

Rathbones sees 30% increase in profits

This is a preliminary statement of annual results published in accordance with FSA Listing Rule 9.7A. It covers the year ended 31 December 2011.

Andy Pomfret, Chief Executive of Rathbone Brothers Plc, said:

“In spite of often difficult market conditions, our profit before tax for the year to 31 December 2011 was up 30% to £39.2 million compared to £30.1 million in 2010. Basic earnings per share of 66.72p, were up 34% on 49.76p in 2010.

“Rathbones is cautiously optimistic about the prospects for 2012 with the UK equity market ending 2011 on a more positive note. There is no doubt that the uncertainties over Europe persist but these are balanced by indications that the world economy continues to grow and some developed economies are showing small signs of improvement, particularly the USA. We are seeing signs of underlying cost inflation but we will continue to invest in and grow our business. We continue to be well positioned to take advantage of opportunities to welcome more investment managers and clients to Rathbones.”

Highlights:

- Profit before tax was £39.2 million for the year ended 31 December 2011, an increase of 30%, compared to £30.1 million in 2010. Basic earnings per share increased by 34% to 66.72p (2010: 49.76p).
- Underlying profit before tax (excluding gains on disposal of financial securities, amortisation of client relationship intangible assets, head office relocation costs and exceptional Financial Services Compensation Scheme levies) increased 20% to £46.2 million from £38.5 million. Basic underlying earnings per share increased by 24% to 78.79p (2010: 63.76p).
- The Board recommends a 29p final dividend for 2011 (2010: 28p), making a total of 46p for the year (2010: 44p).
- Total funds under management were £15.85 billion at 31 December 2011, up 1.4% from £15.63 billion at 31 December 2010. In comparison over the same period the FTSE 100 Index and FTSE APCIMS Balanced Index decreased by 6% and 3% respectively.
- The total net annual growth rate of funds under management for Rathbone Investment Management was 8% (2010: 10%). This comprised £0.31 billion of acquired inflows (2010: £0.60 billion) and £0.79 billion of net organic growth (2010: £0.64 billion). The underlying annual net organic growth rate was 5% (2010: 5%).
- Underlying net operating income in Rathbone Investment Management of £135.1 million for the year ended 31 December 2011 (2010: £119.8 million) represents an increase of 13%. This excludes gains on disposal of financial securities of £1.1 million in 2011 (2010: £nil). The average FTSE 100 Index was 5663 on our quarterly billing dates (2010: 5528), an increase of 2.4%.
- Net interest and other income in Rathbone Investment Management of £11.2 million for the year rose by 10% compared to £10.2 million in 2010 largely as a result of higher yields on treasury assets offset by a 4% reduction in average liquidity to £904 million over 2011.
- Rathbone Unit Trust Management saw positive net monthly sales throughout 2011 helping its funds under management to increase by 5% to £1.09 billion at 31 December 2011 (2010: £1.04 billion). Profit before tax in Rathbone Unit Trust Management was £0.8 million for the year ended 31 December 2011 (2010: £0.5 million).

Ends

21 February 2012

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Rathbone Brothers Plc

Rathbone Brothers Plc is a leading independent provider of high-quality, personalised investment and wealth management services for private investors, charities and trustees. This includes discretionary investment management, tax and financial planning and unit trusts.

Rathbones has some 750 staff in 11 UK locations and Jersey, and has its headquarters in New Bond Street, London.

From 27 February 2012, Rathbones' head office will move to 1 Curzon Street, London W1J 5FB.

www.rathbones.com

CHAIRMAN'S STATEMENT

I became Chairman in May 2011 and feel privileged to be the first Chairman to be appointed from outside the firm. I would like to thank my predecessor Mark Powell who has made the transition very easy for me. In this brief statement I shall outline my areas of focus as a new Chairman in the context of Rathbones as I see it today.

I have a background in financial services but not in private client investment management. I have, therefore, spent a considerable amount of time learning about the business. I have found Rathbones to be a robust business which depends on a number of factors: the high quality of our investment managers; the strong relationship between those investment managers and their clients; the value of our central investment process and systems; and finally our collegiate culture and embedded compliance practices. All of these factors together represent a solid platform which has enabled us to build an enviable reputation. It is this we strive to preserve.

Strategy review

Last October we held our annual strategy meeting involving the Board and senior management where we focussed our discussion on three areas: growing our core investment management business; developing our tax, trust and family office business; and partnering with the IFA community. The analysis and discussion at the meeting will help us develop our plans further and enhance the value of what we have built up over time.

Risk

We have had several detailed discussions on risk at the Board. We regard the greatest risks to Rathbones as threats to our reputation, regulatory intervention in our sector and the counterparty risk inherent in being a bank. We have added two non-executive directors to our risk management committee (which also consists of the heads of all our major departments) and have recently taken the decision to appoint a non-executive director as chairman. I am delighted that Kathryn Matthews has agreed to take on this important role from 1 March 2012. Her wide experience of the investment management industry will be of great benefit to us.

Governance, board and senior management

As Chairman, I have to ensure that we have the best possible board to give leadership to the business and that, through our non-executive directors, we can provide appropriate challenge to management. My main priorities here have been to streamline the working of the Board and to prepare for the departure from an executive role of Richard Lanyon, our longstanding and highly regarded head of investment management. I have been working closely with Andy Pomfret and my other Board colleagues on all these areas. The first decision we made was to appoint Paul Chavasse as successor to Richard Lanyon, which was announced on 1 July 2011. Our decision came after a rigorous review of our management within the Group. This review has, in turn, laid the foundations for a more structured development programme for our senior management which is essential for good succession planning.

As a business in the financial sector in 2012 we must maintain high standards of governance. The Board has recently undertaken an evaluation of its own performance, of its committees and individual directors. Although the evaluation was generally positive, a number of improvements have been suggested and these will be implemented. I am delighted to say the discussions we have had as part of this important process have been refreshingly open and constructive.

Our performance evaluation also concluded that we had an appropriate balance of skills on the Board. The Board continues to believe that, whilst the best qualified candidate should be appointed to any role, a range of backgrounds, skills and experience is desirable. Gender diversity plays an important part in this.

In accordance with best practice, all directors will be seeking re-election at the AGM.

Shareholder engagement

We have a tradition at Rathbones of close engagement with our investors and, although this is largely carried out by Andy Pomfret and Paul Stockton, I have been delighted to meet some of our largest shareholders to discuss our mutual aspirations. I look forward to a continuing dialogue with shareholders on the many issues that arise out of the challenges and opportunities we face.

As you will see from Andy Pomfret's report, we produced a solid performance in 2011 in difficult circumstances. I hope you will find this year's annual report provides a clear account of how we run our business and what we have achieved during the year.

Mark Nicholls
Chairman
20 February 2012

CHIEF EXECUTIVE'S STATEMENT

Results and financial highlights

In spite of often difficult market conditions, our profit before tax for the year to 31 December 2011 was up 30.2% to £39.2 million compared to £30.1 million in 2010, and basic earnings per share of 66.72p, were up 34.1% on 49.76p in 2010. These results include some £3.0 million of costs incurred in respect of the planned relocation of our London head office in 2012. We thankfully did not see a repeat of last year's £3.6 million exceptional Financial Services Compensation Scheme levy largely caused by the failure of Keydata Investment Services.

Underlying profit before tax (which excludes client relationship amortisation charges and exceptional income and expense items) was £46.2 million, up 20.0% compared to £38.5 million in 2010. Underlying earnings per share were 78.79p, up 23.6% on the 63.76p earned in 2010. We increased the number of Rathbone Investment Management clients to 38,380 at 31 December 2011 from 37,400 one year ago, attracting net new funds of £1.10 billion in the year (2010: £1.24 billion).

Notwithstanding current economic uncertainties, the Board is recommending a final dividend of 29p per share, making a total dividend per share of 46p for the year; up 4.5% from the 44p in 2010. The final dividend will be paid on 17 May 2012. In this economic climate it is important to report that our balance sheet at 31 December 2011 is now ungeared as external borrowings of £3.1 million at 31 December 2010 were repaid in the year. Our Group Tier 1 capital ratio was 26.9% at 31 December 2011 (2010: 28.3%) on a Basel III basis which gives an indication of the strength of our capital base.

Financial markets

Investment markets

2011 was a difficult year overall although it divided into two distinct halves. In the first half, markets rose as investors concluded that there would not be a double dip recession and that the problems in the eurozone could be resolved. Our first half was therefore positive as markets presented investment managers with some good opportunities for clients and this was evident in first half commission levels of £20.0 million (2010: £18.7 million). Sentiment changed in the second half though as the eurozone crisis led to questions about whether Greece would default which in turn increased speculation on the future of the Euro and the position of other indebted countries such as Italy and Spain. This sentiment change unsettled markets and reduced trading volumes across the industry.

We expect that asset allocation will continue to be difficult in 2012 as global markets rebalance and, in many developed economies, we see a weak banking sector, inflation uncertainties and continued low interest rates, compounding fears of recession.

Loans and money markets

As Rathbones has a banking licence, the vast majority of cash in client portfolios is held with us as a deposit. We invest this cash in the money markets and therefore have exposure to a number of banks around Europe as part of a well diversified treasury portfolio. In light of developments in the eurozone, the banking committee responded by reallocating monies held with Spanish and Italian banks to UK treasury bills. These UK Government securities represented 9.6% (2010: 0%) of the total treasury assets of £0.91 billion at 31 December 2011. At 31 December 2011, all (2010: all) treasury assets were rated Fitch single A or above. Outstanding loans to clients were £47.8 million at 31 December 2011 (2010: £40.0 million) and continue to be an important part of our relationship with clients.

Our approach

For many years our strategy has been to 'be a leading provider of high-quality, personalised investment and wealth management services...' and in these difficult times our consistency has served us well. We believe that this stability is precisely what clients are looking for in difficult times and this, combined with our independent ownership, has led to high client retention as well as being one of the reasons why many investment managers have chosen to join us with their clients over the last decade.

Key to the success of the firm is the quality of our staff, and we now employ over 750 people in 12 locations. Although the current economic climate means that it has been difficult to increase levels of pay, profit share and reward to match inflation, we continue to look at additional ways of incentivising staff. For many years we have had in place a Share Incentive Plan and more recently introduced a Save As You Earn scheme, both of which are government-approved ways of encouraging employee share ownership. Over 90% of employees participate in one or both of these schemes.

A new head office

In 2011, considerable time was invested in finding, negotiating, and then fitting out our new head office in London at 1 Curzon Street. We will be moving all London staff currently located in 159 and 161 New Bond Street into these premises in February 2012. This new space (about one and a third floors of a six storey building) will enable us to put the majority of our staff onto a single open plan floor with the other floor used for internal and external meeting rooms. It will be a significant improvement to get everybody in London into one location and I am sure all will benefit from working in a more open environment which will promote greater internal communication. The location of the new office will also mean there is little change for either staff or clients as Curzon Street is only some 400 yards from our existing offices.

Regulation

Suitability

During the year there has been a great deal of attention placed by the FSA on the industry's approach to ensuring that investment portfolios are suitable for clients. Although the FSA's 2011 thematic review reported serious concerns around whether portfolios were suitable for clients among many of our peer group, we are not - and have not been - subject to any regulatory action in this regard. We continue to believe that our approach to managing suitability is appropriate.

The Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA)

During 2012 the FSA will be moving to parallel running the new “twin peaks” regulatory structure which is expected to come into effect in 2013 following the passing of the relevant legislation. As Rathbones holds a banking licence, we will be regulated by both the PRA and the FCA. The PRA will be the lead regulator for all banks in the UK and in many ways we see it as acting in a similar way to how the Bank of England has done in the past. Our conduct of business will be regulated and supervised by the FCA. It will be interesting to see how these two bodies interact and we believe that ensuring that these organisations work well together is in our interests and the interests of the financial services industry as a whole. We are doing all we can to continue to develop and improve our regulatory relationships.

There has been much discussion in the press around resolution planning for banks (living wills) and, given our banking licence, we will be developing plans accordingly. We are supportive of this regulation and consider it a good opportunity to test and improve our current procedures.

Board and management changes

It was with great sadness that we said goodbye to Mark Powell at the AGM in 2011. Mark was very much part of Rathbones for more than twenty years and we thanked him at the AGM for his outstanding contribution, both to the Company and to our industry. At the AGM we were pleased to welcome Mark Nicholls as our new non-executive chairman. Mark had been on the Board since December 2010 when he was appointed with the intention of succeeding Mark Powell.

We announced at the half year that Richard Lanyon would be standing down from the Board and his managerial responsibilities as head of investment management during 2012 and that he would be succeeded by Paul Chavasse. Paul will take up this role at the beginning of March 2012 when we have completed our London head office move to 1 Curzon Street.

In December 2011 we announced the appointment of Andrew Butcher as our new chief operating officer who will join us in March 2012 from Charles Stanley. We very much look forward to working with him.

Outlook

Rathbones is cautiously optimistic about the prospects for 2012 with the UK equity market ending 2011 on a more positive note. There is no doubt that the uncertainties over Europe persist but these are balanced by indications that the world economy continues to grow and some developed economies are showing small signs of improvement, particularly the USA. We are seeing signs of underlying cost inflation but we will continue to invest in and grow our business. We continue to be well positioned to take advantage of opportunities to welcome more investment managers and clients to Rathbones.

Andy Pomfret
Chief Executive
20 February 2012

BUSINESS REVIEW

Investment Management

The Investment Management division principally provides discretionary investment management services delivered by Rathbone Investment Management to private investors and charities. Divisional results however also include those of closely related pension advisory services and, from 2011, taxation, trust and family office services which were previously reported as a separate segment. Comparative figures for 2010 have been restated to reflect this new presentation.

Year to year changes in the division's key performance indicators are shown in table 1 below.

Table 1. Investment Management - key performance indicators

	2011	2010
Funds under management at 31 December ¹	£14.76bn	£14.59bn
Underlying rate of net organic growth in Investment Management funds under management ¹	5.4%	5.3%
Underlying rate of total net growth in Investment Management funds under management ¹	7.5%	10.2%
Average net operating basis point return ²	84bps	83bps

¹ See table 2

² See table 5

Despite the difficult economic and investment conditions during 2011 Investment Management has continued to attract funds at a healthy rate throughout the year, both organically and from acquired growth. Organic inflows of funds under management represent the value of funds introduced during the year by new or existing clients to existing investment managers. Acquired growth represents new funds either from acquisitions or introduced by investment managers who have joined us recently.

Table 2. Investment Management - funds under management

	2011 £bn	2010 £bn
As at 1 January	14.59	12.16
Inflows ¹	1.97	2.06
– organic	1.66	1.46
– acquired	0.31	0.60
Outflows ¹	(0.87)	(0.82)
Market adjustment ²	(0.93)	1.19
As at 31 December	14.76	14.59
Net organic new business ³	0.79	0.64
Underlying rate of net organic growth ⁴	5.4%	5.3%
Underlying rate of total net growth ⁵	7.5%	10.2%

¹ Value at the date of transfer in/(out)

² Represents the impact of market movements and the relative performance of funds compared to the FTSE APCIMS Balanced Index

³ Organic inflows less outflows

⁴ Net organic new business as a % of opening funds under management

⁵ Net organic new business and acquired inflows as a % of opening funds under management

Gross organic inflows of £1.66 billion in 2011 represent 11.4% of funds under management at the start of the year (2010: 12.0%) and have remained at consistently high levels throughout the year. Net organic growth (stated after outflows) was also stable at 5.4% of opening funds under management (2010: 5.3%). Outflows of funds principally arise as clients withdraw capital and/or income from portfolios to meet other financial requirements or close their accounts. Outflows have continued at historical rates.

We continue to see growth across all parts of our business, largely as a result of referral from existing clients but with an increasing contribution from business referred to us by professional intermediaries.

- Charity funds under management of £1.68 billion at 31 December 2011 are up 3.1% from £1.63 billion at 31 December 2010;
- The value of funds managed for clients introduced by provider panel relationships increased by 6.2% to £1.38 billion at 31 December 2011 from £1.30 billion at the start of the year; and
- Rathbone SIPP funds were £343 million at 31 December 2011, an increase of 2.7% from £334 million at the start of the year.

Acquired funds under management totalled £305 million in 2011, representing clients introduced by investment managers who have recently joined Rathbones. Acquired growth in 2010 of £600 million included £421 million of funds resulting from our transaction with Lloyds Banking Group plc in 2009.

Total net organic and acquired growth has added £1.10 billion of funds under management in 2011 representing a growth rate of 7.5% (2010: 10.2%). Funds under management of £14.76 billion at 31 December 2011 were 1.2% higher than at the start of the year. The FTSE 100 Index and the FTSE APCIMS Balanced Index dropped by 5.6% and 2.8% respectively over the same period.

Overall, 2011 was a difficult year across the market for performance as benchmarks tended to smooth out what were volatile movements at stock and fund level. Many Investment Management Association members underperformed benchmarks in the UK, USA and Europe and we also saw these trends in our own composite performance against the FTSE APCIMS Balanced Index, particularly in the fourth quarter.

The financial performance in the division is driven to a large extent by the total volume of funds under management and the net growth in new funds that the business manages to attract. Income is derived from:

- a sliding scale of investment management or advisory fees which are applied based on the value of clients' funds under management;
- commissions which are levied on transactions undertaken on behalf of clients; and
- an interest margin earned on the cash held in client portfolios.

Table 3. Investment Management - financial performance

	2011	2010¹
	£m	£m
Net fee income ²	80.1	66.5
Commission	36.2	35.7
Interest and other income ³	11.2	10.2
Fees from advisory services ⁴	7.6	7.4
Underlying net operating income	135.1	119.8
Underlying operating expenses ⁵	(89.7)	(82.1)
Underlying profit before tax	45.4	37.7
Underlying operating % margin ⁶	33.6%	31.5%

¹ Comparatives restated due to re-presentation of segmental information (see note 1)

² Net fee income is stated after deducting fees and commission expenses paid to introducers

³ Interest and other income is presented net of interest expense paid on client accounts

⁴ Fees from advisory services includes income from trust, tax and pensions advisory services

⁵ See table 6

⁶ Underlying profit before tax divided by underlying net operating income

Net fee income increased by 20.5% from £66.5 million in 2010 to £80.1 million in 2011 benefiting from continuing growth, increased charges (introduced from the end of the first quarter of 2011) and market movements.

One change to our charges was the introduction of a new per account charge which we believe better reflects the costs of maintaining individual accounts and goes some way to paying for the increasing regulatory costs which we face. We believe that our charges are reasonable overall taking into account our long held stance on trail commission which passes to clients the benefit of Rathbones being able to purchase collectives at institutional rates. Trail commission on collectives where institutional units were not available was £2.4 million in the year ended 31 December 2011 (2010: £2.7 million) representing 1.8% of underlying net operating income.

Net fee income is calculated based on the value of funds at our four quarterly valuation dates and is therefore also influenced by market movements. Average funds under management on these billing dates in 2011 were £14.76 billion, up 10.1% from 2010 (reflecting market movements, investment performance and net new funds). The average FTSE 100 Index (measured on the same dates) was 5663 in 2011 compared with an average of 5528 in 2010; an increase of 2.4% whilst the average FTSE APCIMS Balanced Index increased 2.6%.

Table 4. Investment Management - average funds under management

	2011	2010
	£bn	£bn
Valuation dates for billing		
– 5 April	14.98	13.02
– 30 June	15.27	12.41
– 30 September	14.04	13.59
– 31 December	14.76	14.59
Average	14.76	13.40
Average FTSE 100 level	5663	5528

Whilst market conditions in the first half were favourable for commission income, the change in market sentiment in the second half of 2011 reduced transaction volumes. Full year commission income of £36.2 million was 1.4% higher than in 2010.

Interest and other income of £11.2 million rose by 9.8% compared to £10.2 million in 2010 largely as a result of higher yields on treasury assets offset by a 4.4% reduction in average liquidity to £904 million over 2011. All of the above factors are reflected in the change to total revenue margin shown in table 5 which reports a return on average funds under management of 84 bps compared to 83 bps in 2010.

Table 5. Investment Management – revenue margins

	2011	2010¹
	bps	bps
Basis point return ² from		
- fee income	54	51
- commission	25	26
- interest ³	5	6
Basis point return on funds under management	84	83

¹ Comparatives restated due to re-presentation of segmental information (see note 1)

² Underlying net operating income (see table 3) excluding interest on own reserves divided by the average funds under management on the quarterly billing dates (see table 4)

³ Excluding fees from advising services and interest on own reserves

Fees from advisory services of £7.6 million were 2.7% higher than in 2010 reflecting both higher fund based charges and more chargeable hours worked.

Table 6. Investment Management – underlying operating expenses

	2011	2010¹
	£m	£m
Staff costs ²		
– fixed	31.6	28.9
– variable	15.8	14.0
Total staff costs ²	47.4	42.9
Other operating expenses	42.3	39.2
Underlying operating expenses	89.7	82.1
Underlying cost/income ratio ³	66.4%	68.5%

¹ Comparatives restated due to re-presentation of segmental information (see note 1)

² Represents the costs of investment managers and teams directly involved in client facing activities

³ Underlying operating expenses divided by underlying net operating income (see table 3)

Underlying operating expenses in Investment Management for 2011 were £89.7 million, compared to £82.1 million in 2010, an increase of 9.3%.

Fixed staff costs of £31.6 million increased by 9.3% year on year principally reflecting the addition of new revenue generating staff and salary inflation. Higher profits resulted in higher variable staff costs year on year.

Average full time equivalent headcount of investment managers and teams involved in client facing activities was 533 in 2011 compared to 496 in 2010.

Other operating expenses of £42.3 million include property, depreciation, settlement, IT, finance and other central support services costs. The year to year increase of £3.1 million (7.9%) largely reflects higher marketing spend, a busy project agenda, and investment in IT. We have also invested in revising and improving over 200 pieces of client documentation during the last year. In addition to our new brochures, account opening packs and updates to our terms of business, we have improved the quality and content of our investment literature and publications to charities and professional intermediaries, all of which have received very positive feedback from both clients and investment managers.

Unit Trusts

This division manages a range of unit trusts and OEICs which are distributed mainly through independent financial advisers (IFAs), fund supermarkets and other platforms in the UK. IFAs have a strong focus on investment performance and investors have a high propensity to switch funds if comparative investment performance falls.

Our range of directly invested funds is well established and the specialist focus creates a concentrated, active range of investment options which is highly attractive to investors seeking to add component parts to their own portfolios. Unit Trusts also runs the Rathbone Managed Asset Portfolio Service, which aims to provide an effective private client investment portfolio on a collective basis for clients with fewer investable assets. The managed portfolio service, also distributed principally via IFAs, consists of three unitised funds with a range of risk mandates. It presents a solution to the trend of outsourcing by IFAs in the lead up to the Retail Distribution Review, especially when combined with Rathbone Investment Management's discretionary services, providing advisers with solutions for investors from £1,000 to larger institutional and private client accounts.

Table 7. Unit Trusts - key performance indicators

	2011	2010
Funds under management at 31 December	£1.09bn	£1.04bn
Underlying rate of net growth in funds under management ¹	9.6%	(3.2%)

¹ See table 8

The retail asset management sector continued to recover in the first half of 2011, although net retail sales of £18.0 billion in 2011 (as reported by the Investment Management Association) were down 38.6% on 2010. The global uncertainty during the summer caused industry sales to drop significantly as investors sought safer havens for their assets. Despite this general aversion to risk assets, and in contrast with some other unit trust managers, Rathbone Unit Trust Management saw positive monthly net sales of its funds throughout 2011.

Table 8. Unit Trusts - funds under management

	2011	2010
	£bn	£bn
As at 1 January	1.04	0.94
Net inflows/(outflows)	0.10	(0.03)
– inflows ¹	0.24	0.15
– outflows ¹	(0.14)	(0.18)
Market adjustments ²	(0.05)	0.13
As at 31 December	1.09	1.04
Underlying rate of net growth ³	9.6%	(3.2%)

¹ Valued at the date of transfer in/(out)

² Impact of market movements and relative performance

³ Net inflows/(outflows) as a % of opening funds under management

Net inflows of funds under management in 2011 were £97 million, compared to a net outflow of £30 million in 2010. As a result, funds under management increased 4.8% to £1.09 billion at 31 December 2011 from £1.04 billion at the start of the year. At 31 December the value of assets managed in each fund was as follows:

Table 9. Unit Trusts - fund assets

	2011 £m	2010 £m
Income Fund	453	483
Global Opportunities Fund	136	105
Blue Chip Income and Growth Fund	60	59
Ethical Bond Fund	79	54
Recovery Fund	62	69
Multi Asset Portfolios	100	74
Other	195	199
	1,085	1,043

In contrast to recent years, Unit Trusts maintained net sales throughout the year as the improvements in fund performance during 2010 were consolidated during 2011 and this was reflected in the funds' three year track records (see table 10). In particular the Rathbone Income Fund moved from third quartile to first, measured over three years, as its longer term investment strategy bore fruit. The Rathbone Global Opportunities Fund remained first quartile over both one and three years. This is important as many major fund buyers and rating agencies place specific focus on this time period. The Rathbone Ethical Bond Fund underperformed in 2011 as its ethical mandate does not permit it to invest in UK Gilts, which was the best performing asset class held by competing funds in the sector.

Table 10. Unit Trusts - fund performance

Quartile ranking over:	1 year	3 years	5 years
Blue Chip Income and Growth Fund	3	2	3
Ethical Bond Fund	4	1	3
Global Opportunities Fund	1	1	1
Income Fund	2	1	3
Recovery Fund ¹	3	n/a	n/a

¹ Performance data for the Rathbone Recovery Fund is not yet available beyond 1 year as the fund was launched on 13 July 2009. Performance data for the Rathbone Strategic Bond Fund is not yet available as the fund was launched on 3 October 2011.

In 2011 we extended our range of funds with the launch of two new products. The Rathbone Enhanced Growth Portfolio, which sits within the Rathbone Multi Asset Portfolio Service, was launched on 1 August 2011. The fund completes our offering in the multi-asset space as we are now able to tailor investments across a range of investor risk profiles. By the end of 2011, the Rathbone Enhanced Growth Portfolio had added £7.0 million to the value of funds under management. The Rathbone Strategic Bond Fund was soft-launched on 3 October 2011, seeded with £10.3 million of funds from the portfolios of existing private clients who are looking for a more strategic exposure to fixed interest securities. By 31 December 2011, the fund managed £14.5 million of assets.

Table 11. Unit Trusts - financial performance

	2011 £m	2010 £m
Initial charges net of discounts	0.5	0.5
Annual management charges	13.9	12.5
Net dealing profits	0.5	0.2
Interest and other income	0.2	0.1
	15.1	13.3
Rebates and trail commission payable	(6.9)	(5.9)
Net operating income	8.2	7.4
Underlying operating expenses	(7.4)	(6.6)
Underlying profit before tax	0.8	0.8
Operating % margin ¹	9.8%	10.8%

¹ Unit Trusts underlying profit before tax divided by net operating income

Annual management charges (calculated based on the daily value of the funds under management) increased 11.2% from £12.5 million in 2010 to £13.9 million in 2011, largely driven by a rise in average funds under management. Annual management charges as a percentage of average funds under management remained consistent at 1.3% (2010: 1.3%). Rebates and trail commission payable as a percentage of annual management charge income increased to 49.6% compared to 47.2% in 2010 as a consequence of the continued negotiating power of distributors, in particular the national platforms and fund supermarkets.

Net dealing profits increased to £0.5 million in 2011 from £0.2 million in the previous year as a consequence of the increase in sales. Net operating income as a percentage of average funds under management was 0.8% in 2011 compared to 0.7% in 2010.

As a consequence of the Retail Distribution Review, we are planning to issue 'institutional' share classes in all of our funds in 2012. The institutional units will carry lower annual management charges but will also not incur any rebate. Taking into account the current level of rebates paid, it is not expected that these units will have a material impact on Unit Trusts' performance.

Table 12. Unit Trusts – underlying operating expenses

	2011	2010
	£m	£m
Staff costs		
– fixed	2.5	2.2
– variable	1.1	1.2
Total staff costs	3.6	3.4
Other operating expenses	3.8	3.2
Underlying operating expenses	7.4	6.6
Underlying cost/income ratio ¹	90.2%	89.2%

¹ Underlying operating expenses as a % of net operating income (see table 11)

Fixed staff costs of £2.5 million for year ended 31 December 2011 were 13.6% higher than the previous year due to salary inflation and an increase in the average full time equivalent headcount over the year to 29. The rise in headcount was driven by the full year impact of recruitment in 2010 to strengthen the sales team.

Variable staff costs of £1.1 million were down 8.3% on 2010 as the impact of spreading higher profit share awards in 2007 and 2008 fell out of the division's results in 2011. Table 13 demonstrates the impact of deferred profit share awards on 2011 variable costs.

Table 13. Unit Trusts - variable staff costs

	2011	2010
	£m	£m
Total variable staff costs	1.1	1.2
Deferred profit share adjustment	-	(0.3)
Variable awards for the financial year	1.1	0.9
Share of profit allocated to variable rewards ¹	57.9%	45.0%

¹ Variable staff costs excluding deferred profit share as a % of underlying profit before tax and total variable staff costs

Other operating expenses have increased by 18.8% to £3.8 million, principally as a result of the larger sales team increasing marketing and travel costs during the year. The share of central overheads absorbed by the division has increased in line with the growth in headcount compared to 2010.

Capital resources

The Group's balance sheet remains healthy with total equity of £190.7 million at 31 December 2011, up 2.9% from £185.4 million at the end of 2010. Rathbones is strongly capitalised and does not rely on wholesale markets to fund its operations. In April 2011 the Group's term loan was fully repaid and the only debt remaining on the consolidated balance sheet is £0.5 million of overnight cash-book overdraft balances.

Total assets at 31 December 2011 were £1,184 million (2010: £1,028 million), of which £909 million (2010: £762 million) represents the cash held in banking-client portfolios.

Regulatory capital

Rathbones is classified as a banking group under the Capital Requirements Directive and is required to operate within a wide range of restrictions on capital resources and banking exposures that are prescribed by the prudential rules of the Financial Services Authority (FSA). The Group's Pillar III disclosures are published annually on our website (www.rathbones.com/investor-relations/financial-analysis/pillar-3-disclosures) and provide further details about regulatory capital resources and requirements.

As required under FSA rules we perform an Internal Capital Adequacy Assessment Process annually, which includes performing a range of stress tests to determine the appropriate level of regulatory capital that the Group needs to hold. In addition, we monitor a wide range of capital and liquidity statistics on a daily, monthly or less frequent basis as required. Capital levels are forecast on a monthly basis, taking account of proposed dividends and investment requirements, to ensure that appropriate buffers are maintained. Investment of proprietary funds is controlled by our treasury department.

The Group's Tier 1 capital ratio, calculated on a Basel III basis, of 26.9% is much higher than the industry norm and reflects the low risk nature of the Group's banking activity and the lack of debt financing. The Tier 1 ratio has fallen from 28.3% at the previous year end mainly due to the downgrading of certain treasury counterparties' credit ratings by the rating agencies, which has increased total risk weighted assets.

Capital expenditure

We have continued to invest for future growth during 2011, with capitalised expenditure on our premises and systems totalling £9.0 million (2010: £4.4 million). We continue to work at improving the efficiency of our systems and our back office and the investment in new systems continues at a steady pace. Although some of this is driven by regulatory change, much is driven by our desire to serve our clients to the best of our ability and give our investment managers the tools they need to manage portfolios more easily. We continue to develop our investment process and during the year there have been significant improvements to the information available to investment managers via the internal network and also the publication on a quarterly basis of the Rathbones research pack which highlights the preferred investments in a large number of asset classes.

We are also implementing a system which will ultimately replace paper files and facilitates more efficient management of email and written correspondence both to and from clients.

As part of the continuing improvement of our IT infrastructure, we moved our London data centre to a site in North London which not only secured us some cost savings, but also gave us much greater flexibility and resilience around our IT infrastructure. This was a very significant effort as it relocated some critical equipment from our London office into a dedicated and controlled site provided by a third party.

Capital expenditure on property has increased significantly in 2011 as a result of the relocation of our London head office in February 2012. In total, £4.8 million of fit-out and related costs have been capitalised on the new property and a further £3.0 million of related costs have been charged against profit in 2011. Additional detail on the costs incurred in 2011 is given in note 3.

In 2012, we plan to continue to invest to improve our Rhymesight operating platform to improve workflow and make more tools available to investment managers. In addition we will seek to significantly upgrade our client and advisor internet connectivity through the development of a web portal.

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Interest and similar income		11,259	10,274
Interest expense and similar charges		(1,238)	(1,445)
Net interest income		10,021	8,829
Fee and commission income		141,484	124,432
Fee and commission expense		(10,029)	(7,762)
Net fee and commission income		131,455	116,670
Dividend income		98	90
Net trading income		480	226
Gains on disposal of financial securities		1,095	-
Other operating income		1,303	1,369
Operating income		144,452	127,184
Exceptional levies to the Financial Services Compensation Scheme		-	(3,575)
Amortisation of acquired client relationships		(5,134)	(4,845)
Head office relocation costs	3	(3,028)	-
Other operating expenses		(97,138)	(88,681)
Operating expenses		(105,300)	(97,101)
Profit before tax		39,152	30,083
Taxation	4	(10,446)	(8,531)
Profit after tax		28,706	21,552
Profit for the period attributable to equity holders of the Company		28,706	21,552
Other comprehensive income:			
Exchange translation differences		-	9
Net actuarial loss on retirement benefit obligations		(6,383)	(3,005)
Revaluation of available for sale investment securities:			
- net (loss)/gain from changes in fair value		(134)	155
Deferred tax relating to components of other comprehensive income:			
- revaluation of available for sale investment securities		94	(13)
- actuarial loss on retirement benefit obligations		1,477	782
Other comprehensive income net of tax		(4,946)	(2,072)
Total comprehensive income for the year net of tax attributable to equity holders of the Company		23,760	19,480
Dividends paid and proposed for the year per ordinary share	5	46.00p	44.00p
Dividends paid and proposed for the year		20,001	19,067
Earnings per share for the period attributable to equity holders of the Company:	6		
- basic		66.72p	49.76p
- diluted		65.90p	49.35p

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Share capital £'000	Share premium £'000	Merger reserve £'000	Available for sale reserve £'000	Translation reserve £'000	Treasury shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2010	2,165	31,756	31,835	2,077	245	(4,032)	118,443	182,489
Profit for the year							21,552	21,552
Exchange translation differences					9			9
Net actuarial loss on retirement benefit obligations							(3,005)	(3,005)
Revaluation of available for sale investment securities				155				155
Deferred tax relating to components of other comprehensive income				(13)			782	769
Other comprehensive income net of tax	-	-	-	142	9	-	(2,223)	(2,072)
Dividends paid							(18,167)	(18,167)
Issue of share capital	4	732						736
Reclassification of translation reserve on disposal of subsidiaries					(254)		254	-
Share-based payments:								
- value of employee services							1,054	1,054
- cost of treasury shares acquired						(569)		(569)
- cost of treasury shares vesting						1,702	(1,702)	-
- tax on share-based payments							351	351
At 1 January 2011	2,169	32,488	31,835	2,219	-	(2,899)	119,562	185,374
Profit for the year							28,706	28,706
Net actuarial loss on retirement benefit obligations							(6,383)	(6,383)
Revaluation of available for sale investment securities				(134)				(134)
Deferred tax relating to components of other comprehensive income				94			1,477	1,571
Other comprehensive income net of tax	-	-	-	(40)	-	-	(4,906)	(4,946)
Dividends paid							(19,491)	(19,491)
Issue of share capital	9	1,728						1,737
Share-based payments:								
- value of employee services							1,989	1,989
- cost of treasury shares acquired						(2,955)		(2,955)
- cost of treasury shares vesting						1,125	(1,125)	-
- tax on share-based payments							239	239
At 31 December 2011	2,178	34,216	31,835	2,179	-	(4,729)	124,974	190,653

Consolidated balance sheet

as at 31 December 2011

	2011 £'000	2010 £'000
Assets		
Cash	4	4
Settlement balances	13,443	18,169
Loans and advances to banks	65,008	39,565
Loans and advances to customers	47,787	40,025
Investment securities:		
- available for sale	68,563	42,587
- held to maturity	843,983	751,085
Prepayments, accrued income and other assets	38,413	36,368
Property, plant and equipment	10,660	6,143
Deferred tax asset	3,134	2,474
Intangible assets	92,844	91,702
Total assets	1,183,839	1,028,122
Liabilities		
Deposits by banks	513	3,304
Settlement balances	22,196	23,712
Due to customers	908,656	762,026
Accruals, deferred income, provisions and other liabilities	50,924	42,455
Current tax liabilities	3,557	4,608
Retirement benefit obligations	7,340	6,643
Total liabilities	993,186	842,748
Equity		
Share capital	2,178	2,169
Share premium	34,216	32,488
Merger reserve	31,835	31,835
Available for sale reserve	2,179	2,219
Treasury shares	(4,729)	(2,899)
Retained earnings	124,974	119,562
Total equity	190,653	185,374
Total liabilities and equity	1,183,839	1,028,122

The financial statements were approved by the Board of directors and authorised for issue on 20 February 2012 and were signed on its behalf by:

A D Pomfret **R P Stockton**
Chief Executive Finance Director

Company registered number: 01000403

Consolidated statement of cash flows

for the year ended 31 December 2011

	2011	2010
	£'000	£'000
		restated (note 1)
Cash flows from operating activities		
Profit before tax	39,152	30,083
Net interest income	(10,021)	(8,829)
Net (recoveries)/impairment charges on impaired loans and advances	(1)	95
Net charge for provisions	2,465	572
Profit on disposal of property, plant and equipment	(17)	(37)
Depreciation and amortisation	8,997	8,405
Defined benefit pension scheme charges	1,484	1,510
Share-based payment charges	2,604	1,729
Interest paid	(1,282)	(1,413)
Interest received	10,359	11,754
	53,740	43,869
Changes in operating assets and liabilities:		
- net (increase)/decrease in loans and advances to banks and customers	(8,523)	24,572
- net decrease/(increase) in settlement balance debtors	4,726	(864)
- net increase in prepayments, accrued income and other assets	(1,133)	(7,980)
- net increase/(decrease) in amounts due to customers and deposits by banks	143,841	(8,410)
- net (decrease)/increase in settlement balance creditors	(1,516)	1,555
- net increase in accruals, deferred income, provisions and other liabilities	3,725	6,026
Cash generated from operations	194,860	58,768
Defined benefit pension contributions paid	(7,170)	(7,285)
Tax paid	(10,345)	(6,089)
Net cash inflow from operating activities	177,345	45,394
Cash flows from investing activities		
Purchase of property, plant, equipment and intangible assets	(12,976)	(30,417)
Proceeds from sale of property, plant and equipment	41	128
Purchase of investment securities	(1,565,418)	(1,679,090)
Proceeds from sale and redemption of investment securities	1,472,520	1,622,005
Net cash used in investing activities	(105,833)	(87,374)
Cash flows from financing activities		
Purchase of shares for share-based schemes	(2,259)	(286)
Issue of ordinary shares	1,041	453
Dividends paid	(19,491)	(18,167)
Net cash used in financing activities	(20,709)	(18,000)
Net increase/(decrease) in cash and cash equivalents	50,803	(59,980)
Cash and cash equivalents at the beginning of the period	79,069	139,044
Effect of exchange rate changes on cash and cash equivalents	-	5
Cash and cash equivalents at the end of the period	129,872	79,069

Notes to the preliminary statement

for the year ended 31 December 2011

1. Accounting policies

In preparing the financial information included in this statement the Group has applied accounting policies which are in accordance with International Financial Reporting Standards as adopted by the EU at 31 December 2011. The accounting policies have been applied consistently to all periods presented in the consolidated accounts, except as noted below.

(a) Presentation of primary statements

Two changes have been made to the presentation of the primary statements in these consolidated financial statements compared to the previous year. The consolidated income statement and consolidated statement of comprehensive income have been re-presented this year as a combined consolidated statement of comprehensive income. In addition, other reserves are now shown individually on the face of the balance sheet rather than in aggregate.

The consolidated statement of cash flows now separately discloses the net change in provisions through profit or loss as a single line item in cash flows from operating activities. There has been no change to the net cash inflow from operating activities or the net increase/(decrease) in cash and cash equivalents. The comparative balances have been reclassified to be consistent with this presentation.

(b) Segmental information

Following the completion of the disposal of the Group's overseas trust businesses, the presentation of segmental information has been amended to include the remaining trust and tax operations within the Investment Management segment. This change reflects management's view that the retained trust related activities support the investment management business and are not sufficiently material in their own right to constitute a separate segment of the business. The results of the business areas previously reported as Trust and Tax Services are now included within the Investment Management segment for reporting segmental results.

In addition, fee income from trust, tax and pensions advisory activities are now reported separately as fees from advisory services. Total net fee and commission income included in the consolidated statement of comprehensive income is now comprised of net investment management fee income, net commission and fees from advisory services.

Comparative balances in the segmental analysis for the full year to 31 December 2010 have been reclassified to be consistent with the revised presentation.

2. Segmental information

For management purposes, the Group is currently organised into two operating divisions: Investment Management and Unit Trusts. These segments are the basis on which the Group reports its performance to the executive committee, which is the Group's chief operating decision maker. Certain items of income are presented within different categories of operating income in the financial statements compared to the presentation for internal reporting.

	Investment Management	Unit Trusts	Total
	£'000	£'000	£'000
31 December 2011			
Net investment management fee income	80,086	7,562	87,648
Net commission income	36,170	-	36,170
Fees from advisory services	7,637	-	7,637
Net interest and other income	11,216	686	11,902
Underlying operating income	135,109	8,248	143,357
Staff costs - fixed	(31,649)	(2,503)	(34,152)
Staff costs - variable	(15,770)	(1,071)	(16,841)
Total staff costs	(47,419)	(3,574)	(50,993)
Other direct expenses	(13,284)	(1,828)	(15,112)
Allocation of indirect expenses	(29,013)	(2,020)	(31,033)
Underlying operating expenses	(89,716)	(7,422)	(97,138)
Underlying profit before tax	45,393	826	46,219
Gains on disposal of financial securities	1,095	-	1,095
Exceptional levies to the Financial Services Compensation Scheme	-	-	-
Amortisation of client relationships	(5,134)	-	(5,134)
Segment profit before tax	41,354	826	42,180
Head office relocation costs (unallocated) (note 3)			(3,028)
Profit before tax attributable to equity holders of the Company			39,152
Taxation			(10,446)
Profit for the year attributable to equity holders of the Company			28,706

2. Segmental information (continued)

31 December 2011	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	1,154,085	16,428	1,170,513
Unallocated assets			13,326
Total assets			1,183,839

31 December 2010 (restated - note 1)	Investment Management £'000	Unit Trusts £'000	Total £'000
Net investment management fee income	66,511	7,074	73,585
Net commission income	35,713	-	35,713
Fees from advisory services	7,372	-	7,372
Net interest and other income	10,171	343	10,514
Underlying operating income	119,767	7,417	127,184
Staff costs - fixed	(28,912)	(2,161)	(31,073)
Staff costs - variable	(13,988)	(1,233)	(15,221)
Total staff costs	(42,900)	(3,394)	(46,294)
Other direct expenses	(12,524)	(1,545)	(14,069)
Allocation of indirect expenses	(26,632)	(1,686)	(28,318)
Underlying operating expenses	(82,056)	(6,625)	(88,681)
Underlying profit before tax	37,711	792	38,503
Exceptional levies to the Financial Services Compensation Scheme	(3,332)	(243)	(3,575)
Amortisation of client relationships	(4,845)	-	(4,845)
Profit before tax attributable to equity holders of the Company	29,534	549	30,083
Taxation			(8,531)
Profit for the year attributable to equity holders of the Company			21,552

31 December 2010 (restated - note 1)	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	1,004,917	12,923	1,017,840
Unallocated assets			10,282
Total assets			1,028,122

Included within Investment Management net fee and commission income is £1,547,000 (31 December 2010: £1,225,000) of fee and commission receivable from Unit Trusts. Intersegment sales are charged at prevailing market prices.

Centrally incurred indirect expenses are allocated to operating segments on the basis of the cost drivers that generate the expenditure.

Geographic analysis

The following table presents underlying operating income analysed by the geographical location of the Group entity providing the service:

Underlying operating income by geographical market

	2011 £'000	2010 £'000
United Kingdom	139,128	123,119
Jersey	4,229	4,065
	143,357	127,184

The following is an analysis of the carrying amount of non-current assets analysed by the geographical area in which the assets are located:

Non-current assets by geographical location

	2011 £'000	2010 £'000
United Kingdom	102,641	97,053
Jersey	863	792
	103,504	97,845

3. Head office relocation costs

Rathbones announced on 16 May 2011 that it had exchanged contracts for a 12 year lease of 42,200 sq ft of office space on the 3rd and 4th floors of 1 Curzon Street, London W1. It is expected that the move from the current head office premises in New Bond Street, London will be completed by the end of February 2012. Charges of £3,028,000 relating to the move have been recognised during the year (2010: £nil).

	2011	2010
	£'000	£'000
Staff costs - wages and salaries	146	-
Provision for onerous lease	276	-
Provision for dilapidations	920	-
Rent, rates and service charge on unoccupied premises	1,463	-
Depreciation of property, plant and equipment	148	-
Other	75	-
Total	3,028	-

In addition to the above costs charged to profit in the year, a further £4,815,000 (2010: £nil) of costs for fitting-out the new London premises have been capitalised as leasehold improvements.

4. Income tax expense

	2011	2010
	£'000	£'000
Current tax:		
- charge for the year	9,766	8,200
- adjustments in respect of prior years	(470)	82
Deferred tax:		
- charge for the year	1,219	467
- adjustments in respect of prior years	(69)	(218)
	10,446	8,531

The tax charge on profit for the year is higher (2010: higher) than the standard rate of corporation tax in the UK of 26.5% (2010: 28.0%). The differences are explained below:

	2011	2010
	£'000	£'000
Tax on profit from ordinary activities at the standard rate of 26.5% (2010: 28.0%)	10,373	8,423
Effects of:		
- disallowable expenses	513	340
- share-based payments	(15)	(30)
- tax on overseas earnings	81	(77)
- over provision for tax in previous years	(539)	(136)
- other	(24)	(35)
Effect of change in corporation tax rate	57	46
	10,446	8,531

The UK Government has proposed that the UK corporation tax rate is reduced to 23.0% over the four years from 2011. At 31 December 2011 only an element of this reduction, taking the UK tax rate to 25.0% in 2012, had been substantively enacted. Consequently deferred tax assets and liabilities are calculated at 25.0%.

In addition to the amount charged to profit or loss, deferred tax relating to actuarial gains and losses, share-based payments and gains and losses arising on available for sale investment securities amounting to £1,810,000 has been credited directly to equity (2010: £1,120,000).

5. Dividends

	2011	2010
	£'000	£'000
Amounts recognised as distributions to equity holders in the year:		
- second interim dividend for the year ended 31 December 2010 of 28.0p (final dividend for the year ended 31 December 2009: 26.0p) per share	12,123	11,246
- first interim dividend for the year ended 31 December 2011 of 17.0p (2010: 16.0p) per share	7,368	6,921
Dividends paid in the year of 45.0p (2010: 42.0p) per share	19,491	18,167
Proposed final dividend for the year ended 31 December 2011 of 29.0p (2010: second interim dividend of 28.0p per share)	12,633	12,146

5. Dividends (continued)

An interim dividend of 17.0p per share was paid on 5 October 2011 to shareholders on the register at the close of business on 16 September 2011 (2010: 16.0p).

A final dividend declared of 29.0p per share is payable on 17 May 2012 to shareholders on the register at the close of business on 27 April 2012. The final dividend is subject to approval by shareholders at the Annual General Meeting on 10 May 2012 and has not been included as a liability in these financial statements.

6. Earnings per share

Earnings used to calculate earnings per share on the bases reported in these financial statements were:

	2011	2011	2011	2010	2010	2010
	Pre-tax	Taxation	Post tax	Pre-tax	Taxation	Post tax
	£'000	£'000	£'000	£'000	£'000	£'000
Underlying profit attributable to shareholders	46,219	(12,318)	33,901	38,503	(10,889)	27,614
Gains on disposal of financial securities	1,095	(290)	805	-	-	-
Exceptional levies to the Financial Services Compensation Scheme	-	-	-	(3,575)	1,001	(2,574)
Amortisation of client relationships	(5,134)	1,360	(3,774)	(4,845)	1,357	(3,488)
Head office relocation costs	(3,028)	802	(2,226)	-	-	-
Profit attributable to shareholders	39,152	(10,446)	28,706	30,083	(8,531)	21,552

Basic earnings per share has been calculated by dividing earnings by the weighted average number of shares in issue throughout the period of 43,027,127 (2010: 43,307,423).

Diluted earnings per share is the basic earnings per share, adjusted for the effect of contingently issuable shares under the Long Term Incentive Plan, employee share options remaining capable of exercise and any dilutive shares to be issued under the Share Incentive Plan, weighted for the relevant period (see table below):

	2011	2010
Weighted average number of ordinary shares in issue during the period – basic	43,027,127	43,307,423
Effect of ordinary share options/Save As You Earn	201,651	76,153
Effect of dilutive shares issuable under the Share Incentive Plan	98,654	116,364
Effect of contingently issuable ordinary shares under the Long Term Incentive Plan	235,027	169,580
Diluted ordinary shares	43,562,459	43,669,520

	2011	2010
Underlying earnings per share for the year attributable to equity holders of the Company:		
- basic	78.79p	63.76p
- diluted	77.82p	63.23p

7. Financial information

The financial information set out in this preliminary announcement has been extracted from the Group's financial statements, which have been approved by the Board of directors and agreed with the Company's auditor.

The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 December 2011 or 2010. Statutory financial statements for 2010 have been delivered to the Registrar of Companies. Statutory financial statements for 2011 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor has reported on both the 2010 and 2011 financial statements. Their reports were unqualified and did not draw attention to any matters by way of emphasis. They also did not contain statements under Section 498 of the Companies Act 2006.