 28 February. I should like to thank Peter, on behalf of the Board, for his many years of service with Man, his leadership of the business through very challenging trading conditions and the very strong management team he has put in place. We wish him all the very best for the future.

A further change to the Board will arise with the retirement of Alison Carnwath who will step down at the 2013 Annual General Meeting. Alison has served with distinction on the Board and its Committees for more than 12 years. We shall miss the rigour of her challenge and the breadth of her support and wish her all the very best for the future.

Outlook

In looking ahead, the Board recognises the work still required to position the business for long-term profitable growth. We are confident that we have an effective management team in place to achieve this. Together we will remain fully focused on repositioning and diversifying the business, driving investment performance and optimising our distribution to deliver improved shareholder returns.

Jon Aisbitt
Chairman

Operational and strategic review

2012 has been a difficult year for Man in terms of trading conditions, investor risk appetite and the accelerating transition in product mix and revenue in the business. We are dealing with this change by focusing on a number of initiatives aimed at positioning the firm for future growth, whilst reducing costs and maximising the efficiency of our balance sheet.

Peter Clarke (left)
Chief Executive until 28 February 2013

Emmanuel Roman (right)
Chief Executive Officer from 28 February 2013

2012 was a challenging year for Man as reflected in the decline in assets and profitability. Despite the acquisition of FRM, our FUM decreased to $57.0 billion, mainly as a result of net outflows due to bearish investor sentiment, and further de-gearing in our guaranteed products. Adjusted diluted earnings per share for the 12 months to 31 December 2012 was 11.8 cents. The challenging near term market conditions were the main factor leading to the impairment of GLG and Man Multi-Manager goodwill by $979 million in total. This was the main driver of the statutory loss of $745 million for the year.

Market overview

2012 proved to be another difficult year for financial markets. Political posturing and unconventional monetary policy measures remained the main drivers of most markets, as illustrated by the so-called 'fiscal cliff' averted in the US, or the European Central Bank's stance that it would do 'whatever is needed' to save the Euro. Fundamentals were overshadowed by sentiment and correlations between asset classes stayed high.

However, risk assets performed well overall: the TOPIX, MSCI Emerging Market (Local Currency), S&P 500 and FTSE 100 were up 20.9%, 13.9%, 16.0% and 10.0% respectively; the CBOE VIX also decreased 23.0%, from 23.4 at end December 2011 to 18.0 at end December 2012, having moved in a range between 13.5 and 26.7 over the period.

In this context, the overall performance of the liquid alternative investment management industry was muted. For 2012, the HFRX Global Hedge Fund Index was up 3.5%, the HFRX Equity Hedge Index was up 4.8% and the HFRX ED: Credit Arbitrage Index was up 10.7%.

2012 results

Against this backdrop we ended the year with FUM of $57.0 billion, down from $58.4 billion at the end of December 2011. Sales were $12.8 billion, around 70% of which came from GLG products. Redemptions totalled $20.1 billion, reflecting fragile investor sentiment and mixed levels of absolute investment performance across the product set. The majority of GLG's strategies performed well both in absolute and relative terms. AHL had good relative performance in 2012. However, in absolute terms, it ended the year down slightly at -1.3%. The combined result was $1.3 billion of positive investment performance across our three investment managers. The acquisition of FRM in July boosted FUM by $8.3 billion and the de-gear of guaranteed products and the impact of FX movements reduced FUM by $3.7 billion.

Adjusted profit before tax for the year ended 31 December 2012 was $278 million compared to $262 million for the nine months ended 31 December 2011. The biggest impact on profitability came from the reduction in guaranteed product funds under management from $10 billion at the start of the year to $5.7 billion at the end, reducing the average margin for the Group from 230 bps for the nine months ended 31 December 2011 to 209 bps for the year ended 31 December 2012.

We recorded a statutory loss of $745 million driven by the impairment of GLG and Man Multi-Manager goodwill – GLG by $837 million and Man Multi-Manager by $142 million. These impairments are non-cash and do not impact our surplus regulatory capital position.

Man remains well capitalised and cash positive with surplus regulatory capital of $795 million and net cash of $1.1 billion at 31 December 2012.

Key priorities

Despite the difficult operating environment we remain positive about the long term prospects for our industry and have identified a number of key priorities to ensure we remain well positioned to achieve our strategic objectives. These build on the three priorities of investment performance, meeting client needs and efficiency set out in our last report and accounts and are aimed at positioning the firm for future growth, whilst controlling costs and maximising the efficiency of our balance sheet.

We have started to make progress against each of these priorities during 2012 and will continue to focus closely on them in 2013.

Investment performance

Summary
- AHL back in the pack of leading peer group.
- AHL Evolution up 23.6% in 2012.
- FRM performance improved in 2012 amid successful integration.
- GLG credit and convertibles strategies exhibited strong absolute and relative performance.
- MSS Europe Plus Fund up 22.6% in the year.

Performance is the *raison d'être* of our business. We aim to generate superior risk-adjusted returns for our fund investors through the quality of our research, the talent of our investment managers and the strength of our operations and risk infrastructures. In the midst of a difficult and volatile market environment, the overall performance of our strategies was positive in 2012.

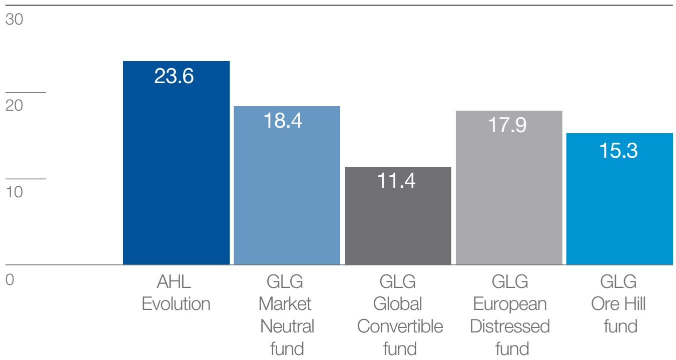
Various enhancements to AHL's research process, combined with some key changes within the team (including the appointments of Douglas Greenig as AHL's Chief Risk Officer and Matthew Sargaison as Chief Investment Officer) led to good relative performance vs. peers. However, absolute performance for the CTA industry remained muted due to the alternating risk-on/risk-off environment. AHL Diversified was down -1.3% for the year, ahead of peers such as Aspect (down -10.7%); AHL Alpha, the lower-volatility product, was down -0.4%, ahead of Winton (down -3.6%). Finally, AHL Evolution, which applies trend-following algorithms to less developed markets, was up 23.6% for the year. In 2013, we will continue the focus on AHL's core trend following expertise, whilst aiming to build a scalable, diversified quantitative business in both absolute return and long only strategies.

Performance improved at FRM in 2012: FRM Diversified II, the flagship commingled fund, was up 1.8%. The integration of FRM Holdings with Man's Multi-Manager Business (MMB) has been a clear success: we now have a best-in-class research and investment team drawing on both FRM's and MMB's staff, streamlined processes, a unique managed accounts infrastructure solution and a wide reach within the hedge fund industry – strengths on which we hope to capitalise in 2013.

Most of GLG's strategies had strong absolute and relative performance in 2012. Credit strategies had the strongest performance: the Market Neutral, European Distressed and Ore Hill funds were up 18.4%, 17.9% and 15.3% respectively. On the Equity side, the European Long–Short fund was up 5.7% whilst Alpha Select finished the year up 0.8%. Our Macro strategy ended the year marginally negative (down -0.1%), whereas the Emerging Markets fund was up 9.4%. Long only strategies performed well: MSS's Europe Plus Fund, which uses high quality ideas from approximately 65 leading brokers to create a liquid, highly diversified, long only European equity portfolio, was up 22.6%, some 530bps ahead of its MSCI Daily Net Total Return Europe benchmark; the Japan CoreAlpha fund ended up the year up 17.1%, although 380bps behind its TOPIX benchmark.

The focus for 2013 will be to continue selectively to upgrade investment talent at GLG, in order to deliver top quartile performance to our fund investors. Importantly, the strength of our brand and infrastructure means that we are able to continue to attract talented teams and individuals.

Strongest performing funds in 2012
%



Growth opportunities

Summary
- GLG to develop Macro and Fixed Income offering.
- Marketing of GLG Asia Long–Short.
- FRM acquisition completed in July 2012 creating the largest non-US fund of hedge funds.
- Focus on marketing AHL Evolution.
- Build out of non-trend following quantitative business.

In a rapidly evolving environment which remains difficult for some of our core products, creating and developing options for growth is of great importance. For 2013, we have identified a clear set of initiatives on the investment management and product side.

Source: Man database, Bloomberg, International Traders Research and MSCI. There is no guarantee of trading performance and past or projected performance is not a reliable indicator of future performance. Returns may increase or decrease as a result of currency fluctuations. Please note that the HFRI index performance over the past 4 months is subject to change. AHL Evolution: Represented by AHL Investment Strategies SPC: Class E AHL Evolution USD Notes. Aspect: Represented by Aspect Capital Limited: Aspect Diversified Program. CBOE VIX: Represented by the CBOE SPX Volatility Index. FTSE 100: Represented by the FTSE 100 Total Return Index. MSCI Emerging Market (Local Currency): Represented by the MSCI Emerging Markets (Local) Index. S&P 500: Represented by the S&P 500 Total Return Index. TOPIX: Represented by the TOPIX Total Return Index. Winton: Represented by Winton Capital Management Ltd: Winton Diversified Trading Program. Please see the 'Investment Performance' section on page 19 for a full list of the internal funds and share classes that have been referenced in this section.

Operational and strategic review
continued

At GLG, we announced in January 2013 a number of senior hires to create a combined Macro and Fixed Income platform co-headed by Jamil Baz and Sudi Mariappa, who previously ran PIMCO's $80 billion international fixed-income offering. We believe there are tremendous opportunities for investors in this space and look forward to building our business in this area. In August 2012, we launched David Mercurio's Asia Long–Short strategy and it currently has $150 million of funds under management; we intend to market the strategy actively by mid-2013, on the back of a promising track record. Finally, we will continue to enhance the European equities team in order to increase capacity; some of the equities sector specialists, such as Financials and Technology, have successfully branched out with independent strategies, increasing the team's overall global reach.

The acquisition of FRM Holdings completely revamped our fund of funds business, creating the largest non-US fund of hedge funds. This has generated momentum with clients globally and a strong sales pipeline, especially for our market-leading Managed Account platform. The objective for 2013 will be to capitalise on this momentum and reverse the trend of outflows we have experienced in recent years.

For AHL, a focus will be on marketing the Evolution product which has $1 billion of capacity reserved for direct investors, helped by a great year in 2012. Beyond the continuous improvement of our trend following models, we also intend to build up our non-trend following quantitative business, as such strategies are increasingly gaining market share. With 'MSS', we are strongly positioned in this important area, as illustrated by the remarkable growth in FUM to $2.5 billion in the two years since its launch in January 2011. The team is now working on adapting its Europe Plus strategy for Asia: the back testing results are positive.

Our industry remains fragmented and there continues to be opportunities for incremental growth through acquisition in certain areas. A number of quality investment managers are realising they cannot cope with the operating costs required to maintain and grow assets; some of the early, and sometimes most successful, participants in our industry are reaching a stage in their business cycle when they need to transition; large financial institutions are disposing of non-core assets.

The recent acquisition of FRM Holdings is an example of seizing an opportunity to generate shareholder value through selective acquisition. Given our resources and size, we believe we are well positioned to benefit from further consolidation trends.

Distribution effectiveness

Summary
- New internal sales compensation scheme effective 1 January 2013.
- Deepen US reach with new North America Chairman.
- New team focusing on global consultant relationships.
- Develop position as leader in alternatives in China.

Ensuring our investor access remains effective, comprehensive and aligned with market opportunities is vital to our success. In 2012, we raised $12.8 billion of new assets globally, against a very difficult market backdrop. Going forward, we have identified a number of key priorities to enhance our distribution capabilities.

The US remains a key geographical focus for future growth. The team currently in place has made significant progress over the last 18 months, with sales of $1.1 billion in 2012; however, the potential in this huge market is very significant. We recently announced the hiring of John Rohal as Executive Chairman of Man North America. John's experience and expertise, most recently at Makena Capital Management, will enable us to both enhance our offering and deepen relationships in the US.

Globally, we are continuing the efforts to align our distribution capabilities with industry flows and investor interest, without losing optionality across our product range. A new internal sales compensation scheme which balances the need to both raise and retain assets, whilst aligning interests on costs, has been introduced. We are also focusing on global consultant relationships, for which a dedicated team has been created.

Our targeted approach to long-term opportunities in China is also beginning to bear fruit. We are involved in a number of initiatives which, without over committing the Group, over the medium-term should position us at the forefront of the alternatives industry in China as that market develops.

Finally, Christoph Möller, Global Head of Sales & Marketing, has announced that he will be retiring in June 2013; a search is currently on-going to find a successor. Over a 32-year career at the Group, including 17 years as Head of Sales, Christoph built up a formidable sales capability and we are delighted that he will remain involved with Man as an advisor.

Cost reduction

Summary
- Positioning the cost base for reduced guaranteed products.
- First phase of $95 million of cost savings achieved.
- Second phase of $100 million of cost savings on track for delivery by the end of 2013.

The difficult environment for our industry and in particular the continuing run off of high margin guaranteed products has had a significant impact on the firm's profitability. As a result, we have continued to focus on reducing our cost base to a level which reflects the economics of our business flows.

Two cost reduction initiatives were announced in late 2011/January 2012 and July 2012, of $95 million and $100 million respectively. The first phase has now been completed. The second phase is on track to be achieved by the end of 2013, for a full impact in 2014. Non-compensation expenses have been reduced materially and significant attention is being given to running the business as efficiently as possible. Headcount has been reduced from 1,876 as of June 2011 to 1,306 today. However, talent remains the greatest asset in our business, and we continue to invest in recruiting and developing key people.

Our remuneration arrangements are closely linked to performance with the result that variable compensation reduced by 35%, in line with earnings. Our compensation cost to revenue ratio for the period was 33% and we aim to keep this ratio within a range of 30-40% – well in line with industry averages.

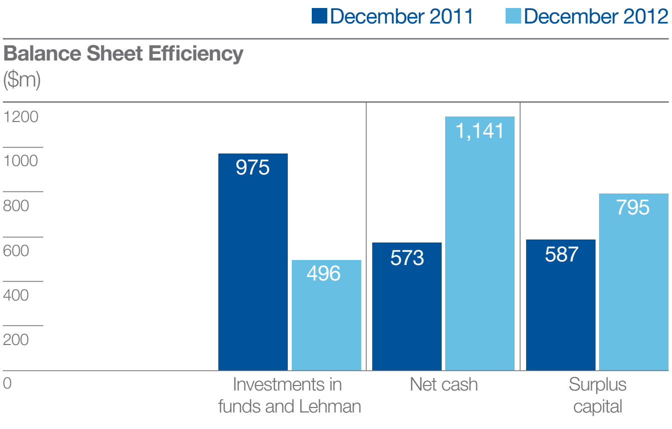
Balance sheet efficiency

Summary
- Disposal of residual exposure to the Lehman estate completed.
- BlueCrest loan note disposal.
- Reduction in loans to funds and proprietary investments.
- Continued focus on managing balance sheet effectively.

The strength of our balance sheet is one of our key competitive advantages, enabling us to invest selectively in products and distribution globally. As at 31 December 2012, the Group had tangible net assets of $1.5 billion, $795 million in surplus regulatory capital, $3.5 billion in liquidity and $1.1 billion of net cash.

In 2012, some key steps were taken to ensure the most efficient and productive use of the Group's capital. These included the disposal of the residual exposure to the Lehman estates acquired in July 2011 (yielding total upfront proceeds of $456 million) and the disposal of the BlueCrest loan notes (creating a gain on disposal of $15 million).

In an environment which is likely to remain challenging, we will continue to focus on managing our balance sheet efficiently.



Outlook

As of mid-February 2013, most of our strategies were off to a good start on the back of the risk rally triggered by the US 'fiscal cliff' being averted, some positive key data points in the US and China, and a significant shift of investors from bonds to equities. As of 25 February 2013, AHL was 13.1% below high water mark on a weighted average basis, and as of 25 February 2013, 85% of GLG funds were above or within 5% of performance fee highs.

Accordingly, investor sentiment has improved somewhat over the last two months, and requests for proposals and the pipeline of new mandates have both increased. However, given the lead time required by institutional investors, gross sales are likely to remain muted in the first half whilst redemptions will generally remain a function of the overall market environment. We have seen this in January and February 2013 with funds under management estimated to be $55.0 billion at 25 February, down $2.0 billion from year end with net outflows and negative FX movements being partly offset by positive investment performance and regears.

It is also worth noting that, over the last two years, there have been similar periods in which investor risk appetite has normalised, only to subsequently reverse in response to renewed macro-economic uncertainty. It would be premature, therefore, to suggest that the operating environment has improved on a sustainable basis.

We have made a number of enhancements to our Executive Committee over the last 12 months, with several new members promoted internally reflecting the deep bench of talent within the Group. I am grateful not only to my Executive Committee colleagues but to everyone at Man who has contributed to the progress we have made this year and I am confident that there is a very strong team in place to take the business forward.

Man Group Executive Committee

Manny Roman	CEO, Man Group
Jonathan Eliot	Chief Risk Officer
Luke Ellis	President, Man Group
Robyn Grew	Global Head, Compliance & Regulatory
Keith Haydon	CIO, FRM
Teun Johnston	Co-CEO, GLG
Mark Jones	Co-CEO, GLG
Pierre Lagrange	Chairman, Man Asia & Senior Managing Director, GLG
Michelle McCloskey	Senior Managing Director, FRM
Christoph Möller	Global Head, Sales & Marketing
Sandy Rattray	CEO, AHL & MSS
Michael Robinson	Global Head, Human Resources
Jasveer Singh	General Counsel
Jonathan Sorrell	Chief Financial Officer
Simon White	Global Head, Technology & Operations
Tim Wong	Chairman, AHL & MSS

Peter Clarke
Chief Executive

Chief Financial Officer's review

In the light of the continued decline in the guaranteed product business, we have made significant progress on reducing costs and improving balance sheet efficiency.

Jonathan Sorrell
Chief Financial Officer

Overview

2012 has clearly been another challenging year for the financial markets and for Man. Our funds under management (FUM) decreased from $58.4 billion at the beginning of the year to $57.0 billion at 31 December 2012, despite the acquisition of FRM which added $8.3 billion of FUM.

The significant impairment of the goodwill relating to the GLG business ($837 million) and the legacy Multi-Manager business ($142 million) was the main driver of the statutory loss of $745 million for the year.

Gross management fee margins for each product type remained stable but with the continued decline in the guaranteed product business the average gross management fee margin was down 21 basis points from the prior period, resulting in a decline in our revenue stream. We have taken actions to realign our cost base with the current revenue run rate, and have delivered the $95 million of cost savings announced in late 2011/January 2012 and are on track to deliver the additional $100 million of cost savings announced in July 2012 by the end of 2013, as planned. As a result of these drivers, our profit before adjusting items is $278 million (nine months to 31 December 2011: $262 million).

There continues to be a significant difference between our cash earnings and statutory earnings as a result of the number of non-cash items in the income statement. For Man, EBITDA before adjusting items is a good proxy for cash flows from operations and this was $516 million for the year (nine months to 31 December 2011: $499 million). The cash impact of the adjusting items is a net cash inflow of around $60 million.

As well as focusing on reducing our cost base, we have taken a number of actions to enhance Man's capital and liquidity position during 2012, including the realisation of the Lehman claim assets and the repayment of the BlueCrest loan note. In addition we have reduced the level of seeding investments. These realisations have resulted in gains in the income statement.

Key performance indicators (KPIs)

Our financial KPIs illustrate and measure the relationship between the investment experience of our fund investors, our financial performance and the creation of shareholder value over time.

We have reviewed our KPIs this year to ensure they are appropriate measures for our changing business. Since our previous KPIs were established, the Group's business and operating environment has changed significantly. As a result, the Board has changed all of our KPIs this year to four new metrics that more simply and accurately measure the performance of the business. Our four new KPIs comprise measures for investment performance, investor flows, EBITDA margin, and EPS growth, which are explained in more detail on the opposite page.

KPIs are used on a regular basis to evaluate progress against our five key priorities: investment performance; creating options for growth; distribution effectiveness; cost reduction; and balance sheet efficiency.

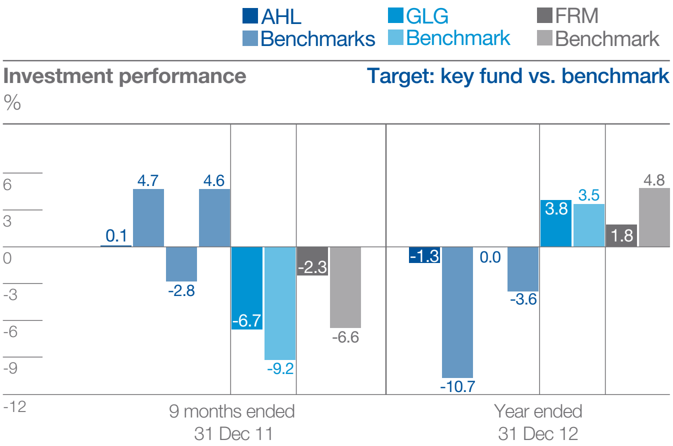
The results of our KPIs this year reflect the challenging market environment, as the risk on/risk off environment has made it difficult for AHL in particular to perform in line with its long term average, resulting in further de-gearing of the guaranteed products, which combined with fragile investor sentiment, has had an adverse impact on net flows across many of our businesses. This has resulted in a decline in FUM and revenues, which has impacted our profitability and EPS growth.

The comparative information for the adjusted management fee EPS growth KPI is for the previous nine month period to 31 December 2011 (annualised); therefore, the 2011 information is not directly comparable to the current year for this KPI. We have provided comparative information for all KPIs for the previous nine month period to 31 December 2011 only. Comparative information for earlier years would not be meaningful as it would exclude any results for the GLG business, which was acquired in October 2010.

Key performance indicators

Investment performance — **Target: key fund vs. benchmark**

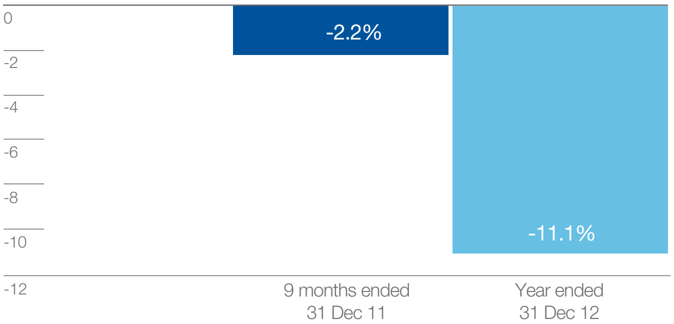
%



The investment performance KPI measures the net investment performance for our three managers (AHL, GLG, and FRM), represented by key funds, against relevant benchmarks. The target for this KPI is to exceed the relevant benchmarks. The key funds and the relevant benchmarks are AHL Diversified plc vs. three key peer asset managers for AHL (the target being to beat two of the three peers), GLG Multi Strategy vs. HFRX for GLG and FRM Diversified II vs. HFRI Fund of Funds for FRM. The performance of the key funds compared to the benchmarks gives an indication of the competitiveness of our investment performance against similar alternative investment styles offered by other investment managers. This measures our ability to deliver superior long term performance to investors. We achieved two out of the three performance targets. GLG met the target for 2012 as the performance of their key fund exceeded the relevant benchmark, whilst the performance of AHL's key fund exceeded two out of the three key peer asset managers. FRM, whilst recording positive performance, was below the benchmark in 2012, primarily as their portfolios generally carry less equity market beta than the broader indices. Further investment performance information is provided on pages 16 to 19.

Net flows — **Target: 0%–10% net inflows**

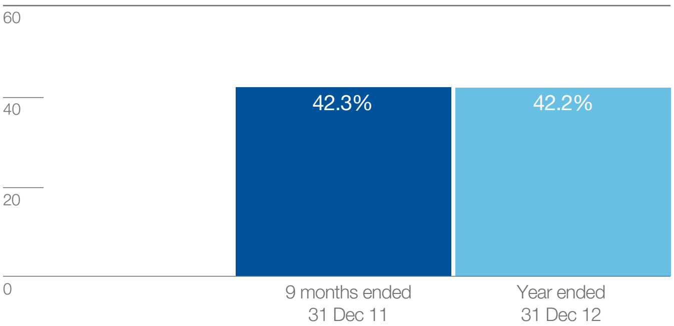
%



This KPI measures net FUM flows for the period as a percentage of opening FUM, with net flows defined as gross sales less gross redemptions. Net flows are the measure of our ability to attract and retain investor capital. FUM drives our financial performance in terms of our ability to earn management fees. Net flows were below target in 2012 with a net outflow of 11.1%, compared to a net outflow of 2.2% for the nine months to 31 December 2011, reflecting the difficult trading environment, in particular for AHL, and fragile investor sentiment.

Adjusted management fee EBITDA margin — **Target: 25%–40%**

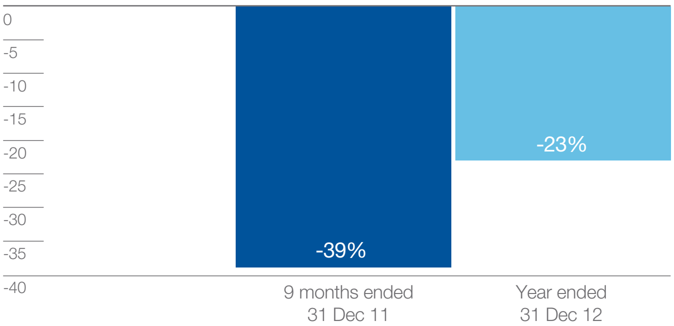
%



This KPI measures adjusted management fee EBITDA as a percentage of net revenues (gross management fee revenue and income from associates less external cash distribution costs). Our adjusted management fee EBITDA margin is a measure of our underlying profitability. The adjusted management fee EBITDA margin of 42.2% was above the target range for the year ended 31 December 2012. This margin is likely to decline with the rolling off of higher margin guaranteed product FUM.

Adjusted management fee EPS growth — **Target: 0%–20% + RPI**

%



This KPI measures our adjusted management fee EPS growth, where adjusted management fee EPS is calculated using post-tax profits excluding net performance fees and including the cost of the dividend on the Perpetual Subordinated Capital Securities, divided by the diluted number of shares. Adjusted management fee EPS growth measures the overall effectiveness of our business model, and drives both our dividend policy and the value generated for shareholders. The adjusted management fee EPS growth was below target for 2012 primarily as a result of the decline in management fee revenue and the overall gross margin, partly offset by reduced costs.

Chief Financial Officer's review
continued

FUM

$bn	Guaranteed	Open-ended alternative Man	Open-ended alternative GLG	Institutional FoF and other	Long only	Total
FUM at 31 December 2011	**10.0**	**14.5**	**11.0**	**12.2**	**10.7**	**58.4**
Acquisition	**–**	**–**	**–**	**8.3**	**–**	**8.3**
Sales	0.3	1.4	4.7	2.6	3.8	12.8
Redemptions	(1.7)	(4.7)	(5.8)	(3.6)	(4.3)	(20.1)
Net inflows/(outflows)	**(1.4)**	**(3.3)**	**(1.1)**	**(1.0)**	**(0.5)**	**(7.3)**
Investment movement	(0.1)	(0.6)	0.7	–	1.3	1.3
Foreign currency movement	–	–	0.1	(0.3)	(0.1)	(0.3)
De-gearing and other movements	(2.8)	(0.5)	0.2	(0.3)	–	(3.4)
FUM at 31 December 2012	**5.7**	**10.1**	**10.9**	**18.9**	**11.4**	**57.0**
Gross management fee margin 12 months to 31 Dec 2012	**5.0%**	**3.3%**	**1.5%**	**1.0%**	**0.8%**	**2.1%**
Gross management fee margin 9 months to 31 Dec 2011	4.7%	3.3%	1.5%	1.1%	0.8%	2.3%

FUM decreased by $1.4 billion during the year as a result of net outflows of $7.3 billion and FX and other movements of $3.7 billion (the majority of which related to guaranteed product de-gears) being offset by positive investment movement of $1.3 billion and the acquisition of FRM, which added $8.3 billion of assets.

Guaranteed products

Average guaranteed FUM, our highest margin product grouping, declined from $12.5 billion in the prior period to $8.0 billion in 2012, which had a significant negative impact on revenues. Sales remained subdued with limited launches and redemptions totalled $1.7 billion running at a steady rate of around $400 million per quarter. $94 million of guaranteed products matured during the year, and the weighted average life to maturity of the guaranteed product range is 6 years.

Investment performance for guaranteed products was negative during the year, resulting in a $100 million reduction in FUM. The other movements of $2.8 billion primarily related to guaranteed product de-gears with AHL performance in the rebalance period from mid November 2011 to mid November 2012 down 7.7%.

Open-ended alternative products

Open-ended alternative FUM decreased by 18% to $21.0 billion during the year to 31 December 2012, which primarily related to the decrease in AHL open-ended FUM.

Net outflows of $3.3 billion from AHL open-ended products included $1.2 billion of outflows from Nomura Global Trend, which offers daily liquidity. Negative investment movement was $600 million and other movements (primarily relating to product reclassifications) reduced FUM by $500 million.

GLG open-ended alternatives FUM was broadly flat during the year. Sales of $4.7 billion were mainly into European Long–Short, distressed and convertibles strategies. Redemptions of $5.8 billion were from a range of strategies. Performance across the GLG alternatives range was net positive during the year adding $700 million to FUM. FX and other movements increased FUM by $300 million.

Institutional products

Institutional FUM increased by 55% to $18.9 billion in 2012 driven by the acquisition of FRM in July.

The majority of the sales of $2.6 billion related to institutional managed account mandates. Redemptions of $3.6 billion include $1.9 billion of redemptions from European investors out of legacy Man Multi-Manager fund of hedge funds and $900 million from acquired FRM funds. Investment performance was flat for the year with no impact on FUM. Negative FX and other movements were $600 million.

Long only products

Long only FUM increased by $700 million during the year. Positive investment performance, mainly in the last quarter of the year, increased FUM by $1.3 billion, and this was partly offset by net outflows of $500 million.

Summary income statement

$m	**12 months to 31 December 2012**	9 months to 31 December 2011
Management and other fees	**1,209**	1,160
Performance fees (including investment gains/losses)	**113**	93
Share of after tax profit of associates	**10**	3
Total income	**1,332**	1,256
Distribution costs	**(248)**	(237)
Asset servicing	**(31)**	(24)
Compensation	**(427)**	(415)
Other costs	**(307)**	(262)
Total costs	**(1,013)**	(938)
Net finance expense	**(41)**	(56)
Adjusted profit before tax	**278**	262
Adjusting items	**(1,023)**	(69)
Statutory (loss)/profit before tax	**(745)**	193
Net management fees	**223**	225
Net performance fees	**55**	37
Diluted EPS (statutory)	**(45.6)**	7.6
Adjusted diluted EPS (excluding the adjusting items above)	**11.8**	10.7

Gross management fees and margins

Average FUM for the year was $57.7 billion compared to $67.6 billion for the prior nine month period. The average gross management fee margin was down 21 basis points from the prior nine month period, reflecting the continuing product mix shift primarily caused by the reduced proportion of guaranteed products compared to open-ended products. Gross management fees were $1,209 million for the year ended 31 December 2012 in comparison to the management fees for the previous nine month period of $1,160 million. The reduction in our highest margin guaranteed product FUM, as a result of net outflows and de-gearing, has caused a decline in revenue on an annualised basis of around $184 million. Gross management fee margins by product were stable compared to the previous nine month period, with the exception of guaranteed products where the margin increased due to the impact of a higher proportion of fees which are based on net asset value as opposed to FUM.

$m	12 months to 31 December 2012	9 months to 31 December 2011
Gross management and other fees:		
Guaranteed	**400**	438
AHL open-ended alternative	**386**	391
GLG open-ended alternative	**169**	150
Institutional FoF and other	**159**	104
Long only	**95**	77
	1,209	1,160

The annualised run rate of gross management fees based on the composition of FUM at 31 December 2012 is $1,091 million.

Performance fees (including investment gains/losses)

Gross performance fees for the year were $90 million, $75 million from GLG, $14 million from AHL and $1 million from FRM. Investment gains in the year were $23 million compared to a loss of $1 million in the nine months to 31 December 2011. This gain mainly relates to a profit on disposal of certain Ore Hill assets. At 31 December 2012, around 60% of eligible GLG assets were at high water marks and around a further 22% within 5% of earning performance fees, and AHL was approximately 24% for guaranteed products and 12% for open-ended products on a weighted average basis from the performance fee high water mark.

Distribution costs

Distribution costs comprised $82 million of placement fees and $166 million of investor servicing fees, reflecting $45 million of internal costs and $203 million of external costs.

Placement fees are paid for product launches or sales and are capitalised and amortised over 2–5 years, unless the FUM is redeemed or is deemed to be impaired as a result of negative investment performance and de-gearing. The capitalised placement fees at 31 December 2012 were $32 million with a weighted average remaining amortisation period of 2.9 years.

External capitalised placement fees of $50 million have been written off in 2012, classified as an adjusting item, primarily as a result of de-gearing and negative investment performance for guaranteed products. $38 million of placement fees capitalised in relation to the internal sales force have also been written off in 2012, and classified as an adjusting item. The introduction of a new servicing fee based compensation structure for the internal sales team effective from 1 January 2013 triggered the impairment. The new compensation structure will comprise servicing fees which are based on management fees, less certain expenses, incentivising employees to both sell and retain assets whilst maintaining expense disciplines.

Investor servicing fees are paid to intermediaries and employees for ongoing investor servicing and will be around 0.3% of average FUM after the implementation of the new internal sales compensation structure. This rate depends on the volume of sales, the mix between retail and institutional channels and the mix of open-ended and guaranteed products.

Asset servicing

Asset servicing costs (including custodial, valuation, fund accounting and registrar functions which are now across our total funds under management) were $31 million (nine months to 31 December 2011: $24 million), reflecting the reduction in FUM. Asset servicing costs are around 5 basis points on FUM and vary depending on transaction volumes, the number of funds, and fund NAVs.

Compensation costs

Compensation comprises fixed based salaries, benefits and variable bonus compensation (cash and amortisation of deferred compensation arrangements). Compensation costs in total, excluding adjusting items, were 33% of gross revenue, consistent with the previous nine month period.

Fixed compensation and benefits were $233 million for the year compared to $191 million for nine months to 31 December 2011. Going forward, the total compensation to revenue ratio is expected to be in the range of 30% to 40% of total revenues. This excludes internal commission costs. The impact of the cost savings initiatives is discussed below.

Other costs

Other costs, excluding adjusting items, were $307 million for the year compared to $262 million for the nine months to 31 December 2011. These comprise cash costs of $244 million (nine months to 31 December 2011: $220 million) and depreciation and amortisation of $63 million (nine months to 31 December 2011: $42 million).

Cost savings

In total, since the GLG acquisition in October 2010, we have announced $323 million of cost savings, comprising $195 million of operating efficiencies, $95 million of acquisition synergies ($45 million and $50 million in relation to the FRM and GLG acquisitions respectively) and $33 million of interest savings.

In late 2011 and January 2012, we committed to saving a total of $95 million of costs by the end of 2012, comprising approximately $29 million of compensation costs and $66 million of other costs. These savings have been delivered. In July 2012, we committed to a second phase of reductions, saving a further $100 million of costs by the end of 2013, comprising approximately $50 million of compensation costs and $50 million of other costs. We are on track to deliver these reductions on schedule, with 50% to be realised in the run rate in 2013 and 100% in 2014. The restructuring charges associated with these cost reductions have been taken in 2012 and amount to $65 million, and have been classified as an adjusting item.

With regard to the compensation savings, we have divided our headcount reduction initiatives into four categories: (i) the rationalisation of group functions; (ii) the reduction in the scale of our infrastructure; (iii) the reorientation of the Sales and Marketing function; and (iv) the optimisation of our investment management capabilities. At 30 June 2011, headcount, including contractors and consultants, stood at 1,876 FTEs (Full Time Equivalents), and at 28 February 2013, the Group employed 1,306 FTEs. By the time the cost savings have been implemented, the ratio of central function employees to front office will be approximately 1 to 1, which we believe to be in line with industry best practice.

With regard to other cost savings, we have conducted a rigorous budget process to identify the measures that need to be taken over the coming year to meet our savings targets, and have applied a number of procedures to ensure the appropriate level of expense discipline is instilled in our business. The principal reductions will be seen in staff benefits (largely as a result of headcount reductions), travel and entertainment, communications and technology.

Whilst these reductions are significant, we are confident that they will continue to be achieved without meaningfully reducing our optionality or eroding our income.

Net finance expense

Net finance expense was $41 million for the year, excluding adjusting items. This included a $21 million charge relating to the debt buyback during the first half of the year, which is partly offset by a gain of $15 million recognised on the repayment of loan notes issued by BlueCrest. The recurring elements of both finance expense and finance income are

Chief Financial Officer's review
continued

expected to decrease in 2013. Interest expense is expected to decrease to $47 million, primarily due to interest on borrowings, which is expected to decrease from $50 million in 2012 to $41 million in 2013 as a result of the debt buybacks. Interest income is expected to decrease from $21 million in 2012 to around $4 million in 2013 as a result of interest no longer being earned on the BlueCrest loan note and Lehman claims, the move from deposits to treasuries and certain other items.

Adjusted profit before taxes

Adjusted profit before tax is $278 million compared to $262 million for the previous nine month period. The adjusting items in the year of $1,023 million, as shown in the table below and detailed in Note 2 of the financial statements, primarily relate to impairment of goodwill ($979 million), impairment of capitalised placement fees ($88 million), restructuring costs ($69 million), and amortisation of acquired intangible assets ($65 million), partly offset by the gain on the sale of the Lehman claim assets ($131 million).

$m	12 months to 31 December 2012
Impairment of GLG and Man Multi-Manager goodwill	**(979)**
Impairment of capitalised placement fees	**(88)**
Restructuring costs	**(69)**
Amortisation of acquired intangible assets	**(65)**
Gain on disposal of Lehman claims	**131**
Other adjusting items	**47**
Total adjusting items	**(1,023)**

Net management fees and net performance fees

Net management fees of $223 million reflect the decline in average FUM and the overall gross margin, partly offset by reduced costs driven by the cost saving initiatives. Net performance fees of $55 million for the year reflects the majority of products remaining below performance fee earning benchmarks.

$m	12 months to 31 December 2012	9 months to 31 December 2011
Gross management and other fees	**1,209**	1,160
Share of after tax profit of associates	**10**	3
Less:		
Distribution costs	**(248)**	(237)
Asset services	**(31)**	(24)
Compensation	**(369)**	(360)
Other costs	**(307)**	(261)
Net finance expense	**(41)**	(56)
Net management fees	**223**	225
Performance fees	**90**	94
Gains/(losses) on investments and other financial instruments	**23**	(1)
Less:		
Compensation		
– variable	**(45)**	(40)
– deferral amortisation	**(13)**	(15)
Other costs – charitable donations	**–**	(1)
Net performance fees	**55**	37

Taxation

The average tax rate for the year of 14.4% before adjusting items, compared to the previous period's rate of 17.2%, has decreased as a result of prior year tax credits for settled tax returns, which outweigh the lesser impact of reduced relief on share-based compensation costs and losses for which no tax relief has been recognised.

Cash earnings (EBITDA)

As the Group has a number of non-cash items in the income statement it is important to focus on cash earnings to appreciate the true earnings potential of our business. The table below gives a reconciliation of adjusted profit before tax to adjusted EBITDA. The main differences are net finance expense, depreciation, amortisation of placement fees and the share-based amortisation charge in relation to compensation deferrals. Our EBITDA/net revenue margin was 44%, which can be analysed between EBITDA margin on management fees of 42% and performance fees of 60%.

Reconciliation of adjusted PBT to adjusted EBITDA

$m	12 months to 31 December 2012	9 months to 31 December 2011
Adjusted PBT	**278**	262
Add back:		
Net finance expense	**41**	56
Depreciation	**43**	21
Amortisation of capitalised computer software	**20**	21
Placement fee amortisation	**56**	54
Accelerated amortisation related to early redemptions	**10**	19
Deferred compensation amortisation	**68**	66
Adjusted EBITDA	**516**	499

Balance sheet

The Group's balance sheet remains strong and liquid. At 31 December 2012, total shareholders' equity was $3.0 billion and net tangible assets were $1.46 billion. Cash and cash equivalents have increased during the year, primarily as a result of the sale of the Lehman claim assets in November for $456 million. The sale of the Lehman claim assets and the decrease in investments in fund products is part of a conscious effort to maximise balance sheet efficiency, increase the Group's regulatory capital surplus and enhance its net cash position.

The carrying value of goodwill and intangible assets was tested for impairment at both 30 June 2012 and at the year end, using a discounted cash flow valuation. To reflect the current challenging environment for investor asset flows, we have taken a more cautious outlook, in particular in relation to the net flows assumption. As a result, in total for the year we have impaired the goodwill for GLG by $837 million and the legacy Man Multi-Manager (MMM) business by $142 million, of which impairment of $91 million for GLG and $142 million for the MMM business was booked in the interim financial statements for the six months ended 30 June 2012. The valuation and assumptions are explained in more detail in Note 12 of the financial statements. The process for the assessment of the carrying values of goodwill and other intangible assets is covered in the Audit and Risk Committee report on page 35.

Balance sheet information

$m	31 December 2012	31 December 2011
Cash and cash equivalents	**2,000**	1,639
Fee and other receivables	**382**	428
Total liquid assets	**2,382**	2,067
Payables	**(751)**	(793)
Net liquid assets	**1,631**	1,274
Investments in fund products	**487**	631
Other investments and pension asset	**115**	436
Investments in associates	**38**	41
Leasehold improvements and equipment	**150**	173
Total tangible assets	**2,421**	2,555
Borrowings	**(859)**	(1,066)
Deferred tax liability	**(97)**	(94)
Net tangible assets	**1,465**	1,395
Goodwill and other intangibles	**1,529**	2,665
Shareholders' equity	**2,994**	4,060

Liquidity

Operating cash flows were $408 million during the year with cash and cash equivalents of $2,000 million. Net of borrowings and issued debt, the net cash position was $1,141 million. Net cash increased as a result of the sale of the Lehman claim assets, the acquisition of FRM, and a reduction in loans to funds and investments in fund products, partly offset by the payment of dividends, as shown in the table below.

$m	12 months to 31 December 2012
Net cash at 31 December 2011	**573**
Operating cash inflows	**408**
Sale of Lehman claims	**456**
Payment of dividends	**(299)**
Perpetual capital securities coupon	**(33)**
Acquisition of FRM	**40**
Other movements	**(4)**
Net cash at 31 December 2012	**1,141**

During the year, €166 million ($219 million) of the €382 million ($492 million) senior 2015 fixed rate bonds were repurchased. The committed revolving credit facility of $1,525 million is available and undrawn, with $205 million maturing on 22 July 2016 and $1,320 million maturing on 22 July 2017. At 31 December 2012, all borrowings had a maturity greater than 1 year except for the $173 million senior 2013 fixed rate bonds due to mature in August. The management of liquidity and capital is explained on pages 82 and 90 respectively.

Regulatory capital

Man is fully compliant with the FSA's capital standards and has maintained significant surplus regulatory capital throughout the year. At 31 December 2012, surplus regulatory capital over the regulatory capital requirements was $795 million. The implementation of Basel III through CRD IV is likely to come into force on 1 January 2014. The FSA guidance has not been finalised and therefore it is not possible to quantify definitively the impact but it is likely that our available capital will reduce by approximately $200 million. The payment in May 2013 of an uncovered final dividend of $228 million in relation to 2012 together with other anticipated movements is likely to reduce the surplus regulatory capital to around $370 million in January 2014, the date on which the impact of CRD IV is assumed to become effective.

The increase in the surplus regulatory capital of $208 million during 2012 primarily relates to the improvement of balance sheet efficiency, including: the sale of the Lehman claims (impact $145 million); transferring cash deposits to US Treasury bills (impact $30 million); repayment of the BlueCrest loan notes (impact $20 million); realisation of proprietary investments (impact $20 million); and reduction in loans to funds (impact $10 million).

Group's regulatory capital position

$m	31 December 2012	31 December 2011
Permitted share capital and reserves	**2,541**	3,696
Innovative Tier 1 Perpetual Subordinated Capital Securities	**193**	198
Less deductions (primarily goodwill and other intangibles)	**(1,449)**	(2,575)
Available Tier 1 Group Capital	**1,285**	1,319
Tier 2 capital – subordinated debt	**309**	358
Other Tier 2 capital	**110**	106
Material holdings deductions	**(20)**	(20)
Group financial resources	**1,684**	1,763
Less financial resources requirement including a capital buffer	**(889)**	(1,176)
Surplus capital	**795**	587

Jonathan Sorrell
Chief Financial Officer

Investment management

AHL

Managed futures as a strategy class faced considerable headwinds in 2012. AHL's performance during the period, though encouraging relative to peers, remained below the fund's long-term average. As momentum traders we aim to make money for our clients when there are clear trends in markets and during extreme risk-off periods. Unfortunately, neither of these conditions has been met in recent times, but as we have seen many times in our 25-year history, more favourable trading environments can present themselves very quickly, providing us with opportunities to profit handsomely when they do.

2012 review

The AHL Diversified Programme[1] had a slightly negative year in 2012, returning -1.3%. Positive performance was realised in the first quarter, as markets exhibited sustained bullish trends at the beginning of the year. For the majority of the year, trends in developed markets continued to be short and subject to sharp reversals, as Europe and the US battled over debt and budgetary crises, respectively. Trends in fixed income drove returns in the portfolio, with positive performance from bonds, credit indices and interest rate futures. These were counterbalanced with negative returns from commodity markets, in particular energies and metals. The annualised return of the AHL Diversified Programme[1] since inception 26 March 1996 is 14.1%, and the fund remains an effective diversifier for traditional investment portfolios.

Business update

The difficult environment for trends over the past two years has challenged us continually to improve our understanding of markets and improve our performance. In 2012, as with years past, we remained focused on developing our research pipeline and improving diversification within the AHL portfolio.

Our operational strength and trading expertise affords us the ability to enter into markets that other CTAs find difficult to access. Hence, while most CTA portfolios have struggled to cope with the recent choppy environment, these non-traditional markets have presented us with much better opportunities to make money. AHL has been growing its exposure to these instruments steadily since 2005 and they now constitute a quarter of the risk of the Alpha and Diversified programmes. In late 2012 we began offering select institutional investors direct access to these diversifying markets through AHL Evolution, and interest has been high.

We are continuously refining our momentum systems in order to maximise our chances of capturing trends wherever and whenever they occur. Adapting our trading speed, for example, has enabled us to ride out short-term changes in market sentiment. We have also developed and implemented a suite of seasonal and mean-reverting models. Like momentum models, they are robust across asset classes and trade at a range of frequencies from a few days to a few months. They clearly benefit AHL's flagship funds at times like these when trends are not prevalent in markets. They play an even larger part in Dimension, our multi-strategy managed futures programme, which seeks to capitalise from a broad range of market inefficiencies.

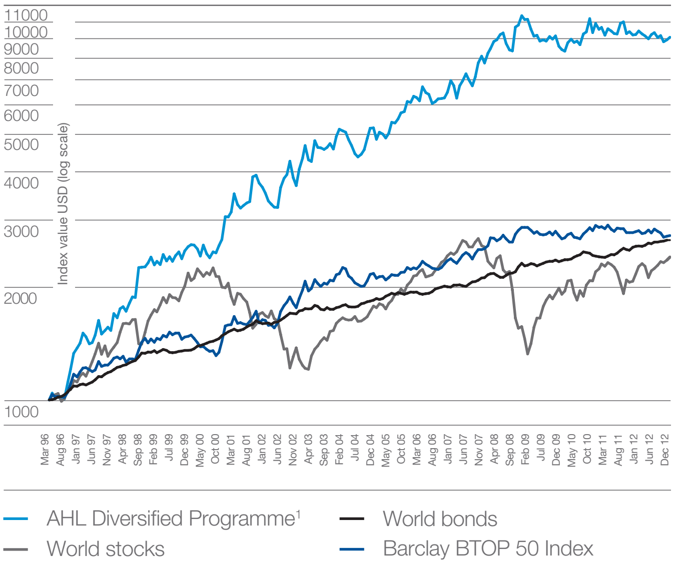
Additions to the management team

The appointment of Matthew Sargaison to the role of Chief Investment Officer, in a move from Chief Risk Officer, has given added impetus to our research effort, and a dozen new research ideas have progressed into client trading this year. Our research pipeline is also very strong, with seven new strategies currently in test trading. Douglas Greenig, who took over as Chief Risk Officer in April, has brought with him a wealth of real-world trading experience. His drive to understand our sensitivities to various scenarios is proving invaluable in today's financial markets, where headline risk and increasing correlation of instruments pose interesting questions for portfolios. Anthony Ledford, our Chief Scientist, continues to lead research efforts at the Man Research Laboratory, our unique collaboration with the University of Oxford, as well as build relationships with cutting-edge quantitative finance researchers from around the world as our Academic Liaison.

Looking ahead

We enter 2013 with the lowest execution cost base, the broadest range of markets and the greatest diversity of models in our history. We hope that the decreased correlation among developed markets witnessed towards the end of 2012 is maintained in 2013, bringing additional opportunities for AHL to capture trends in world markets. With an exciting research pipeline for the year ahead, we remain motivated and committed to attempt to generate strong returns for our clients over the coming months and years.

AHL track record
26 March 1996 to 31 December 2012



Source: Man database, Bloomberg and MSCI. There is no guarantee of trading performance and past or projected performance is not a reliable indicator of future performance. Returns may increase or decrease as a result of currency fluctuations.
World stocks: MSCI World Net Total Return Index hedged to USD. World bonds: Citigroup World Government Bond Index hedged to USD (total return). Please note that the historic Barclay BTOP 50 Index data may be subject to change.

1 Represented by Man AHL Diversified plc from 26 March 1996 to 29 October 2012, and by Man AHL Diversified (Guernsey) USD Shares – Class A from 30 October 2012 to 27 December 2012. The representative product was changed at the end of October 2012 due to legal and/or regulatory restrictions on Man AHL Diversified plc preventing the product from accessing the Programme's revised target allocations. Both funds are valued weekly; however, for comparative purposes, statistics have been calculated using the last weekly valuation for each month.

GLG

Performance at GLG is delivered through a comprehensive range of liquid investment styles and products, encompassing pure hedge funds, long only investment products and hybrid investment structures, across a variety of asset classes including equities, credit, rates and multi-asset products, across a range of geographies. The aim since GLG's foundation in 1995 has been to exceed investor expectations by delivering a combination of attractive returns, portfolio transparency and outstanding client service. GLG Portfolio Managers are by definition fiercely individualistic in their investment views, but at the same time we encourage a collegiate approach in which expertise and ideas are regularly shared, an environment which we believe makes GLG unique.

Many of GLG's alternative funds performed well throughout 2012 with a number of the Credit strategies in particular delivering excellent returns, with a range of funds turning in first quartile double digit performances. Market Neutral, Global Convertible and Euro Distressed were rewarded for their strong performance with nominations for the 2012 EuroHedge Awards.

Various equity strategies also performed strongly in 2012, with the flagship European Long–Short strategy returning benchmark beating single digit returns and doubling its assets under management over the year. The fund's capital growth plus capital protection mandate was clearly, consistently achieved throughout the year.

While overall flows for 2012 were muted, several of the best performing strategies reached capacity and soft closed, including the UCITS version of ELS, European Equity Alternative. We continue to ensure that we manage capacity to maximise returns for our investors.

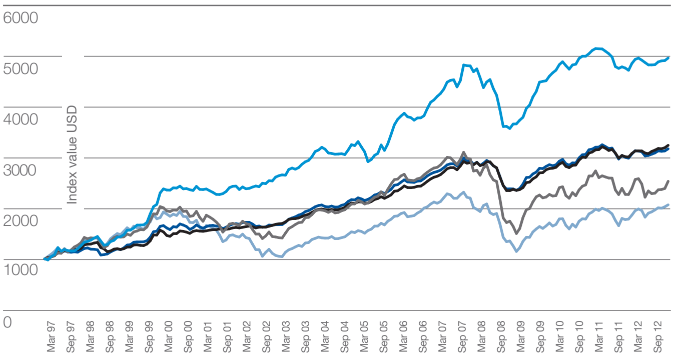
GLG focused this year on offering core strategies in a wider range of structures to meet client needs. The Group's structuring expertise was leveraged to create a range of regulated onshore vehicles in a number of jurisdictions including the US, Canada and the European Union, helping us to increase the breadth of our investor base.

Towards the end of the year, GLG made some senior hires to create a combined Macro and Fixed Income platform co-headed by Jamil Baz and Sudi Mariappa, who previously ran PIMCO's $80 billion international fixed-income offering. In a world where mainstream economies and developing markets are increasingly integrated, there are tremendous opportunities for investors who want to take advantage of global capital flows while at the same time leveraging regional themes. We look forward to building our business in this area, which has many attractions for investors in today's volatile market environment.

GLG continued to broaden strategically its investment management representation in Asia in 2012. Throughout the year, we built a long short equity team based in Hong Kong, overseen by the Head of Asia Equity, David Mercurio, and dedicated risk specialist, Ben Freischmidt, leading a team of four portfolio managers. The successful recruitment of this team culminated in the launch of the Asia Long–Short strategy, which we intend to market by mid 2013, on the back of a promising track record. We are also focusing on brand promotion and education in Mainland China, as we develop our onshore presence in the region.

GLG's strategic priorities for the coming year are to build on the positive performance we have seen across most styles this year, to continue to service client needs and to invest where appropriate in the improvement of the business. Following the hires to the Macro and Fixed-Income team, we will be developing our investment management capabilities in this space and making initial launches on the new platform.

GLG track record
1 April 1997 to 31 December 2012



— GLG Alternative Strategies Dollar-Weighted Composite[1]
— GLG Long Only Dollar-Weighted Composite[2]
— Dow Jones Credit Suisse Hedge Fund
— HFRI Fund Weighted Composite Index
— World stocks

Source: Man database, Bloomberg and MSCI. There is no guarantee of trading performance and past or projected performance is not a reliable indicator of future performance. Returns may increase or decrease as a result of currency fluctuations.
Please note that the HFRI index performance over the past 4 months is subject to change.
World stocks: MSCI World Net Total Return Index hedged to USD.

1 Represented by the GLG Alternative Strategies Dollar-Weighted Composite. GLG alternative strategy dollar-weighted average returns are calculated as the composite performance of the alternative strategy funds and funds that have closed, in addition to managed accounts managed in accordance with alternative strategies, weighted by the sum of the prior month-end AUM.
2 Represented by the GLG Long Only Dollar-Weighted Composite. GLG long only dollar-weighted average returns are calculated as the composite performance of the long only strategy funds and funds that have closed, in addition to managed accounts managed in accordance with long only strategies, weighted by the sum of the prior month-end AUM.

Investment management
continued

FRM

FRM is responsible for Man's open-architecture hedge fund solutions for institutional investors, including fund of hedge funds, client advisory solutions and a managed account platform. In 2012, Man completed the acquisition of FRM to support its existing multi-manager business. We are pleased to report that the post-takeover process has been extremely smooth and that staff from the two legacy firms are now working seamlessly as one team. The client reaction to the acquisition has also been overwhelmingly positive. Moreover, FRM was recognised by six industry awards in 2012, including FoHF of the year (for FRM Equity Alpha) and Best Advisory team, from Hedge Funds Review, and European Independent Funds Group of the Year, from Acquisition International Magazine.

2012 Review

In 2012, indices generally reported positive but low returns for the year (HFRX Global Hedge Fund Index returned +3.5%). Our portfolios generally carry less equity market beta than the broader indices, and as a result have delivered slightly lower returns. Our largest diversified fund, FRM Diversified II[1], returned +1.8%. Other notable returns include AA Diversified[2] (+1.2%), Man Dynamic Selection[3] (+2.4%) and Man GLG Multi-Strategy[4] (+3.8%). The chart below shows the three year annualised risk and return of these portfolios in relation to market indices, illustrating that we continue to deliver attractive risk-adjusted returns relative to most traditional assets. Furthermore, our segregated client portfolios generally delivered returns in the region of 4–5%.

During the year our investments in certain strategies have worked particularly well, with those involved in liquidity provision (essentially market making or acting as counterparty to those who have to trade), such as Statistical Arbitrage, among the outperformers. The structural changes to the landscape as banks have withdrawn from proprietary trading has created considerable opportunity for hedge funds to step in as capital providers and generate strong risk-adjusted returns.

Credit managers also generated positive performance. A consensus 'search for yield' across the investment industry saw record inflows into the broader credit markets during the year, leading to price appreciation and more easily exploitable technical themes for hedge fund managers in this asset class. The best performers were in the Structured Credit markets, where shrinking capital bases, low starting prices and policy stimulus such as QEIII led to substantial gains for the RMBS asset class. Hedge fund returns of 10–20% or higher in this space were not uncommon during the year.

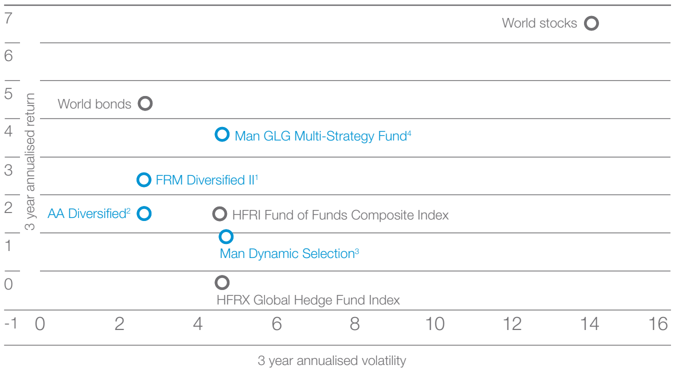
Equity Long-Short managers benefited from the appreciation of equity markets during the year. In addition, the reduction in intra-stock correlations benefited market neutral managers in the second half. However, returns were held back by the weak performance of Global Macro and Managed Futures managers in our portfolios. The environment for timing entry and exit of markets on a macroeconomic scale has been tough: in markets driven by central bank and government policy rather than fundamental data, it was difficult for any manager in this strategy to have an edge. Just as a manager built a position on an economic trend, there was a new policy initiative that completely changed the landscape.

Focus on performance

The outlook for traditional investments is uncertain: risk-free assets have negative real yields while equities remain beset by low growth expectations and downside risks. As a result, investors are continuing to allocate to active management, as evidenced by the growth of the hedge fund industry in 2012 and expectations of further growth in 2013.

At FRM, it is important that in the coming year we continue to provide first class service to our clients and a combination of products that provide solutions to their issues. But, most important of all, we must focus on delivering the returns that can help to make hedge funds an important part of an investor's portfolio. Post-takeover, we have an unparalleled depth of research experience to find differentiated ideas, together with a Managed Accounts infrastructure which allows us more fully to understand and monitor our investments in managers. This unique combination means that we are in a strong position to extract the entrepreneurial premium that makes hedge funds what they are, while delivering the 'institutional quality' that investors crave.

Three-year annualised risk and return
%



Source: Man database, Bloomberg and MSCI. There is no guarantee of trading performance and past or projected performance is not a reliable indicator of future performance. Returns may increase or decrease as a result of currency fluctuations.
World stocks: MSCI World Net Total Return Index hedged to USD. World bonds: Citigroup World Government Bond Index hedged to USD (total return). Please note that the HFRI index performance over the past 4 months is subject to change.

1 Represented by FRM Diversified II Fund SPC – Class A USD.
2 Represented by Absolute Alpha Fund PCC Ltd Diversified – USD.
3 Represented by Man Dynamic Selection USD I.
4 Represented by Man GLG Multi-Strategy Fund – Class A – USD Shares.

Investment performance

	Inception date	Total return: 12 months to 31 December 2012	Annualised return: 3 years to 31 December 2012	Annualised return: Since inception
AHL				
AHL Diversified[1]	26 March 1996	-1.3%	1.8%	14.1%
AHL Alpha[2]	17 October 1995	-0.4%	2.6%	12.8%
GLG ALTERNATIVES				
Equity				
Europe				
GLG European Long Short Fund[3]	29 September 2000	5.7%	7.0%	9.7%
North America				
GLG North American Opportunity Fund[4]	31 December 2001	3.2%	2.6%	6.1%
UK				
GLG Alpha Select Fund[5]	31 August 2004	0.8%	-1.3%	7.5%
Other equity alternatives				
GLG Global Opportunity Fund[6]	4 February 1997	3.8%	0.5%	10.8%
Credit and convertibles				
Convertibles				
GLG Global Convertible Fund[7]	30 September 1997	11.4%	2.7%	7.8%
Market Neutral				
GLG Market Neutral Fund[8]	15 January 1998	18.4%	16.8%	15.3%
GLG European Distressed Fund[9]	31 August 2009	17.9%	16.3%	22.9%
Ore Hill				
GLG Ore Hill Fund[10]	1 April 2002	15.3%	13.2%	9.6%
Macro				
GLG Emerging Markets Fund[11]	31 October 2005	9.4%	0.3%	15.2%
GLG Atlas Macro Fund[12]	27 February 2009	-0.1%	7.7%	7.5%
GLG LONG ONLY				
GLG Japan Core Alpha Equity Fund[13]	31 January 2006	17.1%	-1.3%	-4.2%
GLG Global Equity UCITS Fund[14]	13 May 2011	15.0%	n/a	-1.2%
FRM				
AA Diversified[15]	1 January 1998	1.2%	1.5%	5.0%
FRM Diversified II[16]	1 January 1998	1.8%	2.5%	4.9%
Man Dynamic Selection[17]	1 March 2001	2.4%	0.9%	4.6%
Man GLG Multi-Strategy Fund[18]	31 December 2002	3.8%	3.6%	3.9%
MAN SYSTEMATIC STRATEGIES				
Man GLG Europe Plus Index	31 December 2007	22.6%	10.0%	1.0%
TailProtect[19]	1 January 2011	-14.7%	n/a	3.5%
Indices				
World stocks[20]	28 February 1986	15.8%	6.5%	7.1%
World bonds[21]	31 January 1985	4.5%	4.4%	7.3%
Corporate bonds[22]	31 January 1980	10.7%	13.6%	10.3%
Hedge fund indices				
HFRI Fund Weighted Composite Index[23]	31 December 1989	6.2%	3.5%	11.0%
HFRI Fund of Funds Composite Index[23]	31 December 1989	4.8%	1.5%	7.3%
HFRX Global Hedge Fund Index	31 March 2003	3.5%	-0.3%	1.4%

Source: Man database, Bloomberg and MSCI. There is no guarantee of trading performance and past or projected performance is not a reliable indicator of future performance. Returns may increase or decrease as a result of currency fluctuations.

1 Represented by Man AHL Diversified plc from 26 March 1996 to 29 October 2012, and by Man AHL Diversified (Guernsey) USD Shares – Class A from 30 October 2012 to date. The representative product was changed at the end of October 2012 due to legal and/or regulatory restrictions on Man AHL Diversified plc preventing the product from accessing the Programme's revised target allocations. Both funds are valued weekly; however, for comparative purposes, statistics have been calculated using the last weekly valuation for each month.
2 Represented by AHL Alpha plc from 17 October 1995 to 24 September 2012, and by AHL Strategies PCC Limited: Class Y AHL Alpha USD Shares from 25 September 2012 to date. The representative product was changed at the end of September 2012 due to the provisioning of fund liquidation costs in October 2012 for AHL Alpha plc, which resulted in tracking error compared with other Alpha Programme funds. Both funds are valued weekly; however, for comparative purposes, statistics have been calculated using the last weekly valuation for each month.
3 Represented by GLG European Long Short Fund – Class D Restricted to Unrestricted (29/06/2007) – EUR.
4 Represented by GLG North American Opportunity Fund – Class A Restricted to Unrestricted (29/06/2007) – USD.
5 Represented by GLG Alpha Select Fund – Class C – EUR.
6 Represented by GLG Global Opportunity Fund – Class Z – USD.
7 Represented by GLG Global Convertible Fund – Class A – USD.
8 Represented by GLG Market Neutral Fund – Class Z Restricted to Unrestricted (31/08/2007) – USD.
9 Represented by GLG European Distressed Fund – Class A – USD.
10 Represented by Ore Hill International Fund II Ltd.
11 Represented by GLG Emerging Markets Fund – Class A Restricted to Unrestricted (31/08/2007) – USD.
12 Represented by GLG Atlas Macro Fund – Class A – USD.
13 Represented by GLG Japan CoreAlpha Equity Fund – Class C to Class I JPY (28/01/2010).
14 Represented by GLG Global Equity Fund Class I USD.
15 Represented by Absolute Alpha Fund PCC Ltd Diversified – USD.
16 To highlight the performance and risks associated with FRM Diversified II Fund SPC – Class A USD ('the fund') prior to Jan 2004, FRM has created the FRM Diversified II pro forma using the following methodology: i) for the period Jan 1998 to Dec 2003, by using the returns of Absolute Alpha Fund PCC Limited – Diversified Series Share Cell ('AA Diversified – USD') adjusted for fees and/or currency, where applicable. For the period Jan 2004 to Feb 2004, the returns of the fund's master portfolio have been used, adjusted for fees and/or currency, where applicable. Post Feb 2004, the fund's actual performance has been used, which may differ from the calculated performance of the track record. There have been occasions where the 12-months' performance to date of FRM Diversified II has differed materially from that of AA Diversified. Strategy and holdings data relates to the composition of the master portfolio.
17 Represented by Man Dynamic Selection USD I.
18 Represented by Man GLG Multi-Strategy Fund – Class A – USD Shares.
19 Represented by TailProtect Limited Class B.
20 Represented by MSCI World Net Total Return Index hedged to USD.
21 Represented by Citigroup World Government Bond Index hedged to USD (total return).
22 Represented by Citigroup High Grade Corp Bond TR.
23 HFRI index performance over the past 4 months is subject to change.

Please note that the dates in brackets represent the date of the join in the linked track records.

Distribution

Man's extensive global distribution network and long established local relationships give us competitive advantage.

Man operates two distinct distribution models, marketing to private investors via third party intermediaries and directly to institutions. Our regional offices are predominantly staffed by local people such that investors and distributors can interact with specialists who speak their language and understand the culture and particular nuances of doing business in that region.

In the face of considerable market uncertainty and fragility in investor appetite we achieved sales of $12.8 billion, which is testament to the breadth of our offering and the relevance to investors of the different strategies at varying points in the cycle. We demonstrated our ability to deliver strong sales of outperforming strategies including European long short, distressed and global convertibles. 2012 also re-emphasised our strength in executing and capitalising on complex thematic products. TailProtect, the volatility trading strategy run by Man Systematic Strategies was designed to mitigate the portfolio risks associated with extremely volatile markets and MSS now manage over $700 million from some of the world's most sophisticated institutional investors in this product.

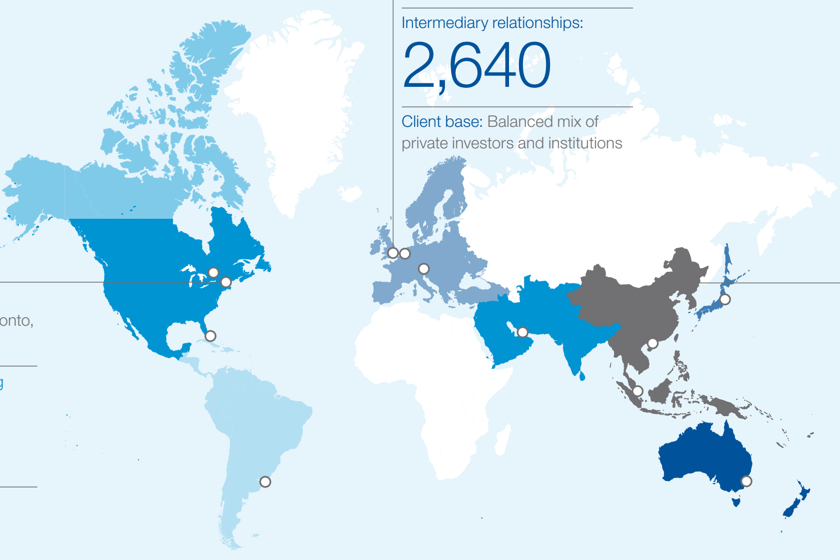
Private investors remain extremely cautious with anecdotal evidence of high allocations to cash. This was evidenced by significantly lower private investor sales in 2012 ($5.2 billion) compared to 2011 ($15 billion). Despite this we continue to make inroads in terms of representation on the key private banking platforms which account for a substantial share of the flows. Man product is on all nine of the most significant private investor banking platforms and has won around 20 new platform approvals since the completion of the GLG acquisition with a similar number of pending approvals.

Institutional sales in 2012 were $7.6 billion, 28% higher than in 2011, and with institutional allocations predicted to constitute a significant proportion of ongoing asset raising, we continue to work hard on our consultant relationships. Consultant coverage of Man has increased from 35 products in January 2010 to 92 today and we have maintained 20 strong buy ratings.

Redemptions in 2012 totalled $20.1 billion, lower than calendar 2011 at $23.1 billion but very much reflective of the continued challenging operating environment. Retaining client assets as well as winning new business remains a key focus and as such a new internal sales compensation structure which incentivises both selling and retaining assets, whilst aligning interests on costs, was introduced on 1 January 2013.

The US remains our main geographical focus for growth and the hire of John Rohal as Executive Chairman of Man North America and the experience he brings will help us to enhance our offering and deepen relationships in this region.

Our network



Europe & Middle East
Sales offices: London, Pfaffikon, Rotterdam, Dubai

Dedicated sales & marketing staff:
130

Intermediary relationships:
2,640

Client base: Balanced mix of private investors and institutions

The Americas
Sales offices: New York, Toronto, Montevideo, Miami

Dedicated sales & marketing staff:
40

Intermediary relationships:
760

Client base: Balanced mix of private investors and institutions

Asia Pacific
Sales offices: Tokyo, Hong Kong, Singapore, Sydney

Dedicated sales & marketing staff:
80

Intermediary relationships:
2,320

Client base: Mainly private investors

Our people

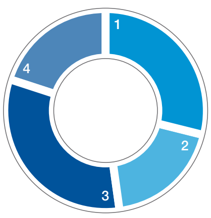
Talented people are an integral part of our strategy and a number of key hires have been made this year as part of our continuing quest to achieve superior investment performance through innovation. The acquisition of FRM was successfully completed and the Man and FRM teams are now fully integrated.

Man's operating costs (compensation and other costs) were $734 million for 2012. During 2012 Man responded to the challenging business environment by announcing cost saving initiatives of $175 million in total, to be implemented by the end of 2013 (refer to pages 13 and 14 for details). This was in addition to the $20 million of savings related to various outsourcing initiatives announced in 2011.

A significant part of the $195 million of savings will come from a reduction in headcount phased over 2012 and 2013. Headcount[1] has been reduced by 21% from 1,876 in June 2011 to 1,306 today. This is being achieved by a rigorous review of all business processes to deliver sustainable efficiencies without increasing risk or compromising client service. Central support and group functions are being consolidated with de-layering of management.

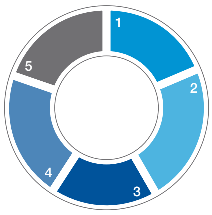
Man treats those impacted by redundancy fairly and respectfully whilst protecting the Company from potential litigation. We provide assistance to individuals who are made redundant including career advice, interview preparation and guidance on developing their networks to help them transition to a new role.

Headcount by function as at 31 December 2012[1]
%



1. Investment Management	**29%**
2. Sales & Marketing	**19%**
3. Operations & Technology	**32%**
4. Central Support & Group Functions	**20%**

Average length of service as at 31 December 2012
Years



1. Investment Management	**5.1**
2. Sales & Marketing	**6.2**
3. Operations & Technology	**4.7**
4. Central Support & Group Functions	**5.7**
5. Total Group	**5.3**

Headcount by region as at 31 December 2012[1]

	Number
UK	**893**
Switzerland	**216**
USA	**119**
Asia Pacific	**124**
Others	**54**
Total	**1,406**

Retention is reinforced through our performance evaluation and succession planning processes, which incorporate both regulatory requirements and risk control policies.

To foster a culture of open, honest and effective communication with all stakeholders, employees receive regular updates and presentations on Company results through face to face meetings or, if necessary, via a video link. The Man intranet is used to provide supplementary updates from senior management on all aspects of our business and is a critical part of the dissemination of knowledge and information.

Man's culture is based on mutual respect for others and discrimination by any individual on any grounds is not acceptable. We offer tangible support through our employee assistance programme which is designed to assist individuals with aspects of their lives outside the workplace which may affect performance at work. Man is committed to promoting diversity across the workforce including for the senior management and Executive Committee. Further information on diversity in the Executive Committee membership is set out in the Nomination Committee report on page 39.

1 Headcount is full time equivalent "FTE" headcount including employees, partners, contractors and consultants. Note 24 (page 95) to the financial statements is employee and partner headcount excluding contractors and consultants.

Risk management

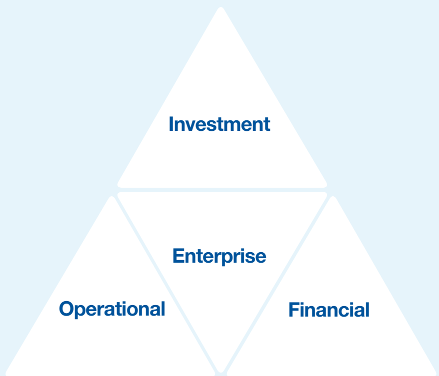
Man's comprehensive risk management framework and processes form an essential part of our business model to oversee the interests of both investors and shareholders.

Man's risk management framework

Overall responsibility for risk management rests with Man's Board, who communicate this through the risk appetite statements, and the framework and governance established to implement these. The risk appetite statements were reviewed in 2012, and adjustments were made to quantify operational and business risk tolerance. The aim of the review was to give greater clarity of intent, not to change the actual quantum of risk that Man is seeking to take on. The amended risk appetite statements are in the panel to the right.

The three aspects of an all-round approach to risk management at Man are demonstrated in the figure below. These are embedded throughout the Group by the risk governance structure.

Risk Management Components



Man's Risk Appetite Statements

Relating to the investment management process:

- Compliance with terms of investment mandate.
- Funds to be managed so that investor redemptions can be met in accordance with the contractual terms.
- Compliance with external financing terms.
- Credit risk from counterparty exposures is mitigated.
- No malfeasance/fraud relating to i) trading activity, ii) external fund allocations.
- No material individual operational losses/exposures (quantitative limits defined on total operational risk capital and individual scenarios).
- Minimisation of potential liability arising from mis-selling.
- No breach of law or regulation governing the business of investment management.

Relating to Man Group:

- No material unresolved conflicts of interest between Man and investors.
- No material breach of law or regulation for corporate activities.
- No material malfeasance/fraud.
- No material consequences from the loss of key personnel.
- Minimise reputational risk.
- Financial Stability – the Group should maintain positive EBITDA and an appropriate capital and liquidity surplus on a forward looking basis.

Three Lines of Defence

The framework instils the principles of direct responsibility for primary risk management down to each business unit and their function. Embedding accountability at the business level is the 'first line of defence'.

The business functions are monitored by a number of risk control functions (i.e. Risk, Finance, Legal, Compliance, Human Resources and Information Security), which form the 'second line of defence'.

The independent review and oversight provided by Internal and External Audit is the 'third line of defence', to ensure controls and processes are appropriate and are functioning as envisaged.

Although Man and the investors in its products are susceptible to losses, we believe our risk management framework creates long-term value through the process of risk-aware decision making, and the strength and robustness of our governance structure provide us with a competitive advantage.

The overall risk governance framework at Man is implemented through the three lines of defence, and overseen by the Audit & Risk Committee as delegated by the Board.

Man's governance

The Board and CEO set out a delegation of authority to a number of committees to be directly accountable for the formulation, implementation and oversight of the policies in place across the Group designed to identify and manage risks within the context of the Board's risk appetite:

- The Executive Committee is accountable for all risks assumed in the business and is responsible for the execution of appropriate risk management discipline.
- The Audit & Risk Committee (ARCom) is a committee of the Board which has oversight of the Assurance functions (see page 34 for further detail).
- The Risk Assurance Committee (RAC) oversees the operational, regulatory and reputational risks faced by the Group and the internal control environment, and is chaired by the Chief Risk Officer, ('CRO').
- The Finance Committee approves actual and contingent use of the Group balance sheet and manages the adequacy of economic and regulatory capital and liquidity buffers, and is chaired by the CFO.

Developments in 2012

Consistent with the lower levels of FUM and the challenging environment (as described in the CEO report), Man has actively reduced balance sheet risk throughout the year. The Group actively manages its balance sheet through the Finance Committee, where potential and actual impacts to the balance sheet are presented and discussed, and appropriate limits and controls are set.

Most significantly, the Group sold the holding in residual Lehman claims that was purchased from several GLG managed funds in 2011, further strengthening Man's capital and liquidity position. Man has also continued to sell other market-related positions held on balance sheet, thus lowering risk.

There was significant risk due-diligence carried out prior to the FRM acquisition and minimisation of operational risk as the legacy entities were brought together.

Principal risks and mitigants

Risk	Mitigation
1. Investment underperformance risks Fund underperformance on an absolute basis, relative to a benchmark or relative to peer groups would reduce funds under management and may result in lower subscriptions and higher redemptions. This may also result in dissatisfied clients, negative press and reputational damage.	This is the key risk Man has to accept if it is to undertake its business. Man's investment businesses each have clearly defined investment processes designed to target and deliver on the investment mandate of each product. As described in the CFO report, macro conditions have severely impacted on Man's ability to perform in 2012.
Man's exposure to negative performance is further magnified due to leverage embedded in some guaranteed products. Man has experienced significant de-gearing of guaranteed products in recent years primarily due to AHL underperformance.	Appropriate investment restrictions and limits are designed and implemented to place appropriate controls and guidance for each product consistent with the mandate they are working within.
Lower funds under management results in lower management fee revenue and underperformance results in lower performance fees, if any.	Fund and manager performance is closely monitored, and we focus on hiring and retaining highly skilled professionals who are incentivised to outperform within the parameters of their mandate.
The table on page 13, shows the breakdown of Man's revenue sources by product line. The largest contribution is from AHL (open-ended and within guaranteed products).	Man's diversified range of products and strategies across the alternatives marketplace mitigates the risk to the business from underperformance of any particular strategy. This has been further extended in 2012 through our acquisition of FRM, the launching of new fund products and the expansion of our Fixed Income capabilities at GLG.
2. Business transformation risks Man is undergoing several transformational changes, which impact many aspects to the Group's business, and are subject to strategy and implementation risks.	
(a) Cost reduction Man in 2012 announced two rounds of significant cost reduction plans. The first has been successfully implemented, and the second is in progress. The risk is that Man is unable to action as planned and within the time frame stated.	Man has delivered the first round of cost reductions as stated - the businesses planned and implemented the actions necessary to deliver on the committed cost reductions.
(b) Outsourcing Man is outsourcing a number of functions that were previously performed internally. The risks are that the outsourced service providers do not perform as required, resulting in knock-on implications for our business as a whole.	Man's operations team, have extensive experience of running an outsourcing process, and have implemented a robust methodology (including extensive KPI monitoring) to ensure that service providers are able to deliver as required – this is in turn monitored by RAC and ARCom.
(c) Key staff retention The risk that a key person to the business leaves or is unable to perform their role. Clearly, the current reorganisation puts key staff retention under pressure. However broader market conditions have meant that Man has been able to retain the talent that it needs.	Although Man attracts and retains an array of talented individuals across the Group, business and investment processes have been designed with a view to minimise the impact of losing any particular key individuals. In addition, there is an established succession planning process at senior levels of the business.

Risk management
continued

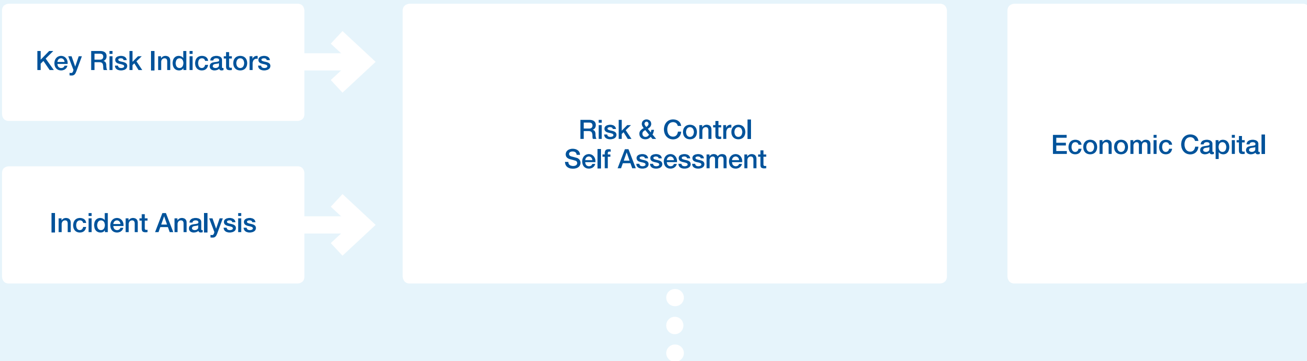
Risk	Mitigation
3. Credit/counterparty risks The risk that a counterparty with which Man has financial transactions fails to deliver investor or shareholder assets back to the Group.	Man diversifies its deposits across a number of the strongest financial counterparties, each of which are approved by the Finance Committee and have maximum exposure limits set, in line with Man's risk appetite.
Shareholders and Investors in Man funds and products are exposed to credit risk of prime brokers, clearing houses, futures clearers, depository banks and guarantee providers, if any.	Man monitors credit spreads and ratings of our main trading counterparties and banks as forward indicators of their credit quality. During 2012 the average CDS spreads for banks have reduced significantly as banks have restructured businesses and markets have reverted from stressed conditions.
If a default occurs and results in Man or its investors experiencing losses, this may adversely affect our reputation and could impact fund performance and subscriptions.	Man has mitigated this risk by increasingly investing its short–term liquidity into US treasury bills. Man is also in the process of doing the same for excess liquidity in investor portfolios.
Man also provides loans to guaranteed products, and so is subject to counterparty risk to certain investor funds.	Guaranteed products are closely monitored, and leverage is adjusted actively such that the risk of default related to balance sheet loans to funds is minimal.
4. Operational risks Operational Risk is defined by Man as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Man Group's Operational Risk Policy provides an overview of the responsibilities that all staff have to identify, assess, monitor and manage Operational Risk within the Group. The policy aims to ensure everyone understands the part they must play in protecting the Group from unexpected loss or reputational harm due to an Operational Risk being inadequately controlled. The three lines of defence model is key to managing this risk. It is dependent on having sufficient capable people to complement the policies. The RAC and the ARCom have reviewed the restructuring to ensure it does not have an adverse impact.
5. Discretionary trading risk The risk that fund managers place inappropriate trades outside of mandate and regulatory boundaries. Man may need to compensate for any losses arising for such trades, as well as face the possibility of fines, lawsuits and reputational damage.	Front office systems provide automated checks and controls at portfolio and trade level. Each investment management business has dedicated risk management personnel who monitor portfolio profiles and provide independent challenge. In addition all fund managers are required to undertake regular mandatory training to ensure they are aware of due processes and their responsibilities related to placing trades.
6. Reputational risks The risk that an incident or negative publicity undermines our reputation as a leading alternative investment manager. Reputational damage could result in significant redemptions from our funds, and could lead to issues with external financing, credit ratings and relations with our outsourcing providers.	Our reputation is dependent on both our operational performance and fund performance. Integrity is fundamental to ensuring Man is able to attract investment in funds. Our strong governance and control structure outlined above helps mitigate operational concerns, and our attention to people and robust investment processes aim to ensure we comply with very high standards of investment management practice. The Board regularly reviews evidence of whether the right tone from the top is being maintained.

Managing operational risk

The aim is to ensure that operational risks are identified, understood, assessed and mitigated in such a way that their financial impact is managed in accordance with a defined risk appetite.

The diagram below shows the four key elements of Man's Operational Risk Framework.

The Operational Risk Framework



The Group's methodology for the assessment of operational risks has been enhanced by the implementation of Risk & Control Self Assessment (RCSA)

Risk & Control Self Assessment (RCSA)
The outcome of the RCSA is a detailed assessment of the effectiveness of risk mitigation at a granular level which can be reconciled with the top-down view of the Group's risk profile.

RCSA is at the core of our assessment of operational risks. Key Risk Indicators and incidents are analysed to ensure that our assessment of operational risks in RCSA is up-to-date and responds to changes in the Group's operational risk profile.

Legal and regulatory focus

As a global manager of alternative strategies, Man operates in one of the most highly-regulated spheres of business in the world. Man entities are regulated by 22 financial regulators and self-regulatory organisations in 17 jurisdictions around the world. Far from being an 'unregulated' business, alternative asset management demands the highest levels of regulatory conduct, and these standards are constantly evolving.

2012 has seen the transition in this regulatory arena from the development of high-level principles to a process of detailed rule-making in a number of key areas for our business. This process will gather pace in 2013 as several of these measures are finally implemented – for example the European Alternative Investment Fund Managers (AIFM) Directive and the new US and EU rules on central clearing of over-the-counter (OTC) derivatives. A key challenge for Man will be its analysis of, and response to, these new rules.

Regulatory change, and the impact this can have on our clients and our business, is one of the key risk areas (and arguably presents an opportunity) for Man Group, and we plan and respond accordingly. Man places great emphasis on proactively analysing new regulatory developments, assisting regulators and working with trade bodies and market participants to assess likely impacts and risks. Man operates a strong legal and regulatory framework, which runs through all aspects of the business and is underpinned by experienced legal and compliance teams. These individuals are physically located in Man's key jurisdictions and businesses, ensuring they understand the context and impact of any regulatory requirements.

This long-standing regulatory experience is a key competitive advantage when navigating the tide of new regulation, allowing Man to leverage its existing capabilities to respond to regulatory change, and identify valuable opportunities for clients and shareholders as they arise.

Corporate governance report

Jon Aisbitt
Chairman

The leadership of the Board, within a framework of prudent and robust risk management and controls, is recognised as of paramount importance for the long-term success of a company and the cornerstone of good governance.

In this report, which follows on from my Chairman's review, I will be discussing how the Man Board is organised and has discharged its leadership role during the year. The report outlines the processes, practices and behaviours the Board adopts to optimise its decision making and safeguard its independence. The report also sets out the framework through which the main Board Committees provide oversight on key aspects of the business.

Board experience and skills

As part of our long–term succession planning, we made some major changes to the executive membership of the Board during the year as discussed in detail in my Chairman's review and Nomination Committee report. The Board believes that Manny Roman and Jonathan Sorrell, our new CEO and CFO respectively, together have the combination of strong financial and commercial skills, financial markets experience and deep understanding of the hedge fund industry necessary to drive the business forward.

Our diverse range of non-executive directors, all of whom we regard as fully independent, continued unchanged through the year. These individuals bring to the Board a wealth of strategic development, operational and people management experience from a wide range of financial services organisations. They offer institutional knowledge and client development expertise. All have a keen understanding of financial markets and broad international exposure. Biographical details of all our Board members are set out on pages 28 and 29.

Alison Carnwath, who has served on the Board and its Committees in a variety of roles over her 12 years as a non-executive director, will be standing down at this year's Annual General Meeting. We will, therefore, be looking to recruit a new non-executive director to add to and refresh the Board's skills and experience base in the course of 2013. The Board's succession planning activities, together with its approach to building diversity, are discussed in my Nomination Committee report on page 38.

Board leadership

The table opposite gives an indication of the main actions the Board has taken to provide leadership to the business during the year. These fall within the key areas of strategy, performance monitoring, risk management and balance sheet strength and efficiency headlined in my Chairman's review. On our website www.man.com/GB/board-governance you will find a 'Schedule of matters reserved for decision by the Board' which sets out the full range of business issues which are mandated for Board review and approval on an ongoing basis.

Actions and areas of focus during 2012

Developing strategy

Improving investment performance

- Continual review of relative performance of AHL versus peers and impact of modelling changes. Focus on research capability.
- Ongoing review of relative performance of GLG and FRM.
- Reviewed GLG fund capacity and identified potential for growth in Fixed Income.

Creating options for growth

- Approved acquisition of FRM to grow assets, achieve cost synergies and upgrade talent.
- Reviewed distribution network, analysed economics and identified gaps.
- Reviewed US strategy and market trends leading to renewed focus on institutional business.
- Approved new internal sales compensation structure to promote asset gathering and retention, cost control and the alignment of investor and shareholder interests.

Monitoring management and business performance

- Regular review of progress on FRM integration focusing on people, systems, redemptions and sales pipeline.
- In depth analysis of future run rate management fee economics under various performance scenarios. Review of long–term impact of guaranteed product de-gear.
- Approval and regular review of progress on cost reduction programmes. Challenged management to ensure that actions taken would not constrain capability and growth.

Managing risk

- Updated risk appetite statements to quantify operational and business risk tolerances.
- Reviewed and confirmed adequacy of stress tested liquidity surplus.
- Reviewed high level risk dashboard at every meeting and discussed the impact of changes in the size and likelihood of key business risks.
- Reviewed the Board's overall governance of risk and confirmed the effectiveness of the existing framework.

Financial strength and balance sheet efficiency

- Reviewed longer–term regulatory capital forecasts against anticipated changes in regulatory requirements.
- Approved revised dividend policy and secured access to further distributable reserves through the implementation of a scheme of arrangement and capital reduction.
- Approved the disposal of the BlueCrest Loan Notes and the residual claims in the Lehman estates to reduce balance sheet exposures.
- Approved the buyback of €166 million senior debt to reduce interest cost. Approved a one year extension to the maturity date of $1.3 billion of the Revolving Credit Facility to increase funding flexibility.

Corporate governance report continued
Board of Directors





Jon Aisbitt Chairman of the Board and Chairman of the Nomination Committee	**Alison Carnwath** Independent non-executive director	**Peter Clarke** Chief Executive (until 28 February 2013)	**Phillip Colebatch** Independent non-executive director and Chairman of the Remuneration Committee	**Frédéric Jolly** Independent non-executive director

Background and experience

Jon Aisbitt has 20 years' experience in international corporate finance and was previously a Partner and Managing Director in the Investment Banking Division of Goldman Sachs.	Prior to joining the Board, Alison Carnwath spent 20 years working in investment banking.	Peter Clarke joined Man in 1993 from the investment banking industry, having worked at Morgan Grenfell and Citicorp. He was appointed Head of Corporate Finance & Corporate Affairs at Man in 1995.	Prior to joining the Board, Phillip Colebatch was a member of the Executive Boards of Swiss Reinsurance Company and Credit Suisse Group.	Frédéric (Fred) Jolly was Chief Executive Officer of Russell Investments (Europe, Middle East and Africa) until the summer of 2008. Prior to this, he was Head of Investment Consulting at The Wyatt Company, Paris (now Watson Wyatt).

Date of appointment[1]

Jon was appointed to the Board as a non-executive director in August 2003 and was appointed non-executive Chairman in September 2007. Jon's current three year term of office expires in May 2015.	Alison was appointed to the Board as a non-executive director in January 2001 and was Senior Independent Director between July 2009 and July 2011. Alison's current term of office expires at the 2013 AGM and she will not be seeking reappointment.	Peter was appointed to the Board in 1997 and was appointed Finance Director in May 2000. He was appointed Deputy Group Chief Executive in November 2005 and Chief Executive in March 2007. Peter will retire as Chief Executive and step down from the Board on 28 February 2013.	Phillip was appointed to the Board as a non-executive director in September 2007. Phillip's current three year term of office expires in July 2014.	Fred was appointed to the Board as a non-executive director in August 2009. His current three year term of office expires in May 2015.

External appointments

Jon is an Advisory Board Director of Celtic Pharma I and Celtic Pharma II (biotechnology) and a Director of New Forests Company Holdings (African forestry).	Alison is Chairman of Land Securities Group plc. She is a non-executive director of Zurich Insurance Group Ltd and an Independent Director of Paccar Inc.	None.	Phillip is a non-executive director of Lend Lease Corporation and is on the Boards of Trustees of the LGT Group Foundation and the Prince of Liechtenstein Foundation.	Fred is Senior Advisor for Europe, Investec Asset Management.

Committee membership

Jon is Chairman of the Nomination Committee and a member of the Remuneration Committee. He attends Audit and Risk Committee meetings by invitation.	Alison is a member of the Remuneration Committee and the Nomination Committee.	As Chief Executive, Peter regularly attended Remuneration Committee and Nomination Committee meetings by invitation and was Chairman of the Executive Committee.	Phillip is Chairman of the Remuneration Committee and a member of the Nomination Committee.	Fred is a member of the Remuneration Committee and Nomination Committee.

Note:
1 The appointment of all the directors is subject to their retirement and reappointment by shareholders at the Company's Annual General Meetings.

Matthew Lester
Independent non-executive director and Chairman of the Audit and Risk Committee

Matthew Lester was Group Finance Director of ICAP plc from 2006 to 2010. Prior to this he worked at Diageo plc in a number of senior finance roles, including Group Financial Controller, Treasurer and Divisional Finance Director.

Matthew was appointed to the Board as a non-executive director in May 2011. His current three year term of office expires in May 2014.

Matthew is Chief Finance Officer of the Royal Mail Group. He is on the main Committee of the Hundred Group of Finance Directors.

Matthew is Chairman of the Audit and Risk Committee and a member of the Nomination Committee.

Patrick O'Sullivan
Senior Independent Director

Patrick O'Sullivan was previously Vice Chairman of the Group Management Board, as well as Group Finance Director, of Zurich Financial Services Group.

Patrick was appointed to the Board as a non-executive director in September 2007. He was appointed Senior Independent Director in July 2011. His current three year term of office expires in July 2013. Subject to his reappointment by shareholders at the 2013 AGM, his term of office will be renewed until May 2016.

Patrick is Chairman of Old Mutual plc and is Deputy Governor of the Bank of Ireland. He is also non-executive Chairman of the Shareholder Executive.

Patrick is a member of the Audit and Risk Committee, the Remuneration Committee and the Nomination Committee.

Emmanuel Roman
Chief Executive Officer (from 28 February 2013)

Emmanuel (Manny) Roman joined Man as Chief Operating Officer in October 2010 following the acquisition of GLG. He joined GLG in 2005 as Co-Chief Executive Officer after 18 years with Goldman Sachs where he was Co-Head of Worldwide Global Securities and Co-Head of the European Securities Division.

Manny was appointed to the Board in May 2011. He was appointed President of Man in August 2012 and Chief Executive Officer on 28 February 2013. Manny has no fixed term of office. His service contract is terminable on 12 months' notice.

Manny is a trustee of the Hedge Fund Standards Board and a non-executive director of Grupo Prisa SA. (education, media and entertainment).

Manny regularly attends Audit and Risk Committee meetings by invitation. In 2012 he attended Remuneration Committee meetings for certain items of business. As Chief Executive Officer, he will chair the Executive Committee and attend Remuneration and Nomination Committee meetings by invitation.

Nina Shapiro
Independent non-executive director

Nina has had a long career of senior roles within the World Bank and was Vice President, Finance and Treasurer of the International Finance Corporation from 2000 to 2011.

Nina was appointed to the Board as a non-executive director in October 2011. Her current three year term of office expires in October 2014.

Nina is a director of African Minerals Ltd.

Nina is a member of the Audit and Risk Committee and the Nomination Committee.

Jonathan Sorrell
Chief Financial Officer

Jonathan joined Man in August 2011 as Head of Strategy and Corporate Finance. Before this he spent 13 years at Goldman Sachs in the Investment Management, Securities and Investment Banking Divisions, latterly leading investments in a broad range of hedge fund firms.

Jonathan was appointed to the Board as Chief Financial Officer in June 2012. Jonathan has no fixed term of office. His service contract is terminable on 6 months' notice.

None.

Jonathan regularly attends Audit and Risk Committee meetings by invitation. He attends Remuneration Committee meetings for certain items of business.

Corporate governance report continued

Board oversight and governance

The Board oversees the Company's financial reporting, risk management and regulatory compliance functions. It also provides governance on executive remuneration and appointments. These roles are fulfilled by the three Committees summarised below. Full Committee terms of reference can be found on our website www.man.com/GB/corporate-governance. Details of the specific areas of Committee focus during the year are given in the separate Committee reports which start on page 34. The communication and coordination of the work of the Committees is achieved through regular reporting to the Board by Committee chairmen and the circulation of minutes and relevant papers.

Audit and Risk Committee

Review the integrity of the Company's financial reports and statements prior to approval by the Board.

Review and report to the Board on the effectiveness of Man's risk management and internal controls framework.

Recommend to the Board the appointment of the external auditors; review the scope of their work and their effectiveness.

Approve the internal audit plan; review the effectiveness of internal audit and management response to their findings.

Audit and Risk Committee report ➥ Page 34.

Remuneration Committee

Recommend to the Board for approval the principles and structure of the Company's executive remuneration policy.

Recommend to the Board for approval the quantum of the Company's variable compensation pool.

Recommend to the Board for approval the annual objectives and compensation for individual executive directors.

Approve the compensation for Executive Committee members and FSA Code staff.

Determine the contractual termination terms for executive directors and any severance payments.

Remuneration report ➥ Page 40.

Nomination Committee

Keep the Board's skill and experience base under regular review in the light of business changes and agree with the Board the role specification for any proposed new appointments.

Conduct the search and selection process for new directors and recommend proposed appointees to the Board.

Review senior executive development and succession plans to ensure continuity of resource at and just below Board level.

Review and recommend the renewal of non-executive director appointments.

Nomination Committee report ➥ Page 38.

Risk management and internal controls

The Board is required to maintain sound risk management and internal control systems, to review their effectiveness and to report on this review to shareholders. Information on Man's risk management and internal control systems, which have been in place throughout the period and up to the date of this report, can be found in the Risk management section on pages 22 to 25. Details of Man's risk management and internal control systems in relation to the financial reporting process are given below.

Financial reporting controls

The financial reporting control system operating across the Company includes both appropriate preventative and detective control methodologies. The combined methodologies are designed to ensure the adequate maintenance of proper accounting records and that financial information used within the business and for publication is reliable and free from material misstatement, thereby safeguarding the Company's assets. The framework is managed by the Financial Controls Group and is split into three main components: control ownership; account ownership; and entity ownership. These require certification of the key controls over the financial reporting processes and material financial statement line items. This includes pre-approval and monitoring controls, incorporating the process for preparing the consolidated accounts.

Board review of risk management and internal control systems

The Company's systems of internal control aim to safeguard assets, maintain proper accounting records and provide assurance that the financial information used in the business and published externally is robust and reliable. The systems are designed to manage key risks rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The systems comply with the guidance given in 'Internal Control: Revised Guidance for Directors' (the 2005 Turnbull guidance).

Man's risk management and internal control systems are regularly reviewed by the Board. The Board receives reports from line management and Group Risk on the risks to the achievement of the Group's operational and financial objectives, together with assurance that the level of risk sustained is consistent with and being managed in accordance with the Board's risk appetite. These reports include current and forward looking assessments of capital and liquidity adequacy and a summary 'risk dashboard'.

The Board has delegated oversight of risk management and systems of internal control to the Audit and Risk Committee. At each meeting the Audit and Risk Committee reviews summary dashboards for each of risk, internal controls, the financial controls framework and compliance. They also receive reports from the Risk Assurance Committee which considers the effectiveness of risk controls through regular review of Risk and Control Self-Assessments, risk scenarios, key risk indicators and operational risk incident reports. Objective assurance on the operation and effectiveness of internal controls is provided by Internal Audit whose audit programme is targeted on the business areas and processes that are most significant in terms of the Group's risk profile and where there are key controls on which the Group relies. In the last quarter of 2012, the Audit and Risk Committee reviewed a report on the effectiveness of Man's governance functions. The report from the Chairman of the Audit and Risk Committee on pages 34 to 37 provides further information on how the Committee has discharged its risk oversight responsibilities during the year.

As part of its risk oversight responsibilities a number of operational and regulatory matters were reported to the Audit and Risk Committee during the normal course of business. Whilst Man sought to improve its processes as a result, they were not sufficiently material in number or nature to either require separate disclosure or to indicate that the control environment has not been working effectively.

In addition to its ongoing monitoring of risk controls, the Board has conducted a specific period end review of the effectiveness of the Group's risk management and internal control systems during the twelve months and for the period up to the date of this Annual Report. This process covered all material controls including operational, financial and compliance and included a review of all significant operational risk incidents and Internal Audit findings raised during the period. The Board also reviewed the outcome of the firm-wide Risk and Control Self Assessment process, and considered the potential impact of certain risks as identified by the business, and the quality of the controls in place to mitigate them. The review did not include the risk management and internal control systems in place in respect of the business of FRM prior to its acquisition by Man. No significant weaknesses or material failings in the risk management and internal control systems were identified in this review.

Board commitment

The table shows directors' attendance at the main Board and strategy review meetings held during the year. However, Board members are also regularly called on at short notice between meetings to review and respond to proposals circulated by email on urgent business that cannot wait for the next scheduled meeting. Any decisions so taken will be formally approved and ratified at the next meeting. In addition, an appropriate quorum of the Board comprising executive and non-executive directors may be appointed to pursue and execute a particular transaction after preliminary discussion and approval in principle at a main Board meeting. Such meetings are not included in the meeting attendances shown. Every effort is made to set an annual Board schedule which accommodates non-executive directors' other business appointments with full use made of telephone and video communication to maximise their participation. Their terms of appointment set out a minimum time commitment varying between 24 and 33 days per annum though in practice this allocation is far exceeded.

Directors' attendance at main Board meetings (including strategy reviews)

Number of meetings held in 2012	**8**
Jon Aisbitt, Chairman	8
Alison Carnwath	8
Peter Clarke	8
Phillip Colebatch	8
Kevin Hayes[1]	4
Frédéric Jolly	8
Matthew Lester	8
Patrick O'Sullivan	8
Emmanuel Roman	8
Nina Shapiro	7
Jonathan Sorrell[2]	4

Notes:
1 Kevin Hayes left the Board on 18 June 2012.
2 Jonathan Sorrell joined the Board on 18 June 2012.

Chairman's role

My aim as Chairman is to create a diverse, inclusive and effective Board which is fully informed about the business and able to provide the executive membership with an appropriate balance of challenge and support. Of key importance in the development of a climate of open communication and constructive debate are my relationship with our CEO and his interaction with our non-executive directors. The CEO and I have clearly differentiated and complementary responsibilities which are set out in the statements of our respective roles on our website. www.man.com. I work with the CEO and Company Secretary to plan the Board's forward agenda, anticipating business needs and developments and ensuring appropriate and timely discussion of both scheduled and unexpected matters. This will frequently involve the convening of additional meetings or extending existing sessions to consider complex issues such as our capital restructuring or our regulatory capital submissions to the FSA. Through informal and regular contact with our Senior Independent Director and my other non-executive colleagues, I keep abreast of their thinking, areas of interest and any issues of concern. I find our regular Board evaluations very useful in identifying areas for further improvement in the workings of the Board and will be actively pursuing the recommendations arising from our 2012 evaluation set out later in this report.

Corporate governance report continued

Non-executive directors

Independence

Man is fortunate to have a broad mix of non-executive directors who all demonstrate unquestionable independence in their thinking and challenge of management. I greatly value the experience and insight that they bring to Man from their external roles. To ensure that such roles do not present any conflict with their responsibilities to Man, we ask directors to notify us of their external appointments on joining the Board and to keep us advised of any changes on a continuing basis. Any director wishing to take on a new commitment must discuss both the nature of the role and the likely time commitment with me. Any interests which are perceived to represent a potential conflict with Man's business are reviewed by their executive colleagues and appropriate guidance given.

Education and development

As an initial introduction to the business, new non-executive directors are offered a tailored and regularly updated induction programme, an outline of which is given on our website www.man.com. Ongoing refreshing of their business knowledge is achieved through presentations by senior management at Board and Committee meetings. Although cost constraints had an impact on the extent of Board visits overseas during 2012, non-executives were able to debate key topics such as the review of our distribution network and compensation structure and the development of our US strategy by video link with the relevant business heads in Switzerland and the US. In London, the Board has received regular progress updates from the AHL and FRM investment teams. Presentations on the new GLG Macro and Fixed Income platform from GLG portfolio heads are scheduled later this year. In addition, to keep non-executives abreast of the complex regulatory environment in which Man operates, external programmes on topical legal, accounting and regulatory developments are made available on a regular basis. Non-executives are free, should they feel this necessary, to take independent advice on the Company's business at any time.

Board evaluation

2011 evaluation

The recommended actions arising from our previous Board evaluation, carried out in March 2011, were that the Board should review and build on its strategy, further develop its knowledge of competitor performance and products, and renew its focus on senior executive development and succession planning. Achievements during 2012 in the areas of strategy and executive succession planning are given in the table of Board actions on page 27 and in the Nomination Committee report on page 38 respectively.

2012 evaluation

Our 2012 Board evaluation was undertaken by an independent firm, Edis-Bates Associates, which has no other connection with the Company. The evaluation consisted of in-depth interviews with each of the directors and the Company Secretary to assess the Board's collective performance in key areas of its role and activities during the year. The performance of the main Board Committees (Audit and Risk, Remuneration and Nomination) was similarly assessed. Structured feedback was also obtained on the performance of individual directors, including their contribution, independence and commitment.

The results of the collective evaluation were presented to the Board and its Committees in December. Summary findings for the evaluation of the Board, including both areas of strength and areas for continuing focus during 2013, are discussed below. The separate Committee reports discuss the evaluation findings for those Committees. The feedback on individual directors was shared with them by me in one to one discussions. Patrick O'Sullivan, as Senior Independent Director, led a review of my own contribution as Chairman, informed by the evaluation findings, and has given me direct feedback.

Findings of 2012 evaluation

The period leading up to this year's evaluation was difficult and demanding for both the Company and the Board. In this environment, directors were challenging of their performance in anticipating and responding to deteriorating trading conditions and initiating the changes required to diversify and reposition the business. They recognised the need to continue to expand their knowledge of competitors' strategies, products and flows. They sought to deepen their understanding of the problems and opportunities offered by Man's individual businesses. They resolved to maintain an increasingly sharp focus on performance and rigorous follow through on agreed management actions.

There was, nevertheless, a strong view that Board relationships were working well with an appropriate balance of non-executive support and challenge. The executive team, with a new Chief Financial Officer, was considered to be refreshed and effective and providing good access to senior management below Board level. With clear progress made during the year on executive succession, it was agreed that more attention should now be given to non-executive director planning and the future skills and experience required to meet the changing needs of the business. Further details of planned activities in this area are given in the Nomination Committee report on page 38.

Shareholder engagement

Institutional investors

Man undertakes a comprehensive programme of meetings and events for institutional investors and research analysts. This was particularly important in 2012 when, with significant change going on in the business, we needed to pay particular attention to the views and concerns of the investment community. Last year our programme included some 280 investor meetings, year end and interim results presentations, and conference calls to discuss interim management statements. Investors and analysts also met with key operational managers, notably to gain more insight into AHL. The Board routinely receives updates from our investor relations team on significant movements in the share register, analysts' consensus forecasts, market sentiment and feedback from investor meetings. We also invite our brokers and financial PR advisers to report on investor sentiment and advise on the focus of our communications.

As Chairman, I attend results presentations to analysts and investors and, towards the end of last year, undertook a programme of meetings with key institutional investors to supplement contact between investors and the executive management team. This gave me the opportunity to hear at first hand from investors on their perceptions and concerns about the business. The Chairman of our Remuneration Committee has engaged with investors and shareholder representative bodies to discuss planned changes to our executive compensation arrangements. The Senior Independent Director is always available to meet with major shareholders about any issues of concern.

Private investors

We are keen to hear the views of our private shareholders and we encourage them to use our shareholder mailbox (shareholder@man.com) for detailed enquiries and our website for Company reports and business information. The website also provides direct access to Shareview (www.Shareview.co.uk) which enables shareholders to manage their shareholding account online.

At last year's AGM, the CEO gave his regular update on the positioning of and outlook for the business. Shareholders were invited to ask questions formally during the meeting and to follow up these discussions with directors on a one to one basis afterwards. In December we held a meeting for members of the UK Shareholders Association in London where Jonathan Sorrell, our CFO, reported on the progress of the business and the Board's areas of strategic focus. We look forward to welcoming all our shareholders to our 2013 AGM in May and updating them on business developments.

Jon Aisbitt
Chairman

Statement of compliance

The Company has, throughout the year ended 31 December 2012, applied the principles of and complied with the provisions of the UK Corporate Governance Code dated June 2010 (the 'Code') except in the following respects:

Provision D.2.2 of the Code requires that the Remuneration Committee should have delegated responsibility for setting the remuneration of all the executive directors and the chairman.

Executive directors' remuneration

At Man, the terms of reference of the Remuneration Committee provide that the Committee should recommend, for approval by the Board, individual executive directors' objectives and compensation. This is subject to the proviso that no director should participate in the approval of his or her objectives or compensation.

The Board believes that, given the importance of motivating the executive team to deliver the Company's strategy, it is appropriate for all non-executive Board members, rather than just those who sit on the Remuneration Committee, to determine the executive directors' objectives and compensation packages.

Chairman's remuneration

The remuneration of the Chairman is determined by the Board based on the recommendation of the Remuneration Committee. This makes the process fully transparent and allows the views of all the directors, executive and non-executive, to be taken into account.

Corporate governance report continued
Audit and Risk Committee report

The Audit and Risk Committee is an essential part of Man's governance framework to which the Board has delegated oversight of the Group's financial reporting, risk management, internal controls and compliance, internal and external audit. These functions form an integral part of the Group's three lines of defence model (see page 22). This report provides an overview of the work of the Committee and details how it has discharged its duties during the year.

Matthew Lester
Chairman, Audit and Risk Committee

Composition and attendance at meetings

Committee members	Attendance record
Matthew Lester (Chairman)	9/9
Patrick O'Sullivan	9/9
Nina Shapiro	8/9

The Audit and Risk Committee (the 'Committee') is comprised entirely of independent non-executive directors and the Committee held nine formal meetings during the year. The Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, General Counsel, Head of Global Compliance and Regulatory, Head of Internal Audit and representatives of the external auditors attended the majority of meetings by invitation. In addition the Committee had regular private meetings with both Internal Audit and the external auditors. Patrick O'Sullivan and I are the members considered to have relevant and recent financial experience. Biographies of the Committee members can be found on pages 28 and 29 and the terms of reference for the Committee, together with details of the standard business considered by the Committee, can be found at www.man.com.

The Committee's role and responsibilities

How the Committee fits into the committee structure overseeing Man's governance framework is illustrated below. Issues are escalated to the Committee through the Finance Committee and Risk Assurance Committee as appropriate and by the Committee to the Board, who are ultimately responsible for governance across the Group.

Note:
1 Further information on the role of these Committees can be found on page 23.

The Committee monitors and reviews the functions detailed below and is responsible for reporting its findings and any recommendations to the Board.

F Financial reporting

- Year end and interim accounts to ensure they give a balanced and a true and fair view of the business and comply with required accounting standards and regulation, with particular focus on:
  - Key accounting policies and judgements.
  - Going concern statement.
  - Annual Report sections on Risk Management and the Audit and Risk Committee.
- Changes to financial reporting standards and regulations.
- Effectiveness of the financial controls framework.

R Risk management, internal control and compliance

- The effectiveness of:
  - The Group's policies and process for the identification, assessment and management of risk, including regular reporting from the Risk Assurance Committee and Finance Committee.
  - The Group Risk Framework including reports on the Group's risk profile, related internal controls and responsibility for risk management.
  - The internal controls operation (in line with Turnbull guidance).
  - The Group's Regulatory Reporting activities and Compliance functions.
- In addition, the Committee reports any relevant findings in relation to risk matters which may impact the bonus pool or individual calculations to the Remuneration Committee for consideration during the annual remuneration cycle.

IA Internal Audit

- Approval of the annual Internal Audit Plan and Internal Audit activities.
- The effectiveness of the Internal Audit function.
- All significant Internal Audit recommendations and findings and management's response to and progress in addressing them.

EA External Audit

- Appointment and remuneration of the external auditors, including reviewing their effectiveness and independence.
- Review the nature and scope of the audit and the auditors' control procedures.
- Findings of the audit and the auditors' management letter.
- Approval and monitoring of the policies relating to the provision of non-audit services by the external auditors and the hiring of personnel from the external auditors.

Key areas reviewed during 2012

Detailed below are some of the key areas the Committee considered during the year, together with an indication of which functions these related to.

F EA Accounting judgements

Prior to the Board's review of the interim and year end accounts the Committee considers all key accounting judgements. The most significant judgement made related to the goodwill valuation of the Company's main business units. For the interim accounts the Committee engaged the services of Duff and Phelps, an independent valuation specialist, to provide an independent assessment of the recoverable amount of goodwill for each main business unit. The valuation exercise focused on the key assumptions used for the valuation model, especially investment performance, sales and redemptions. This review resulted in an impairment of the goodwill associated with the GLG business of $91 million and for Man Multi-Manager $142 million in respect of the six months ended 30 June 2012.

A further goodwill valuation was undertaken for the year end accounts and this was led by management who made a recommendation to the Committee. It was agreed not to engage Duff and Phelps as it has been established that their valuation methodology and outcome is not significantly different from the internal valuation calculation that is currently being used. The Committee reviewed management's assumptions and recommended goodwill valuations and found them to be appropriate. As a result of revised assumptions for investment performance and net flows, a further impairment of the goodwill associated with the GLG business, amounting to $746 million, has been recognised in the year-end accounts (please see page 78 for further information).

F R EA New Group holding company

During the year the Company undertook an internal restructure which involved the creation of a new listed holding company for the Group. Further information on this can be found on page 90. As part of the restructure, Man was required to prepare and publish a prospectus which included disclosures on working capital, financial reporting procedures and risk factors. The Committee reviewed these disclosures in detail and made recommendations to the Board on their appropriateness. The Committee was kept regularly updated on the proposals and the implementation of the revised structure.

R F IA Governance and assurance review

Throughout 2011 and 2012 Man's governance and assurance functions have continued to be enhanced, including the continued roll out of the Risk Control Self-Assessment process (see page 25). During the year the Committee undertook a detailed review of each assurance function and how they interact to provide comprehensive coverage of the business. As part of this, the Committee looked in depth at the Compliance, Risk, Legal, Finance and Internal Audit departments, their remits, interaction with the business and other stakeholders, the challenges faced and their plans for 2013. Progress against these plans will be reviewed by the Committee.

Corporate governance report continued
Audit and Risk Committee report continued

R FRM integration

Following the acquisition of FRM during the year the Committee received regular updates on the status of the integration with Man's legacy fund of fund business. The potential risks associated with the acquisition were reviewed and monitored by the Committee. The most material risks identified related to increased client redemptions and loss of key staff. Going forward the Committee will receive updates on the integrated FRM business as required.

R Service providers to funds

Man is undertaking various outsourcing initiatives to transfer certain services provided to funds to alternative service providers and to rationalise the number of service providers used across the firm. The Committee reviewed the proposals and the impact of such arrangements on Man's risk profile. Areas of particular focus were the stability of third party suppliers, contingency planning for the services and ensuring that adequate processes were in place to monitor and secure a high quality of service delivery. The Risk Assurance Committee receives updates at each meeting which are then reported to the Committee through the standing reports. In addition, the Committee will receive updates from the business on specific areas and outsourcing will continue to be an area of focus during 2013.

IA Internal audit

The Committee, together with senior management, is responsible for monitoring Internal Audit activities and effectiveness and ensuring that sufficient resources are in place. As Man's business has developed into three distinct businesses, the areas of specialism required to be covered by the Internal Audit function have increased. In order to provide the scalability and flexibility of specialist resource required within Internal Audit it was decided to move to a fully outsourced Internal Audit function. This will enable Man to leverage the skills and expertise of an external specialist provider who has extensive depth of resource. It was agreed to outsource the function to an independent provider, KPMG LLP, who have previously worked closely with Internal Audit and have a detailed understanding of the function and how it operates within the business. The transition will be a particular focus of the Committee during 2013.

F EA IA Development of the financial controls framework

During the year the Committee reviewed and approved developments to the Group's financial controls framework. The Committee has monitored the implementation and operation of the enhanced control framework through a controls dashboard which is reviewed at each meeting. Further information on the financial controls in place can be found on page 30.

R Information technology update

The Committee receives updates from the Global Head of Technology twice per year. The updates during the year focused on the project to simplify and standardise Man's IT services and to migrate the FRM business on to Man's IT systems. In addition, the Committee tested Man's approach to cyber-crime and the management of systems access for joiners, leavers and internal transfers.

EA External auditors

Non-audit services
The Committee has an agreed principle that the external auditors should not be selected for non-audit services, unless they are expected to undertake the work because of their office or if there are other material benefits to their engagement. Work expected to be completed by the external auditors includes formal reporting for shareholder and other circulars, regulatory assurance reports and work in connection with acquisitions and disposals.

Under the policy there is a specific list of services for which the external auditors cannot be engaged as the Committee considers that the provision of such services would impact their independence. Any potential services to be provided by the external auditors that have an expected value of $75,000 or more and which are not prohibited by the policy must be pre-approved by the Committee. There is a further limit whereby the aggregate pre-approved fees in any financial year must not exceed $2 million without Committee approval.

The table below shows the remuneration paid to the external auditors, PricewaterhouseCoopers LLP (PwC) and its worldwide associates, for the year ended 31 December 2012.

Remuneration paid to Man's auditors, PwC and its worldwide associates

$'000	12 months to December 2012	9 months to December 2011
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	**1,202**	2,304
Other services:		
The audit of the Company's subsidiaries pursuant to legislation	**2,494**	3,955
Audit-related assurance services	**668**	704
Tax compliance services	**556**	399
Tax advisory services	**235**	193
Other assurance services	**687**	–
All other services	**891**	387
Total auditors' remuneration	**6,733**	7,942

The Committee reviews whether the level of non-audit fees could impact the independence of the auditors. This is monitored by reference to the level of fees paid for services, excluding services which are required to be provided by PwC due to their office, against the fees paid for the audit of the Company and its subsidiaries. Further information on the services provided under these categories is detailed below. For the year ended 31 December 2012 a significant audit fee reduction was negotiated. This has an impact on the level of non-audit services as a percentage of the audit fee.

Audit-related assurance services consist of fees paid for the work undertaken in reviewing the interim results and for assurance reports required to be submitted to financial regulators in various jurisdictions. These services, which amounted to $668,000, are required to be undertaken by PwC as the Company's external auditors.

Other assurance services relate to work undertaken in connection with the creation of the new listed holding company for the Group. This required assurance to be given on the financial content of the shareholder circular and prospectus. In addition PwC prepared a detailed private working capital report and comfort letter addressed to the directors to support their working capital statement contained in the prospectus. Due to their office as external auditors and given that they had audited the historical financial information, PwC were selected to provide these services.

PwC worked on two significant projects which fall within the definition of all other services. These were the acquisition of FRM and advisory services provided in connection with the creation of the new listed holding company of the Group. The services provided in connection with the acquisition of FRM are generally expected to be undertaken by the external auditors in line with market practice. Man benefited from cost efficiencies by using PwC for the advisory services in connection with the new holding company.

Review of external auditors

For the year ended 31 December 2012 the Committee reviewed the effectiveness and independence of the external auditors. This was facilitated through the completion of a questionnaire by the relevant stakeholders on the performance of the auditors throughout the year, consideration of PwC's internal policies and a review of external reports, such as the FRC reports on the audit industry and individual firms.

During the year the Committee considered the reduction in audit fee and how this would impact the external audit. There were a number of factors which increased the cost efficiency of the audit, including improvements in Man's internal controls, the move to outsource certain services to third party suppliers and other general efficiencies. The Committee considered the scope of the audit and requested confirmation from the auditors that they were satisfied that the reduction in fees would not reduce the effectiveness or quality of the audit.

Following this review the Committee recommended to the Board that PwC be reappointed as external auditors.

Evaluation of the Committee's effectiveness

During the year the Company engaged Edis-Bates Associates to undertake an independent evaluation of the Committee (for further information please see page 32). This evaluation found that the Committee had discharged its obligations effectively and highlighted the improvements made to the operation of the Committee over recent times. The evaluation identified areas for further consideration and development by the Committee during 2013 including:

- Increased forward looking focus on strategic risks to supplement the Committee's extensive review of day-to-day operational risks.
- The skills and experience of the Committee and the benefits of increasing the membership.
- Providing more focused papers whilst still highlighting all relevant issues.

Matthew Lester
Chairman, Audit and Risk Committee

Corporate governance report continued
Nomination Committee report

The Nomination Committee's most important role is to keep under review the Board's membership and skill base to ensure that the Board continues to have the full range of competencies, knowledge and experience required for the direction and oversight of the business. In line with this requirement, the Committee's primary focus during the year was the consideration and execution of changes in the key executive appointments of CFO and CEO as detailed in this report.

Jon Aisbitt
Chairman

Committee membership
All our non-executive directors are members of the Nomination Committee (the 'Committee') and meetings are normally attended by the CEO and the Global Head, Human Resources. Directors' attendance at main Committee meetings during the year is shown in the table below. In addition, a number of Committee calls and sub-Committee meetings were held to progress and finalise decisions on key issues which are not included in this table. The full terms of reference for the Committee are given on our website www.man.com.

Directors' attendance at Committee meetings

Number of meetings held during 2012	**4**
Jon Aisbitt, Chairman	4
Alison Carnwath	4
Phillip Colebatch	4
Frédéric Jolly	3[1]
Matthew Lester	3
Patrick O'Sullivan	4
Nina Shapiro	4

Note:
[1] Frédéric Jolly did not attend the meeting which considered the renewal of his appointment.

Executive director changes
Chief Financial Officer
In the first half of 2012, the Committee conducted, through an independent search firm, an extensive external search for a new CFO as a successor to Mr Hayes. The Committee also looked at internal candidates and asked the chosen search firm to evaluate both the preferred internal and external candidates against the requirements for the role. A number of external candidates were interviewed and references were taken. After full consideration of the current needs and position of the business, the Committee concluded that an internal candidate, Jonathan Sorrell, who had joined Man in August 2011 as Head of Strategy and Corporate Finance, was the best person for the role and recommended his appointment to the Board.

In reaching this decision, the Committee took account of the skills that Mr Sorrell had demonstrated in his financial analysis of the business and his structuring of the acquisition of FRM. It was recognised that he had broad experience of financial markets and in depth knowledge of the hedge fund industry gained from his years at Goldman Sachs. He had a strong background in strategy and execution and would help reinforce the Company's current focus on costs and financial efficiency. The Committee also considered areas of development or support which might be necessary to help Mr Sorrell make the transition to his new role.

This included a familiarisation with technical listed company financial reporting standards and processes which was provided by the Company's auditors.

Chief Executive Officer
Later in the year, the Committee focused on succession plans for the CEO. As part of these discussions, it took account of feedback from selected major shareholders, key points made in the 2012 Board evaluation and comments from individual Board and Executive Committee members. An independent search firm was appointed to draw up a list of potential external candidates and benchmark them against an agreed CEO role specification.

The Committee also reviewed potential internal candidates. This included consideration of Emmanuel (Manny) Roman, President and Chief Operating Officer, who had joined the Board in 2011. It was noted that Mr Roman had brought to Man a wealth of experience in trading, markets and business management from his previous roles at GLG and Goldman Sachs. He had been a key driver of the development of Man's investment management expertise over the previous two years and had worked closely with the current CEO on sales and distribution. He was perceived by the Committee to be a strong leader for the business with the skills, experience and drive to continue Man's focus on delivering performance, strengthening client relationships and maintaining pressure on costs. After full discussion, the Committee resolved to recommend to the Board the appointment of Mr Roman as CEO designate subject to the outcome of an independent assessment of Mr Roman's capabilities measured against the agreed CEO role specification. Following review by the Board of this assessment, and discussion of Mr Roman's candidacy with the FSA, the Board accepted the Committee's recommendation and approved Mr Roman's appointment as CEO to take effect on the retirement of Mr Clarke at the end of February 2013.

Senior executive succession planning
The Committee is responsible for overseeing senior management succession plans to ensure that there is continuity of appropriate resource immediately below Board level. As part of this, in November the Committee reviewed succession plans for the Executive Committee and the key governance roles of Risk, Internal Audit, Compliance, Legal, Product and Client Operations, and Technology. It was noted that there were potential 'ready now' successors for all but one of these roles and that this represented a significant improvement on the previous year's position. The Committee were updated on planned changes to the Executive Committee. These included an internal and external search for a new Global Head of Sales and Marketing in anticipation of the retirement of the current role holder. The criticality of this role and the importance of finding the best available candidate – external or internal – were fully recognised.

Non-executive director succession
In addition to reviewing executive director succession, the Committee considers the renewal of non-executive director appointments on the expiry of their fixed term contracts. Subsequent to the 2012 year end, and following feedback from the 2012 Board evaluation on the contribution of individual directors, the Committee considered and agreed to recommend to the Board the renewal of the appointment of Mr O'Sullivan, our Senior Independent Director, for a further three years, subject to his reappointment by shareholders at the 2013 AGM.

Board diversity
I have referred in previous reports to the value to be derived from bringing together on a board individuals with a broad range of backgrounds, experience and outlook. Gender is rightly recognised to be an important part of this diversity and we have been pleased to have two female non-executive directors on our Board. This number will reduce later this year following Alison Carnwath's retirement at the 2013 AGM.

Our firm principle remains to make Board appointments based on merit and overall suitability for the role and we will be applying this policy in our search for a new non-executive director later this year. We would be delighted to welcome further women to our Board provided that they meet the relevant role criteria. I have previously commented on the difficulties we have experienced in sourcing suitable women candidates for roles within our industry and the paucity of the female senior executive talent pool from which such candidates might be drawn. For this reason, the Board does not think it is appropriate or realistic to commit to achieving a given percentage of women on our Board by a certain date. In addition, given the relatively small size of our Board, such a commitment would have implications for the continuing tenure and contribution of our existing directors and could be prejudicial to the business. Our full policy on Board diversity is given on our website www.man.com.

Senior management diversity
Man remains committed, as part of its recruitment and succession planning, to promoting gender diversity at senior management and Executive Committee level. Our recruitment policy has the objective of securing 50% female representation on long lists of candidates (internal and external) for senior roles and we engage executive search firms who have signed up to the Voluntary Code of Conduct on gender diversity and best practice. Following recent changes, we now have two women in key senior roles who sit on that Committee, namely the Global Head, Compliance and Regulatory and the Senior Managing Director, FRM. The improved diversity of the refreshed Executive Committee membership, as listed on page 9, is welcome. The fact that all the new appointments have been achieved through internal promotion is testimony to the breadth and depth of talent within Man and our commitment to its development.

Committee evaluation
The operation and effectiveness of the Committee were reviewed as part of the independent external evaluation of the Board and its Committees discussed on page 32. The principal areas identified on which the Committee has agreed it should focus during 2013 are listed below.

Priorities for 2013
- More regular discussion of Board skills and experience requirements.
- Increased focus on non-executive succession planning.
- More formal agenda scheduling.
- Increased opportunity to interact as a non-executive group.

Future focus
I have taken good note of the evaluation findings in planning the work of the Committee for 2013. Our programme will include both scheduled meetings and opportunities for non-executives to discuss nomination and people related issues informally when required.

The first task in our formal schedule will be to agree the role specification and conduct the search and selection process for the appointment of a new non-executive director. Our focus in this will be on finding candidates who, as well as having the general skills and experience necessary for a non-executive director, have the specific knowledge and capability required to serve as a member of the Audit and Risk Committee. This will help address the finding arising from the recent Audit and Risk Committee evaluation which identified the benefit of further strengthening the Committee's technical skills. We will also be looking, as part of that Audit and Risk remit, for an individual with an in depth understanding of the regulatory environment impacting our business who can help review and advise us on our ongoing compliance and development.

Jon Aisbitt
Chairman

Remuneration report

The Remuneration Committee has been rigorously balanced in setting 2012 remuneration to reflect Company performance whilst recognising the need to engage and motivate revenue generators and maintain operating capability to deliver shareholder value over the longer term. The compensation cost to revenue ratio of 33% has been maintained flat compared to the prior reporting period. The Remuneration Committee focus has been to develop executive incentives for 2013 awards to support delivery of the Company's strategy set out on pages 6 to 9.

Phillip Colebatch
Chairman, Remuneration Committee

Remuneration report contents

1. Remuneration highlights

The Remuneration Committee is introducing a new Executive Incentive Plan for executive directors which replaces all existing executive director remuneration arrangements. The new plan will increase transparency and alignment with shareholders whilst reducing the complexity and likely quantum of awards. The new plan will be included next year in the Remuneration Policy Report in line with anticipated forthcoming Department for Business Innovation and Skills (BIS) legislation. The new plan is an important part of Man's future remuneration policy to engage and motivate senior management to deliver on new KPIs and supports implementation of the Company's strategy. Information on the KPIs is set out on pages 10 and 11.

The plan comprises an annual cash bonus capped at up to 250% of salary and a long-term deferred bonus award. The cash award is determined by performance against annual objectives with the outcome published in the Annual Report. The longterm deferred bonus awards are determined by performance against a balanced scorecard with financial metrics (80%) and non-financial metrics (20%) related to how the Company is managed. The long-term deferred bonus award is made subject to assessment over a three year performance period, and awards are deferred for a further three to five years. As part of transitional arrangements to the new plan the performance period is one year initially, and two years in the second year increasing to three years thereafter. First awards under the plan will be made in 2014 in respect of 2013 performance. Further information is set out in section 4.1.

The Board has introduced a new internal sales compensation structure for the sales staff effective for 2013 onwards. The objective is to promote asset gathering and retention whilst aligning interests on costs.

The Remuneration Committee has continued to focus on governance throughout 2012 and adopting remuneration policy in line with developing best practice. The key remuneration highlights and context for 2012 remuneration are summarised below.

Man's Statement of Remuneration Principles is on our website: https://www.man.com/GB/remuneration-committee

1.1 Remuneration delivered for 2012

2012 remuneration reflects the deterioration in Company performance. In setting remuneration the Committee has rigorously balanced the Company performance against the need to retain talent to deliver returns and maintain operating capability. The key highlights are as follows:

- The CEO and COO did not receive any bonus for the 2012 performance year.
- No cash bonuses were awarded to other executive directors and Executive Committee members for 2012. For those who received an award, bonuses are subject to 100% deferral in shares to focus on retaining key individuals. The maximum award for the Executive Committee including the executive directors was $1.5 million. A small number of high performing senior employees not on the Executive Committee earned above the maximum Executive Committee level.
- Nil payout for the executive directors' prior year awards from the long-term incentives which completed their three-year performance period in March 2012. Additionally, the executive directors' prior year bonuses deferred in shares have reduced in value with the reduction in Man share price. As a result Peter Clarke had a 64% reduction in the value of the unconditional compensation granted in 2009 at the end of its lock-up period in 2012; the reduction for Kevin Hayes was 61%. See tables R17 and R18 on pages 52 and 53.
- 35% reduction in variable compensation excluding marketing incentives.

- As part of cost savings, staff fixed costs were reduced by 9%. This reduction was achieved despite the additional fixed compensation following the acquisition of FRM.
- With a 23% reduction in total compensation the compensation/revenue ratio including marketing incentives was 36% compared to a ratio of 37% for the prior reporting period. The ratio excluding marketing incentives of 33% has been maintained flat compared to the prior reporting period.
- For remaining staff individual discretionary bonuses have been significantly reduced with up to 60% deferral of this reduced amount to retain critical staff.
- Staff participation in share and option plans remains high with 51% of staff in share and option plans thus adopting the mindset of shareholders. Additionally the Board and employees own circa 10% of the Company's share capital.

2. Key compensation information

Below sets out the key compensation information for 2012 and the previous reporting period of the nine months to 31 December 2011. To facilitate comparison with the prior period, inter-period comparisons have been calculated on an annualised basis due to the change in the financial reporting period.

Key compensation information **Table R1**

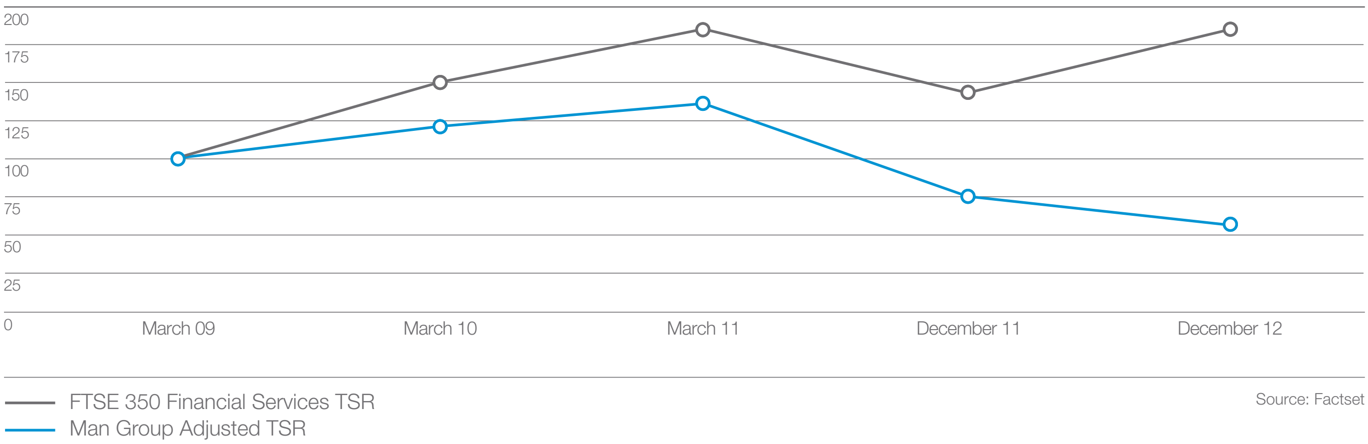
		12 months to 31 December 2012 $million	9 months to 31 December 2011[c] $million	Year over Year annualised change
1	Revenue	**1,299**	1,254	-22%
2	Salaries and related personnel costs (fixed costs)	**233**	191	-9%
3	Cash performance bonus costs	**121**	130	-30%
4	Amortisation of prior years' share and fund awards	**73**	94	-42%
5	Variable compensation *(3+4)*	**194**	224	-35%
6	Total compensation costs[a][b] *(2+5)*	**427**	415	-23%
7	Marketing incentives	**45**	45	-25%
8	Ratio of Compensation cost including marketing incentives/Revenue *((6+7)/1)*	**36%**	37%	-1%
9	Ratio of Compensation cost excluding marketing incentives/Revenue *(6/1)*	**33%**	33%	0%
10	Adjusted Diluted Earnings per share (EPS) (cents per share)	**11.8¢**	10.7¢	-17%

Notes:
(a) Profit allocation to partners is included in compensation as required by accounting standards.
(b) Compensation excludes FRM costs prior to acquisition including $7 million accrual at acquisition for year end bonus.
(c) Nine months to 31 December 2011 is salary and variable compensation for the nine month period only.

2.1 Total Shareholder Return chart

The performance graph below compares the Company's total shareholder return performance against the FTSE 350 Financial Services Index. Man operates in the alternative investment management sector and is listed on the FTSE 250 index on the London Stock Exchange. The FTSE 350 Financial Services index has been chosen as it is the most appropriate comparator to cover a period when Man has been in both the FTSE 100 and FTSE 250. The majority of Man's direct competitors are unlisted and information is not available.

Total Shareholder Return (TSR) **Table R2**
% change over five year period



Source: Factset

Remuneration report continued

3. Remuneration Committee and governance

Shareholders rely on the Remuneration Committee providing effective governance over remuneration policy and decision-making reporting into the Board. Below summarises the Committee's work during 2012 on remuneration governance and policy.

3.1 How has the Remuneration Committee continued its focus on remuneration governance?

In 2012 the Remuneration Committee reviewed and followed its already well-established governance policies and processes to meet the requirements of the FSA Remuneration Code and developing best practice requirements. The key activities and achievements include:

- Continued working closely with the Audit and Risk Committee in reviewing current and future risks around setting remuneration. In reviewing risks within the business the Committees attributed responsibility for these risks to individuals to identify the FSA Code staff employees responsible for risk management. The Remuneration Committee reviews and approves pay for these staff.
- Reviewed the Remuneration Committee terms of reference in light of the evolving FSA Remuneration Code. The terms of reference of the Remuneration Committee can be found on the Company's website http://www.mangroupplc.com/about-man/board-directors/remuneration-committee.jsf
- Regular meetings were held with a structured agenda and follow up process. The Remuneration Committee held seven meetings. In these meetings the Remuneration Committee monitored and implemented regulatory and best practice updates.
- Rigorous review and approval of the terms for the appointment and termination of the Executive Directors and other key staff.
- Reviewed compensation packages proposed for senior hires to ensure there is a sound business case to justify these hires, and guaranteed remuneration was only used in exceptional circumstances.
- Compensation was structured such that an appropriate proportion of employees' compensation is deferred into shares or funds to create a direct alignment between the rewards and risk exposure of employees with shareholders and investors. For 2012, deferral is at 100% of variable compensation for the Executive Committee, and up to 60% for other senior employees.
- Reviewed performance evaluations for executive directors and recommended Board approval for 2012 remuneration for executive directors. The Board approves executive directors' objectives and compensation given the importance of using compensation to motivate executive directors to deliver the Company's strategic plan.
- Reviewed future remuneration policy and, following shareholder consultation, put in place a new Executive Director Incentive Plan for 2013 performance onwards with performance measured against a balanced scorecard of the new Company KPIs and non-financial measures pivotal to the business.

Remuneration Committee meeting attendance — **Table R3**

Number of meetings held 2012		7
Jon Aisbitt	Company Chairman	7
Phillip Colebatch	Chairman	7
Alison Carnwath	Member	7
Frederic Jolly	Member	7
Patrick O'Sullivan	Senior Independent Director	7

3.2 How does the Remuneration Committee operate?

The Remuneration Committee is comprised of the Company Chairman, the Senior Independent Director and three further independent non-executive directors. The Senior Independent Director is also a member of the Audit and Risk Committee thereby facilitating the flow of information between the Committees. All five members attended all seven meetings held during 2012.

At the invitation of the Committee, the Chief Executive, Chief Financial Officer, Chief Operating Officer, Head of Human Resources and Head of Compensation, who is also Secretary to the Remuneration Committee, attended selected agenda items requiring their contribution. No individual participated in the discussion or approval of his or her own compensation.

The Remuneration Committee follows relevant legal and regulatory requirements including the principles and provisions of the UK Corporate Governance Code, the UKLA listing rules and the FSA Remuneration Code of practice on remuneration policies (the FSA Code), and leading investor representative body guidelines (including the ABI and NAPF).

The Committee invites independent consultants to provide advice on specific remuneration issues. This financial period the Remuneration Committee has received advice on remuneration for executive directors from Deloitte on the design of the Executive Incentive Plan. Management appointments include PwC who are Man's auditors and provide advice on regulatory and other remuneration developments.

The Committee was found to be operating effectively and had fulfilled its obligations in an independent evaluation of the Committee undertaken by Edis-Bates Associates, as engaged by Man (for further information please see page 32). The evaluation offered recommendations to the committee during 2013 including:

- The skills and experience of the Committee to be complemented by an appointed external remuneration adviser who attends meetings frequently.
- With the pace of current developments in remuneration governance and practice, current briefings to be supplemented by additional training and updates.

4. Executive Directors' remuneration

4.1 Future remuneration policy for executive directors

As set out in the Remuneration highlights a new Executive Incentive Plan is being introduced for executive directors. The Board consulted with a number of shareholders on this new Executive Incentive Plan proposal to replace the current executive incentives. In keeping with continuing dialogue with shareholders the Board responded to feedback about the plan, which has now been adopted for the 2013 financial year. A final grant of DBSOP shares under the current plans will be made in Q1 2013 in relation to 2012 performance; current executive director plans will then be discontinued. First grants under the new plan will be made in early 2014 in relation to 2013 performance. Executive Committee members are eligible to participate in the plan alongside executive directors to align the remuneration of the most senior management.

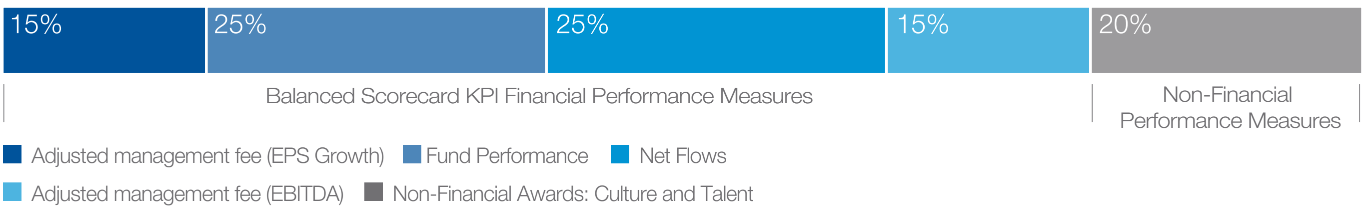
In response to the changes in the financial environment since 2008, Man's business profile and strategy has changed materially. In essence, the business is being reshaped to align it more closely with fund flows rather than funds under management inventory and investment performance is the key focus. The Board and management has thus considered the KPIs on which the Company should focus for future success and set out revised KPIs as described more fully on pages 10 and 11. The revised KPIs are at the centre of the new plan. The Board has also recognised that the current remuneration structure had become overly complex with a resulting lack of transparency to shareholders and reduced clarity to executives on key goals and what they receive.

Consistent with best practice on simplifying compensation structures for executives the new plan consists of a short-term annual bonus and a long-term deferred bonus. The short-term annual cash bonus will be assessed against executive director objectives with the objectives and the outcome of performance against these objectives included in the Annual Report at the financial year end. In line with emerging governance and best practice the new plan introduces a cap on short-term annual cash bonuses of 250% of salary for executive directors where previously this was uncapped.

The long-term deferred bonus plan awards are made subject to assessment based on the three prior years' performance against a balanced scorecard of financial and non-financial measures, with 80% determined by financial metrics. Importantly, and in line with emerging best practice, malus provisions will be introduced with awards forfeited for misstatement and misconduct under the new plan. Below sets out how executive director remuneration will be directly linked to performance.

A summary review of the proposals is set out below. There will be a decrease in the face value quantum of awards compared to the previous arrangements to reflect the increased certainty of vesting once the award has been made.

R4: How KPIs are directly linked to Executive Director long-term deferred bonus awards
%



Remuneration report continued

The KPI's and thresholds that will be used to measure performance are illustrated below.

Balanced scorecard of financial and non-financial metrics **Table R5**

	Definition	Proposed target
Financial KPIs – 80% - Man's Company KPIs (a)		
Investment performance (25%)	• Measure net performance of three managers (represented by key funds) vs. respective benchmarks. • Key funds/benchmark: – Man AHL Diversified/two of three competitors. – GLG Multi Strategy/HFRX. – FRM Diversified II/HFRI FoF.	• Relevant Period: performance is measured over a reporting year (first to last trading day of the year). • Criteria type: binary outcome. • Criteria for each fund over the Relevant Period: – If Net Performance ≤ Benchmark performance, criteria is not met. – If Net Performance > Benchmark Performance, criteria is met. • Weighting: each fund is ascribed a ⅓ weighting.
Net flows (25%)	• Measure net FUM flows annually • Net Flows are defined as, over a reporting year: – (Gross Sales – Redemptions)/ Start of Year FUM, expressed in %.	• Relevant Period: net flows are measured over a reporting year • Criteria type: sliding scale • Criteria: for the Relevant Period – If Net Flows ≤ 0%, criteria is not met – If Net Flows ≥ 10%, criteria is met in full – If 0% < Net Flows < 10%, criteria is met proportionally
Adjusted(b) **management fee EBITDA margin (15%)**	• Measure management fee EBITDA margin. • Adjusted Management Fee EBITDA Margin defined as, over a reporting year Adjusted Management Fee EBITDA/Net Revenues.	• Relevant Period: Adjusted Management Fee EBITDA Margin is measured over a reporting year. • Criteria type: sliding scale. • Criteria for the Relevant Period: – If Adjusted Management Fee EBITDA Margin ≤ 25%, criteria is not met. – If Adjusted Management Fee EBITDA Margin ≥ 40%, criteria is met in full. – If 25% < Adjusted Management Fee EBITDA Margin < 40%, criteria is met proportionally.
Adjusted(b) **management fee EPS growth (15%)**	• Measure Adjusted Management Fee EPS growth, i.e. growth in minimum common dividend per share. • Adjusted Management Fee EPS Growth defined as: – (Current Year Adjusted Management Fee EPS/ Previous Year Adjusted Management Fee EPS) – 1, expressed in %.	• Relevant Period: Adjusted Management Fee EPS Growth is measured over a reporting year. • Criteria type: sliding scale. • Criteria: for the Relevant Period: – If Adjusted Management Fee EPS Growth ≤ 0% plus RPI, criteria is not met. – If Adjusted Management Fee EPS Growth ≥ 20% plus RPI, criteria is met in full. – If 0% plus RPI, < Adjusted Management Fee EPS Growth < 20% plus RPI, criteria is met proportionally.

Notes:
(a) These thresholds are for the performance period. The net flows criteria are based on per annum averaged over the period.
(b) Adjusting items are material items, which are excluded by virtue of their size or nature, in order to aid comparability from period to period and to understand the underlying profitability of the business. Refer to Note 2 to the financial statements on page 72.

Non-financial metrics -20%	
Culture and talent (20%)	Fostering a culture of open, effective, honest dealings with all stakeholders; building and retaining a collaborative, motivated and aligned senior management team; having an appropriate succession plan in place for senior management; attracting and retaining high quality staff, motivated by appropriate, balanced incentives.

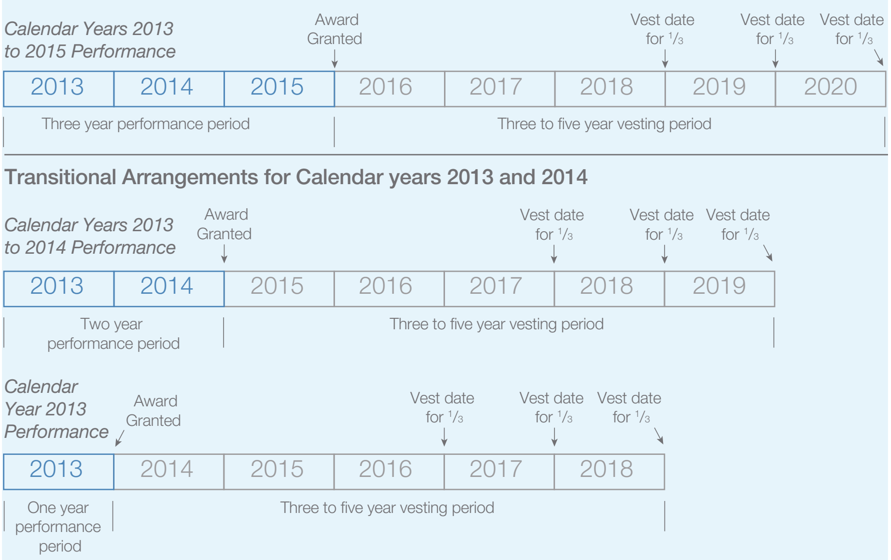
The Remuneration Committee will review the balanced scorecard of metrics prior to the start of each financial year and may amend them so that they remain appropriately challenging.

For the long-term deferred bonus there is a three year assessment period. The vesting period is set at a further three to five years after each performance period, the resulting combined performance and vesting periods will then be six to eight years from the start of each performance period.

As part of transitional arrangements for the new plan, the performance period will progressively increase to a three year performance period. Initially, performance will be assessed over a one year period (2013 only) with performance being assessed at the 2013 financial year end and with anticipated deferred bonus awards granted in Q1 2014. Vesting will take place over a further three to five years resulting in a total performance and vesting period of four to six years. The new plan will be part of the future remuneration policy in accordance with the anticipated Department for Business Innovation and Skills ("BIS") legislation and it will be subject to shareholder approval in the 2014 AGM. The performance period for 2014 will be two years assessed at the end of the 2014 financial year, and three years thereafter starting at the end of the 2015 financial year.

The new plan and transitional arrangements are illustrated in Table R6 below.

Timeline for the new Executive Incentive Plan long-term deferred bonus **Table R6**
%



Below compares the new Executive Incentive Plan to the current schemes.

Future Remuneration Policy **Table R7**

2012	2013	Assessment Criteria
Cash bonus • Uncapped.	**Short-term annual cash bonus** • Capped at 250% of salary.	Assessment against executive director objectives to determine short-term discretionary cash bonus. Objectives include: • Strategy, Structure and People. • Performance and Sales. • Financial Health. • Risk, Compliance and Reputation. The outcome of performance against objectives to be included in the Annual Report after the financial year.
Deferral; delivered as: 1. Mandatory deferral. 2. Deferred Bonus Share Option Plan (DBSOP) options. 3. DBSOP shares: • Three year service conditions. • No malus provisions.	**Long-term deferred bonus** delivered as shares Three year performance period prior to grant of an award with: • Three to five year service conditions. • Malus provisions introduced.	Balanced scorecard of award criteria to determine long-term deferred bonus for each executive director • 80% Financial award criteria comprising: – Investment performance 25%. – Net flows 25%. – Adjusted management fee EBITDA margin 15%. – Adjusted management fee EPS growth 15%. Please refer to pages 10 and 11 for further information. • 20% Non-financial award criteria of culture and talent. The outcome against this scorecard will be included in the next Annual Report measuring performance in Calendar Year 2013. Outcome of assessment criteria to be measured over the prior three-year performance periods. Transitional arrangements will operate for the first year of the plan, or when a new participant joins the plan, such that the performance measurement period commences with one year in the year of plan commencement/joining increasing to two years in the second year and with a full three-year performance period in the third year.
LTIP; delivered as: 4. Performance Share Plan (PSP) Basic. 5. PSP Match. 6. Executive Share Option Scheme (ESOS): 3 year performance and service conditions.	Not offered.	Not Applicable.
Shareholding requirement CEO 200% salary; Other executive directors 100% salary.	**Shareholding requirement** (unchanged) CEO 200% salary; Other executive directors 100% salary.	Incumbents will build up to the prescribed shareholdings with (post-tax) vested shares where not already at or above this level. CEO 200% salary; Other executive directors 100% salary.

4.2 2012 Remuneration policy for executive directors

Aligning the interests of the executive directors with shareholders' interests has been central in determining remuneration in 2012. No directors or Executive Committee members received a cash bonus. Executive director remuneration reflects Company performance with only one director, the

Remuneration report continued

incoming CFO, Jonathan Sorrell, receiving a deferred award and the quantum of this award significantly lower than previous years, and all variable remuneration deferred into shares.

Executive directors owned 1.4% of Company shares as at 31 December 2012. This harmonises the interests of executive directors with the Group's shareholders through the promotion and encouragement of share ownership, and is subject to achieving return on equity and growth targets.

In line with shareholders' interests being managed within a robust governance framework, the Company aims to retain and incentivise high calibre executive directors and align their remuneration with the interests of shareholders by paying competitive base salary and benefits, together with a performance bonus and long-term incentive awards which are linked to:

- profits and contribution;
- the achievement of individual objectives, which are consistent with the strategy of the Company and building sustainable profitability;
- the achievement of the Company's key financial targets;
- the creation of long-term shareholder value;
- on going oversight of a robust risk management framework;
- maintenance of strong capital and liquidity positions; and
- addition of senior talent, building succession for leadership and setting a strong governance structure for the Board's delegated authorities.

In assessing executive director remuneration, internal relativities within the Company are reviewed by the Remuneration Committee. These internal reviews cover the individual elements of base salaries, benefits and total compensation. Whilst the fixed component of remuneration is sufficiently high to allow the Company to operate a fully flexible bonus policy in order to preserve alignment with shareholder interests, the Remuneration Committee seeks to deliver a high proportion of total compensation as deferral into shares. Below summarises the current structure of remuneration and 2012 awards for the executive directors.

2012 Executive directors' remuneration – further information **Table R8**

Element		Strategic Purpose	Summary details	Further Information
Base salary, pension and benefits		Based on experience and individual contribution to leadership and Company strategy.	**Base Salary** No change to base salaries. **Pension and Benefits** • Group Personal Pension (GPP) or contribution to an alternative arrangement. For those exceeding HM Revenue and Customs pension allowances cash allowances are provided at no additional cost to Man. The employer contribution is up to 14% of pensionable base salary. • Family private medical insurance, life assurance and permanent health insurance are provided. • Flexible benefits can be purchased from base salary. • No change to benefits offered this year.	Pages 48 and 56
Performance bonus		Annual incentivisation to reward delivery of Company performance and strategy. Three year service condition for key individual retention and alignment of interests with shareholders to deliver sustainable performance.	• Cash: Nil awards for 2012 performance. • At risk for three years. • Mandatory share deferral, held for three years to receive PSP match. Nil 2012 awards. • Deferred Bonus Share and Option Plan (DBSOP): (i) Conditional share awards and/or (ii) Restricted options exercisable between three and ten years from grant. Options may be granted at market value or premium priced at 10% or such percentage determined by the Remuneration Committee. Three year service condition. Jonathan Sorrell $1,482,000 conditional award in shares. Nil awards for 2012 performance for Peter Clarke, Kevin Hayes and Emmanuel Roman.	Page 48
Long-term incentive plans	Performance Share Plan (PSP)	Three year performance and four-year service period to reward growth in shareholder value.	• PSP match on 1:1 basis against mandatory deferral of performance bonus determined by the Remuneration Committee. See mandatory share deferral above. Nil awards for 2012 performance. • Basic PSP: up to 1x salary. Nil awards for 2012 performance. PSP performance conditions: growth and return measures of adjusted ROE and net management fee income growth over three year performance period. Four year service period.	Page 51
	Executive Share Option Scheme (ESOS)	Three year performance period to reward growth in shareholder value. Executive Share Option Scheme (ESOS).	• ESOS: up to 2x salary. Nil awards for 2012 performance. ESOS performance conditions: as PSP.	Page 51
Shareholding requirement		Alignment of interest.	• 2x salary for Chief Executive; 1x salary for other executive directors. Executive directors own 1.4% of Company shares.	Page 57

Notes: Emmanuel Roman's remuneration consisted of 100% salary and benefits. Please refer to page 48 for details of his share lock-up agreement.
Jonathan Sorrell joined the Board on 18 June 2012, although the award above is for the full 12 months financial reporting period.

4.3 Service contracts of executive directors

Service contracts — **Table R9**

Element	Condition
Contract dates	Peter Clarke: 28 September 2012
	Jonathan Sorrell: 28 September 2012
	Emmanuel Roman: 7 February 2013
Current appointment	No fixed term
Notice period (by either Company or director)	Peter Clarke and Emmanuel Roman: 12 months Jonathan Sorrell: six months
Contractual entitlement to fixed bonus or share based incentive	None
Provisions for contract termination	If there is termination by the Company without notice, Peter Clarke's contract envisages damages for any unworked notice period to be determined on general contractual principles. Jonathan Sorrell's contract allows the Company to terminate by paying base salary and benefits in lieu of notice, to be paid in monthly instalments; Jonathan Sorrell is under a duty to mitigate. Emmanuel Roman's contract allows the Company to terminate by paying base salary in lieu of notice. Emmanuel Roman is under a duty to mitigate.
	Treatment of deferred and long-term incentive share and option awards is covered under relevant plan rules.

To protect the Group's business interests the executive directors' service contracts contain covenants which restrict the executives' ability to solicit or deal with clients and their ability to solicit senior employees. Emmanuel Roman has also entered into a broader non-compete covenant for an agreed period post termination. Further the Board has the right at its discretion to require Jonathon Sorrell to comply with a broader non-compete covenant for a period post termination to provide additional protection for the Group provided that if the Board exercises this right and the Company requires him to work out part of his notice, the Company will pay an additional amount up to six months' base salary and benefits (but excluding any amounts in respect of bonus) so that he is not left without income during the time when the Board wishes the non-compete to operate.

4.4 2012 Remuneration outcome for the executive directors

Peter Clarke (CEO)

On 10 December Peter Clarke gave 12 months' notice, resigning by reason of retirement with the agreement of the Company, standing down as CEO on 28 February 2013. It has been agreed that he remain on garden leave for 9.5 months, available to assist the Company until the end of his notice period on 10 December 2013 when he retires. Peter Clarke will be paid his contractual entitlement to basic salary, car allowance and cash pension allowance in lieu of pension contributions during the period of garden leave and continue to benefit from health, life and permanent health insurance benefits during this period. No cash bonus, share or option awards were made in respect of 2012.

In relation to pre-existing awards under the Performance Share Plan (PSP), the Executive Share Option Scheme (ESOS) and the Deferred Bonus Share and Option Plan (DBSOP), no discretions were exercised by the Remuneration Committee and Peter Clarke's retention of such awards is subject to the rules of the relevant scheme. The vesting of any awards under the PSP and ESOS is subject to performance conditions and awards under the PSP are pro-rated to reflect the period of time Peter Clarke was employed during the relevant performance period. Awards under the DBSOP are subject to forfeiture for detrimental activity prior to the vesting dates. The option awards were "out of the money" at the 2012 financial year end.

There was a nil payout for Peter Clarke's 2009 awards from the long-term incentives which completed their three-year performance period in March 2012 as the relevant performance conditions were not met. Additionally, his 2009 bonus deferred in shares reduced in value with the reduction in Man share price with the result that he had a 64% reduction in the unconditional compensation granted in 2009 at the end of its lock-up period in 2012. See table R17 on page 52.

Kevin Hayes (FD to 18 June 2012)

Kevin Hayes stepped down from the Board of Man Group plc on 18 June 2012 and his 12 months' notice period started on the same date. Kevin Hayes' employment terminated on 18 December 2012, after he had spent part of his notice period on garden leave. Mitigation was included in the leaving arrangements but has not been applicable so a payment of $339,057 in total was made in lieu of salary and benefits for the balance of his notice period. No cash bonus, share or option awards were made in respect of 2012, and in accordance with the rules of the schemes, pre-existing ESOS awards lapsed.

In relation to pre-existing awards under the PSP and DBSOP, Kevin Hayes' retention of such awards shall be subject to the rules of the relevant scheme. Under the terms of the PSP, Kevin Hayes' awards would have lapsed but the Remuneration Committee exercised its discretion as permitted by the plan rules, allowing Kevin Hayes to retain existing PSP awards; these will vest subject to performance conditions being met and are pro-rated to reflect the period of time Kevin Hayes was employed during the relevant performance period.

Remuneration report continued

Since Kevin Hayes completed an orderly handover to the satisfaction of the Remuneration Committee, under the DBSOP rules, option awards may vest at the normal vesting dates but the awards are subject to forfeiture for detrimental activity prior to the vesting dates. These option awards were "out of the money" at the 2012 financial year end.

There was a nil payout for Kevin Hayes' prior year awards from the long-term incentives which completed their three-year performance period in March 2012. Additionally, his prior year bonus deferred in shares reduced in value with the reduction in Man share price with the result that he had a 61% reduction in the unconditional compensation granted in 2009 at the end of its lock-up period in 2012. See table R18 on page 53.

Emmanuel Roman (COO)
Emmanuel Roman received a base salary of $1 million for 2012; there will be no increase when he becomes CEO on 28 February 2013. He does not receive any employer contribution to pension, other non-cash benefits include medical, life and permanent health insurance. He entered into share lock-up agreements at the closing of the acquisition of GLG pursuant to which Man shares allocated to him as part of the purchase consideration are subject to lock-up terms for a period of three years from the closing date (subject to a right to dispose of up to a third of such Man shares after the second anniversary of the closing date and certain customary exceptions from the lock-up). Emmanuel Roman is a major shareholder; his shareholding at 31 December 2012 was 19,629,418 shares, circa 1% of the Company shareholding. There is no further performance compensation. Emmanuel Roman is a non-executive director of Grupo Prisa SA; he retains fees of €218,750 (of which €36,667 awarded in shares) in respect of this directorship.

Jonathan Sorrell (Head of Strategy and Corporate Finance to 17 June 2012 and CFO from 18 June 2012)
Jonathan Sorrell was appointed to the Board of Man Group plc as CFO with effect from 18 June 2012 on a base salary of $625,000, a pension allowance and non-cash benefits including medical, life and permanent health insurance. He is eligible to be considered for a discretionary cash bonus and incentive awards with information on 2012 awards in section 4.6 below.

4.5 Base salary of executive directors
Salaries are reviewed annually at the year end taking into account market benchmarks for executives of comparable status, responsibility and skill. Salaries were reviewed but, for the fifth year, there was no increase.

Base salary of executive directors — **Table R10**

Base salary at	Peter Clarke	Jonathan Sorrell (a)	Kevin Hayes (b)	Emmanuel Roman
1 January 2012	$925,000	–	$625,000	$1,000,000
31 December 2012	$925,000	$625,000	–	$1,000,000

Notes:
(a) Jonathan Sorrell appointed to the Board as Chief Financial Officer with effect from 18 June 2012 at a salary of $625,000 effective from appointment.
(b) Kevin Hayes left the Board with effect from 18 June 2012 and his contract terminated on 18 December 2012.

4.6 Annual performance bonus and deferral
With deteriorated Company performance the Remuneration Committee made the decision not to pay any bonus to the CEO, Peter Clarke, COO, Emmanuel Roman, and outgoing Finance Director, Kevin Hayes. The Remuneration Committee also took a decision not to award any cash bonuses to executive directors.

A deferred bonus award in shares will be made to the CFO as set out in Table R11 below, Jonathan Sorrell, who was appointed in June 2012, having previously been Head of Strategy and Corporate Finance. In this role he led the negotiation of the FRM acquisition on attractive terms, contributed to the subsequent integration of this business, and assisted in reshaping the group's dividend policy. During his six months in office Jonathan Sorrell successfully executed cost savings initiatives, led the design and implementation of a new incentive plan for the sales force, increased the realisation of assets on the Group's balance sheet, and headed the efficient execution of our corporate restructuring. The Board believes that he has made a substantial contribution to the repositioning of our business in 2012 and no member of the Executive Committee has been paid more than Jonathan Sorrell for 2012.

The conditional compensation awarded will be made in shares under the Deferred Bonus and Share Option Plan (DBSOP) after the close period in March 2013. The Remuneration Committee awarded DBSOP shares to reflect Jonathan Sorrell's promotion to CFO in H2 of 2012, and in light of 2012 being a transitional period for incentive plans with the Executive Incentive Plan replacing existing share and option plans in 2013. DBSOP share awards will best align Jonathan Sorrell's compensation with shareholder's interests with the quantum of payout at the end of the three year vesting period directly reflecting total shareholder returns.

Table R11 below shows the remuneration outcome for (a) the current 12 month financial reporting and performance period ended 31 December 2012 and (b) the prior 12 month performance and bonus period ended 31 December 2011.

USD remuneration of the executive directors listed by individual director for the 2012 performance and bonus period — Table R11

	USD calendar year 2012: 12 month salary and 12 month performance bonus and mandatory share deferral period								USD calendar year 2011: 12 month salary and 12 month performance bonus and mandatory share deferral period		
	Cash				At Risk	Unconditional Total	Conditional Total (a)(b)	Unconditional and conditional Total	Unconditional Total	Unconditional & conditional Total (a)	Year over year annualised change
Executive Directors	Base Salary(c) $'000s	Benefits and Allowances (d) $'000s	Cash performance bonus $'000s	Calendar year 2012 Cash Total $'000s	Mandatory share deferral $'000s	Unconditional calendar year 2012 Total $'000s	Conditional Total $'000s	Calendar Year 2012 Total $'000s	2011 Total $'000s	2011 Total $'000s	2012 v 2011 Total
P Clarke	925	69	0	994	0	994	0	994	2,947	6,977	-86%
K Hayes[f]	914	30	0	944	0	944	0	944	1,328	2,435	-61%
E Roman[e]	1,000	45	0	1,045	0	1,045	0	1,045	1,043	1,043	0%
J Sorrell[e]	501	17	0	518	0	518	1,482	2,000	N/A	N/A	N/A
Total	**3,340**	**161**	**0**	**3,501**	**0**	**3,501**	**1,482**	**4,983**	**5,318**	**10,455**	N/A

Notes:

(a) The USD amount including conditional awards for 2012 is subject to meeting a three year service condition which may or may not be met. The actual amount of remuneration awarded this year, which is eventually received, is subject to these conditions. Prior period remuneration which is subject to performance conditions, based on subsequent performance, is likely to have a significantly reduced value to the economic value at grant. The economic value of performance-based share awards is the face value at the time of grant, multiplied by a performance factor which represented the expected percentage vesting of awards. A binomial lattice valuation factor has been applied to this expected vesting percentage to estimate the economic value – taking account estimated share price volatility, dividend yield and correlation between vesting outcome and share price. Share grants for calendar year 2012 will occur in 2013 after the close period.

(b) Conditional awards for Jonathan Sorrell: DBSOP conditional award of shares $1,482,000.

(c) Base salary stated prior to waiver into pension plan and for the 12 month period.

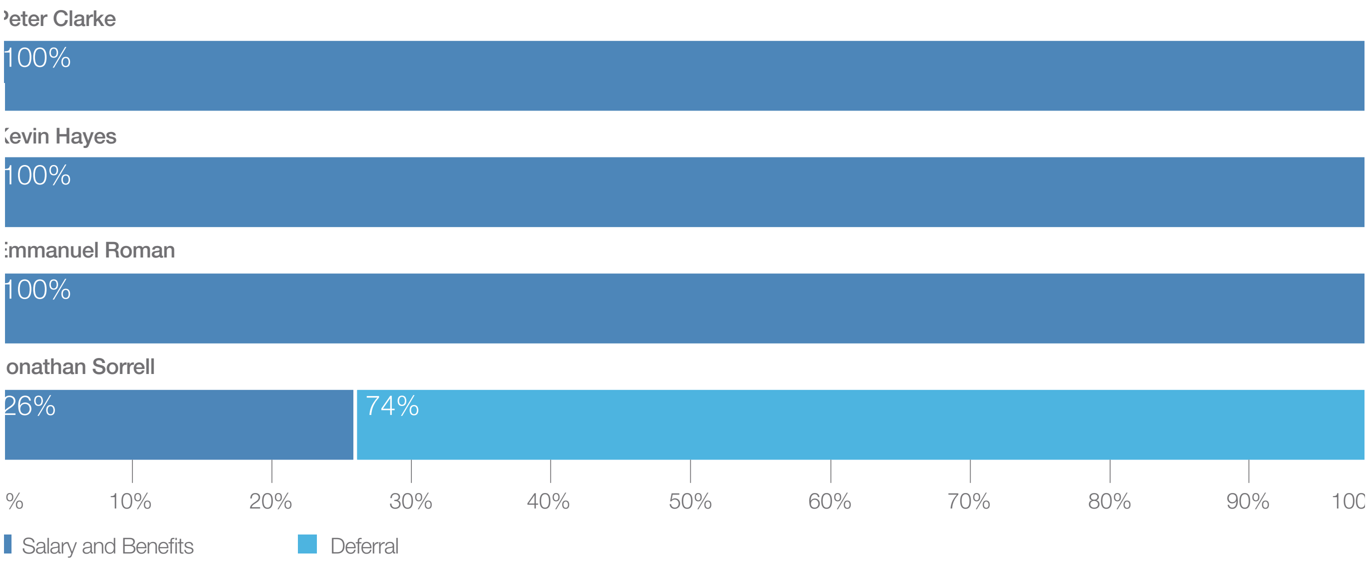
(d) Benefits provided are car, medical and other benefits, including cash pension allowance.

(e) Jonathan Sorrell was appointed to the Board on 18 June 2012 and Emmanuel Roman was appointed to the Board effective 5 May 2011. Remuneration has been included for the full year in the year of appointment.

(f) Kevin Hayes 2012 Salary and Benefits include pay in lieu of notice and benefits to 17 June 2013. Salary and benefits from 18 December 2012 to 17 June 2013 were subject to mitigation. No alternative employment was found prior to termination of his contract and therefore there has been no mitigation. Salary and benefits are included for the 17.5 month period.

Executive directors' remuneration – 2012 (awarded basis/value at grant) — Table R1

%



The audited table R13 sets out remuneration for which entitlement arose for current and prior financial reporting periods. This shows remuneration for (a) the current 12 month financial reporting and performance period ended 31 December 2012 and (b) the prior nine month financial reporting period ended 31 December 2011 which includes nine-months' salary and 12 months' bonus. This change in financial periods limits the value of inter-period comparisons. Therefore, for clarity these figures have been restated for the Calendar Year 2012 and the prior Calendar Year 2011 performance and bonus period of 12 months at Table R11 above.

Remuneration report continued

Audited remuneration of the directors listed by individual for the financial reporting period (audited) **Table R13**

	USD calendar year 2012						Nine months to 31 December 2011: nine-month salary and 12 month performance bonus and mandatory share deferral (a)(c)(d)	
	Cash				Conditional (a,b,f)	Total	Cash	Cash & At Risk
Executive Directors	Base salary $'000s	Benefits and allowances (e) $'000s	Cash performance bonus (f) $'000s	2012 Cash Total $'000s	Share award in DBSOP $'000s	2012 Total $'000s	9 months to 31 December 2011 Total cash $'000s	9 months to 31 December 2011 Total $'000s
P Clarke	925	69	0	994	0	994	1,711	2,711
K Hayes[g]	914	30	0	944	0	944	671	1,171
E Roman[f]	1,000	45	0	1,045	0	1,045	688	688
J Sorrell[b][f]	336	17	0	353	1,482	1,835	N/A	N/A
Total	**3,175**	**161**	**0**	**3,336**	**1,482**	**4,818**	**3,070**	**4,570**

Notes:
(a) The USD amount including conditional awards for 2012 are subject to meeting a three year service condition which may or may not be met. The actual amount of remuneration awarded this year, which is eventually received, is subject to these conditions. Prior period remuneration which is subject to performance conditions, based on subsequent performance, is likely to have a significantly reduced value to the economic value at grant. The economic value of performance-based share awards is the face value at the time of grant, multiplied by a performance factor which represented the expected percentage vesting of awards. A binomial lattice valuation factor has been applied to this expected vesting percentage to estimate the economic value – taking account estimated share price volatility, dividend yield and correlation between vesting outcome and share price. Share grants for calendar year 2012 will occur in 2013 after the close period.
(b) Conditional awards for Jonathan Sorrell: DBSOP conditional award of shares $1,482,000.
(c) 9 months to 31 December 2011 was a 12 month performance period for the cash performance bonus and mandatory 3 year share deferral.
(d) 9 months to 31 December 2011 base salary stated prior to waiver into pension plan and for the nine month period.
(e) Benefits provided are car, medical and other benefits, including cash pension allowance.
(f) Jonathan Sorrell was appointed to the Board on 18 June 2012 and Emmanuel Roman was appointed to the Board effective 5 May 2011. Salary and benefits have been included for the period as a director. The 2012 share award for Jonathan Sorrell is for the full calendar year 2012.
(g) Kevin Hayes 2012 Salary and Benefits include pay in lieu of notice and benefits to 17 June 2013. Salary and benefits from 18 December 2012 to 17 June 2013 were subject to mitigation. No alternative employment was found prior to termination of his contract and therefore there has been no mitigation. Salary and benefits are included for the 17.5 month period.

4.7 Deferred bonus share and option plan

The deferred element of the annual bonus is delivered in share and/or option awards in the Deferred Bonus Share and Option Plan (DBSOP). These are subject to a three year service period. All share and option awards are conditional and subject to forfeiture if an executive director resigns or the service contract is terminated for misconduct. The status of awards is set out below.

Shares under option in the Deferred Bonus Share and Option Plan (DBSOP)[a] – subject to service conditions and an option exercise price set 10% above the market price at grant (audited) **Table R14**

Executive directors	A. Number of Options[a]								
	Date of grant	1 January 2012	Granted during period (b)	Exercised during period	Lapsed during period	31 December 2012	Option exercise price	Earliest exercise date	Latest exercise date
Peter Clarke	Jun–10	2,997,442	–	–	–	2,997,442	280.1799p	Jun–13	Jun–20
	Mar–11	3,629,238	–	–	–	3,629,238	273.0795p	Mar–14	Mar–15
	Mar–12	–	2,636,163	–	–	2,636,163	156.5300p	Mar–15	Mar–16
Kevin Hayes[c]	Jun–10	749,360	–	–	–	749,360	280.1799p	Jun–13	Jun–14
	Mar–11	777,693	–	–	–	777,693	273.0795p	Mar–14	Mar–15
	B. Number of Shares[b]								
Peter Clarke	Mar–12	–	768,471	–	–	768,471	–	Mar–15	Mar–15
Kevin Hayes[c]	Mar–12	–	256,155	–	–	256,155	–	Mar–15	Mar–15

Notes:
(a) The Company's obligations for option awards granted under the DBSOP are externally economically hedged. Refer to Note 20 to the financial statements.
(b) The Company's obligations for conditional awards granted under the DBSOP are hedged by the Employee Trust. Deferred Bonus Shares attract dividend accruals. On 15 March 2012 Peter Clarke and Kevin Hayes were originally granted 672,221 shares and 224,073 shares respectively. On 21 May 2012 dividend accruals of 37,232 shares and 12,410 shares were added to each director's award based on a sterling dividend of 4.38 pence. On 04 September 2012 dividend accruals of 59,018 shares and 19,672 shares was applied based on a sterling dividend of 6.12 pence.
(c) Kevin Hayes stepped down from the Board with effect 18 June 2012. His contract terminated 18 December 2012.

4.8 Long-term share-based incentive plans

4.8.1 Eligibility

For 2012 executive directors are eligible to participate in the Performance Share Plan (PSP) and Executive Share Option Scheme (ESOS). The PSP and ESOS limit the annual individual awards to 1x and 2x salary respectively. However, the Remuneration Committee has determined that no awards will be made in respect of 2012 performance in early 2013. These plans will be discontinued in 2013 with the introduction of the new Executive Incentive Plan.

4.8.2 Dilution

Man share plans comply with the current ABI Guidelines on headroom which provide that overall dilution under all plans should not exceed 10% over any 10 year period in relation to the Company's issued share capital, with a further limitation of 5% in any 10 year period for discretionary plans. Share plan awards are within these limits.

4.8.3 Performance and service conditions for prior year awards

Both the PSP and ESOS have a three year performance period with vesting subject to achieving performance conditions. The PSP has a four-year service period. There are no re-testing opportunities should performance measures not be met at the end of the third year.

All share and option awards are conditional and subject to forfeiture if an executive director resigns or the service contract is terminated for misconduct.

The performance conditions for the plans are Net Management Fee Income Growth (NMFIG) and Adjusted Return on Equity (AROE). The three year performance period was chosen as appropriate for the business and the period over which growth and returns should be achieved.

Net management fee income is the product of two components, namely the funds under management and the net management fee margins. Net management fee margins are after deduction of all fixed costs and variable costs not attributable to performance fees. The net margin excludes adjusting items and net finance income costs. The return performance condition measures the efficiency with which Man invests or returns capital. The adjustment to the ROE measure is to calculate equity excluding the Board's determination of any surplus capital not currently being utilised in the business.

The surplus capital is additional capital in excess of (a) the minimum regulatory capital of the Group (Pillar 1 capital adjusted by the Individual Capital Guidance percentage agreed with the FSA plus any specific add-on), plus (b) a capital planning buffer set by the FSA, plus (c) a Board cushion as set by the Board from time to time to give operating flexibility. Notional interest incurred on surplus capital is deducted in calculating AROE. Capital strategy is a matter for the Board; executive directors can only influence the policy within the Board framework.

The Remuneration Committee has previously considered using relative return performance measures. However, since the Remuneration Committee is not aware of any listed companies of substantial size whose main business activities are comparable in nature and scale to that of Man Group, such measures were not considered appropriate. The Remuneration Committee therefore sets performance conditions to target absolute returns for its shareholders that are designed to be both challenging and appropriate given the regulated nature of the Company's business.

4.8.4 Performance measures for PSP and ESOS grants

2012 PSP and ESOS Targets — **Table R15**

	Vesting	
	Performance measure level	Vesting Percentage
Net Management Fee Income Growth (NMFIG) – Weighting 75%	Below 10%	Nil
	10%	25%
	30%	100%
Average three-year Adjusted Return on Equity (AROE) – Weighting 25%	Below 10%	Nil
	10%	25%
	17.5%	100%

Note:
There is a straight line between lower and maximum vesting.

Remuneration report continued

2011 PSP and ESOS Targets — **Table R16**

	Vesting	
	Performance measure level	Vesting Percentage
Net Management Fee Income Growth (NMFIG) – Weighting 75%	Below 10%	Nil
	10%	25%
	50%	100%
Average three-year Adjusted Return on Equity (AROE) – Weighting 25%	Below 10%	Nil
	10%	25%
	25%	100%

Note:
There is a straight line between lower and maximum vesting.

Vesting of awards granted under the PSP and ESOS in 2009 and 2010 is inter-dependent upon AROE and NMFIG. 8% of the award vests for achieving positive AROE and if NMFIG is 10%. The proportion of award vesting increases incrementally so that the award vests in full for achieving either AROE of 10% and NMFIG of 30%, or AROE of 30% and NMFIG of 20%. None of the award vests if AROE is negative.

4.8.5 Remuneration outcome for 2009

The performance conditions are stretching. As with the previous year there was nil vesting in the current financial period for PSP and ESOS awards granted in 2009 at the completion of the three-year performance period and these awards have lapsed in 2012. This is the third year when ESOS has had nil vesting and second year when PSP had nil vesting. The impact has been to reduce the 2009 compensation income for the Chief Executive and Finance Director as set out in Tables R17 and R18.

Chief Executive, Peter Clarke, 2009 remuneration outcome — **Table R17**

	FY 2009	
Item (Value in $000's)	Value granted[b]	Value at end of three year performance period
Salary	920	920
Benefits[a]	23	23
Share deferral of bonus[c]	6,000	1,579
Unconditional total	6,943	2,522
Value at end of three year performance period as a % of value granted		**-64% Reduction**

Number of shares or options	Units Granted	
PSP Basic[d]	225,824	Nil
PSP Match[d]	1,464,802	Nil
ESOS[d]	478,941	Nil

Notes:
(a) Pension not included.
(b) FX rate – average rate used to convert FY09 $1 = £0.5817.
(c) The value at end of three year performance period is based on share price at the end of the lock in period 9 July 2012 64.35 pence and FX rate of $1 = £0.6158. The value is shown grossed up for tax paid. The reference to tax gross up is to 'rebase to the gross' those awards which have been subject to tax withholding at grant (voluntary deferrals) i.e. tax withheld under PAYE so that 'gross' is compared to 'gross'.
(d) The FY09 award performance period ended at 31 March 2012. These awards did not vest.

Finance Director, Kevin Hayes, 2009 remuneration outcome **Table R18**

Item (Value in $000's)	FY 2009 Value granted[b]	FY 2009 Value at end of three year performance period
Salary	620	620
Benefits[a]	2	2
Share deferral of bonus[c]	3,000	790
Unconditional total	3,622	1,412
Value at end of three year performance period as a % of value granted		**-61% Reduction**
Number of shares or options	Units Granted	
PSP Basic[d]	152,584	Nil
PSP Match[d]	732,401	Nil
ESOS[d]	323,609	Nil

Notes:
(a) Pension not included.
(b) FX rate – average rate used to convert FY09 $1 = £0.5817.
(c) The value at end of three year performance period is based on share price at the end of the lock in period 9 July 2012 64.35 pence and FX rate of $1 = £0.6158 The value is shown grossed up for tax paid. The reference to tax gross up is to 'rebase to the gross' those awards which have been subject to tax withholding at grant (voluntary deferrals) i.e. tax withheld under PAYE so that 'gross' is compared to 'gross'.
(d) The FY09 award performance period ended at 31 March 2012. These awards did not vest.

4.8.6 Status of the PSP and ESOS award cycles

Further information about prior year performance targets and share and options awards is below.

The 2010 grants are due to be tested for the three year period ending 31 March 2013. At the date of this Annual Report these awards are not expected to vest.

ESOS: Status of award cycles **Table R19**

Cycle	Vesting level at lower target	Lower target (EPS Growth unless otherwise stated)	Upper target for maximum vesting (EPS Growth unless otherwise stated)	Actual Performance Outcome: EPS growth in excess of RPI	% of maximum award vesting
2012–2015[a]	25% for each target	10% AROE	17.5% AROE	n/a	n/a
		10% NMFIG	30% NMFIG		
2011–2014[a]	25% for each target	10% AROE	25% AROE	n/a	n/a
		10% NMFIG	50% NMFIG		
2010–2013	8%	See long-term incentive plans for information on the dual performance conditions of Adjusted Return on Equity and growth in net management fees		n/a	n/a
2009–2012	8%			not met	Nil
2008–2011	50%	RPI plus 5%	RPI plus 10%	not met	Nil
2007–2010	50%	RPI plus 5%	RPI plus 10%	not met	Nil
2006–2009	50%	RPI plus 5%	RPI plus 10%	9.40%	50%

Note:
(a) 2011 and 2012 awards are weighted with 75% on the NMFIG and 25% on the AROE performance condition.

Remuneration report continued

PSP: Status of award cycles **Table R20**

Cycle[a]	Vesting level at lower target	Lower target (Statutory RoE unless otherwise stated)	Upper target for maximum vesting (Statutory RoE unless otherwise stated)	Actual Performance Outcome: Average Return on Equity	% of maximum award vesting
2012–2015[b]	25% for each target	10% AROE	17.5% AROE	n/a	n/a
		10% NMFIG	30% NMFIG		
2011–2014[b]	25% for each target	10% AROE	25% AROE	n/a	n/a
		10% NMFIG	50% NMFIG		
2010–2013	8%	See long-term incentive plans for information on the dual performance conditions of Adjusted Return on Equity and growth in net management fees		n/a	n/a
2009–2012	8%			not met	Nil
2008–2011	10%	20%	30%	not met	Nil
2007–2010	10%	20%	30%	21.70%	26%
2006–2009	10%	20%	30%	29.30%	92%

Notes:
(a) Performance is assessed over a three year period. Following the three year period, awards are subject to one further year service before vesting.
(b) 2011 and 2012 awards are weighted with 75% on the NMFIG and 25% on the AROE performance condition.

Share Awards and Matching Awards under the Performance Share Plan – subject to performance and service conditions (audited) **Table R21**

	Performance Share Plan – Share Awards[a] – Basic Awards						
		Number of Awards					
	Date of grant	1 January 2012	Awarded during period	Transferred during period[b]	Lapsed during period	31 December 2012	Transfer/ Lapse date
Executive directors							
Peter Clarke							
	Jul–09	225,824	–	–	225,824	–	Lapsed Mar–12
	Jun–10	251,212	–	–	–	251,212	Dec–13
	Mar–11	172,537	–	–	–	172,537	Mar–14
	Mar–12	–	310,903	–	–	310,903	Dec–14
Kevin Hayes[b]							
	Jul–09	152,584	–	–	152,584	–	Lapsed Mar–12
	Jun–10	169,738	–	–	15,967	153,771	Mar–13
	Mar–11	116,579	–	–	49,826	66,753	Mar–14
	Mar–12	–	140,046	–	95,027	45,019	Dec–14

Share Awards and Matching Awards under the Performance Share Plan – subject to performance and service conditions (audited) – continued

Table R21

	Performance Share Pan – Matching Awards[a]						
	Number of Awards						
	Date of grant	1 January 2012	Awarded during period	Transferred during period[b]	Lapsed during period	31 December 2012	Transfer/ Lapse date
Executive directors							
Peter Clarke							
	Jul–09	1,464,802	–	–	1,464,802	–	Lapsed Mar–12
	Jun–10	271,581	–	–	–	271,581	Dec–13
	Mar–11	248,702	–	–	–	248,702	Mar–14
	Mar–12	–	448,148	–	–	448,148	Dec–14
Kevin Hayes[b]							
	Jul–09	732,401	–	–	732,401	–	Lapsed Mar–12
	Jun–10	230,843	–	–	21,714	209,129	Mar–13
	Mar–11	174,091	–	–	74,407	99,684	Mar–14
	Mar–12	–	224,074	–	152,043	72,031	Dec–14

Notes:
(a) Vesting is subject to achieving cumulative three-year net management fee income growth (NMFIG) and average three-year adjusted ROE (AROE). For all grants from March 2011 75% of vesting is subject to achieving cumulative three year NMFIG and 25% of vesting is subject to achieving three year average AROE. The 2009 awards have lapsed in their entirety.
(b) Kevin Hayes stepped down from the Board with effect 18 June 2012. His contract terminated 18 December 2012. The lapses during the year reflect the time pro-ration which came into effect on 18 December 2012.

Shares under option under the Man Group Executive Share Option Scheme 2001 and Man Group 2011 Executive Share Option Plan – subject to performance and service conditions (audited)

Table R22

	Number of Options[a]								
	Date of grant	1 January 2012	Granted during period	Exercised during period	Lapsed during period	31–Dec–12	Option exercise price	Earliest exercise date	Latest exercise date
Executive directors									
Peter Clarke									
	Jun–06	93,789	–	–	–	93,789	399.83p	Jun–09	Dec–14
	Jul–09[b]	478,941	–	–	478,941	–	239.25p	Lapsed	N/A
	Jun–10	484,179	–	–	–	484,179	258.3p	Jun–13	Dec–14
	Mar–11	345,073	–	–	–	345,073	247.5p	Dec–13	Dec–14
	Mar–12	–	621,805	–	–	621,805	142.3p	Dec–13	Dec–14
Kevin Hayes[c]									
	Jul–09[b]	323,609	–	–	323,609	–	239.25p	Lapsed	N/A
	Jun–10	327,148	–	–	327,148	–	258.3p	Lapsed	N/A
	Mar–11	233,157	–	–	233,157	–	247.5p	Lapsed	N/A
	Mar–12	–	280,092	–	280,092	–	142.3p	Lapsed	N/A

Notes:
(a) For grants prior to 2009, the performance condition was earnings per share growth in excess of RPI over a three year performance period. For grants from June 2009 onwards, vesting is subject to achieving cumulative three-year net management fee income growth (NMFIG) and average three-year adjusted ROE (AROE). For all grants from March 2011 75% of vesting is subject to achieving cumulative three year NMFIG and 25% of vesting is subject to achieving three year average AROE. More information is provided on page 52.
(b) July 2009 ESOS awards lapsed on 31 March 2012.
(c) Kevin Hayes stepped down from the Board with effect 18 June 2012. His contract terminated 18 December 2012. His options lapsed on termination of his contract.

Remuneration report continued

Share and Fund awards – subject to service conditions (audited) **Table R23**

Number of options		Appointment date 18 June 2012	Dividends accruing	Exercised during period	31 December 2012	Earliest exercise Date	Latest exercise Date
Jonathan Sorrell[a]	Deferred Share Plan (DSP)	82,335	6,849	0	89,184	Jun–13	Aug–21
		82,335	6,849	0	89,184	Jun–14	Aug–21
		78,827	6,557	0	85,384	Mar–13	Mar–22
		78,827	6,557	0	85,384	Mar–14	Mar–22
		78,827	6,557	0	85,384	Mar–15	Mar–22
	Fund Product Plan (FPP)[b]	1,063	0	0	1,063	Mar–13	Mar–16
		1,063	0	0	1,063	Mar–14	Mar–16
		1,063	0	0	1,063	Mar–15	Mar–16

Notes:
(a) Jonathan Sorrell was granted nil-cost options under the Deferred Share Plan and Fund Product Plan schemes prior to his appointment as a director.
(b) Fund investment under the FPP is in the Man GLG Multi-Strategy UCITS product.

4.9 Man Group Sharesave Scheme

The Man Group Sharesave Scheme is an all-employee plan. The executive directors participate in the sharesave scheme purchasing options by monthly deductions from salary.

Shares under option under the Man Group Sharesave Scheme (audited) **Table R24**

The Executive Directors participate in the Sharesave Scheme purchasing options by monthly deductions from salary

	Number of Options								
	Date of grant	1 January 2012	Lapsed during period	Granted during period	Exercised during period	31 December 2012	Option price	Earliest exercise date	Latest exercise date
Executive directors									
Peter Clarke	Jun–09	4,653	0	0	0	4,653	195.0p	Aug–12	Jan–13
Kevin Hayes	Jun–10	8,174	8,174	0	0	0	189.0p	n/a	n/a
Jonathan Sorrell	Aug–12	0	0	23,076	0	23,076	65.0p	Oct–17	Mar–18

4.10 Retirement benefits for executive directors

Retirement benefits (audited) **Table R25**

Retirement benefits contributions to money purchase schemes were as follows:

Money Purchase Schemes	**12 months to 31 December 2012 £'000**	9 months to 31 December 2011 £'000
Executive directors		
Peter Clarke[a]	**33**	49
Kevin Hayes[b]	**30**	24
Jonathan Sorrell[c]	**20**	N/A
Emmanuel Roman	**N/A**	N/A

Notes:
(a) Peter Clarke agreed to an employee salary sacrifice/waiver of pensionable base salary of £16,346, which is not included in the above pension figures. For 2012 a cash pension allowance of £28,728 was provided where retirement benefits were in excess of the annual pension contribution allowance.
(b) Kevin Hayes agreed to an employee salary sacrifice/waiver of pensionable base salary of £45,392, which is not included in the above pension figures. Kevin Hayes was paid a cash pension allowance in lieu of his notice period from 18 December 2012 to 17 June 2013 of £15,778.
(c) Jonathan Sorrell was appointed to the Board on 18 June 2012. Jonathan Sorrell agreed to an employee salary sacrifice/waiver of pensionable base salary of £9,864, which is not included in the above pension figures. For 2012 a cash pension allowance of £8,739 was provided where retirement benefits were in excess of the annual pension contribution allowance. These figures are from the date of appointment.
(d) Cash pension allowances are included in Benefits and Allowances in Tables R11 and R13 and not included in this table.

The disclosure below is required by Companies Act 2006. Peter Clarke has been employed on a full-time basis as Group Chief Executive to 28 February 2013 and continues to be under notice on garden leave to 31 December 2013. He has elected to draw his defined benefit pension. No benefit has accrued for service in the current financial period. The pension is in payment and cannot be transferred.

Defined benefit retirement plan (Audited) **Table R26**

	Age	Accrued pension at 31 December 2012[a] £'000 Per annum	Increase in accrued pension during the period[b] £'000 Per annum	Increase in accrued pension during the year (net of inflation)[b] £'000 Per annum	Transfer value at 31 December 2012 of increase in accrued pension during the period (net of inflation)[c][d][e] £'000	Transfer value of accrued pension at 31 December 2012[d][e] £'000	Transfer value of accrued pension at 31 December 2011[d][e] £'000	Increase in transfer value over the period £'000
Peter Clarke	53	75	3	0	0	3,071	2,915	156

Notes:
(a) Peter Clarke has continued to be employed on a full-time basis as the Group Chief Executive until 28 February 2013. However, he elected to draw his defined benefit pension from the Man Group plc Pension Fund (the Fund) with effect from 1 March 2010. The accrued pension represents his pension in payment as at 31 December 2012, calculated in accordance with the rules of the Fund. The equivalent figure at 31 December 2011 was £72,000. Peter Clarke will not accrue any further benefits in the Man Group plc Pension Fund. Pension provision after 1 March 2010 has been provided via an alternative pension arrangement into which the Company contributes 14% of basic salary.
(b) The increase in accrued pension figures compares the pension in payment as at 31 December 2011 (£72,000) against the pension in payment as at 31 December 2012.
(c) The increase in transfer value represents (i) the increase in the value of Peter Clarke's pension as a result of the annual increase granted to pensions in payment and (ii) a change in the underlying transfer value assumptions and market conditions. No adjustment has been applied to these figures for directors' contributions paid since none have been paid during the year.
(d) The transfer values have been calculated in accordance with the relevant legislation using the approach set by the Trustees of the Fund.
(e) The transfer value figures at 31 December 2012 and 31 December 2011 exclude benefits paid to Peter Clarke prior to the respective dates of calculation. They are calculated based on market conditions as at 31 December 2012 and 31 December 2011 respectively.

4.11 Share ownership requirements for executive directors

The Chief Executive is required to maintain a shareholding of 200% of base salary. Other executive directors are required to maintain a shareholding of 100% of base salary. Vested PSP and ESOS can be taken into account in applying this test but unvested awards are not eligible for inclusion. Executive directors are required to build up this shareholding on joining the Board or after a reduction in share price as share and option plan awards vest. Jonathan Sorrell is building up to the 100% shareholding requirement of base salary from (post-tax) vested awards. All other executive directors meet the minimum shareholding requirement as shown in table R27.

Non-executive directors are encouraged to build a shareholding. The shareholdings of directors are set out in table R32 on page 61.

Man Group has always sought to facilitate significant share ownership by directors and senior management, principally through plans which encourage and assist the purchase of shares with their own funds or by way of bonus deferral. The Board and employees worldwide together own an estimated 10% of the Company's share capital, directly or through employee trusts established and funded for this purpose. The Board alone directly holds 1.5% of the issued capital. The Employee Trusts are included in the Group's consolidated financial statements.

Executive director share ownership **Table R27**

Name	Requirement USD	31 December 2012 holding USD
Peter Clarke	1,850,000	6,945,221
Jonathan Sorrell	625,000	409,663
Emmanuel Roman	1,000,000	26,375,941

Note:
Shareholdings valued at 31 December 2012 share price of 82.75 pence and exchange rate of $0.61583939 = £1.

Remuneration report continued

5. Executive Committee and key management remuneration

The Executive Committee consists of the executive directors and senior business leaders responsible for delivering the Company strategy with remuneration policy set accordingly to incentivise and encourage retention within the risk management framework. For 2012 Executive Committee members' incentive awards are significantly reduced to reflect the deteriorated performance outcome, and for those receiving bonuses, awards are subject to 100% deferral to focus on retaining key individuals. All share and fund awards are conditional and subject to forfeiture if an employee resigns or employment is terminated for misconduct.

The Executive Committee, together with the non-executive directors, are the Company's key management being those directors and employees having authority and responsibility for planning, directing and controlling the activities of Man.

Key management compensation is reported in Table R28 below. The current financial reporting period is 12 months. The previous nine month financial period, 9M 2011, compensation includes salary for the nine month financial period ended 31 December 2011 and bonus for the 12 month period ended 31 December 2011. This change in financial periods limits the value of inter-period comparisons.

Key management compensation (audited) — **Table R28**

	12 months to 31 December 2012 $'000	9 months to 31 December 2011 $'000
Salaries and other short-term employee benefits[b]	**8,274**	6,462
Performance Cash and Mandatory Deferral[c]	**0**	13,556
Post-employment benefits[d]	**263**	735
Share-based payments[e]	**16,001**	11,046
Other long-term benefits[e]	**3,154**	444
Total	**27,692**	32,243

Notes:
(a) Key management includes non executive directors and the Executive Committee including executive directors of the Board.
(b) Salary, benefits (including cash pension allowance) and social security.
(c) Cash bonus including social security.
(d) Money purchase pension and defined benefit increase in transfer value pension benefit. Refer to tables R25 and R26.
(e) Other long-term benefits relate to fund product deferrals. Refer to Note 20 to the financial statements for further explanation of share-based and fund product based deferred compensation arrangements.

6. Non-executive directors' fees and terms of appointment

The fees of the non-executive directors are determined by the Board within the limits agreed by shareholders and set out in the Articles of Association.

Non-executive Directors' Fees (audited) — **Table R29**

	12 months to 31 December 2012 £'000	9 months to 31 December 2011 £'000
Non-executive directors		
Jon Aisbitt	**450**	338
Alison Carnwath[(a)]	**75**	67
Phillip Colebatch	**90**	68
Frederic Jolly[(b)]	**75**	60
Matthew Lester[(c)]	**95**	55
Patrick O'Sullivan[(d)]	**100**	75
Nina Shapiro[(e)]	**80**	20
Dugald Eadie[(f)]	**0**	27
Ruud Hendriks[(g)]	**0**	50
31 December total	**965**	760

Notes:
(a) Alison Carnwath ceased to be Senior Independent Director on 8 July 2011 and ceased to be a member of the Audit and Risk Committee on 21 September 2011.
(b) Frederic Jolly ceased to be a member of the Audit and Risk Committee and was appointed as a member of the Remuneration Committee on 1 December 2011.
(c) Matthew Lester was appointed to the Board and as a member of the Audit and Risk Committee on 5 May 2011. He was appointed Chairman of the Audit and Risk Committee on 1 November 2011.
(d) Patrick O'Sullivan was appointed Senior Independent Director on 8 July 2011. He was appointed a member of the Remuneration Committee on 21 September 2011 and ceased to be Chairman of the Audit and Risk Committee on 1 November 2011.
(e) Nina Shapiro was appointed to the Board and as a member of the Audit and Risk Committee on 10 October 2011.
(f) Dugald Eadie retired from the Board on 7 July 2011.
(g) Ruud Hendriks left the Board on 1 December 2011.

Non-executive directors receive a base fee for Board service and additional fees for Board Committee membership and other responsibilities as shown in the table R30. They do not participate in any share option or share incentive plans.

The Chairman's remuneration is recommended by the Remuneration Committee and approved by the Board. Neither the Chairman nor the non-executive directors take part in discussions or vote on their own remuneration. The non-executive directors' and the Chairman's fees were not increased during the year ended 31 December 2012.

Remuneration report continued

Non-executive directors have formal letters of appointment. These do not contain any notice provisions or provision for compensation in the event of early termination. The Chairman has a contract with the Company which provides that his appointment as Chairman is terminable on three months' notice; there are no notice provisions relating to his appointment as a director. The Board's policy is to appoint non-executive directors for an initial three year term, subject to retirement and reappointment by shareholders at the AGM, which may be followed by a further three years by mutual agreement. Any further extension will be by exception and will be subject to rigorous review. Any director serving for more than nine years is subject to annual retirement and reappointment by shareholders at the AGM. The initial date of appointment of the non-executive directors to the Board, the start date of their current term of appointment and their current fee levels are given in table R30.

Non-executive directors' terms of appointment and annual fee levels as at 31 December 2012 **Table R30**

				Additional Fees					
				Audit & Risk		Remuneration		Senior Independent	
Name	Date of Appointment to the Board	Start of current term of office	Base Fee £'000	Chair £'000	Member £'000	Chair £'000	Member £'000	Director £'000	Total Board Fees £'000
Jon Aisbitt (Chairman)	20–Aug–03	01–May–12	450						450
Alison Carnwath	24–Jan–01	01–May–12	65				10		75
Phillip Colebatch	01–Sep–07	08–Jul–11	65			15	10		90
Frederic Jolly	01–Aug–09	01–May–12	65				10		75
Matthew Lester	05–May–11	05–May–11	65	15	15				95
Patrick O'Sullivan	01–Sep–07	09–Jul–10	65		15		10	10	100
Nina Shapiro	10–Oct–11	10–Oct–11	65		15				80

7. Directors' remuneration

The table R31 sets out remuneration for executive and non-executive directors. The audited table R31 sets out remuneration for which entitlement arose for current and prior financial reporting periods. This shows remuneration for (a) the current 12 month financial reporting and performance period ended 31 December 2012 and (b) the prior nine month financial reporting period ended 31 December 2011 which includes nine-month salary and 12 months bonus. This change in financial periods limits the value of inter-period comparisons.

Directors' remuneration – includes executive directors and non-executive directors (including social security) (audited) **Table R31**

	12 months to 31 December 2012 \$'000	9 months to 31 December 2011 \$'000
Fees and remuneration	**5,538**	6,586
Gains made on transfer of share awards and exercise of share options in the year	**0**	839
Contributions to money purchase pension schemes	**132**	117

Share ownership

The policy on executive director share ownership requirements is set out in section 4.11 above. The shareholdings of directors are set out below:

Directors' interests in shares of Man Group plc (audited) — **Table R32**

	Number of ordinary shares[a] 31–Dec–12[b]	Number of ordinary shares[a] 31–Dec–11
Executive directors		
Peter Clarke[c,d]	**5,168,750**	5,168,749
Kevin Hayes[e]	**1,312,366**	1,204,731
Emmanuel Roman	**19,629,418**	19,629,418
Jonathan Sorrell[f]	**304,878**	N/A
Non-executive directors		
Jon Aisbitt[c]	**1,681,251**	1,681,250
Alison Carnwath	**294,161**	257,685
Phillip Colebatch	**10,000**	10,000
Frederic Jolly	**9,705**	9,705
Patrick O'Sullivan	**108,389**	94,949
Matthew Lester	**22,692**	21,509
Nina Shapiro	**28,258**	10,000
Dugald Eadie[g]	**N/A**	360,000
Ruud Hendriks[h]	**N/A**	204,495

Notes:
(a) All of the above interests are beneficial.
(b) There has been no change in the directors' interests in the ordinary shares of Man Group plc from 31 December 2012 to the date of this report.
(c) Peter Clarke and Jon Aisbitt's shareholding increased by one share as they were the initial members of the new holding company.
(d) Peter Clarke also holds 50,000 Deferred Sterling Shares of £1, which are held to satisfy a requirement of the Companies Act 2006 and carry no voting rights or rights to distributions.
(e) Interest as at 18 June 2012, the date Kevin Hayes stepped down from the Board.
(f) Jonathan Sorrell was appointed to the Board on 18 June 2012.
(g) Dugald Eadie retired from the Board on 7 July 2011.
(h) Ruud Hendriks left the Board on 1 December 2011.

The market price of the Company's shares at the end of 31 December 2012 was 82.75p. The highest and lowest daily closing share prices during the 12 month financial period were 152.5 pence and 63.25 pence respectively.

The Remuneration report has been submitted by the Remuneration Committee and approved by the Board for the financial year ended 31 December 2012. We recommend this Remuneration report to you. It will be put to an advisory vote of the Company's shareholders at the 2013 Annual General Meeting on 3 May 2013.

For and on behalf of the Board
Phillip Colebatch
Chairman, Remuneration Committee
28 February 2013

Directors' report

The directors submit their report, together with the audited financial statements, for the year ended 31 December 2012 (the 'year').

New Group holding company

On 6 November 2012, under a Court approved scheme of arrangement between Man Group plc, our former holding company, and its shareholders under Part 26 of the Companies Act 2006, all the issued ordinary shares in the former holding company were cancelled. Shareholders received, for every ordinary share they held in the former holding company, one ordinary share in a new holding company which became the new listed holding company for the Man Group and has the same name as its predecessor, Man Group plc.

No distinction is made for reporting purposes between the former and new holding companies so that the results for both companies are presented on a combined and continuous basis for the full year. Throughout the Annual Report, references to the Board, its Committees, the Company and the Group refer to the old holding company (and its subsidiaries) prior to 6 November 2012 and the new holding company (and its subsidiaries) from that date. Both companies are domiciled and incorporated in the United Kingdom.

Principal activities, business review and results

To assess how the directors have performed in their duty to promote the success of the Company, the Companies Act 2006 requires the directors to set out in this report a fair review of the business of the Group during the year, the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group in the future. Information fulfilling these requirements and those contained in the FSA's Listing Rules and Disclosure and Transparency Rules can be found in the following sections of the Annual Report for the year ended 31 December 2012 which are incorporated by reference:

	Pages
Business review, including: • Development and performance of the business • Principal risks and uncertainties • Key performance indicators • Main trends and factors impacting business performance • Employees	1 to 25
Corporate responsibility	108, IBC
Audited financial statements	66 to 98
Financial risk management and financial instruments	82, 83, 85, 96
Research and development	16 to 18
Board of directors and directors' biographical details	28 to 29
Directors' responsibility statement	65
Dividend	105 to 106
Dividend waiver	88
Directors' interests	61
Share capital and purchase of own shares	90 to 92
Charitable donations	IBC
Post balance sheet events	97
Credit facilities	82 to 83
Principal operating subsidiaries	98
Credit payment policy	86
Corporate governance report including internal control and risk management systems	26 to 39

Essential contracts
The Group has agreements with Citibank, N.A., London Branch (Citi) and Citco Fund Services (Cayman Islands) Limited (Citco) to provide, inter alia, registrar, transfer agency and valuation services to AHL and FRM products (further details are given in note 5 to the Financial Statements).

Material contracts
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 the service contracts between each executive director and the Company.

Substantial voting interests
As at 28 February 2013 the following voting interests in the ordinary share capital of the Company disclosable under the FSA's Disclosure and Transparency Rules have been notified to the Company.

Shareholder	%
UBS Investment Bank	5.62
Odey Asset Management LLP	5.30
BlackRock, Inc.	5.05
G&S Trustees Limited – Pierre Lagrange	3.51

Restriction on voting rights
Where shares are held in employee benefit trusts for the satisfaction of awards made under share schemes, under the trust deeds the trustees have discretion to vote or abstain from voting.

Directors
Details of the current directors, together with their biographies, can be found on pages 28 and 29. Kevin Hayes served on the Board during the year but resigned as a director on 18 June 2012.

Powers of directors
The Board is responsible for the management of the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes and the Company's Articles of Association (the 'Articles'). A copy of the Articles is available on the Company's website (www.man.com) and by request from the registered office of the Company. The Articles may be amended by special resolution of the shareholders.

Appointment and retirement of directors
Under the Articles the Board has the power to appoint further directors during the year, but any director so appointed must stand for reappointment at the next annual general meeting. Under the Articles, one-third of the Board must retire by rotation at each annual general meeting and may stand for reappointment. In practice, and in accordance with the UK Corporate Governance Code, all directors retire and offer themselves for reappointment at each annual general meeting.

The Articles give the power to a director to appoint any person to be his alternate, subject to the appointment of such person who is not another director being approved by the Board.

Directors' indemnities and insurance cover
On their appointment, new directors are granted an indemnity by the Company, to the extent permitted by law, in respect of any third party liabilities which they may incur as a result of their service on the Board. The Company arranges directors' and officers' liability insurance to cover certain liabilities and defence costs which the Company indemnity does not meet. Neither the indemnity nor the insurance provides any protection in the event of a director being found to have acted fraudulently or dishonestly in respect of the Company.

Change of control
Significant agreements
Each of the agreements with Citi and Citco mentioned above contain a provision which could allow Citi and Citco to terminate the agreements upon certain pre-defined changes in control. The directors are not aware of any other significant agreements to which the Company and/or any of its subsidiaries is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

Employee share incentive schemes
The Company's employee share incentive schemes contain provisions whereby, upon a change of control of the Company, outstanding options and awards would vest and become exercisable, subject (in the case of certain schemes only) to the satisfaction of performance conditions at that time and any time pro-rating of options and awards.

Share transfer restrictions
As at the year end, 83,615,960 ordinary shares in the Company which were issued to certain principals of GLG as consideration for the acquisition of GLG Partners, Inc are subject to share lock-up agreements. Under the terms of such agreements, and with limited exceptions, the shares must not be disposed of until 14 October 2013 (the third anniversary of the acquisition).

In 2011 in connection with Man's acquisition of the remaining 50% interest in GLG Ore Hill LLC (formerly Ore Hill Partners LLC) (Ore Hill), ordinary shares in the Company were issued to the principals of Ore Hill and their related trusts. These shares are subject to the terms of share lock-up agreements which restrict the transfer/sale of shares until 31 December 2013, subject to the following exceptions:

1. one third of the relevant shares will be freely transferable in June 2013; and
2. some shares may also be unlocked earlier to satisfy certain defined liabilities.

The Board may decline to register a transfer of any share which is not a fully paid share. In addition, registration of a transfer of an uncertificated share may be refused in the circumstances set out in the Uncertificated Securities Regulations and where the number of joint holders exceeds four.

Political donations
During the year, the Company did not make any donations to any political party or other political organisation and did not incur any political expenditure within the meanings of Sections 362 to 379 of the Companies Act 2006.

Auditors
A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the Company and the Group will be proposed at the 2013 AGM.

By order of the Board

Rachel Rowson
Company Secretary
28 February 2013

Financial statements

Our approach to reporting our financial performance.

The Financial statements contained on pages 64 to 104 give a detailed explanation of our financial performance by integrating the financial statements, accounting policies and explanations regarding our performance, capital and liquidity.

Directors' responsibility statement

The directors are responsible for preparing the Annual Report, the Remuneration report, and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively; and
- 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 keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the directors' Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are on pages 28 to 29, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and results of the Group;
- the Management report contained on pages 1 to 25 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and
- there is no relevant audit information of which the Group's auditors are unaware, and that they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that Man's auditors are aware of that information.

Group income statement

$m	Note	12 months to 31 December 2012	9 months to 31 December 2011
Revenue:			
Gross management and other fees	3	**1,209**	1,160
Performance fees	3	**90**	94
		1,299	1,254
Gains/(losses) on investments and other financial instruments		**32**	(1)
Distribution costs	4	**(336)**	(237)
Asset services	5	**(31)**	(24)
Amortisation of acquired intangible assets	12	**(65)**	(47)
Compensation	6	**(499)**	(422)
Other costs	7	**(316)**	(277)
Share of after tax profit of associates	18	**10**	3
Gain on disposal of Lehman claims	2	**131**	–
Impairment of GLG and legacy Man Multi-Manager goodwill	2, 12	**(979)**	–
Release of tax indemnity provision	2	**11**	–
Recycling of FX revaluation on liquidation of subsidiaries	2	**42**	–
Finance expense	8	**(80)**	(83)
Finance income	8	**36**	27
(Loss)/profit before tax		**(745)**	193
Taxation	9	**(39)**	(34)
Statutory (loss)/profit for the period attributable to owners of the parent		**(784)**	159
Earnings per share:	10		
Basic (cents)		**(45.6)**	7.7
Diluted (cents)		**(45.6)**	7.6
Adjusted profit before tax	2	**278**	262

Group statement of comprehensive income

$m	12 months to 31 December 2012	9 months to 31 December 2011
Statutory (loss)/profit for the period attributable to owners of the parent	**(784)**	159
Other comprehensive (expense)/income:		
Available for sale investments:		
Valuation gains taken to equity	**18**	–
Transfers from statement of comprehensive income upon sale or impairment	**(19)**	–
Cash flow hedges:		
Valuation gains taken to equity	**16**	–
Transfer to income statement	**(9)**	–
Foreign currency translation	**3**	(9)
Recycling of FX revaluation on liquidation of subsidiaries	**(42)**	–
Tax charged	**(1)**	–
Total comprehensive (expense)/income for the period attributable to owners of the parent	**(818)**	150

Group balance sheet

$m	Note	At 31 December 2012	At 31 December 2011
ASSETS			
Cash and cash equivalents	14	**2,000**	1,639
Fee and other receivables	16	**382**	428
Investments in fund products	15	**487**	631
Other investments and pension asset	15, 22	**115**	436
Investments in associates	18	**38**	41
Leasehold improvements and equipment	19	**150**	173
Goodwill and acquired intangibles	12	**1,484**	2,478
Other intangibles	13	**45**	187
Total assets		**4,701**	6,013
LIABILITIES			
Trade and other payables	17	**653**	675
Current tax liabilities		**98**	118
Borrowings	14	**859**	1,066
Deferred tax liabilities	9	**97**	94
Total liabilities		**1,707**	1,953
NET ASSETS		**2,994**	4,060
EQUITY			
Capital and reserves attributable to the owners of the parent[1]	21	**2,694**	4,060
Non-controlling interest (perpetual subordinated capital securities)[1]	14	**300**	–
		2,994	4,060

Note:
1 Refer to the Group statement of changes in equity for further details.

The financial statements were approved by the Board of Directors on 28 February 2013 and signed on its behalf by:

Peter Clarke
Chief Executive

Jonathan Sorrell
Chief Financial Officer

Group cash flow statement

$m	12 months to 31 December 2012	9 months to 31 December 2011
Cash flows from operating activities		
(Loss)/profit for the period	**(784)**	159
Adjustments for:		
Income tax	**39**	34
Net finance expense	**44**	56
Share of results of associates	**(10)**	(3)
Depreciation and impairment of leasehold improvements and equipment	**43**	21
Amortisation of other intangible fixed assets	**141**	122
Share-based payments expense	**79**	70
Impairment of goodwill and other intangibles	**979**	–
Net losses on financial instruments	**1**	2
Gain on disposal of Lehman claims	**(131)**	–
Impairment of capitalised placement fees	**88**	–
Recycling of FX revaluation on liquidation of subsidiaries	**(42)**	–
Increase in pension asset	**(10)**	(3)
Other non-cash movements	**11**	30
	448	488
Changes in working capital:		
Decrease in receivables	**88**	59
Decrease in other financial assets	**135**	304
Decrease in payables	**(127)**	(46)
Cash generated from operations	**544**	805
Interest paid	**(81)**	(57)
Income tax paid	**(55)**	(71)
Cash flows from operating activities	**408**	677
Cash flows from investing activities		
Purchase of leasehold improvements and equipment	**(20)**	(58)
Purchase of other intangible assets	**(33)**	(53)
Purchase of Lehman claims	**–**	(355)
Purchase of other investments	**(17)**	(25)
Proceeds from settlement and sale of Lehman claims	**466**	22
Net proceeds from sale of other investments	**28**	6
Acquisition of subsidiary, net of cash acquired	**40**	1
Interest received	**35**	26
Dividends received from associates and other investments	**13**	3
Cash flows from investing activities	**512**	(433)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	**8**	3
Purchase of own shares by ESOP trust	**(9)**	(56)
Repurchase of own shares	**(7)**	(143)
Repayment of borrowings	**(219)**	(349)
Dividends paid to Company shareholders	**(299)**	(394)
Dividend payments in respect of perpetual subordinated capital securities	**(33)**	(25)
Cash flows from financing activities	**(559)**	(964)
Net increase/(decrease) in cash	**361**	(720)
Cash at beginning of the period	**1,639**	2,359
Cash at period end	**2,000**	1,639

Group statement of changes in equity

$m	Equity attributable to shareholders of the Company									
	12 months to 31 December 2012					9 months to 31 December 2011				
	Share capital and capital reserves	**Revaluation reserves and retained earnings**	**Total**	**Non–controlling interest**	**Total equity**	Share capital and capital reserves	Revaluation reserves and retained earnings	Total	Non–controlling interest	Total equity
At beginning of the period	**3,364**	**696**	**4,060**	**–**	**4,060**	3,346	1,090	4,436	–	4,436
(Loss)/profit for the period	**–**	**(784)**	**(784)**	**–**	**(784)**	–	159	159	–	159
Other comprehensive expense	**–**	**(34)**	**(34)**	**–**	**(34)**	–	(9)	(9)	–	(9)
Total comprehensive (expense)/income for the period	**–**	**(818)**	**(818)**	**–**	**(818)**	–	150	150	–	150
Perpetual capital securities coupon	**–**	**(25)**	**(25)**	**–**	**(25)**	–	(18)	(18)		(18)
Transfer to non-controlling interest	**(300)**	**–**	**(300)**	**300**	**–**	–	–	–	–	–
Capital reduction	**(1,885)**	**1,885**	**–**	**–**	**–**	–	–	–	–	–
Acquisition of business	**–**	**–**	**–**	**–**	**–**	15	–	15	–	15
Share-based payments	**8**	**65**	**73**	**–**	**73**	3	21	24	–	24
Repurchase of own shares	**–**	**(7)**	**(7)**	**–**	**(7)**	–	(143)	(143)	–	(143)
Movement in close period buyback obligations	**–**	**10**	**10**	**–**	**10**	–	(10)	(10)	–	(10)
Dividends	**–**	**(299)**	**(299)**	**–**	**(299)**	–	(394)	(394)	–	(394)
At period end (Note 21)	**1,187**	**1,507**	**2,694**	**300**	**2,994**	3,364	696	4,060	–	4,060

Shareholders' equity decreased during the year as a result of dividend payments and a loss for the year. In the prior period, shareholders' equity decreased primarily as a result of dividend payments and the repurchase of own shares, partly offset by profits for the period.

The $300 million perpetual subordinated capital securities were reclassified as a non-controlling interest on the implementation of the new group holding company on 6 November 2012. See Note 14 for further information.

The capital reduction relates to the reduction of share capital in the new group holding company, following the scheme of arrangement, in order to create distributable reserves. See Note 21 for further information.

The close period buyback obligations relate to share buybacks contractually undertaken with third parties. These are included in payables and deducted from equity on the balance sheet for the value of the maximum number of shares that may be purchased under the contract with the third party. No contract existed at the balance sheet date (31 December 2011: $10 million).

The proposed final dividend will reduce shareholders' equity by $228 million (31 December 2011: $124 million).

Included in Note 21 are details of share capital and capital reserves, revaluation reserves and retained earnings and related movements.

Notes to the Group financial statements

1. Basis of preparation

Scheme of arrangement

On 6 November 2012, under a scheme of arrangement between Man Strategic Holdings plc (formally Man Group plc), the former holding company of the Group, and its shareholders under Part 26 of the Companies Act 2006, and as sanctioned by the High Court, all the issued ordinary shares in that company were cancelled and the same number of new ordinary shares were issued to Man Group plc (the new holding company) in consideration for the allotment to shareholders of one ordinary share in Man Group plc for each ordinary share they held in Man Strategic Holdings plc. The scheme of arrangement is treated as a capital reorganisation. The consequence is that the Man Group has not fundamentally changed in any way, and no fair value adjustments have been made and no goodwill has been recognised.

Change in reporting period

During 2011 we announced the decision to change our financial year end to a calendar year to align our financial reporting with that of our funds and the asset management industry generally. We are therefore reporting our financial position and our results as at and for the 12 months ended 31 December 2012. For comparative purposes we are required to disclose our results for the nine months ended 31 December 2011.

Acquisition of FRM

The acquisition of FRM was completed on 17 July 2012, and therefore the results for the 12 months ended 31 December 2012 include 5.5 months of results for the acquired FRM business. More information can be found in Note 12.

Accounting policies

The audited consolidated financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Man's principal accounting policies have been consistently applied in the preparation of the financial statements. Accounting policies are included in the relevant sections, and significant policies are provided below. The impact of new accounting standards and amendments applicable to Man's year ended 31 December 2012 and accounting standards that are not yet effective is outlined below.

Consolidated group and reporting currency

The consolidated group is Man Group plc and its subsidiaries (Man). The stand-alone parent company financial statements of Man Group plc have been included as separate financial statements, starting on page 101. The majority of revenues, assets, liabilities and funding are denominated in US dollars (USD) and therefore Man's reporting currency is USD.

Judgemental areas and accounting estimates

The most significant area of judgement is the allocation and evaluation of goodwill and intangible assets, in particular the goodwill in relation to the GLG acquisition (Note 12) and the carrying value of capitalised product placement fees (Note 13). The valuation of the goodwill and intangibles has been an area of focus for the Group Board, and in particular the Audit and Risk Committee, during the year. The report of the chairman of the Audit and Risk Committee discussed the involvement of the Committee in this evaluation on page 35. Other areas of significant judgement are: the determination of fair values for investments; deferred compensation awards; and pension obligations.

Going concern

Man's business activity is discussed on pages 1 to 25, together with the significant risk factors (pages 22 to 25). Man's liquidity and capital positions are set out in Note 14 and 21 respectively. The directors monitor Man's capital and liquidity positions and forecasts throughout the year, and in addition they have approved a budget, medium term financial plan, and a capital and liquidity plan, which cover the foreseeable future and include analysis of stressed capital and liquidity scenarios. The directors have concluded that there is a reasonable expectation that Man has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the consolidated and parent financial statements have been prepared on a going concern basis using the historical cost convention, except for the measurement at fair value of certain financial instruments that are available-for-sale or held at fair value through profit or loss.

Financial reporting controls

The Company's systems of internal control aim to safeguard assets, ensure that proper accounting records are maintained, and ensure that the financial information used in the business and published externally is robust and reliable. The financial reporting controls comply with the guidance given in 'Internal Control: Revised Guidance for Directors on the Combined Code'. The Corporate governance report is provided on pages 26 to 39.

Independent audit

The independent auditors' report from PwC on page 99 expresses an unqualified opinion.

1. Basis of preparation continued

Man's relationship with independent fund entities

Man acts as the investment manager/advisor to fund entities. Having considered all significant aspects of Man's relationships with fund entities, the directors are of the opinion that, although Man may have significant influence over the fund entities, the existence of independent boards of directors at the fund entities; termination provisions in the investment management agreements, which allow for the removal of the investment manager/advisor; the influence of investors; and, the arm's length nature of Man's contracts with the fund entities; Man does not control the fund entities and their associated assets, liabilities and net income should not be consolidated into Man's financial statements. An understanding of the aggregate funds under management and the fees earned from the fund entities is relevant to an understanding of Man's results and earnings sustainability and this information is provided in the Chief Financial Officer's review on page 10.

Significant accounting policies schedule

Policy	Note	Page
Goodwill	12	77
Other Intangible assets		
– Investment management contracts, distribution channels and brand names	12	77
– Placement fees	13	82
– Capitalised software	13	82
Investment in fund products	15	84
Investments in associates	18	86
Revenue	3	73
Compensation – share-based payments	20	87
Compensation – restructuring	2	72
Pension benefits	22	92

Impact of new accounting standards

A number of amendments to existing standards and interpretations have been issued, some of which were mandatory for the year beginning 1 January 2012, with the remaining becoming effective in future periods.

The relevant new standards adopted by Man in the current year, which have not had a significant impact, are:

- IFRS 7 – 'Financial Instruments: Disclosures' – Amendments enhancing disclosures about transfers of financial assets
- IAS 12 – 'Income Taxes' – Limited scope amendment (recovery of underlying assets)

IAS 19 (Revised) 'Employee benefits' is effective from 1 January 2013. The majority of the impact will be recorded as an adjustment to equity on transition in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors' to reflect the change in accounting treatment of Man's defined benefit pension plans, of which the principal change is to cease to apply the 'corridor approach'. The adoption of the revised standard will have the following impact:

- a $71 million debit to profit and loss reserves on 1 January 2012, net of tax;
- an increased charge of $3 million (before tax) in the income statement for the year ended 31 December 2012;
- an additional charge of $13 million (before tax) through Other comprehensive income for the year ended 31 December 2012;
- a reduction in net pension assets recognised in the balance sheet at 31 December 2012 of $110 million to give a net pension liability of $4 million; and
- a decrease of $26 million in the deferred tax liability at 31 December 2012.

Other new or revised standards and interpretations issued but not yet effective include those listed below. None of these are expected to have a significant impact of the financial statements of Man:

- IAS 1 – 'Presentation of financial statements'
- IFRS 10 – 'Consolidated financial statements'
- IFRS 11 – 'Joint Arrangements'
- IFRS 12 – 'Disclosure of Interests in Other Entities'
- IFRS 13 – 'Fair value measurement'
- IAS 27 (revised 2011) – 'Separate Financial Statements'
- IAS 28 (revised 2011) – 'Investments in Joint Ventures and Associates'
- 2011 Annual Improvements
- Amendments to IAS 32 – 'Financial Instruments: Presentation' on asset and liability offsetting
- IFRS 9 – 'Financial Instruments'

2. Adjusted profit before tax

Statutory (loss)/profit before tax is adjusted to give a fuller understanding of the underlying profitability of the business. These are explained in detail either below or in the relevant note.

$m	Note	12 months to 31 December 2012	9 months to 31 December 2011
Statutory (loss)/profit before tax		**(745)**	193
Adjusting items:			
Gain on disposal of Lehman claims		**(131)**	–
Impairment of GLG and legacy Man Multi-Manager goodwill	12	**979**	–
Release of tax indemnity provision		**(11)**	–
Recycling of FX revaluation on liquidation of subsidiaries		**(42)**	–
Impairment of capitalised placement fees	4,13	**88**	–
Compensation – restructuring	6	**65**	7
Other costs – restructuring	7	**4**	15
FRM acquisition costs	6,7	**12**	–
Revaluation of contingent consideration		**(9)**	–
Unwind of contingent consideration discount	8	**3**	–
Amortisation of acquired intangible assets	12	**65**	47
Adjusted profit before tax		**278**	262
Tax		**(40)**	(45)
Adjusted net income		**238**	217

The Lehman claims were sold by Man in November 2012 for a total consideration of $456 million, resulting in a pre-tax gain of $131 million. The overall gain comprised a gain of $114 million on the carrying value at the date of disposal as well as $19 million of previous gains recognised recycled from Other comprehensive income, partly offset by $2 million of directly attributable transaction costs. More details can be found in Note 15.3.

Goodwill and other intangibles were tested for impairment at 30 June 2012 and 31 December 2012. As a result, GLG and the legacy Man Multi-Manager goodwill was impaired by $91 million and $142 million respectively at 30 June 2012, with a further $746 million impairment of GLG goodwill at 31 December 2012 (total impairment of $837 million for GLG goodwill for the year). Further details are provided in Note 12.

A tax indemnity provision raised on a business disposal has been released, as it is no longer required.

A number of the Group's foreign subsidiaries were liquidated during the year, which had a related foreign currency translation reserve of $42 million at the date of liquidation. The related foreign currency translation reserve was recycled to the income statement on liquidation of these subsidiaries as required by IAS 21.

Capitalised placement fees were impaired by $88 million during the year. As a result of de-gearing and negative investment performance in relation to guaranteed products, $50 million of external capitalised placement fees were written off. Internal capitalised placement fees of $38 million were written off in December 2012, as a result of the introduction of a new servicing fee based internal compensation structure that is effective from 1 January 2013, which triggered the impairment.

Compensation costs incurred as part of restructuring are accounted for in full at the time the obligation arises, following the communication of the formal plan, and include payments in lieu of notice and enhanced termination costs. These include accelerated share-based payment and fund product based charges.

Restructuring costs included within Other costs primarily relate to professional fees in connection with the scheme of arrangement. In the prior period, restructuring costs primarily relate to onerous lease contracts on property in New York.

FRM acquisition costs consist of redundancy costs associated with achieving the acquisition cost synergies included within Compensation ($7 million) as shown in Note 6, as well as legal fees and onerous lease charges included within Other costs ($5 million) as shown in Note 7.

The revaluation of contingent consideration is an adjustment to the fair value of expected earn out payments resulting primarily from movements in net management fee run rates since the acquisition of FRM and has been included within Gains/(losses) on investments and other financial instruments. The gain was partly offset by an unwind of the discount on the contingent consideration of $3 million, included within Finance expense (Note 8).

The amortisation of acquired intangible assets relates to the amortisation of the investment management contracts and brands recognised on the acquisition of FRM, GLG, and Ore Hill. Further details are provided in Note 12.

3. Revenue and margins

Management fees, which include all non-performance related fees and interest income from loans to fund products, are recognised in the period in which the services are rendered. Performance fees are only recognised when they can be measured reliably. Performance fees can only be measured reliably at the end of the performance period as the net asset value (NAV) of the fund products could move significantly, as a result of market movements, between Man's financial reporting period end and the end of the performance period.

The level of funds under management (FUM) drives the aggregate level of management fee revenue so in order to sustain a profitable business operating costs must be flexible with different levels of FUM.

4. Distribution costs

$m	12 months to 31 December 2012	9 months to 31 December 2011
External distribution costs	203	192
Internal distribution costs	45	45
Distribution costs – before adjusting items	248	237
Impairment of capitalised placement fees (Note 2)	88	–
Total distribution costs	336	237

Distribution costs paid to intermediaries and Man's sales executives are directly related to their marketing activity and the investors serviced by them. The distribution expense is therefore variable to sales, FUM, and the associated management fee income to sustain management fee margins.

Distribution costs, before adjusting items, of $248 million (nine months to 31 December 2011: $237 million) comprise product placement fees of $82 million (nine months to 31 December 2011: $83 million) and investor servicing fees of $166 million (nine months to 31 December 2011: $154 million). Placement fees are paid for product launches or sales and are capitalised and amortised over the expected investment hold period (refer Note 13). Investor servicing fees are paid to intermediaries and employees for ongoing investor servicing and are expensed as incurred.

Capitalised placement fees were impaired by $88 million during the year, and classified as an adjusting item. Refer to Note 2 for further details.

5. Asset services

Asset services include valuations, fund accounting, and registrar functions performed by third parties under contract to Man, on behalf of the funds. The cost of these services is based on activity or FUM, therefore variable with activity levels and FUM. Asset services costs for the year were $31 million (nine months to 31 December 2011: $24 million).

6. Compensation

$m	12 months to 31 December 2012	9 months to 31 December 2011
Salaries – fixed	198	166
Salaries – variable	111	124
Share-based payment charge	56	63
Fund product based payment charge	17	31
Social security costs	30	24
Pension costs	15	7
Compensation costs – before adjusting items	427	415
Restructuring	65	7
FRM acquisition costs	7	–
Total compensation costs	499	422

Compensation is our largest cost and an important component of our ability to retain and attract talent at Man. Our compensation strategy is set out in the Remuneration report on pages 40 to 61. In the short-term, the variable component of compensation adjusts with revenues and profitability. In the medium term the active management of headcount can reduce fixed based compensation, if required.

Compensation costs in total were $427 million, before adjusting items, or 33% of revenue, in line with prior period levels.

Fixed compensation and benefits was $233 million compared to $191 million in the prior nine month period ended 31 December 2011. Fixed compensation comprises: salaries – fixed; pension costs; and a share of the social security costs. The current year includes fixed compensation from FRM from 17 July 2012, the date of the acquisition.

Variable compensation was $194 million compared to $224 million in the prior nine month period as a result of lower revenue, reflecting the variability of our cost base.

6. Compensation continued

Salaries, both fixed and variable, are charged to the Income Statement in the period in which they are incurred. They include partner drawings.

The accounting for share-based and fund product based compensation arrangements is covered in Note 20. The unamortised deferred compensation at period end was $54 million (nine months to December 2011: $91 million) which had a weighted average remaining vesting period of 1.2 years (31 December 2011: 1.6 years). The decrease is due primarily to the share-based and fund product based amortisation charges (as in the above table), net of a small amount of new additions in the period.

Pension costs relate to Man's defined contribution and defined benefit plans (Note 22).

Disclosures relating to directors' remuneration are given in the Remuneration report information on pages 40 to 61.

7. Other Costs

$m	12 months to 31 December 2012	9 months to 31 December 2011
Occupancy	**56**	48
Travel and entertainment	**15**	17
Technology	**21**	18
Communication	**25**	19
Audit, accountancy, actuarial and tax fees	**12**	10
Legal fees	**21**	16
Temporary staff and recruitment	**30**	31
Other professional fees	**2**	4
Consultancy and managed services	**12**	9
Benefits	**20**	21
Insurance	**13**	11
Marketing and sponsorship	**11**	12
Other cash costs	**6**	4
Total other costs before depreciation and amortisation	**244**	220
Depreciation and amortisation	**63**	42
Other costs – before adjusting items	**307**	262
Restructuring (Note 2)	**4**	15
FRM acquisition costs (Note 2)	**5**	–
Total other costs	**316**	277

The level of expenses, including occupancy, communication, end user technology and travel and entertainment is linked to headcount. Within a range of FUM balances we can achieve scalability. As FUM decreases beyond that range we have to take action to rebase our expenses in order to maintain our management fee margins.

Other costs, before depreciation and adjusting items, were $244 million in the period, compared to $220 million in the prior nine month period, which reflects the impact of the various cost saving initiatives to reduce the cost base of the firm as previously announced.

Auditors' remuneration, including advisory and professional services, is disclosed in more detail in the Corporate governance section on page 36.

8. Finance expense and finance income

$m	12 months to 31 December 2012	9 months to 31 December 2011
Finance income:		
Interest on cash deposits	**21**	16
Other – gain recognised on the repayment of loan notes issued by BlueCrest	**15**	11
Total finance income	**36**	27
Finance expense:		
Interest payable on borrowings	**(50)**	(78)
Premium paid on debt buyback and other	**(27)**	(5)
Total finance expense – before adjusting items	**(77)**	(83)
Unwind of contingent consideration discount (Note 2)	**(3)**	–
Total finance expense	**(80)**	(83)

Finance income included a gain of $15 million (nine months to 31 December 2011: $11 million) recognised on the repayment of loan notes issued by BlueCrest. Finance expense includes a $21 million charge relating to a debt buy back during the year (refer to Note 14).

9. Taxation

$m	12 months to 31 December 2012	9 months to 31 December 2011
Analysis of tax charge for the period:		
Current tax:		
UK corporation tax on profits of the period	**44**	13
Foreign tax	**14**	39
Adjustments to tax charge in respect of previous periods	**(17)**	(12)
Total current tax	**41**	40
Deferred tax:		
Origination and reversal of temporary differences	**(6)**	(8)
Adjustments to tax charge in respect of previous periods	**4**	2
Total tax charge	**39**	34

Man is a global business and therefore operates across many different tax jurisdictions. Income and profits are allocated to these different jurisdictions based on transfer pricing methodologies set in accordance with the laws of the jurisdictions in which we operate. The effective tax rate results from the combination of taxes paid on earnings attributable to the tax jurisdictions in which they arise. The majority of the Group's profit was earned in Switzerland, Australia and the UK. The current effective tax rate of -5.2% (nine months to 31 December 2011: 17.6%) differs principally as a result of the impairment of goodwill on which no tax relief is received and otherwise is consistent with this earnings profile. The effective tax rate on adjusted profits (Note 2) is 14.4% (nine months to 31 December 2011: 17.2%). The lower rate is principally the result of the effect of prior year tax credits for settled tax returns, which outweigh the impact of reduced relief on share-based compensation costs and losses for which no tax relief has been recognised.

The tax on Man's total (loss)/profit before tax is higher (nine months to 31 December 2011: lower) than the amount that would arise using the theoretical effective UK tax rate applicable to profits of the consolidated companies, as follows:

$m	12 months to 31 December 2012	9 months to 31 December 2011
(Loss)/profit before tax	**(745)**	193
Theoretical tax (credit)/charge at UK rate – 24.5% (31 December 2011: 26%)	**(183)**	50
Effect of:		
Overseas rates compared to UK	**(32)**	(32)
Adjustments to tax charge in respect of previous periods	**(13)**	(10)
Impairment of goodwill and other adjusting items	**249**	–
Share-based payments	**8**	15
Other	**10**	11
	222	(16)
Total tax charge	**39**	34

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the rates expected to be applied when the asset or liability is realised. The deferred tax closing balance of $97 million (31 December 2011: $94 million) relates mostly to the tax arising on intangible assets of $114 million (31 December 2011: $120 million). The closing balance is also net of deferred tax assets primarily related to employee share schemes of $8 million (31 December 2011: $11 million), tax allowances over depreciation of $9 million (31 December 2011: $10 million) and other temporary differences of nil (31 December 2011: $5 million).

Financial statements continued

10. Earnings per ordinary share (EPS)

The calculation of basic EPS is based on: a basic post-tax net loss, after payments to holders of the perpetual subordinated capital securities ($25 million after tax, $18 million for the prior period), of $809 million compared to a net income of $141 million in the prior period; and ordinary shares of 1,772,828,571 (nine months to 31 December 2011: 1,826,586,175), being the weighted average number of ordinary shares in issue during the period after excluding the shares owned by the Man employee trusts. For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The diluted EPS is based on ordinary shares of 1,802,501,332 (nine months to 31 December 2011: 1,857,857,931).

The details of movements in the number of shares used in the basic and fully dilutive earnings per share calculation are provided below.

	12 months to 31 December 2012		9 months to 31 December 2011	
	Total number (millions)	**Weighted average (millions)**	Total number (millions)	Weighted average (millions)
Number of shares at beginning of period	**1,820.8**	**1,820.8**	1,881.5	1,881.5
Issues of shares	**4.3**	**2.5**	1.7	0.5
Repurchase of own shares	**(3.3)**	**(2.9)**	(66.2)	(8.4)
Business combinations	**–**	**–**	3.8	3.3
Number of shares at period end	**1,821.8**	**1,820.4**	1,820.8	1,876.9
Shares owned by employee trusts	**(40.8)**	**(47.6)**	(55.5)	(50.3)
Basic number of shares	**1,781.0**	**1,772.8**	1,765.3	1,826.6
Share awards under incentive schemes		**28.7**		31.3
Employee share options		**1.0**		–
Dilutive number of shares		**1,802.5**		1,857.9

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

	12 months to 31 December 2012			
	Basic post-tax earnings $m	**Diluted post-tax earnings $m**	**Basic earnings per share cents**	**Diluted earnings per share cents**
Earnings per share[1]	**(809)**	**(809)**	**(45.6)**	**(45.6)**
Effect of potential ordinary shares[2]	**–**	**–**	**–**	**0.7**
Items for which EPS has been adjusted (Note 2)	**1,023**	**1,023**	**57.7**	**56.8**
Tax on the above items	**(1)**	**(1)**	**(0.1)**	**(0.1)**
Adjusted Earnings per share	**213**	**213**	**12.0**	**11.8**

	9 months to 31 December 2011			
	Basic post-tax earnings $m	Diluted post-tax earnings $m	Basic earnings per share cents	Diluted earnings per share cents
Earnings per share[1]	141	141	7.7	7.6
Items for which EPS has been adjusted (Note 2)	69	69	3.8	3.7
Tax on the above items	(11)	(11)	(0.6)	(0.6)
Adjusted Earnings per share	199	199	10.9	10.7

Notes:

1 The difference between (loss)/profit after tax and basic and diluted post-tax net (expense)/income is the adding back of the expense in the period relating to the fixed rate Perpetual Subordinated Capital Securities (Note 21), totalling $25 million post-tax at 24.5% (nine months to 31 December 2011: $18 million).

2 Potential ordinary shares have not been treated as dilutive and therefore have been excluded from the diluted statutory earnings per share calculation as their conversion would decrease the loss per share.

11. Dividends

$m	12 months to 31 December 2012	9 months to 31 December 2011
Ordinary shares		
Final dividend paid for the nine months to 31 December 2011 – 7 cents (2011: 12.5 cents)	**126**	226
Interim dividend paid for the six months to 30 June 2012 – 9.5 cents (2011: 9.5 cents)	**173**	168
Proposed final dividend for the year to 31 December 2012 – 12.5 cents (2011: 7 cents)	**228**	124

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

12. Goodwill and acquired intangibles

	12 months to 31 December 2012			9 months to 31 December 2011		
$m	Goodwill	IMCs and other acquired intangibles[2]	Total	Goodwill	IMCs and other acquired intangibles[2]	Total
Cost:						
At beginning of the period	**2,234**	**694**	**2,928**	2,214	672	2,886
Acquisition of business[1]	**16**	**32**	**48**	22	22	44
Currency translation	**2**	**–**	**2**	(2)	–	(2)
At period end	**2,252**	**726**	**2,978**	2,234	694	2,928
Aggregate amortisation and impairment:						
At beginning of the period	**(375)**	**(75)**	**(450)**	(375)	(28)	(403)
Amortisation	**–**	**(65)**	**(65)**	–	(47)	(47)
Impairment[4]	**(979)**	**–**	**(979)**	–	–	–
At period end	**(1,354)**	**(140)**	**(1,494)**	(375)	(75)	(450)
Net book value at period end	**898**	**586**	**1,484**	1,859	619	2,478
Allocated to cash generating units as follows:						
GLG[3]	**262**	**555**	**817**	1,099	619	1,718
FRM	**227**	**31**	**258**	353	–	353
AHL	**409**	**–**	**409**	407	–	407

Notes:
1 Acquisition of business relates to FRM in the current period and to Ore Hill in the prior period.
2 Includes investment management contracts (IMCs), brand names and distribution channels.
3 The Ore Hill CGU has been allocated to the GLG CGU in the current period.
4 The impairment of $979 million relates to the impairment of the legacy Man Multi-Manager business at 30 June 2012 of $142 million, and the impairments of the GLG business recognised at 30 June 2012 and 31 December 2012 of $91 million and $746 million respectively (total of $837 million for GLG for the year ended 31 December 2012).

Goodwill
Goodwill represents the excess of the consideration transferred over the fair value of the net identifiable assets of the acquired business at the date of acquisition. The consideration transferred is the fair value of the assets given, equity instruments issued and liabilities incurred at the date of acquisition.

Goodwill is carried in the balance sheet at cost less accumulated impairment losses. Goodwill has an indefinite useful life, is not subject to amortisation and is tested for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

From a capital management perspective all goodwill and acquired intangibles, net of deferred taxes, are supported with shareholders' equity. This approach is consistent with our regulatory capital treatment. The acquisition of GLG was supported with existing excess shareholders' capital and the issuance of new Man shares to the principals and key employees.

Investment management contracts (IMCs)
IMCs are recognised at the present value of the expected future cash flows of the contracts and distribution channels acquired and are amortised on a straight-line basis over the expected useful lives which are between 9 to 12 years, and 10 years for the GLG and FRM brand names.

Allocation of goodwill to cash generating units
The Group has three identified cash-generating units for impairment review purposes: GLG, FRM, and AHL. The goodwill and other intangible assets acquired on the acquisition of FRM has been allocated to the FRM cash generating unit as the acquired FRM business has been fully integrated with the previous Man Multi-Manager business, which will benefit from all of the synergies from the acquisition.

In the prior period, the goodwill and other intangible assets acquired on the acquisition of GLG was allocated to the cash generating units (CGUs) expected to benefit from the synergies of the business combination. As at the date of acquisition, 77% of the acquired goodwill and all other intangible assets was allocated to the GLG CGU (goodwill: $1,077 million; other intangibles $672 million) with the remaining 23% of the goodwill allocated to the AHL CGU (goodwill: $326 million).

Financial statements continued

12. Goodwill and acquired intangibles continued

Ore Hill was previously reported as a separate cash-generating unit and is now part of the GLG cash-generating unit as it has been integrated into the GLG business. The $22 million of goodwill relating to the Ore Hill business has been reclassified to the GLG CGU in the comparative period at 31 December 2011 accordingly.

GLG cash generating unit (CGU)

The recoverable amount of the GLG CGU is assessed each year using a value in use calculation. A value in use calculation gives a higher valuation for the GLG CGU as a fair value approach would exclude some of the revenue synergies available to Man through its ability to distribute GLG products using its well established distribution channels, which is unlikely to be fully available to other market participants. At 31 December 2011, the value in use calculation suggested there was headroom of around $95 million over the carrying value of the GLG goodwill and other intangibles balance and no impairment was considered necessary.

At 30 June 2012, as a result of the challenging economic environment, the recoverable amount of the GLG CGU was again assessed on the same basis. A goodwill impairment charge of $91 million was deemed necessary and was recognised at 30 June 2012 in the interim financial statements. As disclosed in the interim financial statements at 30 June 2012, the model is sensitive to small changes in the assumptions. At 30 June 2012, applying various stressed scenarios to investment performance and net flow assumptions over the three year budget period suggested possible impairment in future periods of between $94 million to $1,605 million.

At both 31 December 2011 and 30 June 2012, Duff and Phelps, a specialist valuation firm, was appointed to provide an estimate of the recoverable amount of the GLG CGU. The valuations and the associated headroom or impairment in these periods were supported by their work as an independent valuation expert. At 31 December 2012, Duff and Phelps have not been re-appointed as it has been established that their valuation methodology and outcome is not significantly different from the internal valuation calculation that is currently being applied.

The recoverable amount of the GLG CGU has again been assessed at 31 December 2012 using a value in use calculation. The value in use calculation uses cash flow projections based on the approved budget for the year to 31 December 2013 and a further two years of projections (2014 and 2015) plus a terminal value. The following valuation analysis is based on best practice guidance whereby a terminal value is calculated at the end of a short discrete budget period and assumes no growth in asset flows after this three year budget period above the long-term growth rate.

The key assumptions used in the value in use calculation are represented by the compound average annualised growth in funds under management (FUM) over the three year budget period and the discount rates applied to the modelled cash flows. These are shown in the table below. The discount rates are the same as those used at 30 June 2012 and 31 December 2011.

Compound average annualised growth in FUM (over 3 years)	8.5%
Discount rate (post-tax)	
– Net management fees	11%
– Net performance fees	17%

The pre-tax equivalent of the net management fee and net performance fee discount rates is 12.2% and 21.1% respectively.

The terminal value is calculated at the end of 2015. The terminal value is calculated based on the projected closing FUM at 31 December 2015 and applying a mid-point of a range of historical multiples, being 13 times for management fees and 5.5 times for performance fees. This is equivalent to an overall terminal growth rate of 1.3%.

GLG's FUM at 31 December 2012 and the budgeted FUM over the three year budget period are lower in comparison to the modelled FUM in the value in use calculation at 30 June 2012, reflecting the on-going challenging market conditions resulting in a more cautious outlook for growth in funds under management. The decrease in FUM, partly offset by a reduction in GLG's costs from the cost saving initiatives, has resulted in a decrease in the value in use calculation for the GLG CGU with a value of $867 million as at 31 December 2012. The total carrying value of the GLG CGU, including goodwill, is assessed to be $1,613 million, resulting in a goodwill impairment of $746 million. This impairment has been recognised accordingly at 31 December 2012, with a total impairment charge of $837 million for the year ended 31 December 2012 including the $91 million recognised at 30 June 2012.

A summary of the factors attributing to the change in the value of the GLG CGU from 31 December 2011, with the amount attributable to each change if these factors were changed in this order, is shown in the table below.

	$m
Value of GLG business at 31 December 2011	**1,812**
Decrease in funds under management growth assumption	(803)
Changes in calculation of value attributable to management and performance fees	(142)
Value of GLG business at 31 December 2012*	**867**

Note:

* The difference between the value of the GLG business at 31 December 2012 of $867 million and the value of the goodwill and other acquired intangible assets allocated to the GLG business of $817 million relates to leasehold improvements and equipment of $45 million and capitalised computer software of $5 million that has been allocated to the GLG business.

12. Goodwill and acquired intangibles continued

The decline in the funds under management growth assumption reflects the on-going challenging market conditions, weighted more towards current experience rather than longer term historical averages, in particular reflecting net outflows of $1,033 million in the second half of 2012. This contributed to a decrease of approximately $803 million in the value of the GLG CGU.

The value attributable to management and performance fees has decreased as a result of the terminal value being calculated by applying a mid-point of a range of historic multiples, equating to an overall terminal growth rate of 1.3%, which is lower than the overall terminal growth rate applied previously.

The table below shows two adverse scenarios, whereby the base case key assumptions are changed to stressed assumptions. These stressed assumptions are applied to decrease the compound average annualised growth in FUM (over three years) to 5% in the first sensitivity; and to 0% in the second sensitivity. The table below shows the effect of these scenarios and the associated increase in the modelled impairment charge that would result.

The results of these sensitivities make no allowance for actions that management would take if such market conditions persisted.

Stressed assumptions to change compound average annualised growth in FUM to:	5%	0%
Increase in modelled impairment ($m)	223	394

If the net management fee and net performance fee post-tax discount rates were increased by 1% to 12% and 18% respectively, it would result in increased modelled impairment of $17 million. If the discount rates were decreased by 1%, it would result in decreased modelled impairment of $18 million.

If the mid-point of the range of historical multiples for management and performance fees used to calculate the terminal value were increased by 1 to 14 times and 6.5 times respectively, it would result in decreased modelled impairment of around $90 million. If they were decreased by 1 to 12 times and 4.5 respectively, it would result in increased modelled impairment of around $90 million.

FRM cash generating unit

The FRM CGU includes the legacy Man Multi-Manager business and the acquired FRM business. At 30 June 2012 and 31 December 2011, the FRM CGU included the legacy Man Multi-Manager business only as the FRM business was acquired in July 2012.

The recoverable amount of the FRM CGU was reviewed at 31 December 2011 by assessing the fair value of the business based on market earnings multiples applied to the post-tax net earnings for calendar year 2011. It was concluded that no impairment charge was required.

At 30 June 2012, as a result of the challenging economic environment, the recoverable amount of the legacy Man Multi-Manager CGU was assessed using a value in use calculation. A goodwill impairment charge of $142 million was deemed necessary at 30 June 2012 and was recognised in the interim financial statements.

As with the GLG CGU, the recoverable amount of the FRM CGU has again been assessed at 31 December 2012 using a value in use calculation. The recoverable amount at 31 December 2012 includes the previous Man Multi-Manager and the acquired FRM business. The value in use calculation follows the same methodology as for the GLG CGU.

The key assumptions used in the value in use calculation are represented by the compound average annualised growth in funds under management (FUM) over the three year budget period and the discount rates applied to the modelled cash flows. These are shown in the table below.

Compound average annualised growth in FUM (over 3 years)	
– Guaranteed products	-22%
– Institutional FoF and open-ended products	5.2%
Discount rate (post-tax)	
– Net management fees	11%
– Net performance fees	17%

In the above table for the model assumptions, the pre-tax equivalent of the net management fee and net performance fee discount rates is 12.7% and 19.0% respectively.

The terminal value is calculated at the end of 2015. The terminal value is calculated based on the projected closing funds under management at 31 December 2015 and applying historical market multiples. This is equivalent to an overall terminal growth rate of 1.6%.

As a result of the FRM acquisition during the year and the level of Man specific synergies from the acquisition, as well as the decrease in costs as a result of the cost saving initiatives, the value in use calculation suggests a value for the FRM CGU with significant headroom over the carrying value of the business.

12. Goodwill and acquired intangibles continued

In an adverse scenario, the compound average annualised growth in FUM (over three years) would have to decrease for guaranteed products and institutional FoF and open-ended products to -39% and -9.4% respectively as a result of a combination of declined net investment performance and net flows for any impairment to arise.

If the net management fee and net performance fee post-tax discount rates were increased by 1% to 11% and 18% respectively, it would result in decreased modelled headroom of $18 million. If the discount rates were decreased by 1%, it would result in increased modelled headroom of $19 million.

AHL cash generating unit

The recoverable amount of the AHL CGU was reviewed at 31 December 2011 by assessing the fair value of the business based on market earnings multiples applied to the post-tax net earnings for calendar year 2011. The fair value less costs to sell valuation indicated a significant amount of headroom over the carrying value of the AHL CGU at 31 December 2011, and there were no realistic scenarios which would result in impairment being necessary.

As with the GLG and FRM CGUs, the recoverable amount of the AHL CGU has been assessed at 31 December 2012 using a value in use calculation. The value in use calculation follows the same methodology as for the GLG and FRM CGUs.

The key assumptions used in the value in use calculation are represented by the compound average annualised growth in funds under management (FUM) over the three year budget period and the discount rates applied to the modelled cash flows. These are shown in the table below.

Compound average annualised growth in FUM (over 3 years)	
– Guaranteed products	-18%
– Open-ended products	3.1%
Discount rate (post-tax)	
– Net management fees	11%
– Net performance fees	17%

In the above table for the model assumptions, the pre-tax equivalent of the net management fee and net performance fee discount rates is 12.8% and 20.0% respectively.

The terminal value is calculated at the end of 2015. The terminal value is calculated based on the projected closing funds under management at 31 December 2015 and applying historical market multiples. This is equivalent to an overall terminal growth rate of 1.7%.

The value in use calculation for the AHL CGU again indicates a significant amount of headroom over the carrying value of the AHL CGU.

In an adverse scenario, the compound average annualised growth in FUM (over three years) for guaranteed products and open-ended products would have to decrease to -31% and -5.6% respectively as a result of a combination of declined net investment performance and net flows for any impairment to arise.

If the net management fee and net performance fee post-tax discount rates were increased by 1% to 11% and 18% respectively, it would result in decreased modelled headroom of $37 million. If the discount rates were decreased by 1%, it would result in increased modelled headroom of $38 million.

Acquisition of FRM business

On 17 July 2012, Man acquired the entire issued share capital of FRM Holdings Limited (Financial Risk Management "FRM"), a global hedge fund research and investment specialist with funds under management at the date of acquisition of $8.3 billion.

The consideration to FRM shareholders comprised approximately $66 million in cash for the acquisition balance sheet and two earn out payments, payable in cash following the first and third anniversaries of closing, on a sliding scale dependent on levels of run rate net management fees as well as a 47.5% of net performance fees generated within three years of the acquisition date. Cash balances of $106 million were acquired as part of the acquisition balance sheet, which more than covered the $66 million of initial cash consideration, resulting in a net cash inflow of $40 million on acquisition.

In addition, Sumitomo Mitsui Trust Bank Limited (SMTB), a 5% shareholder in FRM, exchanged its shareholding for a holding of preference shares in RBH Holdings (Jersey) Limited, the Man subsidiary which acquired FRM. This shareholding entitles SMTB to a dividend corresponding to a 2.65% per annum share of the net management and performance fee revenues generated from the acquired FRM funds under management and new funds under management raised from SMTB sales.

12. Goodwill and acquired intangibles continued

Under IFRS 3 – 'Business combinations', Man is required to calculate the fair value of acquired assets. Provisional values for the acquired business, at the date of acquisition, are set out in the table below:

$m (Provisional)	Book value	Fair value adjustments	Provisional value
Cash and cash equivalents	106	–	106
Fee and other receivables	45	(6)	39
Investments in fund products	3	–	3
Leasehold improvements and equipment	1	–	1
Intangible assets	–	32	32
Trade and other payables	(36)	(3)	(39)
Deferred tax arising on other intangible assets	–	(6)	(6)
Net assets acquired	119	17	136
Goodwill on acquisition			16
Net assets acquired including goodwill			**152**
Purchase consideration:			
Cash consideration			66
Contingent cash consideration			86
Total consideration			**152**

The fair value adjustments relate primarily to the recognition of intangible assets comprising acquired investment management contracts (IMCs) and the FRM brand, which were valued at $31 million and $1 million respectively. These intangible assets are recognised at the present value of the expected future cash flows generated from the assets and are amortised on a straight-line basis over their expected life of 10 years. Deferred tax has been provided on the value of the intangible assets ($6 million) and this is a non-cash item as the liability arises due to the tax non-deductibility of the amortisation of IMCs.

Goodwill primarily represents the cost synergies to be generated from acquiring and integrating the FRM business with the legacy Man Multi Manager business. Goodwill is not expected to be deductible for tax purposes. Acquisition costs of $12 million, primarily relating to redundancy costs, legal fees and advisor fees, have been expensed and do not form part of goodwill (Note 2). The contingent cash consideration of $86 million is calculated as the present value of expected earn out payments and dividends on the perpetual preference shares issued to SMTB. The contingent consideration is deemed to be a financial liability measured initially at fair value and subsequently at fair value through profit or loss.

In addition to the assets and liabilities in the above table, an indemnification asset and corresponding liability, in relation to employee loans, arose on acquisition, which have subsequently been fully settled.

The post tax result for the period since the acquisition date for the legacy FRM business alone amounted to a $4 million profit, excluding pre-tax items in relation to the post-acquisition amortisation of purchased intangibles ($1 million) and acquisition costs ($12 million), partially offset by excluding the fair value gain of $6 million on the contingent consideration. If the acquisition had taken place at the beginning of the financial year, the post tax profit for FRM would have been $7 million, excluding amortisation of purchased intangibles ($3 million) and a charge of $33 million for acquisition and restructuring costs relating to the pre and post-acquisition period, partially offset by excluding a fair value gain of $3 million on contingent consideration. This result does not include any benefit from cost synergies. Revenue for the period since the acquisition date for the legacy FRM business amounted to $36 million, and if the acquisition had taken place at the beginning of the financial year, the revenue would have been $80 million.

13. Other intangibles

		12 months to 31 December 2012			9 months to 31 December 2011		
$m	Note	**Placement fees**	**Capitalised computer software**	**Total**	Placement fees	Capitalised computer software	Total
Cost:							
At beginning of the period		**639**	**115**	**754**	822	113	935
Acquisition of business		**–**	**–**	**–**	–	1	1
Additions		**29**	**4**	**33**	46	7	53
Redemptions/disposals		**(587)**	**(11)**	**(598)**	(229)	(6)	(235)
At period end		**81**	**108**	**189**	639	115	754
Aggregate amortisation and impairment:							
At beginning of the period		**(482)**	**(85)**	**(567)**	(638)	(68)	(706)
Impairment	2	**(88)**	**–**	**(88)**	–	–	–
Redemptions/disposals		**577**	**10**	**587**	210	4	214
Amortisation		**(56)**	**(20)**	**(76)**	(54)	(21)	(75)
At period end		**(49)**	**(95)**	**(144)**	(482)	(85)	(567)
Net book value at period end		**32**	**13**	**45**	157	30	187

13. Other intangibles continued

Placement fees

Placement fees are paid to distributors and employees for selling fund products. The majority of placement fees paid are capitalised as an intangible asset which represents the contractual right to benefit from future income from providing investment management services. The amortisation period is based on management's estimate of the weighted average period over which Man expects to earn economic benefit from the investor in each product, estimated to be between two to five years on a straight-line basis.

If an investor redeems their investment in a fund product, the corresponding unamortised placement fee is written off. The placement fees intangible is also subject to impairment testing each period to ensure that the future economic benefit arising from each fund product is in excess of the remaining unamortised balance. Amortisation expense, amounts written off, and any impairment losses, are included in distribution costs in the Income statement.

During the year, $88 million of external and internal capitalised placement fees were impaired. Refer to Note 2 for additional information.

The weighted average remaining amortisation period of the unamortised placement fees at 31 December 2012 is 2.9 years (31 December 2011: 2.2 years).

From a capital management perspective capital is held against the unamortised balance of placement fees based on an evaluation of the risk of an accelerated accounting charge relating to poor investment performance or early redemptions. From a regulatory capital perspective placement fees are an intangible asset and are required to be supported with Tier 1 regulatory capital.

Capitalised computer software

Costs that are directly associated with the procurement or development of identifiable and unique software products, which will generate economic benefits exceeding costs beyond one year, are recognised as capitalised computer software. Capitalised computer software is amortised on a straight-line basis over its estimated useful life (three years) and is subject to regular impairment reviews. Amortisation of capitalised computer software is included in Other costs in the Income statement.

14. Cash, liquidity and borrowings

Liquidity and borrowings

The business is cash generative at an operating level and has the ability to generate significant cash through performance fees.

Total liquidity resources aggregated to $3,525 million at 31 December 2012 (31 December 2011: $3,199 million) and comprised cash and cash equivalents of $2,000 million (31 December 2011: $1,639 million) and the undrawn committed revolving credit facility of $1,525 million (31 December 2011: $1,560 million). Cash and cash equivalents at period end comprises $268 million (31 December 2011: $193 million) of cash at bank on hand, $1,153 million of treasury bills (31 December 2011: nil), and $579 million (31 December 2011: $1,446 million) in short-term deposits, net of overdrafts of nil (31 December 2011: nil). Cash ring-fenced for regulated entities totalled $303 million (31 December 2011: $246 million).

Liquidity resources support on-going operations and potential liquidity requirements under stressed scenarios. The amount of potential liquidity requirements is modelled based on scenarios that assume stressed market and economic conditions. With the exception of committed purchase arrangements (Note 28), the funding requirements for Man relating to the investment management process are discretionary. The liquidity profile of Man is monitored on a daily basis and the stressed scenarios are updated regularly. The Board reviews Man's funding resources at each Board meeting and on an annual basis as part of the strategic planning process. Man's available liquidity is considered sufficient to cover current requirements and potential requirements under stressed scenarios.

Cash is invested in accordance with strict limits consistent with the Board's risk appetite, which consider both the security and availability of the liquidity. Accordingly, cash is invested in short-dated US Treasury bills and is held in short-term bank deposits and demand deposit bank accounts. At 31 December 2012, $1,153 million was invested in short-dated US Treasury bills and $847 million was cash balances with 30 banks (31 December 2011: $1,639 million with 34 banks). The single largest counterparty bank exposure of $183 million was held with an A+ rated bank (31 December 2011: $305 million with an A- rated bank). Balances with banks in the AA ratings band aggregated to $134 million (31 December 2011: $145 million). Balances with banks in the A ratings band aggregated to $713 million (31 December 2011: $1,493 million).

The following tables summarise the maturity profile of outstanding borrowings, the perpetual subordinated capital securities and the committed revolving credit facility, and Man's available liquidity as at 31 December 2012 and 2011.

31 December 2012 ($m)	Total	Less than 1 year	2 years	3 years	Greater than 3 years
Senior 2013 fixed rate bonds	173	173	–	–	–
Senior 2015 fixed rate € bonds	285	–	–	285	–
Tier 2 subordinated 2015 floating rate notes	170	–	–	170	–
Tier 2 subordinated 2017 fixed rate bonds	231	–	–	–	231
Borrowings	859	173	–	455	231
Tier 1 perpetual subordinated capital securities	300	–	–	–	300
Cash and cash equivalents	2,000				
Undrawn committed revolving credit facility	1,525	–	–	–	1,525
Total liquidity	3,525				

14. Cash, liquidity and borrowings continued

31 December 2011 ($m)	Total	Less than 1 year	2 years	3 years	Greater than 3 years
Senior 2013 fixed rate bonds	172	–	172	–	–
Senior 2015 fixed rate € bonds	492	–	–	–	492
Tier 2 subordinated 2015 floating rate notes	171	–	–	–	171
Tier 2 subordinated 2017 fixed rate bonds	231	–	–	–	231
Borrowings	1,066	–	172	–	894
Tier 1 perpetual subordinated capital securities	300	–	–	–	300
Cash and cash equivalents	1,639				
Undrawn committed revolving credit facility	1,560	–	–	–	1,560
Total liquidity	3,199				

To maintain maximum flexibility, the revolving credit facility, the bonds and the capital securities do not include financial covenants. The mix of funded debt and committed bank facilities is a matter determined by the Board based on funding needs and availability in the capital and bank markets.

Borrowings are initially recorded at fair value net of transaction costs incurred, and are subsequently stated at amortised cost. The difference between the amount repayable at maturity on the borrowings and the carrying value is amortised over the period up to the expected maturity of the associated debt in accordance with the effective interest method. At 31 December 2012, the fair value of borrowings was $826 million.

Senior 2013 fixed rate bonds: the $173 million senior fixed rate bonds were issued in 2008, mature on 1 August 2013 and have a coupon of 6.5% per annum payable semi-annually in arrears up to and including the maturity date.

Senior 2015 fixed rate € bonds: the €216 million ($285 million) senior fixed rate bonds were issued in 2010, mature on 18 February 2015 and have a coupon of 6.0% per annum payable annually in arrears up to and including the maturity date. These bonds are hedged in to US dollars on an on-going basis. €166 million ($219 million) was repurchased during the year. The premium paid of $20 million, and an accelerated unwind of issue costs and fees of $1 million, have been included in finance expense for the year.

Tier 2 subordinated 2015 floating rate notes: the $170 million subordinated floating rate notes were issued in 2005, mature on 22 September 2015 and have a coupon of 3-month US dollar LIBOR plus 1.65%. The notes may be redeemed in whole at Man's option on any interest payment date falling on or after 22 September 2010, subject to FSA approval.

Tier 2 subordinated 2017 fixed rate bonds: the $231 million subordinated floating rate bonds were issued in August 2010, have a coupon of 5% and mature on 9 August 2017.

Tier 1 perpetual subordinated capital securities: the $300 million 11% perpetual subordinated capital securities were issued in 2008 and have a perpetual maturity date with optional par redemption at Man's discretion on 7 May 2013 and any quarterly coupon date thereafter, subject to FSA approval. On any coupon date the Group may exchange or vary the capital securities for qualifying non-innovative tier 1 securities (e.g. perpetual non-cumulative preference shares). The 11% per annum coupon is payable quarterly in arrears and is deferrable at the discretion of Man. The capital securities have been classified as equity on the basis that they are irredeemable except at the option of Man, and coupon payments and principal repayments can be deferred indefinitely. The coupon is therefore classified as dividends in the equity section. Following the introduction of the new group holding company, these securities have now been classified as a Non-controlling interest (refer to Note 21 for additional information).

Committed revolving credit facility: the committed revolving credit facility of $1,525 million was put in place in July 2011 as a five-year facility and includes the option for Man to ask the banks to extend the maturity date by a year on each of the first and second anniversaries. The participant banks have the option to accept or decline our request. Before the first anniversary in July 2012 the banks were asked to extend the maturity date of the facility by a year. Banks with participations totalling $1,320 million accepted the request and as a result $205 million of the facility is currently scheduled to mature in July 2016 and $1,320 million in July 2017.

The expected payment profile of future interest payments, totalling $106 million (31 December 2011: $190 million), is as follows: $39 million is expected to be due within one year (31 December 2011: $56 million); $48 million within two and three years (31 December 2011: $97 million); and $19 million is expected to be due after three years (31 December 2011: $37 million). Disclosures in relation to financial guarantees and commitments are included in Note 28.

Foreign exchange and interest rate risk

Man is subject to risk from changes in interest rates or foreign exchange rates on monetary assets and liabilities. A 10% strengthening/weakening of the US dollar against all other currencies, with all other variables held constant, would have resulted in a foreign exchange loss/gain of $8 million (31 December 2011: $5 million loss/gain), with a corresponding impact on equity. In respect of Man's monetary assets and liabilities which earn/incur interest indexed to floating rates, as at 31 December 2012, a 50bp increase/decrease in interest rates, with all other variables held constant, would have resulted in a $4 million increase or decrease (31 December 2011: $5 million increase or decrease) in net interest income.

15. Investments in fund products and other investments

$m	31 December 2012 Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Total	31 December 2011 Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Total
Investments in fund products comprise:								
Loans to fund products	–	–	274	274	–	–	334	334
Other investments in fund products	212	1	–	213	296	1	–	297
	212	1	274	487	296	1	334	631
Other investments comprise[1]:								
Lehman claims	–	–	–	–	–	333	–	333
Other	–	9	–	9	–	11	–	11
	–	9	–	9	–	344	–	344

Note:
1 This excludes the Pension Asset of $106 million (31 December 2011: $92 million) which is discussed in Note 22.

15.1. Loans to fund products

Loans to fund products are short-term advances primarily to Man structured products. The loans are repayable on demand and are carried at amortised cost using the effective interest method. The average balance during the period was $332 million (nine months to 31 December 2011: $449 million). Loans to fund products have decreased compared to the prior period as the structured product FUM has decreased together with the associated leverage. The liquidity requirements of the structured products together with commitments to provide financial support (Note 28), which give rise to loans to funds, are subject to our routine liquidity stress testing and any liquidity requirements are met by available cash resources, or the committed syndicated revolving loan facility.

Loans to fund products expose Man to credit risk and therefore the credit decision making process is subject to limits consistent with the Board's risk appetite. The carrying value represents Man's maximum exposure to credit risk. Loans are closely monitored against the assets held in the funds. The largest single loan to a fund product was $21 million (31 December 2011: $18 million). Fund entities are not externally rated, but our internal modelling indicates that fund products have a probability of default that is equivalent to a credit rating of AA or better.

15.2. Other investments in fund products

Man uses capital to invest in our fund products as part of our on-going business to build our product breadth and to trial investment research developments before we market the products to investors. These investments are generally held for less than one year. Other investments in fund products are classified primarily at fair value through profit or loss. Purchases and sales of investments are recognised on trade date.

Other investments in fund products are not actively traded and the valuation at the fund level cannot be determined by reference to other available prices. The fair values of investments in fund products are derived from the reported net asset values (NAVs) of each of the fund products, which in turn are based upon the value of the underlying assets held within each of the fund products and the timings of being able to redeem the fund product. The valuation of the underlying assets within each fund product is determined by external valuation service providers (VSPs) based on an agreed valuation policy and methodology.

Whilst these valuations are performed independently of Man, Man has established oversight procedures and due diligence processes to ensure that the net asset values reported by the VSPs are reliable and appropriate. Man makes adjustments to NAVs where the timing of being able to redeem the fund product or events or circumstances indicate that the NAVs are not reflective of fair value. The fair value hierarchy of financial assets is disclosed in Note 26.

15. Investments in fund products and other investments continued

Other investments in fund products expose Man to market risk and therefore the commitment process is subject to limits consistent with the Board's risk appetite. The largest single investment in fund products was $46 million (31 December 2011: $36 million). The market risk from other investments in fund products and other investments is modelled using a value at risk (VaR) methodology using a 95% confidence interval and one month time horizon. The VaR is estimated to be $15 million at 31 December 2012 (31 December 2011: $16 million).

The total net gain on investments in fund products reported in the Income statement was $23 million (nine months to December 2011: net losses of $6 million).

Fund investment for deferred compensation arrangements

At year end, investment in fund products included $51 million (31 December 2011: $40 million) of Man and GLG fund products related to deferred compensation arrangements. Employees are subject to mandatory deferral arrangements and as part of these arrangements employees can elect deferral into a designated series of Man fund products. As the fund product plans are treated as variable plans for accounting purposes the compensation expense increases/decreases based on the value of the designated fund products. The fund product investments are held to offset this change in compensation during the vesting period and at vesting the fund investment is delivered to the employee. The fund product investments are recorded at fair value with any unrealised gain/loss during the vesting period charged to compensation expense in the Income statement.

15.3. Other investments

Sale of Lehman claims

On 16 November 2012, the Group entered into a series of transactions with Hutchinson Investors LLC, managed by the Baupost Group, to sell the residual exposure to the Lehman estates (Lehman claims) that it acquired in July 2011 from certain GLG managed funds.

The total consideration for the transactions was $456 million, and resulted in a gain on sale of $131 million (Note 2). Man may receive up to a further $5 million if overall recoveries by the buyer exceed certain thresholds in the future.

The transaction allows Man to benefit from the payment of the total consideration, while providing guarantees of up to $75 million (Note 28) to the funds for prompt payment by the Baupost Group of amounts owed to the funds in the event of a successful claim. The proceeds increased Man's regulatory capital surplus and further enhanced its net cash position.

16. Fee and other receivables

$m	31 December 2012	31 December 2011
Fee receivables	**65**	104
Prepayments and accrued income	**179**	132
Other receivables	**138**	192
	382	428

Fee and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Fee receivables and accrued income represent management and performance fees from fund products and are received in cash when the funds' NAV is determined. All fees are deducted from the NAV of the respective funds by the independent administrators and therefore the credit risk of fee receivables is minimal. No balances were overdue or delinquent at period end.

For the Open Ended Investment Collective (OEIC) Funds businesses, Man acts as the intermediary for the collection of subscriptions due from customers and payable to the funds, and for redemption requests receivable from funds and payable to customers. At 31 December 2012 the amount included in other receivables is $29 million (31 December 2011: $17 million). The unsettled fund payable is recorded in trade and other payables.

Other receivables have decreased during the year due to the repayment of the loan notes by BlueCrest. The loan notes were originally issued in 2011 as part of the consideration received upon disposal of Man's equity stake, with a par value of $100 million. The total gain on settlement of $15 million has been disclosed in Finance income (Note 8).

The value of derivative financial instruments, which consist primarily of foreign exchange contracts, as at 31 December 2012 included in other receivables was $14 million (31 December 2011: $8 million) and the notional value was $599 million (31 December 2011: $289 million). All derivatives mature within one year. During the year, there were $18 million net realised and unrealised gains arising from derivatives (nine months ended 31 December 2011: $61 million net losses). Derivatives are classified as Level 2 under Man's fair value hierarchy (Note 26). Foreign exchange contracts are used to hedge the Group's foreign currency monetary assets and liabilities (e.g. the senior 2015 fixed rate € bonds) and sometimes to economically mitigate foreign currency cash flows. At the year end, $28 million (31 December 2011: $94 million) of fee and other receivables are expected to be settled after 12 months.

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17. Trade and other payables

$m	31 December 2012	31 December 2011
Accruals	**345**	376
Trade payables	**48**	38
Provisions	**59**	57
Contingent consideration	**60**	–
Other payables	**141**	204
	653	675

Accruals includes compensation accruals. Trade payables primarily relate to GLG's OEIC business. Provisions primarily relate to onerous property leases and potential legal claims. Contingent consideration relates to the amounts payable in respect of the FRM acquisition (Note 12). Other payables include servicing fees payable to distributors and redemption proceeds due to investors.

Payables are recorded initially at fair value and subsequently measured at amortised cost. Included in trade and other payables at 31 December 2012 are balances of $93 million (31 December 2011: $99 million) that are expected to be settled after more than 12 months. Man's policy is to meet its contractual commitments and pay suppliers according to agreed terms.

The value of derivatives, comprising foreign exchange contracts, included in other payables as at 31 December 2012 was $2 million (31 December 2011: $15 million) and the notional value was $267 million (31 December 2011: $653 million). All derivative contracts mature within one year.

18. Investments in associates

$m	12 months to 31 December 2012	9 months to 31 December 2011
At beginning of the period	**41**	68
Share of post-tax profit	**10**	3
Dividends received	**(13)**	(3)
Acquisition of controlling interest in Ore Hill	**–**	(27)
At period end	**38**	41

At 31 December 2012, the carrying value of investments in associates relates to a 25% interest in Nephila Capital Limited, an alternative investment manager specialising in the management in funds which underwrite natural catastrophe reinsurance and invest in insurance-linked securities and weather derivatives.

In the prior period, Man acquired the remaining 50% equity interest in Ore Hill for predominantly share-based consideration, with it becoming a subsidiary undertaking at that date.

Associates are entities in which Man holds an interest and over which it has significant influence but not control. Investments in associates are recorded by the equity method of accounting and at cost plus (or minus) our share of cumulative post-acquisition movements in undistributed profits (or losses). Gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the entities.

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

Summary financial information of our associate has not been provided as it is considered excessive in length and is not considered meaningful. Details of associates will be annexed in the Company's annual return.

19. Leasehold improvements and equipment

$m	31 December 2012 Leasehold improvements	31 December 2012 Equipment	31 December 2012 Total	31 December 2011 Leasehold improvements	31 December 2011 Equipment	31 December 2011 Total
Cost						
At beginning of the period	**149**	**105**	**254**	126	128	254
Acquisition of business	**–**	**1**	**1**	–	–	–
Additions	**19**	**1**	**20**	58	2	60
Disposals	**(9)**	**(26)**	**(35)**	(3)	(58)	(61)
Reclassifications	**(35)**	**35**	**–**	(32)	33	1
At period end	**124**	**116**	**240**	149	105	254
Aggregate depreciation:						
At beginning of the period	**(25)**	**(56)**	**(81)**	(25)	(91)	(116)
Charge for period	**(14)**	**(29)**	**(43)**	(6)	(15)	(21)
Disposals	**8**	**26**	**34**	1	55	56
Reclassifications	**–**	**–**	**–**	5	(5)	–
At period end	**(31)**	**(59)**	**(90)**	(25)	(56)	(81)
Net book value at period end	**93**	**57**	**150**	124	49	173

All leasehold improvements and equipment are shown at cost, less subsequent depreciation and impairment. Depreciation is calculated using the straight-line method over the asset's estimated useful life as follows: leasehold improvements over the shorter of the life of the lease and the improvement; and equipment over 3–10 years. Assets in the course of construction, included within leasehold improvements, were nil at year end (31 December 2011: $35 million). The additions during the year primarily relate to the fit out of the New York office. Reclassifications relate to the completion and capitalisation of Man's new data centre facility during the year.

From a capital perspective, leasehold improvements and equipment are supported by a combination of shareholders' equity and subordinated debt for both economic and regulatory capital purposes.

20. Deferred compensation arrangements

Man operates cash and equity settled share-based schemes as well as fund product based compensation arrangements. Details of these schemes may be found in the Remuneration report on pages 40 to 61.

During the year, $101 million (nine months to 31 December 2011: $94 million) was included in compensation and distribution costs for share-based payment and deferred fund product plans, split between equity settled share-based payments of $74 million (nine months to 31 December 2011: $56 million), cash-settled share-based payments totalling $4 million (nine months to 31 December 2011: $7 million), and deferred fund product plans of $23 million (nine months to 31 December 2011: $31 million).

In respect of equity settled share-based schemes, the fair value of the employee services received in exchange for the share awards and options granted is recognised as an expense, with the corresponding credit being recognised in equity. The fair value of the share awards and options granted in exchange for employee services is calculated using a binomial model that takes into account the effect of both financial and demographic assumptions. Financial assumptions include the future share price volatility, dividend yield, risk-free interest rate, and the best estimate outcome of performance conditions. Forfeiture and early vesting are based upon historical observable data. The fair values per option and award granted during the period to employees, and the assumptions used in the calculations are presented below.

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. Changes to the original estimates, if any, are included in the Income statement, with a corresponding adjustment to equity. For cash-settled share-based compensation schemes, a liability is recognised for the services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in the Income statement for the period, taking into account the period of vesting to date.

Man also operates compensation plans in which deferred compensation is invested in fund products managed by Man. The fair value of the employee services received in exchange for the fund units is recognised as an expense, with a corresponding liability. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards, re-measured at each reporting date until the settlement date is reached. The fair value of the awards equates to the fair value of the underlying fund products at the settlement date.

20. Deferred compensation arrangements continued

20.1 Employee Trusts

The Employee Trusts have the obligation to deliver shares, options and fund product based payments which have been granted to employees. Man contributed funds in order for the Trusts to meet their current period obligations of $25 million (nine months to 31 December 2011: $38 million) in the period.

The Trusts are fully consolidated into Man and shares held are treated as treasury stock for EPS purposes. The shares held by the Trusts are deducted from Tier 1 Capital. The employee trusts are controlled by independent trustees and their assets are held separately from those of Man. At 31 December 2012 the net assets of the employee trusts amounted to $43 million (31 December 2011: $13 million). These assets include 40,762,323 (31 December 2011: 55,548,586) ordinary shares in the Company, $35 million notional value options over Man shares (31 December 2011: $29 million), and $26 million fund units to deliver against the future obligations (31 December 2011: $16 million). The shares are recorded at cost and shown as a deduction from shareholders' funds. Other assets were primarily cash and receivables from employees in connection with the purchase of shares in the Company. During the period the trustees of one of the employee trusts waived all of the interim dividend for the 12 months to 31 December 2012 on each of 41,985,564 of the ordinary shares registered in its name at the relevant date for eligibility for the interim dividend (interim dividend for the nine months to 31 December 2011: all on 52,909,807 shares) and all of the final dividend for the nine months to 31 December 2011 on each of 50,148,674 of the ordinary shares registered in its name at the relevant date for eligibility for the final dividend (31 March 2011 final: all on 42,142,009 shares).

20.2 Share-based payments: share grant information

The following information shows the movements in share-based payments during the period with comparative information.

The fair values of share options granted during the year to employees, and the assumptions used in the calculations, are as follows:

	Key executive option plan	Executive share option scheme	Deferred bonus share option scheme	Other employee share option schemes
Grant dates	08/03/2012	15/03/2012	15/03/2012	28/08/2012
Weighted average share price at grant date ($)	4.5	2.2	2.2	1.2
Weighted average exercise price at grant date ($)	5	2.2	2.5	1
Share options made in the period	109,829	901,897	2,636,163	5,270,836
Vesting period (years)	3	3	3	3-5
Expected share price volatility	40	40	40	40
Dividend yield	6	6	6	6
Risk-free rate	2.7	1.2	1.2	0.3
Expected option life (years)	8.1	8.1	8.2	3.4
Number of options assumed to vest	109,829	–	2,636,163	3,946,271
Average fair value per option granted ($)	1.1	0.5	0.5	0.3

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

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

	12 months to 31 December 2012		9 months to 31 December 2011	
	Number	**Weighted average exercise price ($ per share)**	Number	Weighted average exercise price ($ per share)
Share options outstanding at beginning of the period	**58,998,026**	**4.66**	56,792,151	4.68
Granted	**8,918,725**	**1.62**	3,372,009	4.65
Forfeited	**(10,128,772)**	**4.46**	(1,104,376)	5.72
Exercised	**(1,153)**	**1.03**	(61,758)	3.2
Share options outstanding at period end	**57,786,826**	**4.22**	58,998,026	4.66
Share options exercisable at period end	**1,485,261**	**4.34**	438,578	5.38

20. Deferred compensation arrangements continued

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

	31 December 2012			31 December 2011		
Range of exercise prices ($ per share)	Number of share options	Weighted average exercise price ($ per share)	Weighted average expected remaining life	Number of share options	Weighted average exercise price ($ per share)	Weighted average expected remaining life
1.01–5.00	**29,830,297**	**3.6**	**5.3**	58,691,556	4.5	6.8
5.01–7.00	**27,952,395**	**5**	**6.2**	291,495	6.17	3.0
7.01–9.00	**4,134**	**7.7**	**0.1**	14,975	7.54	0.2
	57,786,826			58,998,026		

The fair values of share awards granted during the period to employees, and the assumptions used in the calculations, are as follows:

	Performance share plan	Deferred share plan
Grant dates	15/03/2012	14/11/2011–1/12/2012
Weighted average share price at grant date ($)	2.2	2.2
Share awards made in the period	1,123,171	18,397,679
Vesting period (years)	4	1–3
Average fair value per share award granted ($)	1.8	2.2

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

	12 months to 31 December 2012 Number	9 months to 31 December 2011 Number
Share awards outstanding at beginning of the period	**42,199,998**	58,045,049
Granted	**19,520,850**	1,186,300
Forfeited	**(4,512,479)**	(2,214,453)
Exercised	**(20,587,521)**	(14,816,898)
Share awards outstanding at period end	**36,620,848**	42,199,998
Share awards exercisable at period end	**2,418,239**	1,911,105

Financial statements continued

21. Capital management

Investor confidence is an important element in the sustainability of our business. That confidence comes, in part, from the strength of our capital base. Man has maintained significant surplus capital and available liquidity throughout the recent periods of financial crisis. This capital has given Man flexibility to support our investors, intermediaries and financial partners and to allow them to make informed decisions regarding their investment exposures. This confidence gives our business credibility and sustainability.

We have a conservative capital and liquidity framework which allows us to invest in the growth of the business. We utilise capital to support the operation of the investment management process and the launch of new fund products. We view this as a competitive advantage which allows us to align directly our interests with those of investors and intermediaries.

Man monitors its capital requirements through continuous review of its regulatory capital and economic capital, including monthly reporting to Finance Committee and the Board. The Board approach to the use or distribution of available capital surpluses is discussed in the Chairman's review.

Share capital and capital reserves

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

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

New Group holding company

A new holding company was incorporated on 8 August 2012 and became the new listed holding company of the Man Group on 6 November 2012 via a Court approved scheme of arrangement under Part 26 of the Companies Act 2006. The former holding company was renamed Man Strategic Holdings plc and the new holding company assumed the name Man Group plc.

Under the scheme of arrangement, shares in the former holding company of the Group were cancelled. The same number of new ordinary shares were issued to the new holding company in consideration for the allotment to shareholders of one ordinary share of $1.07 in that new holding company for each ordinary share of $3^{3}/_{7}$ US cents they had held in the former holding company.

On 8 November 2012, Man Group plc effected a reduction of its share capital to create distributable reserves, as sanctioned by the High Court. This capital reduction reduced the nominal value of ordinary shares in the new holding company from $1.07 to $3^{3}/_{7}$ US cents.

Ordinary shares

Ordinary shares have a par value of $3^{3}/_{7}$ US cents per share (31 December 2011: $3^{3}/_{7}$ US cents per share) and represent 99.9% of issued share capital. All issued shares are fully paid. The shares have attached to them full voting, dividend and capital distribution (including on wind up) rights. They do not confer any rights of redemption. Ordinary shareholders have the right to receive notice of, attend, vote and speak at general meetings.

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

There are restrictions in place on the transfer of some ordinary shares and further information on this can be found within the Directors' report on page 62. During the year to 31 December 2012, the former holding company repurchased 3,332,756 (nine months to 31 December 2011: 66,176,820) ordinary shares, equivalent to 0.18% of the issued share capital for a total consideration of $7 million. All of the shares repurchased to date have been cancelled.

As at 28 February 2013, the new holding company had an unexpired authority from the 2012 Annual General Meeting (AGM), to purchase further shares up to a maximum amount of 182,056,038 ordinary shares. A resolution to allow the purchase of 182,179,028 ordinary shares, representing 10% of the issued share capital will be proposed at the forthcoming AGM.

Deferred sterling shares

Unlisted deferred sterling shares, representing 0.1% of the Company's issued share capital with a par value of £1 per share were issued due to the redenomination of the ordinary share capital into US dollars. These shares are necessary for the Company to continue to comply with Section 763 of the Companies Act 2006. The deferred sterling shares are freely transferable and have no rights to participate in the profits of the Company, to attend, speak or vote at any general meeting and no right to participate in any distribution in a winding up except for a return of the nominal value in certain limited circumstances. The A share is held by Man Group plc and was issued to facilitate the allotment of shares in the former holding company to the new holding company without the requirement for an independent valuation report.

21. Capital management continued

Issued and fully paid share capital

	12 months to 31 December 2012			
	Ordinary shares Number	Unlisted deferred sterling shares Number	A shares of £1 Number	Nominal value $m
Man Strategic Holdings plc (former holding company)				
At 1 January 2012	**1,820,814,143**	**50,000**	**–**	**63**
Issue of ordinary shares:				
Employee share awards/options	**165,512**	**–**	**–**	**–**
GLG Partnership Plans	**3,012,545**	**–**	**–**	**–**
Purchase and cancellation of own shares	**(3,332,756)**	**–**	**–**	**–**
At 6 November 2012	**1,820,659,444**	**50,000**	**–**	**63**
Man Group plc (new holding company)				
Relating to the formation of new holding company	**2**	**50,000**	**–**	**–**
Scheme of arrangement – issue of ordinary shares of $1.07 each	**1,820,659,444**	**–**	**1**	**1,948**
Capital reduction to ordinary shares of $3^3/_7$ cents each	**–**	**–**	**–**	**(1,885)**
GLG Partnership Plans	**1,130,833**	**–**	**–**	**–**
At 31 December 2012	**1,821,790,279**	**50,000**	**1**	**63**

	9 months to 31 December 2011			
	Ordinary shares Number	Unlisted deferred sterling shares Number	A shares of £1 Number	Nominal value $m
At 1 April 2011	1,881,460,689	50,000	–	65
Issue of ordinary shares:				
Employee share awards/options	390,201	–	–	–
GLG Partnership Plans	1,369,888	–	–	–
Shares issued in business combinations	3,770,185	–	–	–
Purchase and cancellation of own shares	(66,176,820)	–	–	(2)
At 31 December 2011	1,820,814,143	50,000	–	63

Share capital and reserves

$m	Share capital	Perpetual subordinated capital Securities	Share premium account	Capital redemption reserve	Merger reserve	Reorganisation reserve	Total
At 1 January 2012	**63**	**300**	**1,707**	**1,294**	**–**	**–**	**3,364**
Employee share awards/options	**–**	**–**	**8**	**–**	**–**	**–**	**8**
Scheme of arrangement:							
– Cancellation of shares in former holding company	**(63)**	**–**	**(1,714)**	**(1,294)**	**–**	**–**	**(3,071)**
– Issue of shares in new holding company	**1,948**	**–**	**–**	**–**	**491**	**632**	**3,071**
Capital reduction	**(1,885)**	**–**	**–**	**–**	**–**	**–**	**(1,885)**
Transfer to Non-controlling interest	**–**	**(300)**	**–**	**–**	**–**	**–**	**(300)**
At 31 December 2012	**63**	**–**	**1**	**–**	**491**	**632**	**1,187**
At 1 April 2011	65	300	1,689	1,292	–	–	3,346
Ordinary shares issued in business combinations	–	–	15	–	–	–	15
Employee share awards/options	–	–	3	–	–	–	3
Repurchase of own shares	(2)	–	–	2	–	–	–
At 31 December 2011	63	300	1,707	1,294	–	–	3,364

21. Capital management continued

Revaluation reserves and retained earnings

$m	Available-for-sale reserve	Cash flow hedge reserve	Own shares held by ESOP trust	Cumulative translation adjustment	Profit and loss account	Total
At 1 January 2012	**4**	**–**	**(221)**	**43**	**870**	**696**
Currency translation difference	–	–	(10)	13	–	3
Movement in close period buyback obligations	–	–	–	–	10	10
Repurchase of own shares	–	–	–	–	(7)	(7)
Share-based payments charge for the period	–	–	–	–	66	66
Purchase of own shares by ESOP trusts	–	–	–	–	(1)	(1)
Disposal of own shares by ESOP trusts	–	–	61	–	(61)	–
Fair value gains taken to equity	18	16	–	–	–	34
Corporation tax debited to reserves	–	(1)	–	–	–	(1)
Transfer to income statement on sale or impairment	(19)	(9)	–	(42)	–	(70)
Scheme of arrangement – capital reduction	–	–	–	–	1,885	1,885
Dividends	–	–	–	–	(299)	(299)
Dividends with respect to Perpetual Subordinated Capital Securities	–	–	–	–	(33)	(33)
Taxation with respect to Perpetual Subordinated Capital Securities	–	–	–	–	8	8
Loss for the period	–	–	–	–	(784)	(784)
At 31 December 2012	**3**	**6**	**(170)**	**14**	**1,654**	**1,507**

$m	Available-for-sale reserve	Cash flow hedge reserve	Own shares held by ESOP trust	Cumulative translation adjustment	Profit and loss account	Total
At 1 April 2011	4	–	(234)	59	1,261	1,090
Currency translation difference	–	–	7	(16)	–	(9)
Movement in close period buyback obligations	–	–	–	–	(10)	(10)
Repurchase of own shares	–	–	–	–	(143)	(143)
Share-based payments charge for the period	–	–	–	–	63	63
Purchase of own shares by ESOP trusts	–	–	(56)	–	(3)	(59)
Disposal of own shares by ESOP trusts	–	–	62	–	(45)	17
Dividends	–	–	–	–	(394)	(394)
Dividends with respect to Perpetual Subordinated Capital Securities	–	–	–	–	(25)	(25)
Taxation with respect to Perpetual Subordinated Capital Securities	–	–	–	–	7	7
Profit for the period	–	–	–	–	159	159
At 31 December 2011	4	–	(221)	43	870	696

22. Pension benefits

Man operates 12 (31 December 2011: 12) defined contribution plans and two (31 December 2011: two) funded defined benefit plans.

Defined contribution plans

Man pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. Man has no further payment obligation once the contributions have been paid. Defined contribution pension costs totalled $10 million for the 12 months to 31 December 2012 (nine months to 31 December 2011: $7 million). The contributions are recognised as pension costs when they are due.

Defined benefit plans

A defined benefit plan creates a financial obligation to provide funding to the pension plan to provide a retired employee with pension benefits usually dependent on one or more factors such as age, years of service and compensation. The two defined benefit plans operated are the Man Group plc Pension Fund in the UK (the UK plan) and the Man Group Pension Plan in Switzerland (the Swiss Plan). At 31 December 2012, the UK plan comprised 86% (31 December 2011: 83%) of the Group's total defined benefit pension obligations.

The UK plan was closed to new members in May 1999, and to future accrual in May 2011. Employed members of the UK Plan retain enhanced benefits, including a link to salary, on their accrued benefits in the UK Plan. Future benefits are provided via a defined contribution plan.

The Swiss plan remains open to new members. It is a mandatory BVG basic pension scheme. Such schemes aim to maintain the recipients' accustomed standard of living. The law requires minimum contributions to the employer's pension scheme to be withheld from income, up to a specific ceiling.

The asset recognised in the Group balance sheet in respect of defined benefit pension plans is the fair value of plan assets (including the Reservoir Trust described below) less the present value of the defined benefit obligation at the balance sheet date adjusted for unrecognised actuarial gains or losses by applying the 'corridor approach'. The surplus or deficit before adjustment for unrecognised actuarial gains or losses represents the shareholders' obligation to the pension plans and the potential use of Man's resources in future.

22. Pension benefits continued

The latest funding valuation of the UK Plan was carried out by independent qualified actuaries as at 31 December 2011 and indicated a deficit of £45 million, after including £49 million of assets in the Reservoir Trust. To remove the funding deficit, Man has agreed to make an annual cash payment of £11.8 million at 31 March 2013, 2014 and 2016 with a further lump sum to be contributed from the Reservoir Trust in March 2018 of up to £69.0 million to cover any remaining funding deficit. This funding plan has been agreed by the directors and in principle by the Trustees. Cash contributions of £7.3 million were made to the UK Plan in the year to 31 December 2012.

In order to maintain flexibility with regards to the funding of the UK Plan, Man also set up the Man Group Reservoir Trust (the Reservoir Trust) in 2010. Man contributed $76 million (£50 million) of assets to the Reservoir Trust on 31 March 2010 and has committed to ensure the Reservoir Trust value remains at least £69 million from 1 April 2013 or at the level of the funding deficit in the UK Plan, if lower. The Reservoir Trust gives the pension trustees comfort that Man can fund a deficit at 31 December 2017 and in the event that the UK Plan is fully funded, allows Man to recover the assets so that the UK Plan is not over funded.

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

$m	**31 December 2012**	31 December 2011
Present value of funded obligations	**(419)**	(385)
Fair value of plan assets	**413**	381
Deficit	**(6)**	(4)
Unrecognised actuarial losses	**112**	96
Net pension asset in the Group balance sheet at period end	**106**	92

Our economic capital model includes capital in respect of a possible deficit in the pension plans. This is also the amount of regulatory capital we hold under Pillar 2 in respect of the pension plans.

Pensions: actuarial information

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

$m	**12 months to 31 December 2012**	9 months to 31 December 2011
Present value of funded obligations at beginning of the period	**385**	366
Currency translation difference	**16**	(12)
Current service cost (employer portion)	**4**	4
Interest cost	**17**	13
Employee contributions	**3**	3
Actuarial losses	**17**	34
Actual benefit payments	**(23)**	(23)
Present value of funded obligations at period end	**419**	385

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

$m	**12 months to 31 December 2012**	9 months to 31 December 2011
Fair value of plan assets at beginning of the period	**381**	401
Currency translation difference	**16**	(11)
Expected return on plan assets	**21**	18
Actuarial gains/(losses) on plan assets	**1**	(10)
Employer contributions	**14**	3
Employee contributions	**3**	3
Benefits paid	**(23)**	(23)
Fair value of plan assets at period end	**413**	381

The plan assets are invested approximately one third in each of equities, bonds and hedge funds. The actual return on plan assets for the year to 31 December 2012 was $22 million (nine months to 31 December 2011: $8 million).

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

$m	**12 months to 31 December 2012**	9 months to 31 December 2011
Current service cost (employer portion)	**4**	4
Interest cost	**17**	13
Expected return on plan assets	**(21)**	(18)
Amortisation of unrecognised net loss	**5**	1
Total charge	**5**	–

22. Pension benefits continued

The principal actuarial assumptions used in the valuations of the two plans as at 31 December 2012 were:

	UK plan		Swiss plan	
	31 December 2012	31 December 2011 % pa	31 December 2012	31 December 2011 % pa
Discount rate	**4.4**	4.8	**2**	2.2
Price inflation	**3.0**	3.2	**1.5**	1.5
Expected return on plan assets	**5.4**	5.3	**3.3**	3.5
Future salary increases	**3.0**	3.2	**1.5**	1.5
Social security increases	**–**	–	**1.0**	1.0
Interest crediting rate	**–**	–	**2.0**	2.2
Pension in payment increases	**3.5**	3.6	**–**	–
Deferred pensions increases	**5.0**	5.0	**–**	–

The expected return on plan assets is based on the market expectation at the beginning of the year for returns over the entire life of the benefit obligation. In the UK, investment market conditions suggest an expected return on equities of around 6.8% (31 December 2011: 6.9%), expected bond returns of around 3.6% (31 December 2011: 3.9%), expected return on diversified growth funds of around 6.1% (31 December 2011: 6.2%), and expected average return on other plan assets (cash) of around 3.0% (31 December 2011: 3.0%). The Reservoir Trust holds a different mixture of hedge funds, the expected return on these assets is around 6.6% (31 December 2011: 5.4%). In Switzerland, investment market conditions suggest an expected return on equities of around 5.0% (31 December 2011: 5.1%), expected bond returns (including cash) of around 0.7% (31 December 2011: 0.8%), expected returns on property of 3.0% (31 December 2011: 3.1%), expected hedge fund returns of around 5.0% (31 December 2011: 5.1%) and expected average return on other plan assets (commodities) of around 5.0% (31 December 2011: 5.1%).

At 31 December 2012, mortality rates in the UK plan are assumed to be in line with 100% of the S1NA tables (2011: 120% of the PNA00 tables) projected by year of birth with allowance for future improvements in mortality rates in line with the 2011 CMI projections with a long-term rate of improvement of 1.25% pa for males and 1% pa for females (2011: medium cohort projections with a minimum rate of improvement each year of 1.0% for males and 0.5% for females).

At both 31 December 2011 and 31 December 2012 mortality rates in the Swiss Plan are assumed to be in line with the Swiss BVG 2010 generational tables.

History of experience gains and losses:

	12 months to December 2012		9 months to December 2011		12 months to 31 March 2011		12 months to 31 March 2010		12 months to 31 March 2009	
	$m	%	$m	%	$m	%	$m	%	$m	%
Experience (loss)/gain arising on plan assets (% of plan assets)	**(1)**	**(0.2)**	(10)	(2.5)	13	3.3	37	9.4	(35)	(14.1)
Experience (loss)/gain arising on plan liabilities (% of the present value of plan liabilities)	**10**	**2.4**	(2)	(0.6)	6	1.7	5	1.2	(11)	(3.7)
Present value of plan liabilities	**(419)**		(385)		(366)		(384)		(296)	
Fair value of plan assets	**413**		381		401		391		248	
Plan (deficit)/surplus	**(6)**		(4)		35		7		(48)	

23. Segmental analysis

The criteria for identifying an operating segment is that it is a component of Man whose results are regularly reviewed by the Executive Committee to make decisions about resources to be allocated to the segment and to assess its performance. Management information regarding revenues, gross management fee margins, investment performance and distribution costs relevant to the operation of the investment managers, products and the investor base are reviewed by the Executive Committee. A centralised shared infrastructure for operations, products structuring and distribution means that operating costs are not allocated to constituent parts of the investment management businesses. As a result, resources are allocated and performance is assessed by the Executive Committee on the basis of the investment management business of Man as a whole. Accordingly we operate and report as a single segment investment management business, together with relevant information regarding FUM flows, gross margins, and distribution costs to allow for the analysis of the direct contribution of products and the respective investor base.

24. Geographical disclosure

Disclosure of revenue by geographic location is required by IFRS based on the registered domicile of the fund entity paying Man fees. This geographic analysis is therefore not necessarily representative of the spread of our global business. The geographic analysis of funds under management based on the location of the intermediary or institutional investor is given on page 2 and may be more relevant to an understanding of the geographic spread of our business. In addition, the table below includes an analysis of revenue by geographic location of the legal entity recognising the revenue, as this is considered more meaningful than revenue by fund location.

	12 months to 31 December 2012			9 months to 31 December 2011		
$m	Non-current assets	Revenues by fund location	Revenues by legal entity	Non-current assets	Revenues by fund location	Revenues by legal entity
Bermuda	38	262	1	45	298	–
Cayman Islands	–	276	128	1	315	35
Cook Islands	–	146	–	–	170	–
Ireland	–	177	74	–	152	14
Switzerland	140	–	756	397	1	608
United Kingdom	183	224	254	180	153	530
United States of America	1,235	35	49	2,127	38	56
Other Countries	121	179	37	129	127	11
	1,717	1,299	1,299	2,879	1,254	1,254

Revenue from any single fund during the period does not exceed 10% of total revenues. Non-current assets above exclude financial instruments, deferred tax and pension assets, and are allocated based on where the assets are located. Operating segments are discussed in Note 23.

Average number of employees and partners

The table below provides average headcount by location for the current and prior period.

Number	12 months to 31 December 2012	9 months to 31 December 2011
UK	847	891
Switzerland	291	365
USA	127	136
Other countries	193	204
Average number of employees and partners	1,458	1,596

25. Foreign currencies

The majority of revenues, assets, liabilities and funding are denominated in US dollars (USD) and therefore Man's presentation currency is USD.

The assets and liabilities of consolidated entities that have a functional currency other than USD are translated into USD at the balance sheet date rate. Income and expenses are translated at the average rate for the period in which the transactions occur. Exchange differences which arise are recorded in other comprehensive income.

In consolidated entities with the same USD functional currency, monetary assets and liabilities denominated in foreign currencies are translated at each balance sheet date rate. Transactions denominated in foreign currencies are converted at the spot rate at the date of the transaction or if appropriate the average rate for the month in which the transaction occurs. Resulting exchange differences are recognised in the Income statement.

The following US dollar rates of exchange have been used in preparing these financial statements:

	Period-end rates		Average rates	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Euro	0.7579	0.7725	0.7775	0.7141
Sterling	0.6158	0.6435	0.6307	0.6233
Swiss Franc	0.9154	0.9384	0.9376	0.8695

Financial statements continued

26. Fair value hierarchy of financial assets/liabilities

Man uses a three-level hierarchy for fair value measurement disclosure, as follows:

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

The fair value hierarchy of financial assets and liabilities as at 31 December 2012 can be analysed as follows:

	31 December 2012				31 December 2011			
$m	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets held at fair value:								
Investments in fund products (Note 15)	**–**	**96**	**117**	**213**	20	94	183	297
Other investments (Note 15) and other receivables (Note 16)	**4**	**14**	**5**	**23**	5	8	339	352
	4	**110**	**122**	**236**	25	102	522	649
Financial liabilities held at fair value:								
Other payables (Note 17)	**–**	**2**	**60**	**62**	–	15	–	15

The basis of measuring the fair value of Level 3 investments is outlined in Note 15. Movement in Level 3 financial assets and financial liabilities, measured at fair value, during the period can be analysed as follows:

	12 months to 31 December 2012			9 months to 31 December 2011		
$m	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Total**	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
Level 3 financial assets held at fair value						
At beginning of the period	**183**	**339**	**522**	264	7	271
Purchases	**52**	**–**	**52**	43	355	398
Total gains/(losses) in comprehensive income	**17**	**18**	**35**	(2)	–	(2)
Included in (loss)/profit for the period	**17**	**(1)**	**16**	(2)	–	(2)
Included in other comprehensive income	**–**	**19**	**19**	–	–	–
Sales or settlements	**(137)**	**(352)**	**(489)**	(104)	(23)	(127)
Transfers into Level 3	**3**	**–**	**3**	–	–	–
Transfers out of Level 3	**(1)**	**–**	**(1)**	(20)	–	(20)
Other adjustments	**–**	**–**	**–**	2	–	2
At period end	**117**	**5**	**122**	183	339	522
Total gains for the period included in the statement of comprehensive income for assets held at period end	**17**	**–**	**17**	1	–	1

$m	**12 months to 31 December 2012**	9 months to 31 December 2011
Level 3 financial liabilities held at fair value		
At beginning of the period	**–**	–
Purchases	**87**	–
Total gains in comprehensive income	**(21)**	–
Included in (loss)/profit for the period	**(21)**	–
Included in other comprehensive income	**–**	–
Settlements	**(6)**	–
At period end	**60**	–
Total gains for the period included in the statement of comprehensive income for assets held at period end	**6**	–

27. Related party transactions

Related parties comprise key management personnel and associates. Transactions with related parties include seeding and liquidity investments, loans to fund products, external re-financing guarantees, asset management performance, management and other fees, brokerage commissions, and interest and dividend income.

Total revenue earned from fund entities deemed to be associates, included in the Income statement during the period was $169 million (31 December 2011: $177 million) and at 31 December 2012 total fee receivables and loan balances with fund entities deemed to be associates totalled $15 million (31 December 2011: $45 million). In addition, Man had entered into committed purchase agreements totalling $6 million (31 December 2011: $28 million) with fund entities deemed to be associates. All transactions with related parties were carried out on an arm's length basis.

Refer to the Note 18 for details of income earned from equity accounted associates, and to the Remuneration report information (page 58) for details of related party transactions with key management personnel.

28. Financial guarantees and commitments

28.1 Committed purchase agreements (CPAs)

For certain structured products, Man has previously made commitments to buy underlying investments in specific fund products at a discount to net asset value if requested by the fund board directors to create liquidity. Man has the option to defer a purchase, if so called, for three months. The commitment at 31 December 2012 covers investments in existing fund products totalling $145 million (31 December 2011: $390 million).

Given the risk and liquidity management at the portfolio level by the investment manager the residual liquidity and market risk to Man from CPAs is not significant. The stress liquidity and risk modelling performed across all structured products includes the CPAs and is provided for in our liquidity and risk management framework.

28.2 Guarantee to funds in respect of Lehman claims

As a result of the disposal of the Lehman claims to Hutchinson Investors LLC, Man has provided a continuing guarantee to certain GLG funds for the obligations of Hutchinson Investors LLC in respect of amounts it would owe to funds, up to a maximum of $75 million. The fair value of this commitment has been determined to be nil.

28.3 Daylight settlement facilities

Man from time to time provides a guarantee over certain bank accounts of structured product entities to secure daylight settlement facilities which allow for the efficient movement of cash during the trading day. In aggregate these guarantees had a notional amount of $50 million (31 December 2011: $400 million). Ordinarily no net exposure exists at the end of any given day and the fair value of these commitments has been determined to be nil (31 December 2011: nil).

28.4 Intra-day and overnight credit facilities

Man guarantees the obligations under a $500 million (31 December 2011: $500 million) intra-day and $25 million overnight credit facilities (31 December 2011: $25 million), used to settle the majority of the Group's banking arrangements. As at 31 December 2012, the exposure under the intra-day facility was nil (31 December 2011: nil) and the overnight exposures was nil (31 December 2011: nil). The fair value of these commitments has been determined to be nil (31 December 2011: nil).

28.5 Operating lease commitments

Operating lease commitments due within one year totalled $45 million (31 December 2011: $32 million), $138 million from one to five years (31 December 2011: $157 million) and $384 million due after five years (31 December 2011: $364 million). The commitments include non-cancellable offsetting sublease arrangements, totalling $75 million (31 December 2011: $51 million) for commitments less than five years and $64 million (31 December 2011: $106 million) for commitments over five years.

The operating lease commitments include the agreements for lease contracts for the headquarters at Riverbank House, London (25 years) expiring in November 2035, and the UK Data Centre, Woking (10 years) expiring in July 2019, which aggregated to $439 million (31 December 2011: $378 million).

Included in the total lease commitments are Man's annual commitments acquired as part of the FRM acquisition in respect of non-cancellable operating leases in a number of locations, which expire on various dates through to 2016 ($6 million).

Rent and associated expenses for all leases are recognised on a straight-line basis over the life of the respective lease.

29. Post balance sheet events

There were no post balance sheet events that required adjustment or disclosure in the financial statements.

30. Other matters

Man Group is subject to various claims, assessments, regulatory enquiries and investigations in the normal course of its business, including an on-going informal enquiry from the Securities and Exchange Commission (SEC) in the US in relation to the historical valuations of two illiquid assets. The directors do not expect these enquiries to have a material adverse effect on the financial position of the Group.

31. Principal group investments

The names of the principal investments of Man Group plc, together with the Group's interests in the equity shares, are given below. The country of operation is the same as the country of incorporation and the period end is 31 December (unless otherwise stated).

In accordance with the Companies Act 2006 the information below is provided solely in relation to principal operating subsidiaries. Details of all subsidiaries and associates will be annexed to the Company's Annual Return.

Principal operating subsidiaries	Country of incorporation	Effective group interest
Asset Management		
Man Investments Limited	England	100
Man Investments AG	Switzerland	100
FRM (Americas) LLC	US	100
Man Investments (CH) AG	Switzerland	100
GLG Partners LP	England	100
Group Services Company		
E D & F Man Limited	England	100
Group treasury and holding company		
Man Investments Finance Limited	England	100

Independent auditors' report to the members of Man Group plc on the Group's financial statements

We have audited the Group financial statements of Man Group plc for the year ended 31 December 2012 which comprise the Group income statement, the Group statement of comprehensive income, the Group balance sheet, the Group statement of changes in equity, the Group cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' responsibility statement set out on page 65, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Man Group plc Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:
- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 65, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of Man Group plc for the period ended 31 December 2012 and on the information in the Remuneration report that is described as having been audited.

Richard Oldfield (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 February 2013

Five year record

$m	**12 months to 31 December 2012**	9 months to 31 December 2011	12 months to 31 March 2011	12 months to 31 March 2010	12 months to 31 March 2009
Income statement – continuing operations					
Profit before adjusting items	**278**	262	599	560	1,243
Adjusting items[1]	**(1,023)**	(69)	(275)	(19)	(500)
Pre-tax (loss)/profit	**(745)**	193	324	541	743
Taxation	**(39)**	(34)	(51)	(96)	(240)
(Loss)/profit for the period on continuing operations	**(784)**	159	273	445	503
Income statement – discontinued operations					
Pre-tax loss	**–**	–	(62)	–	–
Taxation	**–**	–	–	–	–
Loss for the period on discontinued operations	**–**	–	(62)	–	–
Total (loss)/profit for the period	**(784)**	159	211	445	503
Earnings per share (diluted)					
Continuing operations (cents)	**(45.6)**	7.6	14.0	24.8	28.4
Continuing and discontinued operations (cents)	**(45.6)**	7.6	10.5	24.8	28.4
Balance sheet ($m)					
Net cash	**1,141**	573	881	1,740	1,718
Net assets	**2,994**	4,060	4,436	3,987	4,192
Other statistics					
Post-tax return on equity – continuing operations (%)	**(22.6)**	4.6	6.5	10.1	13.5
Ordinary dividends per share (cents)	**22.0**	16.5	22	44	44
Funds under management ($bn)	**57.0**	58.4	69.1	39.4	46.8
Average headcount – continuing operations[2]	**1,458**	1,596	1,562	1,574	1,776
Sterling/US dollar exchange rates					
Average	**0.6307**	0.6233	0.6427	0.6261	0.5817
Period end	**0.6158**	0.6435	0.6235	0.6588	0.697

Notes:
1 Statutory (loss)/profit before tax is adjusted to give a fuller understanding of the underlying profitability of the business – see Note 2 for further details.
2 The average headcount includes partners.

Parent Company financial information

Balance sheet

$m	Note	At 31 December 2012
Fixed assets		
Investments	2	**2,445**
Current assets		
Debtors	3	**4**
Creditors – due within one year		
Other creditors and accruals	4	**(10)**
Net current liabilities		**(6)**
Total assets less current liabilities		**2,439**
Capital and reserves		
Called up share capital		**63**
Merger reserve		**491**
Profit and loss account		**1,885**
Total shareholders' funds	5	**2,439**

The financial statements were approved by the Board of Directors on 28 February 2013 and were signed on its behalf by:

Peter Clarke
Chief Executive

Jonathan Sorrell
Chief Financial Officer

Notes to the Company financial statements

1. Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom issued by the Accounting Standards Board and with the requirements of the Companies Act 2006 (the Act). The financial statements are prepared from the date of incorporation (8 August 2012) to 31 December 2012. As such no comparatives are provided.

The Company reviews and updates its accounting policies on a regular basis in accordance with FRS 18. These policies have been applied consistently throughout the period. The Company has adopted FRS 29 and has taken advantage of the exemption from providing further financial risk disclosures.

Scheme of arrangement

Man Group plc was incorporated on 8 August 2012 and became the new listed holding company of the Man Group on 6 November 2012 via a Court approved scheme of arrangement under Part 26 of the Companies Act 2006, with the former holding company being renamed Man Strategic Holdings plc.

Under the scheme of arrangement, shares in the former holding company of the Group, were cancelled and the same number of new ordinary shares were issued to the new holding company in consideration for the allotment to shareholders of one ordinary share of $1.07 in the new holding company for each ordinary share of $3^3/_7$ US cents they held in the former holding company.

On 8 November 2012, Man Group plc effected a reduction of its share capital to create distributable reserves, as sanctioned by the High Court. This capital reduction reduced the nominal value of ordinary shares in the new holding company from $1.07 to $3^3/_7$ US cents.

Result for the period

The loss after tax for the financial period was $6 million. In accordance with Section 408 of the Act, a separate profit and loss account has not been presented for the Company.

There are no recognised gains and losses other than the result for the period and hence no statement of recognised gains and losses for the Company has been presented.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or, where it is more practical, 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 and losses in the profit and loss account.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements, and directly in equity, in the period in which the dividend is paid or approved by the Company's shareholders, if required. Dividends received from subsidiary undertakings are recognised in the period in which they are received. Refer to Note 11 in the consolidated financial statements for more information on dividends paid during the period.

2. Investments

$m	31 December 2012
Investments in subsidiaries	
At 8 August 2012	–
Additions	2,439
Share-based payment	6
At 31 December 2012	**2,445**

The Company's shares in subsidiary undertakings are stated in the balance sheet of the Company at cost less provision for any impairment incurred. The additions relate to the Company's investment in Man Strategic Holdings plc, when it became the new group holding company on 6 November 2012 under the scheme of arrangement, as described in Note 1. Details of the principal Group subsidiaries are given on page 98.

3. Debtors – amounts falling due within one year

$m	31 December 2012
Amounts owed by subsidiaries	**2**
Current tax assets	**2**
	4

4. Creditors – amounts falling due within one year

$m	31 December 2012
Amounts owed to subsidiaries	**8**
Other creditors	**2**
	10

5. Shareholders' Funds

$m	Share capital	Merger reserve	Profit and loss account	Total
At 8 August 2012	**–**	**–**	**–**	**–**
Issue of ordinary share capital	1,948	491	–	2,439
Capital reduction	(1,885)	–	1,885	–
Share-based payment	–	–	6	6
Loss for the period	–	–	(6)	(6)
At 31 December 2012	**63**	**491**	**1,885**	**2,439**

During the period, the Company undertook a Court approved capital reduction, the effect of which was to reduce the nominal value of the Company shares and increase distributable reserves. The allotted and fully paid share capital of the Company is detailed in Note 21 of the consolidated financial statements.

6. Directors' remuneration

Details of the individual directors' emoluments, options, share awards and loans and key management compensation disclosures is given in the Remuneration Report on pages 40 to 61.

7. Statutory and other information

There are no employees of the Company. The directors of the Company were paid by another Group company in the period.

Shares in the Company are awarded/granted to directors and employees through the Group's share schemes. Details relating to these share awards/grants are given in the Remuneration report on pages 40 to 61.

The Company provides financial instruments disclosures in accordance with IFRS 7 in the group financial statements on pages 64 to 97. Consequently the Company has taken advantage of the exemption in FRS 29 from providing further financial instruments disclosures.

The Company provides full related party disclosures on page 97 and in the Remuneration report information on page 58. Consequently the Company has taken advantage of the exemption not to disclose related party transactions with other members of Man Group plc.

Independent auditors' report to the members of Man Group plc on the Parent Company financial statements

We have audited the Parent Company financial statements of Man Group plc for the period ended 31 December 2012 which comprise the Parent Company Balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibility statement set out on page 65, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Man Group plc Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial period for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Other matter

We have reported separately on the Group financial statements of Man Group plc for the year ended 31 December 2012.

Richard Oldfield (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 February 2013

Shareholder information

In this section we have provided some key information to assist you in managing your shareholding in Man. If you have a question that is not answered below, you can contact us by email: shareholder@man.com

Useful website details

References are made throughout this section to the Shareholder Information section of Man's corporate website and Equiniti's Shareview website. The Shareholder Information pages can be found by visiting www.man.com and clicking on Investor Relations>Shareholder Information. For access to Equiniti's Shareview website, please visit www.shareview.co.uk/shareholders/

Dividend

8.26 pence per share

Final dividend for the year-ended 31 December 2012.

New Group holding company

On 6 November 2012 a new listed holding company was put in place for the Group by means of a scheme of arrangement (please see page 90 for further information). Shareholders received, for every ordinary share they held in the former holding company, one ordinary share in the new holding company, which has the same name as its predecessor, Man Group plc.

Following this transaction, shareholders who held their shares in paper form received a new share certificate. All old share certificates (blue in colour) were cancelled and should be destroyed. The new share certificates, which are white in colour and show the new registered company number – 08172396, are now the only valid share certificates for Man Group plc.

For the majority of shareholders this transaction is anticipated to have been tax neutral. More detailed information on the tax position for UK and US based shareholders can be found in the related shareholder circular, which is available on the 'Shareholder Information' section of Man's corporate website under 'General Meetings'. Shareholders are recommended to contact their own tax advisor for specific advice on their tax position.

Dividends

Final dividend for the year

The directors have recommended a final dividend of 8.26 pence per share in respect of the year ended 31 December 2012. Payment of this dividend is subject to approval at the 2013 Annual General Meeting (AGM). Key dates relating to this dividend are given below:

Ex-dividend date	24 April 2013
Record date	26 April 2013
DRIP election date	26 April 2013
AGM (to approve final dividend)	3 May 2013
Payment date	17 May 2013
DRIP certificates received/CREST accounts credited	23 May 2013

Future dividend policy

Going forward Man's dividend policy is to pay out at least 100% of adjusted management fee earnings per share in each financial year by way of ordinary dividend. In addition, the Group expects to generate significant surplus capital over time, primarily from net performance fee earnings. Available surpluses, after taking into account our required capital, potential strategic opportunities and a prudent buffer, will be distributed to shareholders over time, by way of higher dividend payments and/or share repurchases. Whilst the Board continues to consider dividends as the primary method of returning capital to shareholders, it will continue to execute share repurchases when advantageous.

Shareholder information
continued

Dividends paid in the 2012/13 tax year	Dividend no	Payment date	Amount per share (p)	Ex-dividend date	Record date	DRIP share price (p)	DRIP purchase date
Interim dividend for the year ended 31 Dec 2012	O/11	04/09/12	6.12	15/09/12	17/09/12	73.85	04/09/12
Final dividend for the period ended 31 Dec 2011	O/10	17/05/12	4.38	25/04/12	27/04/12	78.87	17/05/12

Dividend history
To help shareholders with their tax affairs, details of dividends paid in the 2012/13 tax year can be found above. Please note that the dividend amounts are declared in US Dollars but paid in Sterling. For ease of reference the Sterling dividend amounts have been detailed in the table.

For details of historical payments, please refer to the dividend section of our corporate website, which can be found under 'Shareholder Information'.

Dividend payment methods
You can choose to receive your dividend in a number of ways. Dividends will automatically be paid to you by cheque and sent to your registered address unless you have chosen one of the options below:

1. **Direct payment to your bank:** We recommend that you apply for cash dividends to be paid directly into your UK bank or building society account. This is more convenient and helps reduce the risk of cheques becoming lost or delayed in the post. The associated tax voucher will still be sent direct to your registered address. To switch to this method of payment you can download a dividend mandate form from the 'Dividends' section of our corporate website, under 'Shareholder Information', or from our Registrars' (Equiniti) Shareview website. Alternatively, you can contact Equiniti on 0871 384 2112[1], who will be able to assist with any questions you may have.

2. **Overseas payment service[2]:** If you live overseas, Equiniti offers an Overseas Payment Service which is available in certain countries. This may make it possible to receive dividends direct into your bank account in your local currency. Further information can be found on the Shareview website or via the Equiniti helpline 0871 384 2112[1].

3. **Dividend Reinvestment Plan (DRIP):** The Company offers a DRIP which gives shareholders the opportunity to use their dividend to purchase further Man shares. Instead of receiving cash, shareholders receive as many whole shares as can be bought with their dividend, taking into account related purchase costs. Any residual cash will be carried forward and added to their next dividend.

If you wish to join the DRIP, you can download copies of the DRIP terms and conditions and the DRIP mandate form from the 'Dividend' pages of Man's website which can be found under 'Shareholder Information'. Simply complete the DRIP mandate form and return it to Equiniti. Should you have any questions on the DRIP or would like a paper mandate form to be sent to you, please contact Equiniti on 0871 384 2268[1]. Please note that if you wish to join the DRIP in time for the payment of the forthcoming final dividend for the year ended 31 December 2012, our Registrars, Equiniti, must have received the instruction by 26 April 2013. Instructions received by Equiniti after this date will be applied to the next dividend payment.

Notes:
1 Lines are open from 8.30am to 5.30pm, each business day. Calls to this number are charged at 8 pence per minute plus network extras.
2 Please note that a payment charge will be deducted from each individual payment before conversion into your local currency.

Shareholder communications

Annual and Interim Reports
Man publishes an Annual and Interim Report every year. The Annual Report is sent to shareholders in March through the post as a printed document unless the shareholder has chosen to receive e-communications either direct to their email address (see below) or via a letter informing them that the Annual Report is available to view on Man's corporate website. The interim report is published on the website in July and a printed copy is available from the Company Secretary on request.

E-communications
The Company offers shareholders the opportunity to access shareholder documents, such as annual reports and notices of AGMs, via e-communications rather than receiving printed documents in the post. To sign up for e-communications, please register on Equiniti's website. In order to do this, you will need your shareholder reference number which can be found on your share certificate or on your dividend tax voucher. Once registered, you will need to change your mailing preference to e-communications and provide your email address. We will then be able to notify you by email as soon as shareholder documents are available on Man's corporate website.

Corporate website (www.man.com)
Shareholders are encouraged to visit Man's corporate website which contains a wealth of information about Man. The website includes information about the industry in which we operate, our strategy and business performance, recent news from Man and corporate responsibility initiatives. The Investor Relations section is a key tool for shareholders with information on the share price, our financial results, shareholder meetings and dividends, as well as a 'Frequently asked questions' section. You can also download current and past annual and interim reports.

Shareholder registration and enquiries
Man Group's register of shareholders is maintained by Equiniti as the Company's Registrars. Many aspects of managing your shareholding, such as updating your personal details and checking your shareholding and dividend payments, can be done by logging on to Equiniti's website. To do this, you will need your shareholder reference number which can be found on your share certificate or dividend tax voucher.

For enquiries about your shareholding, you can also contact Equiniti in writing at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, or by telephone on 0871 384 2112[1] or Text tel 0871 384 2255[1], quoting Ref No 874. Callers from outside the UK should telephone +44 121 415 7592.

Share dealing service
You can buy shares through any authorised stockbroker or bank that offers a share dealing service in the UK, or in your country of residence if outside the UK. Equiniti provides a share dealing service which is available to purchase or sell Man Group plc shares in the UK. The service is provided by Equiniti Financial Services Limited and can be accessed via the dealing section of the Shareview website (www.shareview.co.uk/dealing/). To use Equiniti's telephone dealing service, please call 08456 037 037 between 8.00am and 4.30pm Monday to Friday.

Shareholder alerts

Remember: if it sounds too good to be true, it probably is!
Share or investment scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares, or offer to buy their shares in a company at a higher price than the market value. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. Even seasoned investors have been caught out by such fraudsters and it is estimated that £200 million is lost in this way in the UK each year.

The FSA have some helpful information about such scams on their website, including 10 top tips to protect your savings and how to report a suspected investment scam. Man encourages shareholders to read the information on the site which can be accessed at www.fsa.gov.uk/scams.

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Auditors
PricewaterhouseCoopers LLP

Corporate brokers
Bank of America Merrill Lynch
Credit Suisse
Goldman Sachs

Public relations
RLM Finsbury

Man's literary sponsorships

Man sponsors two major literary prizes – the annual Man Booker Prize for Fiction and the biennial Man Booker International Prize.

Man first took on the sponsorship of the Man Booker Prize for Fiction in 2002. The aim of the prize, which receives worldwide press attention, is to promote excellence in fiction by recognising the best full-length novel published by a citizen of the Commonwealth, or the Republic of Ireland, in the year of the prize. The novel must be an original, non-self published, work in English.

Winning the Man Booker Prize is considered the ultimate accolade by many writers. As former prize-winner Graham Swift commented: "Prizes don't make writers and writers don't write to win prizes, but in the near-glut of literary awards now on offer… it's the one which, if we're completely honest, we most covet."

Last year's winner, Hilary Mantel for 'Bring Up the Bodies', made Man Booker history as the first woman and the first Briton to receive the prize twice, having also won for 'Wolf Hall' in 2009. Receiving the prize, Mantel joked: "You wait 20 years for a prize and then two come along at once." The pressure is certainly on for the third instalment of the trilogy charting the rise and fall of Thomas Cromwell.

The Man Booker International prize is awarded every two years to a living author who has published fiction either originally in English or whose work is generally available in translation in English. It differs from the annual Man Booker Prize in that it highlights one writer's overall contribution to fiction on the world stage, rather than a single work. The 2011 prize went to US author Philip Roth. The 2013 prize will be awarded in May.

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Charitable trust

2012 continued to be yet another challenging year for the UK economy. The fall-out from the recession and government spending cuts are having a significant impact on both the funding of voluntary sector organisations and the people who depend most on them. These include some of the most marginalised and disadvantaged people in our society. Many charities are facing crisis, battling to cope with increased demand for services and reduced funding and support. The majority remain focused on fundraising, although many are drawing down on their reserves and are considering how to invest funds more effectively and one fifth are now considering merger as a means of survival.

Although the charity sector is facing a period of considerable challenge it is still remarkably resilient and flexible. A major reshaping is taking place and the organisations that survive will be those that are able to rethink priorities, diversify income streams and look at innovative ways of delivering existing activities and collaborative working. Some organisations will inevitably fail while others will emerge stronger.

Now, more than ever it is vital that businesses continue to support charities either through donations or through practical means. Man has been a major supporter and donor to UK and international charities for many decades and philanthropy and employee engagement in the community remains an important part of what we stand for. Man's charitable contribution is based on the financial performance of the business which led to a reduced level of grant giving in 2012. However, by utilising the Trust's reserves we were able to spend $3.2 million on charitable donations and employee engagement programmes during the period. In the UK our supported projects benefited over 30,000 individuals including at risk young people and people suffering from mental health problems, homelessness and domestic abuse. The Trust's funding also enabled the charities we support to leverage over $1.5 million from other funding sources.

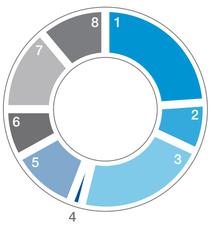
Our employees also continue to make a huge contribution to the charities we support, providing over 1,000 hours of volunteering activity through our ManKind programme and sharing their expertise and experience for the benefit of those in our local community who need it most. Our employees ran employability skills workshops for students from inner London schools and for the homeless, mentored young people from challenging backgrounds and supported primary school children with their reading.

Man has had a challenging year and has undertaken a substantial cost cutting programme. As a result charitable donations to the Trust have been suspended until there is a significant improvement in financial performance. Despite this, the Trust has sufficient reserves to continue a reduced level of grant giving and support to employee engagement programmes for the foreseeable future.

We would like to thank all of our employees who have supported our charitable programmes and volunteered their time and skills for the benefit of others. Our focus for 2013 is to continue to support our chosen charities through the current climate and develop further areas where our employees can use their time and skills to add value.

Lisa Clarke
Trust Manager

Total Charitable Expenditure 2012
%



1. Disadvantaged Youth	**24%**
2. Literacy & Numeracy	**8%**
3. Vulnerable Populations	**22%**
4. Disaster Relief	**2%**
5. International	**11%**
6. Environment	**8%**
7. Employee Related Programmes	**14%**
8. Other Donations	**11%**

Featured grants

The Boxing Academy The Trust supports The Boxing Academy, an alternative to mainstream education for hard-to-reach 13–16 year olds who have been excluded from school, or are at the point of exclusion. The Academy combines basic education and mentoring with the discipline of sport.

90%

of young people currently held in prison have been permanently excluded from school (Youth Justice Board statistics 2010).

Boxing Academy students were sent copies of the Man Booker Prize shortlisted 'Pigeon English' to read in class and then given the opportunity to meet the author, Stephen Kelman, at a reading and question and answer session at Man's London office. The students were able to connect with Kelman's novel, a reaction to the murder of Damilola Taylor, set on a grim South London housing estate rife with gangs and crime and share their own real life experiences with the author.

The Passage The Passage runs London's largest voluntary sector day centre for homeless people. Each day the charity helps up to 200 homeless and vulnerable men and women. Homeless people frequently have both substance abuse and mental health issues that prevent them from moving to a more stable way of life and the Trust supports The Passage's Health Team to provide this specialist care. Our employees also give their time to the charity, filling regular shifts serving breakfast and lunch in the day centre.

+8%

The number of people sleeping rough in London increased by 8% in 2012.

Starlight The Annual Charity chosen by our UK employees in 2012 was Starlight, a children's charity granting once-in-a-lifetime wishes to seriously and terminally ill children and providing entertainment for children in hospitals and hospices throughout the UK. With an initial donation of $159,000 from the Trust, UK employees raised an additional $83,000 through a range of fundraising activities. Employees also volunteered for the day at the charity's annual Wishing Party for over 500 children and their families. Starlight will continue as our Annual Charity for 2013.

1,000

There are currently over 1,000 children waiting for a Starlight wish to be granted.

Charity Swim 2012, Switzerland For the fifth consecutive year, our employees in Switzerland took part in an annual charity swim in the Lake of Zürich. The swim raised $59,000 for four employee nominated charities: MPK Homeland in Cambodia, The Jo Warrington Charitable Foundation in South Africa, the Togo Project and Jugendfürsorgeverein Höfe, a local Swiss charity. Thirty-six Man and Credit Suisse swimmers elected to swim either 1.2 or 2.4 km in open water raising money through sponsorship. A paddle boat race was also held which proved great fun for participants and spectators alike and over 150 employees supported the event.

Man Charitable Trust

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Innovating to perform