Foreign & Colonial
INVESTMENT TRUST

Foreign & Colonial Investment Trust PLC

Report and Accounts

2012

Your Company in today's world

Objective

To secure long-term growth in capital and income through a policy of investing primarily in an internationally diversified portfolio of publicly listed equities, as well as unlisted securities and private equity, with the use of gearing.

Heritage

Founded in 1868 as the first ever investment trust and continually evolves; keeping pace with new investment opportunities and maintaining its relevance in today's world.

Core investment

Conservatively managed and offering investors a globally diversified portfolio. Foreign & Colonial aims to be the centre of an investor's portfolio alongside other assets creating a wider investment solution.

Consistent outperformance

In the last ten years Foreign & Colonial has outperformed its benchmark by around 1% per annum; that turned a £1,000 investment, with dividends reinvested, into £2,470 compared with £2,290 from the market benchmark and with lower volatility. A £1,000 investment over 20 years would have grown to £4,417.

Income

Well-positioned for income flows and with significant income reserves for future increases in dividends. The dividend has increased every year for the past 42 years and over the last ten years is up 142.9% or 9.3% compound compared with inflation of 37.7% or 3.3% compound.

Cost effective

With an Ongoing Charge ratio of 0.90% Foreign & Colonial compares favourably with open-ended investment companies and many other investment trusts. The cumulative benefits of low costs are very significant for long-term investors.

Stability and liquidity

A discount control mechanism operates to achieve a low volatile discount with a ceiling of 10%, in normal market conditions, as well as enhancing net asset value per share.

Suitable for all investors

Foreign & Colonial is suitable for retail investors in the UK, professionally advised private clients and institutional investors who seek growth in capital and income from investment in global markets and who understand and are willing to accept the risks of exposure to equities.

Visit our website at
www.foreignandcolonial.com

Financial Highlights

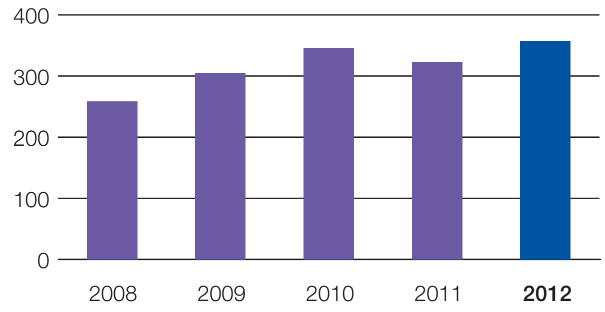
Summary of Results

Net asset value per share up 10.8% to 357.60p (debt at market value)

Annual dividends per share up 19.7% to 8.50p

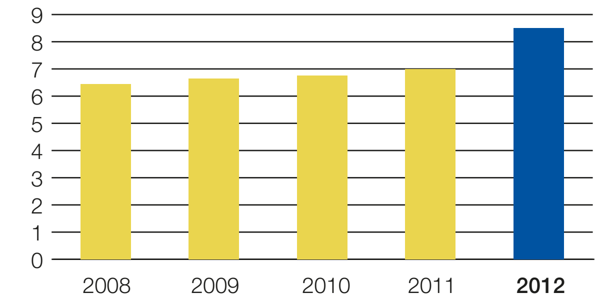
Share price up 11.1% to 320.50p

Net asset value per share with debt at market value at 31 December – pence



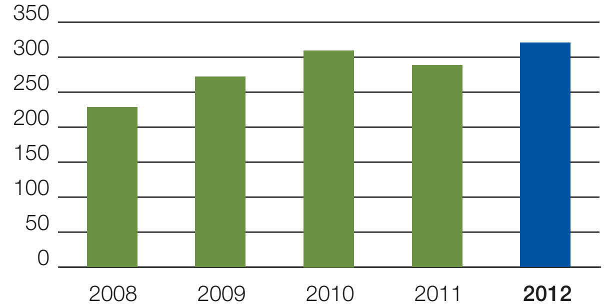
Source: F&C

Dividends per share – pence



Source: F&C

Mid-market price per share at 31 December – pence



Source: F&C

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Financial Calendar

Annual General Meeting	**23 April 2013**
Final dividend payable for 2012	**1 May 2013**
Interim results for 2013 announced	**end July 2013**
First interim dividend for 2013	**1 August 2013**
Second interim dividend for 2013	**1 November 2013**
Third interim dividend for 2013	**3 February 2014**
Final Results for 2013 announced	**March 2014**
Final dividend for 2013	**May 2014**

Registered in England and Wales with Company Registration No. 12901

Chairman's Statement

Simon Fraser
Chairman

Dear Shareholder

Your Company had a successful year. Net asset value per share rose 10.8% to 357.60 pence and the share price 11.1% to 320.50 pence.

The total dividend for 2012 will be 8.50 pence, an increase of 19.7%. For 2013 we plan to pay a total dividend of 9.00 pence which would be a rise of 5.9% and the forty-third consecutive annual dividend increase.

Performance

All major stock markets rose in the year despite slower than expected economic growth, political uncertainty in many countries and sluggish earnings growth from many companies. Central banks continued to find new ways of injecting money into the financial system and none of the potential disasters investors were worried about occurred by the end of the year.

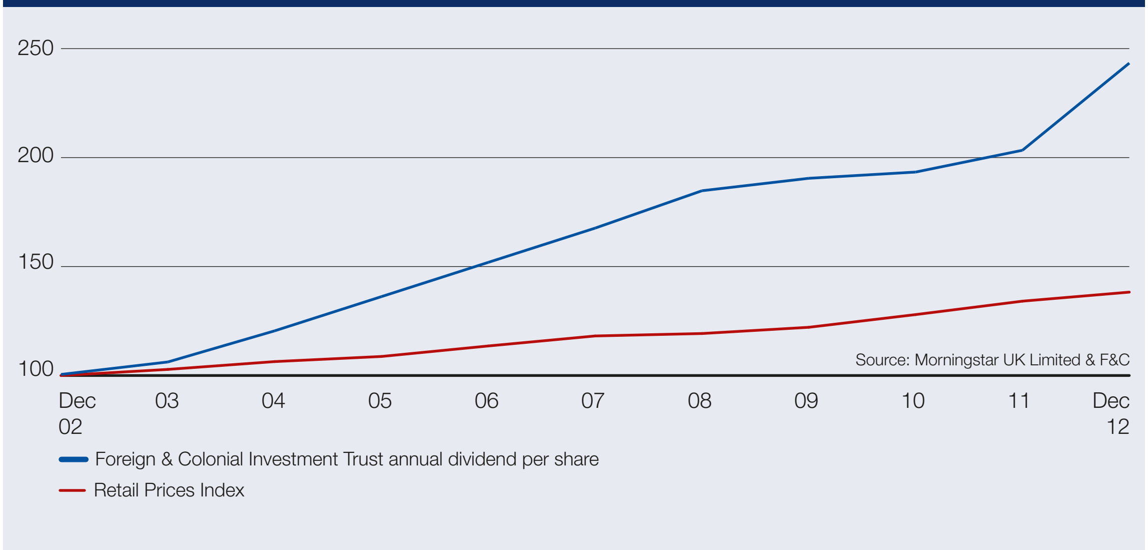
The net asset value total return was 13.3% compared with 12.1% for our benchmark (40% FTSE All-Share and 60% FTSE WI World ex UK indices), the AIC Global Growth Sector weighted average net asset value of 12.4% and the open ended global fund average of 10.1%. The biggest positive influences on our performance in the year were strong stock selection overseas and our relatively high level of gearing in rising markets. Our private equity portfolio generated far more cash than in 2011 but did not rise as much as public markets.

Our performance in 2012 continued our record of long-term growth. Over the last ten years we have achieved a total return of 9.5% per annum compared with a benchmark return of 8.6% per annum. At the same time our NAV has been less volatile than the index benchmark. In short we have produced superior performance with lower risk.

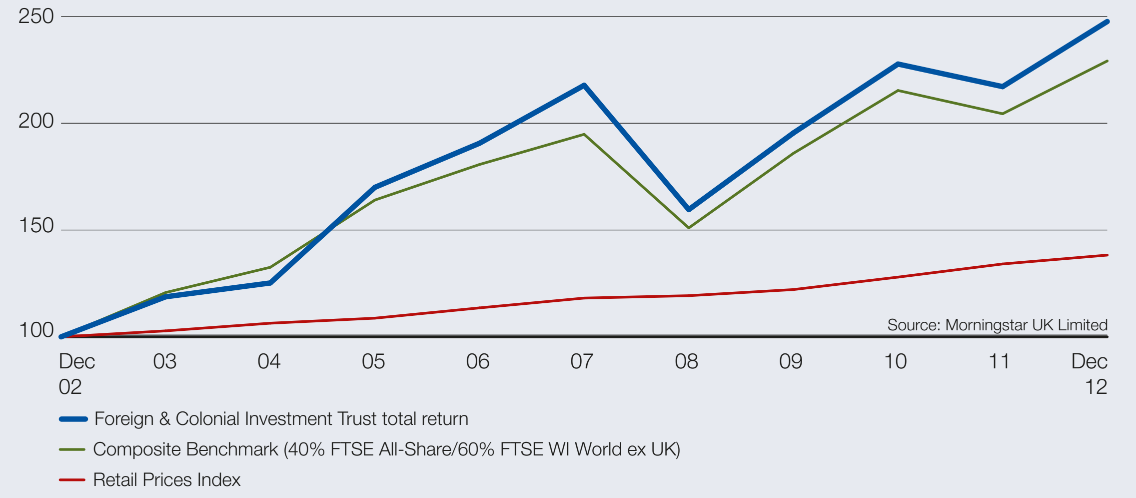
Dividend Policy

We have a superb record of long-term dividend growth stretching back more than forty years. The dividend has more than doubled in each of the last four decades. Our net revenue return per share rose 4.2% in 2012 and exceeded the previous peak in

Foreign & Colonial's annual dividend per share vs Retail Prices Index over 10 years



Foreign & Colonial's share price total return vs Composite Benchmark and Retail Prices Index over 10 years



2008. Further cash realisations from our private equity portfolio and the repayment of our expensive debenture at the end of 2014 will strengthen our dividend paying ability. The Board therefore decided to increase your dividend for 2012 by 19.7% and move to quarterly dividend payments from February 2013. The Retail Price Index rose 3.2% in 2012.

You received an interim dividend of 4.00 pence in September 2012 and the first quarterly dividend of 2.00 pence on 1 February 2013. Subject to shareholder approval at the Annual General Meeting you will receive a final dividend of 2.50 pence on 1 May 2013.

We plan a further increase in dividends for 2013. Three quarterly dividends of 2.10 pence each would be paid in August 2013, November 2013 and February 2014 and, subject to shareholder approval at the AGM, a final dividend of 2.70 pence in May 2014. The total dividend for 2013 would therefore be expected to be 9.00 pence, an increase of 5.9% on the 2012 total, and the forty-third consecutive annual increase.

F&C Savings Plans

F&C Management Limited, as plan manager, has operated savings plans over many years, allowing investment in your Company at minimal cost to participating investors. The administration fees for providing these plans have increased over time and in 2012 cost your Company £1.2m. The plan manager is therefore introducing a flat annual charge to savings plan investors and from April 2013 your Company will benefit by no longer bearing any of the administration costs.

The Board and corporate governance

The Nomination Committee continues to assess the composition of the Board in terms of the stewardship of a company investing in a globally diversified portfolio and its promotion as a core investment solution for investors. All appointments are made on the basis of merit and take account of the value of diversity inclusive of gender. All the Directors will stand for re-election at the Annual General Meeting. The Company remains committed to the highest standards of corporate governance and has complied with the relevant guidance throughout the year.

Manager Reappointment

The Board has conducted its annual formal review of F&C and decided to reappoint F&C as the Manager for 2013. The Board continues to monitor all aspects of F&C's performance very carefully.

Chairman's Statement (continued)

The Future

Most of the problems we were concerned about a year ago are no closer to a solution but share prices have risen and investor sentiment is more optimistic. We are more cautious than a year ago and as a result our gearing has fallen from 15.8% at the end of 2011 to 12% at 31 January 2013.

There are two distinct strands to our own strategy over the next five years. The first is to continue to increase our dividend faster than the rate of inflation and to achieve capital growth. The second is to make our portfolio even more global in order to exploit the investment opportunities that will arise in different markets at different times. So far this year we have made some portfolio changes to increase our exposure to international markets and diversify our income and we have adopted a new global benchmark of the FTSE All World Index to measure our performance. Cash realisations from our private equity portfolio will strengthen our dividend paying ability and we will have a significant reduction in interest costs at the end of next year when our expensive debenture matures.

Our consistent performance record over many years, combined with our significant dividend growth and our low relative volatility, makes us particularly well suited for retail investors who are looking for long-term exposure to equity markets.

We are confident that our globally diversified portfolio is well placed to continue to deliver strong long-term investment performance.

Simon Fraser
Chairman
1 March 2013

Forward-looking statements

This document may contain forward-looking statements with respect to the financial condition, results of operations and business of the Company. Such statements involve risk and uncertainty because they relate to future events and circumstances that could cause actual results to differ materially from those expressed or implied by forward-looking statements. The forward-looking statements are based on the Directors' current view and on information known to them at the date of this document. Nothing should be construed as a profit forecast.

Fund Manager's Review

Jeremy Tigue
Fund Manager

Summary of the year

2012 was a good year for Foreign & Colonial shareholders. Most investors spent the year worrying about what could go wrong but there were no political surprises, fewer natural disasters than in 2011, no unexpected economic upsets and no large company collapses. The most significant development in the year took place on 26 July in London when Mario Draghi, the president of the European Central Bank, promised "to do whatever it takes to preserve the Euro". This commitment removed investors' greatest fear, a chaotic break up of the Eurozone, and had a huge impact on confidence in the rest of 2012.

Despite sluggish economic growth corporate profits and dividends increased. Share prices were influenced more by greater confidence than rising profits. There was very little takeover activity and few private companies wanted to go public after the Facebook share price almost halved.

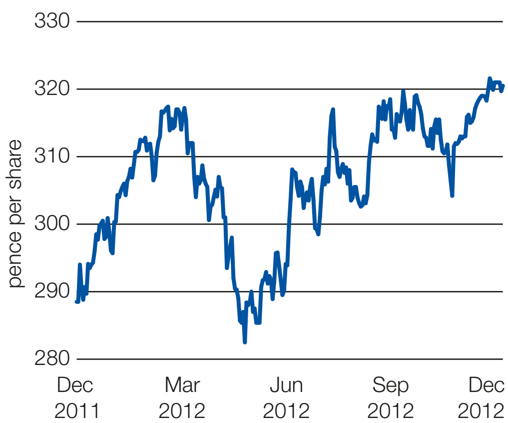
How we performed and why

We outperformed our benchmark and the AIC Global Growth Sector Weighted average net asset value for the second year. In 2011 we fell less than others but in 2012 we went up more than others. Portfolio turnover was much lower than in 2011 and we did not make any major strategic shifts. Most of the successes we had in 2012 were the result of decisions taken in 2011 or earlier.

Gearing

The most important contributor to our results came from gearing. We have a gearing range of 0-20% and in a perfect world we would have no gearing at market peaks and 20% gearing at market troughs. Gearing reached its highest level in the last decade at 30 September 2011 at 18.8% and since then most markets have risen over 20%. In 2012 we also had a £7m benefit from the market value of our debenture falling as it approaches maturity on 31 December 2014. We will have another £15m gain from this source during 2013 and 2014. In April we took out our first long-term borrowings since

Foreign & Colonial Investment Trust share price 2012



Source: F&C

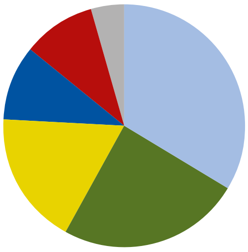
Contributors to total returns in 2012

	%
Benchmark return	12.1
Asset allocation	-1.1
Stock selection	0.9
Effect of directly incurred management fees	-0.4
Other expenses	-0.2
Interest expense	-0.9
Buybacks	0.2
Change in debenture valuation	0.4
Gearing	2.3
Net asset value total return*	13.3
Effect of discount	0.6
Share price total return	13.9

*Debt at market value.
Source: F&C

Fund Manager's Review (continued)

Distribution of our portfolio as at 31 December 2012



Source: F&C

1989. We borrowed the equivalent of £50m each of US Dollars and Japanese Yen for seven years at a blended rate of 3.25%. We are very confident that we will earn more than 3.25% per annum from our investment portfolio so this loan should add value for shareholders. By the year end we had already benefited from the weakness of the Yen against the pound as well as the rise in markets.

Asset Allocation

Our allocation of assets across the world had a negative impact for two reasons. The most important was our exposure to private equity. Our private equity portfolio rose by 4.9% over the year compared with a rise of 12.1% from our benchmark. This cost us about 1.3% in performance in the second half of the year. This is largely a timing issue as there is a lag of between three to six months between market movements and private equity fund valuation adjustments. The three-year numbers from private equity show a gain of 41.9% compared with a benchmark return of 23.3%. We have also seen an acceleration in positive cash flows from the portfolio from £6m in 2011 to £24m in 2012. The balance of the underperformance in asset allocation came from making sales in Europe and emerging markets too early in September 2012.

Weighting, stock selection and performance in each market vs Index at 31 December 2012

Market	Our portfolio weighting %	Benchmark weighting %	Our portfolio performance %	Local index performance in Sterling %
UK	33.6	40.0	11.1	12.3
North America	24.5	34.7	12.5	10.7
Private Equity	17.9	–	4.9	–
Emerging Markets	10.0	7.0	15.1	13.5
Europe ex UK	9.8	13.3	27.3	17.3
Japan	4.2	5.0	4.7	3.3

Source: F&C

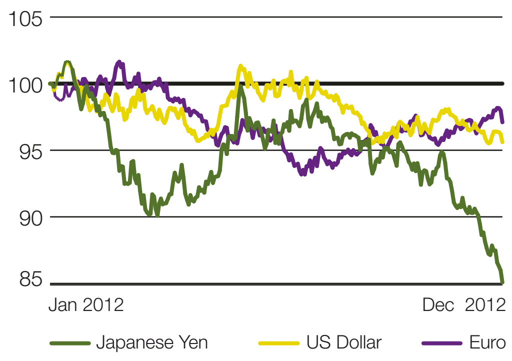
Investment changes during the year ended 31 December 2012 (£m)

£m	Valuation at 31 December 2011	Purchases	Sales	Gains	Valuation at 31 December 2012
UK	757	71	(110)	81	799
North America	518	99	(89)	53	581
Private Equity	428	35	(59)	20	424
Emerging Markets	226	186	(198)	24	238
Continental Europe	204	78	(72)	22	232
Japan	95	31	(29)	3	100
Totals	2,228	500	(557)	203	2,374

* Return of cash

Source: F&C

Currency movements vs Sterling in 2012



Source: F&C

Stock Selection

We had our best year for choosing stocks in individual markets since 2007. The standout performance was in Europe. Despite all the gloom about the Eurozone, this was the best performing region in stock market terms. Our own portfolio did significantly better, outperforming a rising market. The largest individual stock contributor was the Swiss bank, UBS. In the US we had a very strong performance from our growth manager T Rowe Price and the smaller companies portfolio managed within F&C. Our value manager, Barrow Hanley, underperformed but the combination of all three portfolios was successful. Apple's share price was particularly volatile. It rose from $405 to $702 at its peak in September and fell back to $532 at the year end. Its great smart phone rival, Samsung Electronics, was the strongest performer in the Emerging Markets portfolio which had less exposure to some of the other large companies that did not perform so well. Japan had a good year and the only area where we underperformed was the UK. We did not have enough invested in the domestic banks and were too defensively positioned for the market recovery.

Income and dividend

Our income rose by 2.8% and exceeded the previous peak in 2008. We had fewer special dividends than in 2011 but the underlying growth in income was satisfactory. Fund management costs rose less than 1% and, apart from savings plan administration, other costs fell.

The increased dividend is not fully covered by the net revenue return for the year so we are again drawing on our revenue reserve. After the payment of the final dividend in May the reserve will be 13.66 pence per share compared with the planned 2013 total dividend of 9.00 pence. In the next five years we expect an increase in income from our underlying portfolio, the reinvestment of private equity cash realisations and the repayment of the debenture to strengthen our revenue position.

2013 Actions

We have made three important changes so far this year.

Firstly, we have created a global income portfolio of some 200 stocks to reduce our exposure to the UK and diversify our income. We have also put ten existing fund holdings into a separate portfolio to form the first stocks in a global funds portfolio which we expect to use to gain access to new and specialist areas.

Secondly, we have changed the benchmark against which we judge performance for the first time since 1997. The new benchmark is the FTSE All World Index which better reflects the global nature of the investment portfolio than our old benchmark which had 40% in the UK.

Finally, we used the switch out of the UK as an opportunity to reduce our level of gearing from 14.3% at the end of 2012 to 12% at 31 January 2013.

Jeremy Tigue
Fund Manager
1 March 2013

Fund Manager's Review (continued)

North American Performance (US Dollars)

	31 December 2012 Value (US$m)	Approx % of US Portfolio	12 month performance %
T Rowe Price US Large Cap Growth	396.4	42.0%	18.9
Barrow Hanley US Large Cap Value	416.1	44.0%	15.3
US Smaller Companies F&C managed portfolio	132.5	14.0%	21.2
Total North America portfolio	945.0	100.0%	17.6
S&P 500 Total Return Index			16.0
Russell 1000 Value Index			17.5
Russell 1000 Growth Index			15.3
Russell 2000 Index			16.3

* The mandate aims to outperform the S&P 500 benchmark index by 2% per annum, annualised on a rolling three year basis.

Source: F&C

Private equity portfolio

		Original commitment €'000s	Cumulative commitment drawn down €'000s	Commitment outstanding 31 December €'000s	Cumulative cash returned €'000s	Value of holding 31 December €'000s
Total Euro denominated portfolio	2012	290,000	251,375	38,625	132,537	197,214
	2011	290,000	242,125	47,875	107,618	187,585
		US$'000s	US$'000s	US$'000s	US$'000s	US$'000s
Total US Dollar denominated portfolio	2012	589,050	474,129	114,921	166,119	428,606
	2011	589,050	431,018	158,032	103,909	421,867

		Commitment outstanding 31 December 2012 £'000s	Value of holding 31 December 2012 £'000s
Total private equity portfolio(1)	Brought forward	141,675	428,140
Committed in 2012(2)		–	–
Cash drawn in 2012(2)		(34,930)	34,930
Cash returned in 2012(2)		–	(59,305)
Valuation movements(3)		–	11,982
Exchange movements		(4,718)	8,360
Total private equity portfolio(3)	Carried forward	102,027	424,107

(1) At exchange rates ruling at 31 December 2011
(2) At actual exchange rates in 2012
(3) At exchange rates ruling at 31 December 2012

Source: F&C

Twenty Largest Holdings

This Year	*Last Year*	**Company** Description	% of total investments	Value £'000s
1	*(3)*	**Pantheon Europe Fund V*** Private equity fund of funds investing in the European market, with the largest exposure being to the UK. It called a net £2.6 million in 2012.	2.48%	58,943
2	*(4)*	**HarbourVest V Direct Fund*** Specialist private equity fund that makes direct investments alongside other fund managers. It distributed a net £1.8 million in 2012.	2.16%	51,314
3	*(2)*	**Pantheon Europe Fund III*** Private equity fund of funds investing principally in UK and European management buyouts which distributed a net £13.2 million in 2012.	2.09%	49,699
4	*(5)*	**Dover Street VII*** HarbourVest managed fund of funds specialising in buying holdings in existing private equity funds. It called a net £2.4 million in 2012.	1.91%	45,405
5	*(11)*	**Royal Dutch Shell** Global oil company.	1.89%	44,991
6	*(10)*	**HSBC** Broadly diversified international bank operating in over 80 countries worldwide.	1.78%	42,236
7	*(6)*	**GlaxoSmithKline** One of the world's leading pharmaceutical companies.	1.78%	42,221
8	*(8)*	**British American Tobacco** Leading international manufacturer and distributor of cigarettes.	1.71%	40,554
9	*(7)*	**BP** Global oil company.	1.66%	39,442
10	*(1)*	**Vodafone** Global mobile telephone provider.	1.60%	38,072
11	*(9)*	**HarbourVest Partners VII Buyout Fund*** Fund of funds investing in buyouts of US businesses. It distributed a net £6.4 million in 2012.	1.43%	33,843
12	*(13)*	**Utilico Emerging Markets** Specialist fund concentrating on utility and infrastructure investments in emerging markets.	1.31%	31,138

Twenty Largest Holdings (continued)

This Year	*Last Year*	**Company** Description	% of total investments	Value £'000s
13	*(12)*	**Dover Street VI*** HarbourVest managed fund of funds specialising in buying holdings in existing private equity funds. It distributed a net £2.6 million in 2012.	1.24%	29,468
14	*(15)*	**HarbourVest Partners VIII Buyout Fund*** Fund of funds investing in buyouts of US businesses. It called a net £0.6 million in 2012.	1.11%	26,440
15	*(14)*	**Pantheon Asia Fund IV*** Private equity fund of funds investing in Asian markets. It distributed a net £1.1 million in 2012.	1.05%	24,934
16	*(17)*	**Pantheon Asia Fund V*** Private equity fund of funds investing in Asian markets. It called a net £1.6 million in 2012.	1.00%	23,643
17	*(19)*	**SSE** Multi-utility group.	0.99%	23,522
18	*(–)*	**Apple** Global consumer electronics business.	0.90%	21,314
19	*(–)*	**Rio Tinto** Leading global mining company.	0.88%	20,975
20	*(–)*	**Standard Chartered** Global bank with a strong position in emerging markets.	0.88%	20,913

The value of the twenty largest holdings represents 29.85% (2011: 32.3%) of the Company's total investments.
The figures in brackets denote the position at the previous year end.
The value of convertible securities in the total portfolio at 31 December 2012 was £2,364,000 or 0.1% of total assets less current liabilities (2011: £2,394,000 or 0.1% of total assets less current liabilities).
* Unlisted Private Equity Limited Partnership investment held at estimated fair value, with no fixed capital and no distributable income in the ordinary course of business.

The Company's full list of investments exceeds 500 and is published monthly on the website at

www.foreignandcolonial.com

Copies are also available on request from the Secretary

Ten Largest Equity Holdings by Region

Largest UK Equity Holdings

		£'000s
1	Royal Dutch Shell	44,991
2	HSBC	42,236
3	GlaxoSmithKline	42,221
4	British American Tobacco	40,554
5	BP	35,679
6	Vodafone	33,968
7	Utilico Emerging Markets	31,138
8	SSE	23,522
9	Rio Tinto	20,975
10	Standard Chartered	20,913

Largest European Equity Holdings

		£'000s
1	Roche	10,442
2	SAP	10,291
3	Novartis	10,046
4	UBS	8,701
5	Bayer	8,351
6	Allianz	8,044
7	Svenska Handelsbanken	7,741
8	Schneider Electric	7,475
9	ING	6,801
10	Booker	6,472

Largest North American Equity Holdings

		£'000s
1	Apple	21,314
2	F&C US Smaller Companies	19,438
3	Google	12,054
4	Amazon.com	10,634
5	Baxter International	10,005
6	American Express	9,838
7	Honeywell International	8,645
8	Carnival	7,917
9	Danaher	7,806
10	Diageo (ADR)	7,602

Largest Emerging Markets Equity Holdings

		£'000s
1	Samsung Electronics	13,572
2	Taiwan Semiconductor	8,601
3	Industrial & Commercial Bank of China	6,831
4	Vale	6,527
5	Banco Bradesco	6,058
6	Lukoil	5,172
7	Tencent	4,777
8	Astra International	4,755
9	Ambev	4,482
10	Cnooc	4,466

Largest Japanese Equity Holdings

		£'000s
1	Mitsubishi UFJ	5,947
2	Toyota Motor	4,884
3	Sumitomo Mitsui Financial	4,516
4	Canon	3,237
5	Honda Motor	2,929
6	East Japan Railway	2,865
7	Mitsui	2,609
8	Nissan Motor	2,536
9	Softbank	2,326
10	NTT	2,293

Directors

Simon Fraser†

Chairman

Appointed to the Board in September 2009, appointed Chairman in May 2010 and is Chairman of the Nomination Committee. Most of his career was at Fidelity International, where he started as an analyst and spent a number of years in Japan, latterly as Chief Investment Officer for the Asia/Pacific region. He returned to the UK in 1999 to take up the position of Chief Investment Officer for Fidelity International, a position he held until 2005. Other positions included President of Fidelity International's European and UK Institutional business and latterly President of the Investment Solutions Group. He stepped down from his executive responsibilities at the end of 2008. He is chairman of Merchants Trust PLC and is a non-executive director of Barclays PLC, Ashmore Group PLC, Fidelity European Values PLC and Fidelity Japanese Values PLC. *Age 53*.

Sarah Arkle*

Appointed to the Board In March 2011. She was Vice Chairman of Threadneedle where she was Chief Investment Officer for ten years until her retirement at the end of December 2010. She was instrumental in establishing Threadneedle's investment process and recruiting a number of the firm's senior fund managers. In 1983 Sarah moved from stockbroker WI Carr to become a Far East Equity Manager and subsequently became a Director at Allied Dunbar Asset Management, which became part of Threadneedle in May 1994. She is a non-executive director of Henderson Group PLC. *Age 56*.

Sir Roger Bone KCMG†

Appointed to the Board in March 2008. He has been president of Boeing UK since 2005. Prior to that he served as British Ambassador to Brazil from 1999 to 2004 and to Sweden from 1995 to 1999. He was an Assistant Under-Secretary of State in the Foreign and Commonwealth Office between 1991 and 1995, head of the Economic Relations Department there from 1989 to 1991 and Political Counsellor at the British Embassy in Washington DC from 1985 to 1989. He was a visiting fellow at Harvard University in 1984/85 and served as a private secretary to the Foreign Secretary between 1982 and 1984. He accepted an invitation from the Prime Minister in 2010 to be an honorary ambassador for British business. *Age 68.*

Stephen Burley*

Joined the Board in January 2008. He was Head of Pensions Investments at Rio Tinto from 1982 until his retirement in March 2007. He is a former investment adviser to University College London, the Central Board of Finance of the Church of England and, until 2010, the BAE Pension Fund. He Is a trustee of the Imperial War Graves Endowment Fund. *Age 65.*

Jeffrey Hewitt*

Chairman of the Audit and Management Engagement Committee

Appointed in September 2010 and as Chairman of the Audit and Management Engagement Committee In November 2011. He was the Group Finance Director of Electrocomponents plc from 1996 to 2005 and Deputy Chairman from 2000 to 2005. Prior to that, he was the Finance Director of Unitech plc from 1991 to 1996. Between 1981 and 1991 he held directorships successively with Carrington Viyella, Vantona Viyella and Coats Viyella (where he was Group Strategy Director). He started his career with Arthur Andersen where he qualified as a chartered accountant, following which he spent seven years with The Boston Consulting Group. He is also a non-executive director of Cenkos Securities plc, Vesuvius plc and Sweett Group plc. He is Chairman of Electrocomponents Pension Trustees. *Age 65.*

Christopher Keljik OBE*†

Senior Independent Director

Appointed to the Board in September 2005. He is a non-executive director of Henderson Asian Growth Investment Trust plc and a chartered accountant. He was previously a director of Millennium & Copthorne Hotels plc and Jardine Lloyd Thompson plc. He had retired as a director of Standard Chartered plc after 29 years, during which time he held a number of senior positions working in London, Hong Kong, New York and Singapore. When he retired his responsibilities included Africa, the Middle East, South Asia, the UK, Europe and the Americas. He is a chartered accountant and is also the Senior Independent Director. *Age 64.*

Nicholas Moakes†

Appointed to the Board In March 2011. He is the Head of Public Markets at The Wellcome Trust. He was Head of the Asia Pacific investment team and Co-Head of Emerging Markets at BlackRock Investment Management until 2007. He has over 20 years' experience in Asia and over 18 years' experience in global equity markets. Prior to joining BlackRock in 1997 he lived in Hong Kong for nine years, and is a Chinese speaker. He started his career in the Diplomatic Service, where he specialised in Hong Kong and China. *Age 48.*

* Members of the Audit and Management Engagement Committee
† Members of the Nomination Committee

Management and Advisers

The Management Company

Foreign & Colonial Investment Trust PLC ("**Foreign & Colonial**" or the "**Company**") is managed by F&C Management Limited ("**F&C**" or the "**Manager**"), a wholly owned subsidiary of F&C Asset Management plc ("**FCAM**"). It is appointed under a management agreement with Foreign & Colonial, setting out its responsibilities for investment management, administration and marketing.

Foreign & Colonial and F&C are two separate, independent and distinct companies.

Jeremy Tigue. He joined F&C in 1981 and was appointed Fund Manager of Foreign & Colonial in 1997. He is responsible for overall portfolio management and investment performance.

Julian Cane Appointed Deputy Fund Manager in 2005. He joined F&C in 1993 and is responsible for Foreign & Colonial's UK portfolio.

Hugh Potter Represents the Manager as Company Secretary and is responsible for Foreign & Colonial's statutory compliance. He joined F&C in 1982.

Marrack Tonkin Head of Investment Trusts and Group Company Secretary of F&C Asset Management plc. He has responsibility for F&C's relationship with Foreign & Colonial. He joined in 1989.

Sub-managers to F&C (North America large and medium cap portfolio)

Barrow Hanley – appointed July 2005
T. Rowe Price – appointed February 2006

Private Equity Managers

HarbourVest Partners LLC – appointed 2003
Pantheon Ventures Limited – appointed 2003

Secretary and Registered Office

F&C Management Limited, Exchange House, Primrose Street, London EC2A 2NY

Telephone: 020 7628 8000
Facsimile: 020 7628 8188
Website: www.fandc.com
Email: info@fandc.com

Authorised and regulated in the UK by the Financial Services Authority.

Chartered Accountants and Statutory Auditors

PricewaterhouseCoopers LLP, ("**PwC**" or the "**auditors**"), 7 More London Riverside, London SE1 2RT

Custodian

JPMorgan Chase Bank (the **"Custodian"**), 25 Bank Street, Canary Wharf, London E14 5JP

Bankers

JPMorgan Chase Bank, 25 Bank Street, Canary Wharf, London E14 5JP

National Australia Bank Limited, 88 Wood Street, London EC2V 7QQ

Scotia Bank Europe PLC, 33 Finsbury Square, London EC2A 1BB

Share Registrars

Computershare Investor Services PLC,
The Pavilions, Bridgwater Road,
Bristol BS99 6ZZ

Telephone: 0800 923 1506

Authorised and regulated in the UK by the Financial Services Authority.

New Zealand Share Registrars

Computershare Investor Services Limited,
Private Bag 92119, Auckland 1142.
Level 2, 159 Hurstmere Road, Takapuna,
North Shore City 0622, New Zealand

Telephone: +64 9 488 8700

Solicitors

Norton Rose LLP, 3 More London Riverside, London SE1 2AQ

Stockbrokers

JPMorgan Cazenove, 5 Bank Street, Canary Wharf, London E14 5JP

Directors' Report and Business Review

The Directors present their Report, Business Review and the audited financial statements of Foreign & Colonial Investment Trust PLC for the year ended 31 December 2012. The financial statements are set out on pages 35 to 61. The Board is of the opinion that the Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary to assess the Company's performance, investment policy and strategy.

Results and dividends

The net assets of the Company as at 31 December 2012 were £2.1 billion (2011: £1.9 billion) or 360.19 pence per share when deducting debt at its par value (2011: 326.57 pence). When deducting debt at its market value, the net asset value per share was 357.60 pence (2011: 322.86 pence). Net revenue return per share increased by 4.2% to 7.02p (2011: 6.74p).

The Fund Manager's Review on pages 5 to 8 which forms part of this Business Review, describes more fully how the Company's assets were invested during the year; how they performed; changes in income and expenses and the outlook for 2013. The Ongoing Charges ratio was 0.90% (2011: 0.92%). The total expense ratio was 0.55% (2011: 0.57%). The Company's full list of its investments can be viewed on the website. The twenty largest holdings can be found on pages 9 and 10, and the ten largest investments in each of the regional portfolios are on page 11. The Directors' Remuneration Report and the Corporate Governance Statement are incorporated by reference into this Directors' Report and Business Review.

The interim dividends totalling 6.0 pence per share, paid on 7 September 2012 and 1 February 2013 together with the final dividend of 2.5 pence per share, which will be paid on 1 May 2013, will bring the total dividend for the year to 8.5 pence per share. This represents an increase of 19.7% over the comparable 7.1 pence per share paid in the previous year. For 2013 and thereafter interim dividends will be paid in August, November and February with a final dividend paid in May.

Principal activity and status

The Company is an investment company as defined by Section 833 of the Companies Act 2006. As such, it analyses its income between revenue, which is available for distribution by way of dividends, and capital, which under its Articles of Association it is currently prohibited from distributing other than by way of share buybacks.

The Company is registered in England and Wales with company registration number 12901 and is subject to the UK Listing Authority's Listing Rules, UK company law, financial reporting standards, taxation law and its own Articles of Association.

Investment trust taxation status

The Company is liable to UK corporation tax on its net revenue profits but is exempt from corporation taxation on capital gains, provided it complies at all times with section 1158 of the Corporation Tax Act 2010 ("**section 1158**"). The Company has qualified as an investment trust under section 1158 for all years up to and including 31 December 2011.

Section 1158 was amended for years beginning on or after 1 January 2012 such that the Company has been able to seek approval of compliance in advance, under section 1159, for that and all subsequent financial years. The Company has been accepted by HMRC as an approved investment trust subject to it continuing to meet the relevant eligibility conditions and ongoing requirements. The Company intends to conduct its affairs so as to enable it to comply with the requirements.

Accounting and going concern

The Financial Statements, starting on page 35, comply with current UK Financial Reporting Standards, supplemented by the Statement of Recommended Practice for Investment Trust Companies ("**SORP**"). The significant accounting policies of the Company are set out in note 2 on the accounts. The unqualified auditors' opinion on the Financial Statements appears on page 34. The Company's investment objective, strategy and policy places the emphasis on investing in readily realisable listed securities and puts a limit on borrowings. The Company retains title to all assets held by the Custodian. Trust deeds govern its debentures and agreements cover its bank borrowing facilities. Cash is held only with banks approved and regularly reviewed by the Manager.

Directors' Report and Business Review (continued)

Note 27 on the accounts sets out the financial risk profile of the Company and indicates the effect on the assets and liabilities of fluctuations in the value of securities, and exchange and interest rates.

The Directors believe that, in the light of the controls and monitoring processes that are in place, the Company has adequate resources and arrangements to continue operating within its stated objective and policy for the foreseeable future. Accordingly, the accounts continue to be drawn up on the basis that the Company is a going concern.

Shareholders will be asked to approve the adoption of the Annual Report and Accounts at the Annual General Meeting (Resolution 1).

Independent auditors

So far as each Director is aware, there is no relevant audit information of which PwC are unaware. The Directors believe that they have each taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that PwC are aware of the information.

PwC have indicated their willingness to continue in office and resolutions will be proposed at the Annual General Meeting to re-appoint them and determine their remuneration (Resolutions 11 and 12).

Investment objective, strategy and policy

The Company's investment objective is to secure long-term growth in capital and income through a policy of investing primarily in an internationally diversified portfolio of publicly listed equities, as well as unlisted securities and private equity, with the use of gearing.

Risk diversification is achieved through geographic asset allocation and industry sector and stock selection across a wide range of markets. Within the general policy of maintaining a diversified portfolio, there are no specific geographic or industry sector exposure limits for the publicly listed equities. The Board has placed a limit of 5% of the value of the total portfolio on unlisted securities, at the time of acquisition and excluding private equity investments, and any unlisted investment requires specific Board approval. Shareholder approval would be sought in the event that the Board considers that the long-term exposure to private equity investments should exceed a figure of 20%; the Board has agreed to make no new commitments until the Company's exposure moves back closer to its strategic target of 10%.

Under the Company's Articles of Association, with limited exceptions, no single investment may be made by the Company which exceeds 10% of the value of the total portfolio at the time of acquisition. Under the Listing Rules, no more than 10% of the total assets may be invested in other listed closed-ended investment companies, unless such investment companies have themselves published investment policies to invest no more than 15% of their total assets in other closed-ended investment companies, in which case the limit is 15%. The Board has placed a limit of 5% of the value of the total portfolio on investment funds managed by F&C at the time of acquisition, and any such investment requires specific Board approval.

Borrowings, which can be taken out either in Sterling or foreign currency, would normally be expected to fall within a range of 0–20% of shareholders' funds based on valuing the Company's debentures at market value.

The Company will typically remain fully invested in equities, but is not prohibited from investing in other types of securities or assets. Derivatives may be used for the purpose of income enhancement and efficient portfolio management including, if appropriate, protection against currency risks. With regard to income enhancement, options may only be written on quoted stocks and the total nominal exposure is limited to a maximum of 5% of the UK portfolio at the time of investment for both put and call options. More details can be found on page 60 in note 27 on the accounts.

The Board believes that the optimum basis for achieving its strategic objective and implementing the investment policy is a strong working relationship with the Manager, the more detailed arrangements for which are explained later in this review. F&C has overall responsibility for the management of the Company's assets, and for asset allocation, gearing, stock selection and risk.

Specific strategic moves in recent years have been to establish the private equity portfolio; to be overweight in Emerging Markets relative to the benchmark weighting; and for F&C to use external sub-managers when this seems likely to result in better performance. Future emphasis will be towards a global equity strategy with an income bias and therefore a much lower weighting in the UK than in the past.

The high level of diversification across the entire portfolio has recently resulted in the tendency for the Company's share price to have lower volatility than its index benchmark.

Principal risks and their management

Like all businesses, the Company faces risks and uncertainties. The Corporate Governance Statement on page 27 includes a summary of the risk management arrangements. By means of the procedures set out in the summary, and in accordance with the Turnbull Guidance, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, and has regularly reviewed the effectiveness of the internal control systems for the period. This process has been in place throughout the year under review, and to the date hereof, and will continue to be regularly reviewed by the Board.

The principal risks and uncertainties faced by the Company, and the Board's mitigation approach, are described below.

Principal risks and their management

Strategy

Risk description: *Inappropriate strategy in relation to investor demands in a rapidly changing financial services and savings market.*

Mitigation: The Board regularly reviews the Company's position as a leading savings vehicle. Strategic issues, including its role as a global growth investment trust, are considered annually.

Management resource, stability and controls

Risk description: *The Manager is the main service provider and its failure to continue operating effectively could put in jeopardy the business of the Company.*

Mitigation: The Board meets regularly with the senior management of the Manager and its Internal Audit function, and has access to publicly available information indicative of the Manager's financial position and performance.

The Board has contingency arrangements to facilitate the ongoing operation of the business in the event of any such failure. The management contract can be moved at short notice.

Private equity

Risk description: *The majority of the underlying private equity investments are in unlisted companies. Such investments may prove difficult or impossible to realise.*

Mitigation: Private equity risks are mitigated by investing in a spread of direct, secondary, venture capital, buyout and mezzanine funds of funds and by the wide spread of underlying private equity firms, which in turn have diversified investment portfolios and vintage years. The portfolio has recently moved to a net cash positive position.

Investment policy, gearing, currency and derivatives

Risk description: *Inappropriate asset allocation, sector and stock selection, currency exposure and use of gearing and derivatives leading to investment underperformance.*

Mitigation: Investments are primarily in a diversified spread of international publicly listed equities with exposure to their underlying currencies. Investment policy and performance is reviewed with the Fund Manager at each Board meeting, along with the monitoring of cash and borrowing levels as well as options written for the purpose of income enhancement. The ability of the Company to gear up via long-term and short-term borrowings, in currencies matching those to which the portfolio is exposed, enables it to take a long-term view of the countries, markets and currencies in which it is invested, and ride out short-term volatility. The Board approves all borrowing facility agreements and has set a limit on gearing and option writing. Derivatives may also be used for the purpose of hedging foreign currencies, although to date none has.

Directors' Report and Business Review (continued)

Service providers

Risk description: *Administrative errors or control failures by or between service providers could be damaging to the interests of investors and the Company.*

Mitigation: The Board receives annual reports from the Manager on its monitoring of service providers which, for the administration of the F&C savings plans, includes audit site visits; monthly technical compliance monitoring; monthly service delivery meetings; quarterly financial crime prevention forums; and the detailed review and investigation of breaches and complaints. Arrangements are also in place to mitigate other service provider risks, including those relating to safe custody.

Most of the principal risks are market-related and no different from those of other investment trusts investing primarily in listed equities. More specific to Foreign & Colonial are those relating to private equity, the prospects for which are described in the Chairman's Statement and Fund Manager's Review.

Arrangements are also in place to mitigate other more general risks including those relating to regulatory changes including to AIFMD, safe custody of assets and counterparty failure. Note 27 on the accounts sets out the Company's financial risk management policy.

Capital structure

As at 31 December 2012 there were 577,191,016 ordinary shares of 25 pence each ("**ordinary shares**") in issue. As at 28 February 2013, the number stood at 575,284,016. All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid. Details of the capital structure can be found in note 19 on the accounts. The revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to shareholders pro rata to their holdings of ordinary shares.

Buyback and share issue policy

Subject to annual shareholder approval, the Company may buy back its own shares for cancellation at a discount to net asset value per share. This forms part of its wider strategy under which the Board has the objective of achieving a less volatile discount with a ceiling, in normal market conditions, of 10% (with debt at market value), as well as enhancing net asset value per share for continuing shareholders. As at 31 December 2012 the discount stood at 10.4% (with debt at market value).

At the Annual General Meeting held on 8 May 2012, shareholders renewed the Board's authority to buy back up to 14.99% of the Company's ordinary shares for cancellation. A total of 13,146,000 shares were bought back and cancelled, representing 2.2% of the shares in issue at 31 December 2011. This enhanced the net asset value per share by 0.9 pence per share. The purchases were made at prices ranging between 283 pence and 321 pence and the aggregate consideration paid for the shares, including stamp duty and commissions, was £40,414,000.

Between the year end and 28 February 2013, a further 1,907,000 shares have been purchased (which represents approximately 0.33% of the share capital) at an average price of 346.25 pence.

A resolution to renew the authority to buy back up to 86,235,000 shares will be put to shareholders at the Annual General Meeting (Resolution 14). A resolution to authorise the Directors to allot up to 28,764,000 shares will also be proposed (Resolution 13). This authority and power provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares should any favourable opportunities arise to the advantage of shareholders.

Marketing

The Manager actively promotes investment in the Company's shares, which are designed for private investors in the UK (including retail investors), professionally-advised private clients and institutional investors. Promotion to retail investors is made through the F&C savings plans. These include the Child Trust Fund ("**CTF**"), Children's Investment Plan ("**CIP**"), Junior ISA ("**JISA**"), Individual Savings Account ("**ISA**"), Pensions Savings Plan ("**PSP**") and Private Investor Plan ("**PIP**"). The plans are designed to provide regular investors with a cost effective and flexible way to invest in the Company.

Voting rights and proportional voting

At 28 February 2013 the Company's 575,284,016 ordinary shares in issue represented a total of 575,284,016 voting rights. As at and since that date no notifications of significant voting rights have been received under the FSA's Disclosure and Transparency Rules.

Approximately 47% of the Company's share capital is held on behalf of non-discretionary clients through the F&C savings plans. The nominee company holding these shares votes the shares held on behalf of plan holders who have not returned their voting directions in proportion to the directions of those who have ("**proportional voting**"). Implementation of this arrangement is subject to a minimum threshold of 5% of the shares held in the savings plans being voted. A maximum limit of 672,000 shares that any one individual investor can vote, being approximately 5% of the minimum threshold, also applies. Any shares voted by an investor in excess of the maximum limit remain valid, but do not form part of the proportional voting basis. Plan holders have the right to exclude their shares from the proportional voting arrangement.

Borrowings

The Company has a £110 million 11.25% debenture stock, which matures in December 2014, and a £575,000 4.25% perpetual debenture stock. Information in relation to the debentures can be found in note 18 on the accounts. The Company also has the ability to use short-term borrowings by way of loans and overdrafts, subject to the limits set out in the Company's objective, strategy and policy section and the debenture deeds. In April 2012 a term loan of £100m was arranged with JPMorgan Chase Bank in the currency equivalents of US$80m and ¥6,600m for a fixed period of seven years. The Company also has a multi-currency overdraft facility with this bank. In addition, there are multi-currency credit facilities with National Australia Bank and Scotiabank Europe totalling £125m, which will be subject to review in September 2013 and December 2013 respectively. Further reference is made on page 2 and in notes 14 and 17 on the accounts.

The Board's responsibilities

The Company's Board of Directors is wholly non-executive and is responsible for corporate strategy, corporate governance, risk and control assessment, the overall investment policy of the Company, setting limits on gearing and asset allocation, monitoring investment performance and for approving marketing policy budgets. Further information in relation to the Board can be found on page 27. Information on the individual Directors, all of whom are resident in the UK, can be found on pages 12 and 13.

Directors' remuneration

The Directors' Remuneration Report, which can be found on pages 25 and 26, together with note 6 on the accounts, provides detailed information on the remuneration arrangements for Directors of the Company. Shareholders will be asked to approve the Directors' Remuneration Report at the Annual General Meeting (Resolution 2).

Director re-elections and retirements

All the Directors held office throughout the year under review and will stand for re-election at the Annual General Meeting (Resolutions 4 to 10). The Nomination Committee considered the proposed re-elections at a meeting held in January 2013, including a review of their commitment and status as independent. The Board has concurred with the Nomination Committee's assessment that each Director continues to make a valuable and effective contribution and remains committed in their roles. Sir Michael Bunbury and Sir David Clementi retired from the Board on 8 May 2012.

Directors' interests and indemnification

There were no contracts of significance to which the Company was a party and in which a Director is, or was, materially interested during the year. There

Directors' Report and Business Review (continued)

are no agreements between the Company and its Directors concerning compensation for loss of office.

The Company has granted a deed of indemnity to the Directors in respect of liabilities that may attach to them in the capacity as Directors of the Company. This covers any liabilities that may arise to a third party for negligence, default or breach of trust or duty. The deed of indemnity has been in force throughout the period under review and remains in place as at the date of this report. It is available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting. The Company also maintains directors' and officers' liability insurance.

The beneficial interests of the Directors in the ordinary shares of the Company are set out in the table below:

Directors' share interests at 31 December	2012	2011
Simon Fraser	36,377	36,246
Sarah Arkle	10,000	10,000
Sir Roger Bone	26,255	23,660
Stephen Burley	25,000	25,000
Jeffrey Hewitt	13,675	11,407
Christopher Keljik	60,610	59,289

Nicholas Moakes holds 16,665 units in the Skandia F&C Investment Fund, a collective investment fund investing solely in the Company.

Since the year end, the following Directors have acquired further ordinary shares: Mr Simon Fraser 37, Sir Roger Bone 443, Mr Jeffrey Hewitt 371 and Mr Christopher Keljik 286. There have been no changes in any of the other Directors' shareholdings detailed above. No Director held any interests in the issued stocks or shares of the Company other than as stated above.

The Company's register of Directors' interests contains full details of Directors' shareholdings.

The Manager's responsibilities

Most investment trusts, including your Company, have no employees and instead appoint fund management companies to manage their investment portfolios and deliver investment performance, as well as to carry out the ancillary functions of administration, secretarial, accounting and marketing services.

The Company has appointed F&C as Manager. F&C is responsible for gearing, asset allocation and sector and stock selection, together with the overall risk management of the Company's assets, within limits set and regularly monitored by the Board.

The appointment is governed by a management agreement, which is terminable upon six months' notice given by either party. Further information on this agreement is set out in note 4 on the accounts.

Jeremy Tigue acts as Fund Manager (the "**Fund Manager**") to the Company, on behalf of F&C, and is responsible and accountable for the entire portfolio including North America and private equity. As at 28 February 2013 the Fund Manager held 456,696 shares in the Company (31 December 2012: 453,077 shares).

"Foreign & Colonial" and "F&C"

Once a subsidiary of Foreign & Colonial, F&C is now owned by FCAM, a large pan-European investment group listed on the London Stock Exchange. Foreign & Colonial has a long association with F&C, having originally established and developed the business for the purpose of managing its assets as far back as 1953. The Company's relationship with F&C is fully arms-length with no cross-directorships or common share interests.

Part of the legacy is that the names "**Foreign & Colonial**" and "**F&C**" are often used synonymously and incorrectly by commentators in the public arena. However, the companies each own their respective names and are two distinct and completely independent entities.

North America portfolio

In the case of the regional equity portfolios, the Fund Manager has the flexibility to recommend to the Board their delegation to external third party sub-managers when this seems likely to result in better investment performance. Throughout the period under review there were two sub-managers for the North America large and mid-cap equity portfolios, namely Barrow Hanley and T Rowe Price.

Private equity portfolio

The private equity funds of funds investments are managed externally by the private equity managers, Pantheon Ventures Limited ("**Pantheon**") and HarbourVest Partners LLC ("**HarbourVest**"). The Fund Manager acts as a representative of the Company on the advisory committees of these managers. Recommendations for further private equity and unlisted investments remain subject to approval by the Board.

Safe custody of assets

The Company's listed investments are held in safe custody by the Custodian. Operational matters with the Custodian are carried out on the Company's behalf by the Manager in accordance with the provisions of the management agreement.

Responsible ownership

F&C, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted at all meetings worldwide where practicable in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance. Environmental factors are, where appropriate, taken into consideration with regard to investment decisions taken on behalf of the Company.

F&C's statement of compliance with The UK Stewardship Code, issued by the Financial Reporting Council in July 2010, has been reviewed and endorsed by the Board, which encourages and supports the Manager on its voting policy and its stance towards environmental, social and governance issues. The statement is available on the Manager's website at www.fandc.com/ukstewardshipcode. The Board periodically receives a report on instances where the Manager has voted against the recommendation of the management on any resolution. It also expects to be informed of any sensitive voting issues involving the Company's investments.

The Manager's fees

The Manager receives an annual fee, which for the year under review was equal to 0.365% of the market capitalisation of the Company. The fee is calculated and paid monthly and is subject to a deduction for amounts earned from investments in other investment vehicles managed by F&C. The amount received was £6,228,000 (2011: £6,295,000). Note 4 on the accounts provides detailed information in relation to the management fee.

Sub-managers' fees

The Manager incurred investment management fees from the sub-managers appointed to manage the North America portfolio. The Company reimburses the Manager for these fees, which in 2012 amounted to £1.5 million (2011: £1.3 million) (see note 4 on the accounts).

Private equity managers' fees

The fees paid to Pantheon and HarbourVest in respect of the private equity funds of funds amounted to £6.3m for 2012 (2011: £6.1m) of which £0.6m was paid directly and £5.7m was incurred indirectly through the funds. Some of the funds have arrangements whereby these private equity managers share in the profits once certain "hurdle" rates of return to investors have been achieved. These arrangements are varied and complex, but are on normal commercial terms within the private equity funds of funds industry. Fees payable by the underlying funds are negotiated by Pantheon and HarbourVest. The arrangements also vary from fund to fund, but management fees of 2% per annum and a 20% carried interest, once an agreed hurdle rate of return for investors has been achieved, would be normal.

Creditor payment policy

The Company's "principal supplier" is the Manager, the payment terms for which are set out above. Other suppliers are paid in accordance with individually agreed payment terms.

At 31 December 2012 the Company's outstanding trade creditors were equivalent to nil day's payments to suppliers (2011: one day).

Performance measurement

The Board recognises that it is share price performance that is most important to the Company's shareholders, coupled with an increasing dividend in real terms. Underlying share price performance is net asset value performance, for which the Board looks to its Manager. The fee payable to the Manager is based on the market capitalisation of the Company, thus aligning the

Directors' Report and Business Review (continued)

Manager's interests with shareholders through share price performance as described above.

Key performance indicators

The Board assesses its performance in meeting the Company's objective against the following key performance indicators:

- Net asset value total return
- Share price total return
- Performance attribution
- Annual dividend growth
- Discount to net asset value
- Ongoing charges ratio
- Savings plans investment flows

Net asset value total return performance

	1 Year %	3 Years %	5 Years %	10 Years %
FCIT net asset value† (with debt at market value)	13.3	23.6	11.6	143.9
Composite benchmark†*	12.1	23.3	17.6	129.1
AIC Global Growth Sector weighted average net asset value†	12.4	21.5	10.5	149.2
FTSE All World Index†	12.0	22.2	19.4	132.0

Source: Morningstar UK Limited and F&C
† Total return
*40% FTSE All Share; 60% FTSE WI world ex UK

Share price total return performance

	1 Year %	3 Years %	5 Years %	10 Years %
FCIT share price†	13.9	26.7	13.7	147.6
FTSE All-Share†	12.3	24.2	13.2	131.7
FTSE WI World ex UK†	12.0	22.6	20.8	127.5
AIC Global Growth Sector weighted average share price† (investment companies)	12.3	23.4	13.2	161.2
IMA Global Sector unweighted average share price† (open ended funds)	10.1	15.8	7.5	116.0
Retail Prices Index	3.2	13.6	17.5	37.7

Source: Morningstar UK Limited and F&C
† Total return
*40% FTSE All Share; 60% FTSE WI world ex UK

Asset allocation, stock selection and gearing attribution

%	1 year	3 years	5 years
Asset allocation	(1.1)	1.6	0.9
Stock selection	0.9	(0.7)	(1.3)
Gearing	2.3	2.9	(0.3)

Based on debt at market value
The table shows the contributions to total return versus the Company's benchmark from asset allocation, stock selection and gearing decisions over one, three and five years.

Source: F&C

Compound annual dividend growth

%	5 years	10 years
Foreign & Colonial	7.8	9.3
FTSE All-Share	2.2	5.1
Inflation (RPI)	3.3	3.3

Source: F&C; Morningstar UK Limited

Foreign & Colonial's regional portfolio attribution in Sterling						
		1 year %		3 years %		5 years %
Region	Return	Index Return	Return	Index Return	Return	Index Return
UK	11.1	12.3	17.3	24.2	7.7	13.3
North America	12.5	10.7	38.9	33.5	36.6	32.7
Europe ex UK	27.3	17.3	22.3	6.1	14.6	(3.1)
Japan	4.7	3.3	2.4	7.1	(7.9)	(0.2)
Emerging Markets	15.1	13.5	9.6	15.0	12.9	18.8
Private Equity	4.9	–	41.9	–	38.3	–

Source: F&C

Discount(1)	
31 December	%
2012	10.4
2011	10.6
2010	10.6
2009	10.7
2008	10.9

(1) With debt at market value cum income.

Source: F&C

Ongoing charges ratio	
	%
2012	0.90
2011	0.92

Source: F&C

Further detailed performance statistics can be found in the Ten Year Record on pages 62 and 63.

F&C Savings Plans investment flows into Foreign & Colonial					
£m	2012	2011	2010	2009	2008
Purchases	59	58	69	53	52
Withdrawals	54	55	60	32	40
Net inflow	5	3	9	21	12

The above figures cover all of the F&C Savings Plans in Foreign & Colonial, including the Personal Pension Plan and Child Trust Fund.

Source: F&C

The Board also reviews statistical measurements of volatility and risk. Absolute and relative assessments are made to understand the risk/return characteristics of the portfolio.

Manager evaluation process

The Manager's performance is considered at every Board meeting, with a formal evaluation in January of each year. For monitoring purposes, the Board receives detailed reports and views from the Fund Manager on investment policy, asset allocation, gearing and risks. There are quarterly reports on the regional portfolios. The Board also receives comprehensive performance measurement schedules, provided by Morningstar UK Limited and F&C, at each meeting. These enable it to assess the success

Directors' Report and Business Review (continued)

or failure of the management of the total portfolio against the performance objectives set by the Board, to assess the sources of positive and negative contribution to the portfolio in terms of gearing, asset allocation and stock selection and to assess the performance of each region against its local index and the risk/return characteristics of the portfolio.

Decision to re-appoint the Manager

The annual evaluation took place in January 2013 with presentations from the Fund Manager and the Head of Investment Trusts. This covered services and developments at F&C as well as investment performance. With regard to performance, the Manager had beaten the Company's benchmark over one year and the weighted average of the net asset value total return of the AIC Global Growth sector over one year. Asset allocation had a negative impact whereas stock selection had been positive in all markets apart from the UK. Stock selection had been particularly strong in Europe. The Manager outperformed the benchmark over three years and had comfortably outperformed it over ten years.

The Board met in closed session following the presentations and concluded that in their opinion the continuing appointment of F&C as Manager on the terms agreed was in the interests of shareholders as a whole.

The Board's priorities for the year ahead

The overriding priority is to continue to strive for the consistent achievement of relative outperformance; adding value for shareholders through net asset value and share price total return; discount management; dividend growth; low and competitive ongoing charges; effective marketing following the implementation of the Retail Distribution Review and effective implementation of the regulatory requirements of the AIFMD. The outlook for the Company is covered in the Chairman's Statement on page 4.

Annual General Meeting

Shareholders will have received a separate enclosure containing the Notice of the Annual General Meeting to be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2 on Tuesday 23 April 2013 at 12 noon. The enclosure explains each resolution and the voting arrangements.

By order of the Board,
for and on behalf of F&C Management Limited,
Secretary
1 March 2013

Directors' Remuneration Report

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £500,000 per annum. Within that limit, it is the responsibility of the Board as a whole to determine and approve the Directors' fees, following a recommendation from the Chairman and, in his case, from the Senior Independent Director; the Board of Directors is composed solely of non-executive Directors, none of whom has a service contract with the Company, and therefore no remuneration committee has been appointed. The amounts paid, which were for services to the Company solely in the capacity of non-executive Directors and have no performance-related element, are set out in the table below.

Remuneration for qualifying services (audited)

Director	Fees for services to the Company 2012 £'000s	2011 £'000s
Simon Fraser[(1)]	**66**	71
Sarah Arkle[(2)]	**35**	27
Sir Roger Bone	**35**	35
Stephen Burley	**37**	37
Jeffrey Hewitt[(3)]	**42**	38
Christopher Keljik[(4)]	**46**	41
Nicholas Moakes[(5)]	**34**	27
Sir Michael Bunbury[(6)]	**14**	44
Sir David Clementi[(6)]	**13**	35
Maxwell Ward[(7)]	**–**	14
Total	**322**	369

(1) Highest paid Director. Retired as member of Audit and Management Engagement Committee on 1 November 2011.
(2) Joined the Audit and Management Engagement Committee on 8 May 2012.
(3) Appointed chairman of the Audit and Management Engagement Committee on 1 November 2011.
(4) Joined the Nomination Committee on 26 January 2012.
(5) Joined the Nomination Committee on 8 May 2012.
(6) Retired as Director on 8 May 2012.
(7) Retired as Director on 5 May 2011.

Reference to the information in the table above, which has been audited, can be found in the Independent Auditors' Report on page 34.

The Chairman's fee and Directors' basic fee were last increased in July 2010.

During the year the Chairman carried out a review of fee rates which took account of the following factors:

- the absolute and relative performance of the Company over the period 31 May 2010 to 31 October 2012;
- earnings and price inflation over the period 31 May 2010 to 31 October 2012 respectively;
- a comparison with other investment trusts managed by F&C, peer group investment trusts and similar sized financial companies;
- available independent reports on remuneration of the boards and non-executive directors of UK investment trusts and other companies; and
- specific matters in respect of the responsibilities and time committed to the Company's business, of the Chairman, Senior Independent Director, Directors, and chairmen and members of the various committees of the Board.

In the light of these factors the Board agreed the Chairman's recommendation that the basic Directors' fee should be £33,000 with effect from 1 January 2013, representing an increase of 3.1% over the twenty-nine month period. The Board also agreed the Senior Independent Director's recommendation that an increase be made to the Chairman's fee commensurate with the increase in the basic fee: an increase to £66,000. No other changes were made.

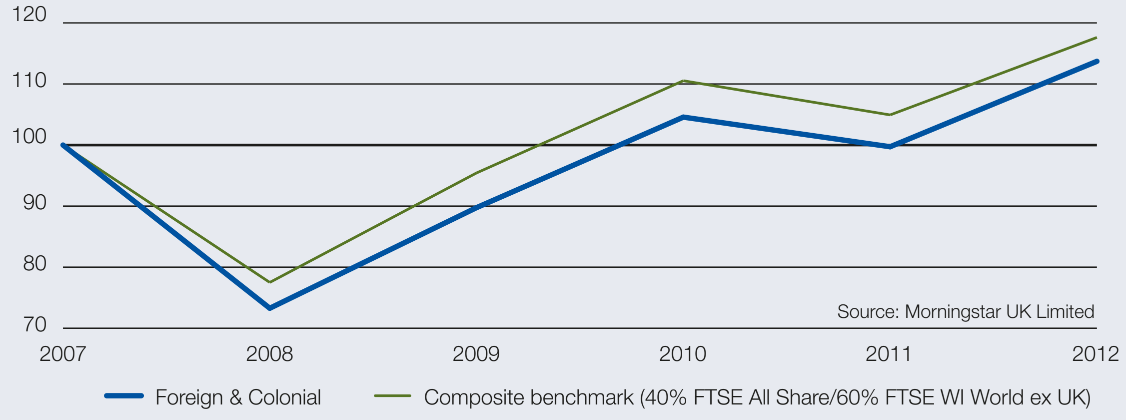
The fees for specific responsibilities are set out in the table below.

Annual fees for Board responsibilities

	2012 £'000s	2011 £'000s
Board		
Chairman	**64.0**	64.0
Senior Independent Director	**38.3**	38.3
Director	**32.0**	32.0
Audit and Management Engagement Committee		
Chairman	**10.0**	10.0
Members	**5.0**	5.0
Nomination Committee		
Chairman	**3.0**	3.0
Members	**3.0**	3.0

Directors' Remuneration Report (continued)

Total shareholder return



It is a company law requirement to compare the performance of the Company's share price to a single broad equity market index. As the Manager's performance is measured against a composite benchmark of 40% FTSE All-Share and 60% FTSE WI World ex UK indices a comparison against this composite benchmark has been shown. A ten-year performance graph can be found on page 3.

No Director past or present has any entitlement to pensions, and the Company has not awarded any share options or long-term performance incentives to any of the Directors.

Shareholders will be asked to approve this remuneration report at the Annual General Meeting (Resolution 2).

By order of the Board
for and on behalf of F&C Management Limited
Secretary
1 March 2013

Corporate Governance Statement

Introduction

The Board has considered the principles set out in the UK Corporate Governance Code (the "**UK Code**") and the AIC Code of Corporate Governance (the "**AIC Code**").* The Board believes that during the period under review the Company has complied with the provisions of the UK Code, in so far as they relate to the Company's business. The Board is also adhering to the principles and recommendations of the AIC Code.

Articles of association

The company's Articles of Association may only be amended by special resolution at general meetings of shareholders.

The Board

The Board is responsible for the effective stewardship of the Company's affairs and reviews the schedule of matters reserved for its decision, which are categorised under various headings. These include strategy, policy, finance, risk, investment restrictions, performance, marketing, appointments, the Board and public documents. It has responsibility for all corporate strategic issues, dividend policy, share buyback policy and corporate governance matters which are all reviewed regularly.

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objectives and is responsible for setting asset allocation, investment and gearing limits within which the Fund Manager has discretion to act, and thus supervises the management of the investment portfolio which is contractually delegated to the Manager.

The Board has the right of veto over the appointment of sub-managers recommended by the Fund Manager. The Board has responsibility for the approval of private equity and unlisted investments and all investments in in-house funds managed or advised by the Manager.

There is no chief executive position within the Company, as day-to-day management of the Company's affairs has been delegated to the Manager.

The following table sets out the number of Board and committee meetings held and attended during the year under review. The Board held a strategy meeting in September 2012 to consider strategic issues and also met in closed session on three occasions during the year, without any representation from the Manager. All the Directors attended the Annual General Meeting.

Directors' attendance

	Board	Audit and Management Engagement Committee	Nomination Committee
No. of meetings	8	4	2
Simon Fraser(1)	8	4	2
Sarah Arkle(2)	8	3	n/a
Sir Roger Bone	7	n/a	2
Stephen Burley	8	4	n/a
Jeff Hewitt	8	4	n/a
Christopher Keljik	8	4	2
Nicholas Moakes(3)	8	n/a	1
Sir Michael Bunbury(4)	3	1	1
Sir David Clementi(4)	2	n/a	nil

(1) Attends but is not a member of the Audit Committee.
(2) Joined the Audit & Management Engagement Committee on 8 May 2012.
(3) Joined the Nomination Committee on 8 May 2012.
(4) Retired as a Director on 8 May 2012.

Each Director has signed a terms of appointment letter with the Company, in each case including one month's notice of termination by either party. These are available for inspection at the Company's registered office during normal business hours and are also available at annual general meetings.

Directors are able to seek independent professional advice at the Company's expense in relation to their duties. No such advice was taken during the year under review. The Board has direct access to company secretarial advice and services of the Manager which, through the Company Secretary, is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with. The proceedings at all Board and

* Copies of both codes may be found on the respective websites: www.frc.org.uk and www.theaic.co.uk. Investors in New Zealand should note that the corporate governance rules and principles applicable to the Company in the UK may differ from those of the New Zealand Stock Exchange's Corporate Governance Best Practice Code.

other meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes. The Board has the power to appoint or remove the Company Secretary in accordance with the terms of the Management Agreement. The powers of the Board relating to the buying back of the Company's shares are explained on page 18. There also follows a brief explanation of the Board's powers to issue shares.

Appointments, diversity and succession planning

Under the articles of association of the Company, the number of directors on the Board may be no more than fifteen. Directors may be appointed by the Company by ordinary resolution or by the Board. All new appointments by the Board are subject to election by shareholders at the next AGM and institutional shareholders are given the opportunity to meet any newly appointed Director if they wish. All the other Directors stand for re-election by shareholders annually.

The final decision with regard to new appointments always rests with the Board. A professional search consultancy is appointed for the purpose of finding suitable candidates. An induction process is in place for new appointees and all Directors are encouraged to attend relevant training courses and seminars. There were no new appointments during the year.

The Board believes in the benefits of having a diverse range of skills and backgrounds, including gender and length of service, on its board of Directors. All appointments will continue to be based on merit and therefore the Board is unwilling to commit to numerical diversity targets. The Board is also of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and experience can add significantly to the strength of the board. In normal circumstances the Directors are expected to serve for a nine year term, but this may be adjusted for reasons of flexibility, continuity and succession planning.

Board effectiveness

The 2012 annual appraisal of the Board, the Committees and the individual Directors was completed by the Chairman in January 2013. This built on the objectives and the critical success factors established and identified from the appraisal process for 2010 for which the Chairman was supported by independent consultants, Manchester Square Partners. The process for 2012 included confidential, unattributable, one-to-one interviews between the Chairman and each Director. The appraisal of the Chairman was covered as part of the process and led separately by the Senior Independent Director. The Chairman's report on progress against the objectives and critical success factors identified in 2010 was reviewed as part of the process for 2012.

Removal of Directors

The Company may by special resolution remove any Director before the expiration of his period of office and may by ordinary resolution appoint another person who is willing to act to be a director in his place.

Any Director automatically ceases to be a Director if:

(i) they give the company a written notice of resignation,

(ii) they give the company a written offer to resign and the Board resolves to accept this offer,

(iii) all of the other Directors remove them from office by notice in writing served upon them,

(iv) in the written opinion of a registered medical practitioner they are or have become physically or mentally incapable of acting as a Director and are likely to remain so for more than three months,

(v) by reason of a Director's mental health, a court makes an order which wholly or partly prevents that director from personally exercising any powers or rights which that Director would otherwise have,

(vi) a bankruptcy order is made against them or they make any arrangement or composition with their creditors generally,

(vii) they are prohibited from being a Director by law; or

(viii) they are absent from Board meetings for six consecutive months without permission and the other Directors resolve that their office should be vacated.

Independence of Directors

The Board, which is composed solely of independent non-executive Directors, regularly reviews the independence of its members. All the Directors have been assessed by the Board as remaining independent of the Manager and of the Company itself; none has a past or current connection with the Manager and each remains independent in character and judgement with no relationships or circumstances relating to the Company that are likely to affect that judgement.

Conflicts of interest

A company director has a statutory obligation to avoid a situation in which he or she has, or potentially could have, a direct or indirect interest that conflicts with the interests of the company (a "**situational conflict**"). The Board therefore has procedures in place for the authorisation and review of situational conflicts relating to the Directors. Limits can be imposed as appropriate.

Other than the formal authorisation of the Directors' other directorships as situational conflicts, no authorisations have been sought. These authorisations were reviewed in January 2013, and each Director abstained from voting in respect of their own directorships.

Aside from situational conflicts, the Directors must also comply with the statutory rules requiring company directors to declare any interest in an actual or proposed transaction or arrangement with the Company.

Nomination Committee

The role of the Nomination Committee is to review and make recommendations to the Board with regard to:

(i) Board structure, size and composition, the balance of knowledge, experience, skill range and diversity;
(ii) succession planning and tenure policy;
(iii) the criteria for future Board appointments and the methods of recruitment, selection, appointment and induction;
(iv) the appointment of new Directors and the re-appointment of those Directors standing for re-election at annual general meetings;
(v) changes in committee membership;
(vi) the attendance and time commitment of the Directors in fulfilling their duties, including the extent of their other directorships;
(vii) the question of each Director's independence prior to publication of the Annual Report and Accounts;
(viii) the authorisation of each Director's situational conflicts of interests in accordance with the provisions of the Companies Act 2006 and the policy and procedures established by the Board in relation to these provisions; and
(ix) the Directors' contract for services and terms of office as set out in their Letter of Appointment.

All of the Nomination Committee's responsibilities have been carried out over the course of 2012 and in January 2013.

The Committee's terms of reference are available on request and can also be found on the Company's website at www.foreignandcolonial.com. Committee membership is listed on pages 12 and 13 and attendance at meetings on page 27.

Remuneration Committee

As the Board has no executive Directors and no employees, and is composed solely of non-executives, it does not have a remuneration committee. Detailed information on the remuneration arrangements for the Directors of the Company can be found in the Directors' Remuneration Report on pages 25 and 26 and in note 6 on the accounts.

Audit and Management Engagement Committee

The primary responsibilities of the Audit and Management Engagement Committee are to monitor the integrity of the financial reporting and statements of the Company, and to oversee the audit of the annual and half-yearly accounts and the internal control and risk management processes. Committee membership is listed on pages 12 and 13 and its terms of reference can be found on the website at www.foreignandcolonial.com. All the committee members are independent non-executive Directors. Jeff Hewitt, chairman of the committee, is a chartered accountant and was for many years Group Finance Director of Electrocomponents plc. He is audit committee chairman for several listed companies. The other members of the committee have a combination of financial, investment and business experience through the senior posts held throughout their careers. The committee has direct access to PwC; the Heads

Corporate Governance Statement (continued)

of Internal Audit and Risk of the Manager; and to the Manager's group audit committee and reports its findings to the Board. The Board retains ultimate responsibility for all aspects relating to external financial statements and other significant published financial information.

The committee met on four occasions during the year with the Manager's Head of Trust Accounting, Head of Internal Audit and the Fund Manager in attendance. The Chairman of the Company also attends. PwC attended the majority of the scheduled committee meetings and occasionally met in closed session with the committee. In carrying out its responsibilities the committee has considered the planning, arrangements and conclusions of the audit for the period under review. PwC carried out an independent review for the half-year ended 30 June 2012 and in October 2012 the committee considered and approved PwC's plan for the full year audit. PwC submitted their report to the committee meeting in February 2013 in which they had highlighted the following areas of focus:

- Valuation and existence of investments.
- Accuracy and completeness of investment accounting entries.
- Recognition of income from the underlying investments.
- Foreign exchange and derivative gains/losses.
- Accuracy and disclosure of expenses.
- Taxation charge and maintenance of section 1158 status.
- Cash balances and borrowings and calculation of interest.
- Procedures relating to fraud and the prevention of material misstatement of the financial statements

PwC confirmed at the meeting that they had no reason not to issue an unqualified audit report in respect of the financial year ended 31 December 2012. The unqualified audit report can be found on page 34.

At each of its meetings the committee receives a report from the Manager's Head of Internal Audit which include any internal audit and compliance monitoring reports of direct relevance to the Company. In February 2013 the committee received and reviewed the Report referred to under "Internal controls and management of risk" below and an annual compliance report. Following a recommendation from the committee, the Board has concluded that there is no current need for the Company to have an internal audit function; all of the Company's management functions are delegated to the Manager, which has its own internal audit department, and whose controls are monitored by the Board.

Specifically, the committee considered, monitored and reviewed the following matters throughout the year:

- The audited results statements, annual and half-yearly reports and accounts and interim management statements;
- The accounting policies of the Company;
- The effectiveness of the Company's internal control environment;
- The effectiveness of the audit process and the independence and objectivity of PwC their reappointment, remuneration and terms of engagement;
- The policy on the engagement of PwC to supply non-audit services;
- The need for the Company to have its own internal audit function;
- The implications of proposed new accounting standards and regulatory changes;
- The receipt of AAF reports or their equivalent from the Custodian, the private equity managers and the sub-managers and a due diligence report from the Company's share registrars;
- The performance of the Company's third party service providers and administrators, and the fees charged in respect of those services including those of the Manager and Custodian;
- Counterparty approval and the Manager's dealing efficiency and associated costs;
- Investment restrictions including limits on the writing of options and stock lending;
- Compliance with the provisions of the trust deed for the 11.25% debenture stock 2014;
- The Company's trademarks and intellectual property rights;
- Directors and Officers Liability insurance;
- The implications of the AIFMD; and
- The committee's terms of reference.

The committee has reviewed, and is satisfied with, the Manager's Anti-Fraud, Bribery and Corruption Strategy and Policy and with the "whistleblowing" policy that has been put in place by the Manager under which its staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. The necessary arrangements are in place for proportionate and independent investigation of such matters and for appropriate follow-up action.

As part of the review of auditor independence and effectiveness, PwC have confirmed that they are independent of the Company and have complied with relevant auditing standards. In evaluating PwC, the committee has recognised the necessity for the Manager and the Company to use different audit firms and taken into consideration the standing, skills and experience of the firm and the audit team. The appointment has not been put out to tender notwithstanding PwC's tenure over many years as the committee, from direct observation and indirect enquiry of management, remains satisfied that PwC continue to provide effective independent challenge in carrying out their responsibilities. On the basis of this assessment, the committee has recommended the continuing appointment of PwC to the Board. Following professional guidelines, the partner rotates after five years and this is the fourth year for the current partner. The audit will be put out to tender in conjunction with partner rotation in 2014. Fees for audit services amounted to £89,000 for 2012 of which £18,000 related to an independent review report for the period to 30 June 2012.

The committee has also reviewed the provision of non-audit services, which cost £11,000 in 2012, and considers them to be cost effective and not to compromise the independence of PwC. Non-audit services totalling £9,000 were in relation to taxation compliance services and £2,000 of other assurance services were in relation to a review of the debenture compliance certificate. The Chairman of the committee is advised of non-audit work required and a decision to authorise is taken on a case-by-case basis in line with ethical guidelines. Further information can be found in note 5 on the accounts.

Internal controls and management of risk

The Board has overall responsibility for the Company's systems of internal controls, for reviewing their effectiveness and ensuring that risk management and control processes are embedded in the day-to-day operations of the Company. These controls aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and overall risk management, is exercised by the Board through regular reports provided by the Manager on investment performance, performance attribution, compliance with agreed investment restrictions, financial analyses, revenue estimates, performance of the third party administrators of the F&C savings plans and on other management issues. The Manager's Internal Audit Department prepares a control report that provides details of any internal control failure. A key risk summary is also produced to help identify the risks to which the Company is exposed and the controls in place to mitigate them, including risks that are directly and indirectly the responsibility of the Manager. The Company's principal risks are set out on pages 17 and 18, with additional information given in note 27 on the accounts.

The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material mis-statement, or loss or fraud.

The Board has carried out a risk and control assessment concurrent with the approval of this report and accounts, including a review of the Manager's risk management infrastructure and the report on policies and procedures in operation and tests for the period 1 January to 31 December 2012 (the "**Report**"). This has been prepared by the Manager for its investment trust clients to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06). Containing a report from independent external accountants, the Report sets out the Manager's control policies and procedures with respect to the management of its clients' investments and maintenance of their

Corporate Governance Statement (continued)

financial records. The effectiveness of these controls is monitored by the Manager's group audit committee, which receives regular reports from the Manager's Internal Audit Department. Procedures are in place to capture and evaluate failings and weaknesses and ensure that action would be taken to remedy any significant issues identified from this monitoring, which would be reported to the Board. No material failings or weaknesses in respect of the Company were identified in the year under review.

Relations with shareholders

Shareholder communication is given a high priority. In addition to the annual and half-yearly reports that are available to shareholders, monthly fact sheets and general information are available on the Company's website at www.foreignandcolonial.com.

A regular dialogue is maintained with the Company's institutional shareholders and with private client asset managers. As in previous years, the Chairman contacted the top institutional shareholders, as a result of which email correspondence took place with a small number of these shareholders. Reference to significant holdings in the Company's ordinary shares can be found under "Voting rights and proportional voting" on page 19.

At annual general meetings, all investors have the opportunity to question and meet the Chairman, the Board and the Fund Manager.

All beneficial shareholders in the F&C savings plans have the opportunity to vote using a form of direction and have the right to attend, speak and vote at all meetings. The Manager has stated that the nominee company will vote the shares held on behalf of plan holders who have not returned their voting directions in proportion to the directions of those who have.

Shareholders wishing to communicate with the Chairman, the Senior Independent Director or any other member of the Board may do so by writing to the Company, for the attention of the Company Secretary, at the address set out on page 14 or by emailing to FCITCoSec@fandc.com.

By order of the Board
for and on behalf of F&C Management Limited
Secretary
1 March 2013

Statement of Directors' Responsibilities

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

Company law requires directors to prepare financial statements for each financial year. Under that law the Directors have prepared the 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements respectively;
- 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 enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on the www.foreignandcolonial.com website, which is maintained by F&C. The content and integrity of the website maintained by F&C or any of its subsidiaries is, so far as it relates to the Company, the responsibility of F&C. 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 listed on pages 12 and 13, confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and return of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board
Simon Fraser
Chairman
1 March 2013

Independent Auditors' Report

Independent Auditors' Report to the members of Foreign & Colonial Investment Trust PLC

We have audited the financial statements of Foreign & Colonial Investment Trust PLC for the year ended 31 December 2012 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement 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 Statement of Directors' Responsibilities set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with 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 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 report and accounts 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 financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its net returns and cash flows for the year then ended;
- 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 Directors' 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 year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

- Under the Companies Act 2006 we are required to report to you if, in our opinion:
  - adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
  - the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
  - certain disclosures of directors' remuneration specified by law are not made; or
  - we have not received all the information and explanations we require for our audit.
- Under the Listing Rules we are required to review:
  - the directors' statement, set out on page 15, in relation to going concern;
  - the parts 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.

Alex Bertolotti (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1 March 2013

Income Statement

Revenue Notes	Capital Notes	For the year ended 31 December	**Revenue £'000s**	**Capital £'000s**	**2012 Total £'000s**	Revenue £'000s	Capital £'000s	2011 Total £'000s
	11	Gains/(losses) on investments and derivatives	**–**	**202,612**	**202,612**	–	(136,431)	(136,431)
	21	Exchange (losses)/gains	**(146)**	**8,523**	**8,377**	28	(5,069)	(5,041)
3		Income	**59,403**	**–**	**59,403**	57,783	–	57,783
4	4	Management fees	**(3,858)**	**(4,461)**	**(8,319)**	(3,809)	(4,451)	(8,260)
5	21	Other expenses	**(2,944)**	**(51)**	**(2,995)**	(3,111)	(72)	(3,183)
		Net return before finance costs and taxation	**52,455**	**206,623**	**259,078**	50,891	(146,023)	(95,132)
7	21	Finance costs	**(8,818)**	**(8,818)**	**(17,636)**	(7,960)	(7,960)	(15,920)
		Net return on ordinary activities before taxation	**43,637**	**197,805**	**241,442**	42,931	(153,983)	(111,052)
8		Taxation on ordinary activities	**(2,796)**	**–**	**(2,796)**	(2,661)	(137)	(2,798)
9	9	**Net return attributable to shareholders**	**40,841**	**197,805**	**238,646**	40,270	(154,120)	(113,850)
9	9	**Net return per share – basic (pence)**	**7.02**	**33.98**	**41.00**	6.74	(25.80)	(19.06)

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

A statement of total recognised gains and losses is not required as all gains and losses of the Company have been reflected in the above statement.

Reconciliation of Movements in Shareholders' Funds

Notes	For the year ended 31 December 2012	**Share Capital £'000s**	**Capital Redemption Reserve £'000s**	**Capital Reserves £'000s**	**Revenue Reserve £'000s**	**Total Shareholders' Funds £'000s**
	Balance brought forward 31 December 2011	147,584	115,178	1,554,305	110,825	1,927,892
10	Dividends paid	–	–	–	(47,128)	(47,128)
19	Shares repurchased by the Company	(3,286)	3,286	(40,414)	–	(40,414)
	Return attributable to shareholders	–	–	197,805	40,841	238,646
	Balance carried forward 31 December 2012	**144,298**	**118,464**	**1,711,696**	**104,538**	**2,078,996**

Notes	For the year ended 31 December 2011	Share Capital £'000s	Capital Redemption Reserve £'000s	Capital Reserves £'000s	Revenue Reserve £'000s	Total Shareholders' Funds £'000s
	Balance brought forward 31 December 2010	152,530	110,232	1,769,398	110,850	2,143,010
10	Dividends paid	–	–	–	(40,295)	(40,295)
19	Shares repurchased by the Company	(4,946)	4,946	(60,973)	–	(60,973)
	Return attributable to shareholders	–	–	(154,120)	40,270	(113,850)
	Balance carried forward 31 December 2011	147,584	115,178	1,554,305	110,825	1,927,892

Balance Sheet

Notes	At 31 December	£'000s	2012 £'000s	£'000s	2011 £'000s
	Fixed assets				
11	Investments		**2,374,431**		2,228,118
	Current assets				
13	Debtors	**3,831**		5,881	
	Cash at Bank	**25,999**		–	
		29,830		5,881	
	Creditors: amounts falling due within one year				
11	Derivative financial instruments	**(34)**		–	
14	Loans	**(115,000)**		(175,501)	
15	Other	**(3,481)**		(20,031)	
		(118,515)		(195,532)	
	Net current liabilities		**(88,685)**		(189,651)
16	Total assets less current liabilities		**2,285,746**		2,038,467
	Creditors: amounts falling due after more than one year				
17	Loans	**(96,175)**		–	
18	Debentures	**(110,575)**		(110,575)	
			(206,750)		(110,575)
	Net assets		**2,078,996**		1,927,892
	Capital and reserves				
19	Share capital		**144,298**		147,584
20	Capital redemption reserve		**118,464**		115,178
21	Capital reserves		**1,711,696**		1,554,305
21	Revenue reserve		**104,538**		110,825
	Total shareholders' funds		**2,078,996**		1,927,892
22	**Net asset value per share – prior charges at nominal value (pence)**		**360.19**		326.57

The Financial Statements were approved by the Board on 1 March 2013 and signed on its behalf by:

Simon Fraser
Chairman

Jeffrey Hewitt
Director

Cash Flow Statement

Notes	For the year ended 31 December	£'000s	2012 £'000s	£'000s	2011 £'000s
	Operating activities				
	Investment income	**57,352**		54,190	
	Interest received	**97**		4	
	Stock lending fees received	**274**		453	
	Premium from option writing	**1,025**		234	
	Other revenue	**369**		6	
	Management fees paid	**(8,248)**		(8,170)	
	Fees paid to directors	**(322)**		(369)	
	Other cash payments	**(2,610)**		(3,001)	
23	Net cash inflow from operating activities		**47,937**		43,347
	Servicing of finance				
	Interest paid	**(17,780)**		(15,764)	
	Cash outflow from servicing of finance		**(17,780)**		(15,764)
	Financial investment				
	Purchases of investments and derivatives	**(499,960)**		(889,672)	
	Sales of investments and derivatives	**556,528**		947,843	
	Other capital charges and credits	**(49)**		(77)	
	Net cash inflow from financial investment		**56,519**		58,094
	Equity dividends paid		**(47,128)**		(40,295)
	Net cash inflow before use of liquid resources and financing		**39,548**		45,382
	Management of liquid resources				
	Increase in short term deposits		**(16,416)**		–
	Financing				
	Net loans raised	**42,939**		72,718	
	Costs of shares repurchased	**(39,830)**		(62,067)	
	Net cash inflow from financing		**3,109**		10,651
	Increase in cash		**26,241**		56,033

Notes on the Accounts

1 General information

Foreign & Colonial Investment Trust PLC is an Investment Company, incorporated in the United Kingdom with a premium listing on the London Stock Exchange. The Company Registration number is 12901, and the Registered office is Exchange House, Primrose Street, London, EC2A 2NY, England. The Company conducts its affairs so as to qualify as an Investment Trust under the provisions of Section 1158 of the Corporation Tax Act, 2010. Approval of the Company under S1158 has been received (subject to there being no subsequent enquiry) in respect of the year ended 31 December 2011 and all previous applicable financial years. Section 1158 was amended to allow the Company to seek approval of compliance in advance and for all subsequent financial years. The Company received such advanced approval for 2012 subject to it continuing to meet the relevant eligible conditions and ongoing requirements. The Company intends to conduct its affairs so as to enable it to comply with the requirements. Such approval exempts the Company from UK Corporation Tax on gains realised in the relevant year on its portfolio of fixed asset investments and derivatives.

Under the Company's Articles of Association, net capital returns may not be distributed by way of dividend and are allocated via the Capital Account to the Capital Reserves. Dividends payable to equity shareholders are shown in the Reconciliation of Movement in Shareholders' Funds.

2 Significant accounting policies

(a) Basis of accounting

The accounts of the Company have been prepared on a going concern basis under the historical cost convention, modified to include fixed asset investments and derivatives at fair value, and in accordance with the Companies Act 2006, Accounting Standards applicable in the United Kingdom and with the Revised Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") issued in January 2009.

The functional and reporting currency of the Company is pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

The Company had no operating subsidiaries at any time during the years ended 31 December 2012 and 31 December 2011. Consequently, consolidated accounts have not been prepared.

There have been no significant changes to the accounting policies during the year ended 31 December 2012.

In accordance with the SORP, the Income Statement has been analysed between a Revenue Account (dealing with items of a revenue nature) and a Capital Account (relating to items of a capital nature). Revenue returns include, but are not limited to, dividend income and operating expenses and tax (insofar as the expenses and tax are not allocated to capital, as described in note 2(b) below). Net revenue returns are allocated via the revenue account to the Revenue Reserve, out of which interim and final dividend payments are made. Capital returns include, but are not limited to, realised and unrealised profits and losses on fixed asset investments and derivatives and currency profits and losses on cash and borrowings.

(b) Principal accounting policies

The policies set out below have been applied consistently throughout the year.

(i) Financial instruments

Financial Instruments include fixed asset investments, derivative assets and liabilities, and long-term debt instruments, cash and short-term deposits, debtors and creditors. Accounting Standards recognise a hierarchy of fair value measurements, for financial instruments measured at fair value in the Balance Sheet, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The classification of financial instruments depends on the lowest significant applicable input, as follows:

Level 1 – Unadjusted, fully accessible and current quoted prices in active markets for identical assets or liabilities. Included within this category are investments listed on any recognised stock exchange or quoted on the AIM Market in the UK.

Level 2 – Quoted prices for similar assets or liabilities, or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such Instruments would be those for which the quoted price has been suspended, forward exchange contracts and certain other derivative instruments. The Company held no such securities during the year under review.

Level 3 – External inputs are unobservable. Value is the Directors' best estimate, based on advice from relevant knowledgeable experts, use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or similar instrument. Included within this category are investments in private companies or securities, whether invested in directly or through pooled Private Equity vehicles.

2 Significant accounting policies (continued)

(ii) Fixed asset investments and derivative financial instruments

As an Investment Trust, the Company measures its fixed asset investments at fair value through profit or loss and treats all transactions on the realisation and revaluation of investments held as fixed assets, as transactions on the Capital Account. Purchases are recognised on the relevant trade date, inclusive of expenses which are incidental to the acquisition of the investments. Sales are also recognised on the trade date, after deducting expenses incidental to the sales. Quoted investments are valued at bid value at the close of business on the relevant date on the exchange on which the investment is listed. Investments which are not quoted or which are not frequently traded are stated at Directors' best estimate of fair value. In arriving at their estimate, the Directors make use of recognised valuation techniques and may take account of recent arm's length transactions in the same or similar investment instruments. Where no reliable fair value can be estimated, investments are carried at cost or less any provision for impairment.

With respect specifically to investments in private equity, whether through funds or partnerships, the Directors rely on unaudited valuations of the underlying unlisted investments as supplied by the managers of those funds or partnerships. The Directors regularly review the principles applied by the managers to those valuations to ensure they are in compliance with the above policies. Distributions from private equity funds are recognised when the right to distributions is established.

(iii) Derivative Instruments

Derivatives including forward exchange contracts and options are classified as held for trading and are accounted for as financial assets or liabilities. Where it can be demonstrated that the derivative is connected to the maintenance of the Company's investments, the change in fair value is recognised as capital and shown in the Capital column of the Income Statement. Where an option is written in the expectation that it will not be exercised, or that any losses on exercise will be outweighed by the value of the premiums received, the premiums are recognised in the Revenue column of the Income Statement. The value of the premium is usually the option's initial fair value and is recognised evenly over the life of the option. Subsequent changes to fair value are adjusted in the Capital column of the Income Statement such that the total amounts recognised within Revenue and Capital represent the change in fair value of the option.

(iv) Debt Instruments

The Company's debt instruments include the long-term debenture stock included in the Balance Sheet at proceeds received, net of issue costs, and short-term bank borrowings and overdrafts, initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method. No debt instruments held during the year required hierarchical classification.

The 11.25% debenture stock was issued in 1989 and 4.25% perpetual debenture stock was issued in 1960. The fair market value of these debenture stocks is set out in note 18 on the accounts. Finance charges, including interest, are accrued using the effective interest rate method. See 2(vii) below for allocation of finance charges within the Income Statement.

(v) Foreign currency

Foreign currency monetary assets and liabilities are expressed in Sterling at rates of exchange ruling at the balance sheet date. Purchases and sales of investment securities, dividend income, interest income and expenses are translated at the rates of exchange prevailing at the respective dates of such transactions. Exchange profits and losses on fixed assets investments are included within the changes in fair value in the Capital Account. Exchange profits and losses on other currency balances are separately credited or charged to the Capital Account except where they relate to revenue items.

(vi) Income

Income from equity shares is brought into the Revenue Account (except where, in the opinion of the Directors, its nature indicates it should be recognised as within the Capital Account) on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment. Dividends are accounted for in accordance with Financial Reporting Standard 16 "Current Taxation" (FRS16) on the basis of income actually receivable, without adjustment for the tax credit attaching to the dividends. Dividends from overseas companies continue to be shown gross of withholding tax. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash (scrip dividends), the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in capital reserves.

Notes on the Accounts (continued)

2 Significant accounting policies (continued)

(vii) Expenses, including finance charges

Expenses are charged to the Revenue Account of the Income Statement, except as noted below:

– expenses incidental to the acquisition or disposal of fixed assets investments are included within the cost of the investments or deducted from the disposal proceeds of investments and are thus charged to Capital Reserve realised via the Capital Account;

– 100% of management fees, invoiced to the Company in respect of certain Private Equity investments, are allocated to capital reserves, via the Capital Account, in accordance with the Board's long-term expected split of returns from those investments;

– 50% of other management fees, and 50% of finance costs (both net of applicable tax relief) are allocated to Capital Reserves via the Capital Account, in accordance with the Board's long-term expected split of returns from the investment portfolio (excluding private equity investments) of the Company; and

All expenses are accounted for on an accruals basis.

(viii) Taxation

Deferred tax is provided on an undiscounted basis in accordance with FRS19 on all timing differences that have originated but not reversed by the Balance Sheet date, based on tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the "marginal" basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the Revenue Account, then no tax relief is transferred to the Capital Account.

(ix) Capital Redemption Reserve

The nominal value of ordinary share capital repurchased for cancellation is transferred out of Share Capital and into the Capital Redemption Reserve, on a trade date basis.

(x) Capital Reserves

Capital reserve – arising on investments sold

The following are accounted for in this reserve:

– gains and losses on the disposal of fixed asset investments and derivatives;

– realised exchange differences of a capital nature;

– costs of professional advice, including related irrecoverable VAT, relating to the capital structure of the Company;

– other capital charges and credits charged or credited to this account in accordance with the above policies; and

– costs of repurchasing ordinary share capital are recognised on a trade date basis.

Capital reserve – arising on investments held

The following are accounted for in this reserve:

– increases and decreases in the valuation of fixed asset investments and derivatives held at the year end; and

– unrealised exchange differences of a capital nature.

3 Income

	2012 £'000s	2011 £'000s
UK dividends	28,492	29,505
Overseas dividends	29,141	27,415
Scrip dividends	72	150
	57,705	57,070
Other Income		
Stock lending fees (see note 11)	237	469
Derivative income	995	234
Underwriting commission	216	6
Interest on cash and short-term deposits	97	4
Sundry income	153	–
	1,698	713
Total income	59,403	57,783
Total income comprises:		
Dividends	57,705	57,070
Other income	1,698	713
	59,403	57,783
Income from investments comprises:		
Listed UK	28,149	28,967
Listed Overseas	29,213	27,565
Unlisted	343	538
	57,705	57,070

As described in note 2(iii), derivative income has been derived from premiums received on put and call options written on securities held in the portfolio of investments.

Notes on the Accounts (continued)

4 Management fees

		2012 £'000s	2012 £'000s	2011 £'000s	2011 £'000s
Payable directly to F&C:					
– in respect of management services provided by F&C	(i)	6,228		6,295	
– reimbursement in respect of services provided by sub-managers	(i)	1,488		1,322	
			7,716		7,617
Payable directly to Private Equity Managers	(ii)		603		643
Total directly incurred management fees			8,319		8,260
Incurred indirectly within Funds managed by Private Equity Managers	(iii)		5,650		5,492
Total direct and indirect management fees			13,969		13,752

(i) 50% of these fees allocated to capital reserve arising on investments sold
(ii) 100% of these fees allocated to capital reserve arising on investments sold
(iii) Indirectly incurred fees included within the value of the respective funds

Directly incurred fees are analysed as follows:

Management fees	2012 £'000s	2011 £'000s
– payable directly to F&C	7,716	7,617
– payable directly to private equity managers	603	643
	8,319	8,260
Less: allocated to capital reserves	(4,461)	(4,451)
Allocated to revenue account	3,858	3,809

(a) Management fees payable to F&C

F&C provides investment management, company secretarial, financial, marketing and general administrative services to the Company under the terms of an agreement which may be terminated upon six months' notice given by either party. In the event of a change of control of the Manager, the Company may give three months' notice of termination.

The Manager's remuneration is based on a fee of 0.365% per annum of the market capitalisation of the Company, calculated at each month end on a pro-rata basis; the fee is adjusted for fees earned by the Manager in respect of investment holdings managed or advised by the Manager. Variable fees payable in respect of third party sub-managers are also reimbursed.

(b) Management fees payable to the private equity managers

At 31 December 2012 the Company had commitments in five private equity funds managed by Pantheon Ventures Limited (2011: five) and eleven funds managed by HarbourVest Partners LLC (2011: eleven). Fees in respect of the Pantheon Europe Fund III are paid quarterly, directly to Pantheon Ventures Limited, at a rate of 0.65% per annum (2011: 0.65%) based on capital commitments. These fees are allocated fully to Capital Reserve on investments sold. Fees in respect of all other private equity funds are based on capital commitments and are charged quarterly against the underlying investments in those funds. The fees are not directly incurred by the Company. The fee rates applying during 2012 varied from 0.65% per annum to 1.91% per annum (2011: 0.65% to 1.94%).

5 Other expenses

	2012 £'000s	2011 £'000s
Auditors' remuneration:		
for audit and audit-related services *	92	89
for other services**	12	23
Custody	215	239
Directors' emoluments (see Directors' Remuneration Report on pages 25 and 26):		
fees for services to the Company	322	369
Subscriptions	27	33
Directors' and Officers' liability insurance	57	61
Marketing	494	547
Savings Plans	1,199	1,006
Loan commitment and arrangement fees	22	152
Registrars	108	101
Professional charges	77	137
Printing and postage	145	162
Sundry	174	192
	2,944	3,111

All expenses are stated gross of irrecoverable VAT, where applicable.

* Total Auditors' remuneration for audit services, exclusive of VAT, amounting to £89,000 (2011: £84,000) includes £18,000 costs relating to an independent review report for the period to 30 June 2012 (2011: £18,000).

** Total Auditors' remuneration for other services , exclusive of VAT, amounting to £11,000 (2011: £21,000), comprised; £9,000 for taxation compliance services (2011: £13,000); £2,000 relating to other assurance services for review of debenture compliance certificate (2011: £2,000); and £nil for consultancy (2011: £6,000). No part of these amounts was charged to capital reserves (2011: £nil).

6 Directors' remuneration and contracts

(a) Remuneration from the Company

The Company had no employees during the year. The amounts paid by the Company to the Directors of the Company, which were for services as non-executive Directors and which did not include any payments or rights to pensions, are detailed in the Directors' Remuneration Report on pages 25 and 26.

(b) Remuneration from related parties

No Director received remuneration during the year for services to related parties.

(c) Directors' interests in contracts

No contract of significance, to which the Company or its subsidiary undertaking is or was materially interested, subsisted during the year.

(d) Details of aggregate remuneration

During the year the aggregate amount of emoluments, paid to or receivable by the Directors for their services as Directors of the Company and their services, while a Director of the Company, as Director of any of its subsidiary undertakings or otherwise in connection with the management of the affairs of the Company or any of its subsidiary undertakings was £322,000 (2011: £369,000). Emoluments attributable to the highest paid Director amounted to £66,000 (2011: £71,000).

Notes on the Accounts (continued)

7 Finance costs

	2012 £'000s	2011 £'000s
Debenture stocks	**12,399**	12,399
Loans	**5,107**	1,974
Overdrafts	**130**	1,547
	17,636	15,920
Less: allocated to capital reserves (see note 21)	**(8,818)**	(7,960)
	8,818	7,960
The interest on debenture stocks, loans and overdrafts is further analysed as follows:		
Loans and overdrafts repayable within one year, not by instalments (note 14)	**2,946**	3,521
Debentures and loans repayable between one and five years, not by instalments (note 18)	**12,399**	12,399
Loans repayable after more than five years (note 17)	**2,291**	–
	17,636	15,920

8 Taxation on ordinary activities

(a) Analysis of tax charge for the year

	2012			2011		
	Revenue £'000s	**Capital £'000s**	**Total £'000s**	Revenue £'000s	Capital £'000s	Total £'000s
Corporation tax at 24.5% (2011: 26.5%)	**–**	**–**	**–**	–	–	–
Relief for overseas taxation	**–**	**–**	**–**	–	–	–
	–	**–**	**–**	–	–	–
Overseas taxation	**2,807**	**–**	**2,807**	2,642	137	2,779
Total current taxation (note 8(b))	**2,807**	**–**	**2,807**	2,642	137	2,779
Deferred tax	**(11)**	**–**	**(11)**	19	–	19
	2,796	**–**	**2,796**	2,661	137	2,798

The tax assessed for the year is lower (2011: lower) than the standard rate of Corporation tax in the UK.

8 Taxation on ordinary activities (continued)

(b) Factors affecting tax charge for the year

			2012			2011
	Revenue £'000s	**Capital £'000s**	**Total £'000s**	Revenue £'000s	Capital £'000s	Total £'000s
Return on ordinary activities before taxation	**43,637**	**197,805**	**241,442**	42,931	(153,983)	(111,052)
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 24.5% (2011: 26.5%)	**10,691**	**48,462**	**59,153**	11,377	(40,805)	(29,428)
Effects of:						
Dividends*	**(14,088)**	**–**	**(14,088)**	(15,013)	–	(15,013)
Exchange losses/(gains) not subject to corporation tax	**36**	**–**	**36**	(7)	–	(7)
Capital returns*	**–**	**(51,728)**	**(51,728)**	–	37,497	37,497
Expenses not deductible for tax purposes	**208**	**13**	**221**	199	19	218
Expenses not utilised in the year	**3,153**	**3,253**	**6,406**	3,745	3,289	7,034
Unutilised overseas tax in excess of double taxation relief	**2,807**	**–**	**2,807**	2,341	–	2,341
Indian tax on capital gains	**–**	**–**	**–**	–	137	137
Total current taxation (note 8(a))	**2,807**	**–**	**2,807**	2,642	137	2,779

* These items are not subject to corporation tax within an investment trust company.

The deferred tax asset of £42.4 million (2011: £34.6 million) in respect of unutilised expenses at 31 December 2012 has not been recognised as it is likely that the unrecognised asset will diminish in the foreseeable future. Of this amount £13.2 million (2011: £9.8 million) relates to revenue expenses and £29.2 million (2011: £24.8 million) to capital expenses.

9 Net return per share

	2012 pence	**2012 £'000s**	2011 pence	2011 £'000s
Total return	**41.00**	**238,646**	(19.06)	(113,850)
Revenue return	**7.02**	**40,841**	6.74	40,270
Capital return	**33.98**	**197,805**	(25.80)	(154,120)
Weighted average ordinary shares in issue		**582,126,715**		597,460,093

Notes on the Accounts (continued)

10 Dividends

Dividends on ordinary shares	Register date	Payment date	**2012 £'000s**	2011 £'000s
2010 Final of 3.75p	15–Apr-2011	9-May-2011	**–**	22,480
2011 Interim of 3.00p	12-Aug-2011	9-Sep-2011	**–**	17,815
2011 Final of 4.10p	13-Apr-2012	11-May-2012	**23,947**	–
2012 First Interim of 4.00p	10-Aug-2012	7-Sep-2012	**23,181**	–
			47,128	40,295

A second interim dividend of 2.00 pence was paid to shareholders on 1 February to all shareholders on the register on 11 January 2013.

The Directors have proposed a final dividend in respect of the year ended 31 December 2012 of 2.50p payable on 1 May 2013 to all shareholders on the register at close of business on 5 April 2013. The total dividends payable in respect of the financial year for the purposes of the income retention test for Section 1159 of the Income and Corporation Tax Act 2010 are set out below.

	2012 £'000s
Revenue available for distribution by way of dividends for the year	**40,841**
First interim dividend for the year ended 31 December 2012 – 4.00p per share	**(23,181)**
Second interim dividend for the year ended 31 December 2012 – 2.00p per share	**(11,544)**
Proposed final dividend for the year ended 31 December 2012 – 2.50p per share (estimated cost based on 575,284,016 shares in issue at 28 February 2013)	**(14,382)**
Estimated revenue reserve utilised, for Section 1159 purposes	**(8,266)**

11 Investments and derivative financial instruments

	2012 Level 1 £'000s	2012 Level 2 £'000s	2012 Level 3 £'000s	2012 Total £'000s	2011 Level 1 £'000s	2011 Level 2 £'000s	2011 Level 3 £'000s	2011 Total £'000s
Cost at 1 January	**1,510,805**	**–**	**385,350**	**1,896,155**	1,511,569	–	358,611	1,870,180
Unrealised Gains at 1 January	**280,883**	**–**	**51,080**	**331,963**	482,807	–	69,298	552,105
Valuation at 1 January	**1,791,688**	**–**	**436,430**	**2,228,118**	1,994,376	–	427,909	2,422,285
Purchases at cost	**465,025**	**–**	**35,144**	**500,169**	828,043	–	61,629	889,672
Sales proceeds	**(496,660)**	**–**	**(59,842)**	**(556,502)**	(875,885)	–	(71,523)	(947,408)
Gains/(losses) on derivatives sold	**(397)**	**–**	**–**	**(397)**	(123)	–	–	(123)
Gains/(losses) on investments sold	**14,681**	**–**	**26,034**	**40,715**	47,201	–	36,633	83,834
Gains/(losses) on derivatives held	**(34)**	**–**	**–**	**(34)**	–	–	–	–
Gains/(losses) on investments held	**169,655**	**–**	**(7,327)**	**162,328**	(201,924)	–	(18,218)	(220,142)
Valuation at 31 December of investments and derivatives	**1,943,958**	**–**	**430,439**	**2,374,397**	1,791,688	–	436,430	2,228,118
Analysed at 31 December								
Cost	**1,493,454**	**–**	**386,686**	**1,880,140**	1,510,805	–	385,350	1,896,155
Unrealised gains	**450,504**	**–**	**43,753**	**494,257**	280,883	–	51,080	331,963
Valuation at 31 December of investments and derivatives	**1,943,958**	**–**	**430,439**	**2,374,397**	1,791,688	–	436,430	2,228,118

Valuation of investments and derivatives	2012 £'000s	2011 £'000s
Valuation of investments at 31 December	**2,374,431**	2,228,118
Valuation of derivatives at 31 December	**(34)**	–
Total valuation of investments and derivatives at 31 December	**2,374,397**	2,228,118

Gains/(losses) on investments and derivatives held at fair value	2012 £'000s	2011 £'000s
Gains on investments sold	**40,715**	83,834
Losses on derivatives sold	**(397)**	(123)
Gains/(losses) on investments held at year end	**162,328**	(220,142)
Losses on derivatives held at year end	**(34)**	–
Total gains/(losses) on investments and derivatives	**202,612**	(136,431)

see note 2(b)(i)

Level 1 includes investments and derivatives listed on any recognised stock exchange or quoted on the AIM market in the UK.
Level 2 includes investments for which the quoted price has been suspended, forward exchange contracts and other derivative instruments.
Level 3 includes investments in private companies or securities, whether invested in directly or through pooled Private Equity vehicles.

Stock lending	2012 £'000s	2011 £'000s
Aggregate value of securities on loan at 31 December	**3,513**	12,310
Maximum aggregate value of securities on loan during the year	**81,636**	85,407
Income from stock lending	**237**	469

In respect of securities on loan at the year end, the Company held £3,873,000 (2011: £14,657,000) as collateral, the value of which exceeds the value of the loan securities by 10.3% (2011: 19.1%). In respect of the maximum aggregate value of securities on loan during the year, the Company held £88,354,000 (2011: £90,922,000) as collateral, the value of which exceeded the value of the securities on loan by 8.2% (2011:6.5%). With effect from 17 January 2013 the Company ceased stock lending.

Notes on the Accounts (continued)

11 Investments and derivative financial instruments (continued)

Investments managed or advised by the F&C Group

Investments include £36.0 million (2011: £30.2 million) of funds and investments managed or advised by F&C or its subsidiaries. These investments represent 1.5% (2011: 1.4%) of total assets less current liabilities (excluding loans) of the Company. Under the terms of the Company's Management Agreement with F&C set out in note 4, the management fee is adjusted for fees earned by the Manager on all such holdings. During the year the Company purchased £nil million (2011: £nil) of such investments, and received £nil million (2011: £2.4 million) from sales.

Unlisted investments

Unlisted investments include £424.1 million (2011: £428.1 million) of investments described as Private Equity, together with £6.3 million (2011: £8.3 million) of other investments and partnerships, the underlying portfolios of which principally comprise unlisted investments. These are valued in accordance with the policies set out in note 2 on the accounts.

It is in the nature of private equity and similar unlisted investments that they may be loss making, with no certainty of survival, and that they may prove difficult to realise. The concept of "fair value" as applied to such investments is not precise and their ultimate realisation may be at a value significantly different from that reflected in the accounts.

12 Subsidiary and substantial interests

Subsidiary undertaking

The consolidation of the subsidiary undertakings is not material for the purpose of giving a true and fair view and hence in accordance with Section 405(2) of the Companies Act 2006, the Company has not prepared consolidated accounts.

				At 31 December 2012
Company and business	Country of registration, incorporation and operation	Number and class of shares held	Holding %	Capital and reserves £'000s
F&C Securities Limited (dormant – Investment dealing)	England	100 ordinary shares of £1	100	(538)

12 Subsidiaries and substantial interests (continued)

Substantial interests

At 31 December 2012 the Company held more than 3% of one class of the capital of the following undertakings held as investments, none of which, in the opinion of the Directors, represent a participating interest.

Investment	Country of registration and incorporation	Number and class of shares held	Holding %
Caithness Petroleum	British Virgin Islands	10,526,090 ordinary shares	9.99
Dover Street VI LP	USA	–	11.12
Esprit Capital Fund 1 LP	England	–	10.80
F&C Portfolios Fund SICAV			
European High Yield Bond Fund(1)(2)	Luxembourg	1,307,696 shares	33.92
F&C US Smaller Companies PLC(1)	England	3,833,911 ordinary shares of 25p	17.24
HarbourVest Partners VII – Buyout Partnership Fund LP	USA	–	3.86
HIPEP V – Direct Fund LP	USA	–	15.66
HIPEP V – Asia Pacific and Rest of World Partnership Fund LP	USA	–	4.74
HIPEP VI – Emerging Markets Fund	USA	–	12.06
HIPEP VI – Asia Pacific Fund LP	USA	–	4.93
Pantheon Europe Fund III LP	USA	–	44.41
Pantheon Europe Fund V LP	Scotland	–	9.29
Pantheon Asia Fund IV LP	Channel Islands	–	8.40
Pantheon Asia Fund V LP	Channel Islands	–	6.19
Pantheon Global Secondary Fund III LP	Scotland	–	3.50
Utilico Emerging Markets Limited	Bermuda	18,951,661 ordinary shares of 10p	8.79
Utilico Investments Limited	Bermuda	10,452,260 ordinary shares of 1.5625p	10.49

(1) Investment funds managed by F&C

(2) The holding represents 0.79% of the voting rights in the F&C Portfolios Fund SICAV.

13 Debtors

	2012 £'000s	2011 £'000s
Investment debtors	**51**	77
Prepayments and accrued income	**3,727**	5,583
Overseas taxation recoverable	**50**	218
Other debtors	**3**	3
	3,831	5,881

Notes on the Accounts (continued)

14 Creditors: amounts falling due within one year

Loans Non-instalment debt payable on demand or within one year	2012 £'000s	2011 £'000s
¥6,038.5m repaid January 2012	–	50,501
£125m repaid January 2012	–	125,000
£115m repaid January 2013	115,000	–
	115,000	175,501

At 31 December 2012 the Company's loans were drawn down under two unsecured revolving credit facilities expiring in September 2013 and December 2013. The facilities allow the Company access on demand to a maximum of £125m at the time of drawdown of bank loans in any major currency. Interest rate margins on the amounts drawn down are variable and are dependent upon commercial terms agreed with each bank. Commitment commission is payable on undrawn amounts at commercial rates.

At 28 February 2013, there were £85m short-term borrowings.

15 Creditors: amounts falling due within one year

Other	2012 £'000s	2011 £'000s
Cost of ordinary shares repurchased	591	7
Investment creditors	356	239
Bank overdraft	–	17,916
Management fees payable to F&C	817	746
Other accrued expenses	1,717	1,123
	3,481	20,031

16 Geographical and industrial classification

a)	UK %	North America %	Europe ex UK %	Japan %	Emerging Markets %	2012 Total %	2011 Total %
Equities and convertibles							
Oil and gas	5.1	1.6	0.7	0.1	0.8	**8.3**	9.3
Basic materials	2.8	0.5	1.0	0.3	0.9	**5.5**	4.3
Industrials	2.8	2.9	0.5	0.6	0.4	**7.2**	7.6
Consumer goods	4.1	2.6	1.5	1.0	3.1	**12.3**	12.5
Healthcare	2.6	3.2	0.9	0.2	–	**6.9**	7.2
Consumer services	1.3	2.9	0.7	0.2	0.2	**5.3**	5.4
Telecommunications	2.5	0.8	0.2	0.3	0.5	**4.3**	5.7
Utilities	1.7	0.1	–	0.1	0.2	**2.1**	2.2
Financials (including investment funds)	9.8	4.4	2.6	0.8	3.0	**20.6**	18.1
Technology	1.8	3.6	1.1	0.6	1.0	**8.1**	8.4
Private equity	2.4	6.1	5.3	0.4	3.5	**17.7**	19.3
Total equities and convertibles	36.9	28.7	14.5	4.6	13.6	**98.3**	100.0
Fixed interest stocks	–	–	0.6	–	–	**0.6**	0.6
Total Investments	36.9	28.7	15.1	4.6	13.6	**98.9**	100.6
Net current assets (excluding loans)	0.4	0.5	0.2	–	–	**1.1**	(0.6)
Total assets less current liabilities (excluding loans)	**37.3**	**29.2**	**15.3**	**4.6**	**13.6**	**100.0**	
Total 2011	37.0	29.7	14.9	4.6	13.8		100.0

b)	UK %	North America %	Europe ex UK %	Japan %	Emerging Markets %	2012 Total %	2011 Total %
Net assets 2012	**32.2**	**31.5**	**17.6**	**3.0**	**15.7**	**100.0**	
Net assets 2011	30.1	34.0	17.2	2.8	15.9		100.0

Note: Geographical classification of the investments held as fixed assets is determined primarily by the country of quotation.

17 Creditors: amounts falling due after more than one year

Loans **Non-instalment debt payable after more than one year**	**2012 £'000s**	2011 £'000s
\$80m repayable April 2019	**49,216**	–
¥6,600m repayable April 2019	**46,959**	–
	96,175	–

In April 2012 the Company entered into a loan arrangement facility drawing loans in Yen and US dollars equivalent to £100m at commercial interest rates expiring April 2019. Early redemption penalties apply.

At 28 February 2013, there were £100m long-term borrowings comprising \$80m and ¥6,600m

Notes on the Accounts (continued)

18 Creditors: amounts falling due after more than one year

Debentures	2012 £'000s	2011 £'000s
11.25% debenture stock 2014 – secured	**110,000**	110,000
4.25% perpetual debenture stock – secured	**575**	575
	110,575	110,575

The debenture stocks are listed on the London Stock Exchange and secured by floating charges over the assets of the Company. The market value of the debenture stocks at 31 December 2012 was £125,548,000 (31 December 2011: £132,513,000).

The 11.25% debenture stock is redeemable at par on 31 December 2014. Under the terms of the debenture trust deed: the total of all borrowings, valued in accordance with the Company's accounting policies, shall not at any time exceed the Company's "Adjusted Total of Capital and Reserves" ("ATCR") – at 31 December 2012 the value of the ATCR was £1,792m and the value of all borrowings was £322m. The trust deed also specifies that the aggregate of the Company's debenture stocks valued at par shall not exceed two-thirds of the ATCR.

Each year, the Company issues a certificate of compliance with the provisions of the trust deed to the trustee of the debenture stock, showing that the borrowing limits have not been exceeded at the relevant accounting date. The Company has complied at all times with the terms of the trust deed.

The 11.25% debenture stock may be redeemed early by the Company giving notice of not less than 30 days in writing to stockholders. In such event, the redemption price must be the higher of par and the price equivalent to the gross redemption yield on the relevant date of 12% Exchequer Stock 2013/17.

The Directors have no present intention to redeem the 11.25% debenture stock before 31 December 2014.

19 Share capital

	2012 Number	2012 Issued and fully paid Nominal £'000s	2011 Number	2011 Issued and fully paid Nominal £'000s
Share capital ordinary shares of 25p each				
Balance brought forward	**590,337,016**	**147,584**	610,119,016	152,530
Shares repurchased by the Company	**(13,146,000)**	**(3,286)**	(19,782,000)	(4,946)
Balance carried forward	**577,191,016**	**144,298**	590,337,016	147,584

13,146,000 ordinary shares were repurchased and cancelled during the year at a total cost of £40,414,000. Since the year end 1,907,000 ordinary shares have been repurchased at a total cost of £6,663,000.

20 Capital redemption reserve

	2012 £'000s	2011 £'000s
Balance brought forward	**115,178**	110,232
Transfer from share capital on repurchase of ordinary shares	**3,286**	4,946
Balance carried forward	**118,464**	115,178

21 Other reserves

	Capital reserve arising on investments sold £'000s	Capital reserve arising on investments held £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Gains and losses transferred in current year				
Gains on investments sold (see note 11)	40,715	–	40,715	–
Losses on derivatives sold (see note 11)	(397)	–	(397)	–
Gains on investments held at year end (see note 11)	–	162,328	162,328	–
Losses on derivatives held at year end (see note 11)	–	(34)	(34)	
Exchange movement on currency balances	326	8,197	8,523	–
Management fees (see note 4)	(4,461)	–	(4,461)	–
Finance costs (see note 7)	(8,818)	–	(8,818)	–
Other capital charges	(51)	–	(51)	–
Revenue return attributable to shareholders	–	–	–	40,841
Total gains and losses transferred in current year	27,314	170,491	197,805	40,841
Cost of ordinary shares repurchased in year	(40,414)	–	(40,414)	–
Dividends paid in year	–	–	–	(47,128)
Balance brought forward	1,223,488	330,817	1,554,305	110,825
Balance carried forward	**1,210,388**	**501,308**	**1,711,696**	**104,538**

Included within the capital reserve movement for the year is £nil (2011: £4,000) of dividend receipts recognised as capital in nature. £1,139,000 of transaction costs on purchases of investments are included within the capital reserve movements disclosed above (2011: £2,191,000). £998,000 of transaction costs on sales of investments are similarly included (2011: £1,823,000).

22 Net asset value per ordinary share

	2012	2011
Net asset value per share (with debenture stocks at nominal value) – pence	**360.19**	326.57
Net assets attributable at end of period – £'000s	**2,078,996**	1,927,892
Ordinary shares of 25p in issue at end of year – number	**577,191,016**	590,337,016

Net asset value per share cum dividend (with debenture stocks at market value) was 357.60p (31 December 2011: 322.86p). The market value of debenture stocks at 31 December 2012 was £125,548,000 (31 December 2011: £132,513,000).

Notes on the Accounts (continued)

23 Reconciliation of total return before finance costs and taxation to net cash inflow from operating activities

	2012 £'000s	2011 £'000s
Net return before finance costs and taxation	**259,078**	(95,132)
Adjust for returns from non-operating activities		
– Gains/(losses) on investments and derivatives held at fair value	**(202,612)**	136,431
– Exchange gains/(losses) of a capital nature	**(8,523)**	5,069
– Non-operating expenses of a capital nature	**51**	72
Return from operating activities	**47,994**	46,440
Adjust for non cash-flow items		
– Exchange gains/(losses) of a revenue nature	**146**	(28)
– Increase in accrued income	**2,594**	(119)
– Decrease in prepayments	**(33)**	148
– Decrease in creditors	**115**	(317)
– Scrip dividends	**(72)**	(150)
– Overseas taxation	**(2,807)**	(2,627)
Net cash inflow from operating activities	**47,937**	43,347

24 Reconciliation of net cash movement to movement in net debt

	2012 £'000s	2011 £'000s
Net cash movement	**26,241**	56,033
Increase in short-term deposits	**16,416**	–
Increase in loans	**(42,939)**	(72,718)
Change in net debt resulting from cash flows	**(282)**	(16,685)
Exchange movement	**8,523**	(5,069)
Movement in net debt in the year	**8,241**	(21,754)
Net debt brought forward	**(303,992)**	(282,238)
Net debt carried forward	**(295,751)**	(303,992)

Represented by:	Balance at 1 January 2012 £'000s	Cash flow £'000s	Exchange Movement £'000s	Balance at 31 December 2012 £'000s
Cash at bank/(Overdraft)	(17,916)	26,241	1,335	**9,660**
Short term deposits	–	16,416	(77)	**16,339**
	(17,916)	42,657	1,258	**25,999**
Loans	(175,501)	(42,939)	7,265	**(211,175)**
Debentures	(110,575)	–	–	**(110,575)**
	(303,992)	(282)	8,523	**(295,751)**

25 Contingencies and capital commitments

(a) Contingencies

At the year end the Company had guaranteed until September 2013 rental commitments by F&C in respect of a property leased and fully sub-let by F&C. Eureko BV has provided a full indemnity to the Company in respect of this guarantee. There has been no change in the guarantee or the indemnity since the year end.

(b) VAT legal case

A case has been brought against HMRC to seek recovery of recoverable VAT relating to the period 1997 to 2000, together with interest on a compound basis. No VAT or related interest recovery has been accrued or recognised as a contingent asset, as the outcome of the case is expected to remain uncertain for several years.

(c) Capital commitments

The Company had the following capital commitments at the year end.

	2012 Currency	2011 Currency	2012 £'000s	2011 £'000s
HarbourVest Partners VII:				
– Buyout Partnership Fund LP	**US$7.4m**	US$10.9m	**4,559**	7,027
– Venture Partnership Fund LP	**US$2.3m**	US$3.0m	**1,384**	1,930
– Mezzanine Fund LP	**US$1m**	US$1.3m	**627**	849
Dover Street VI LP	**US$5.2m**	US$6.9m	**3,186**	4,443
Dover Street VII LP	**US$7.3m**	US$12.9m	**4,499**	8,325
HarbourVest Partners V– Asia Pacific and Rest of World LP	**US$3.3m**	$6.1m	**1,999**	3,941
HarbourVest Partners VIII:				
– Buyout Partnership Fund LP	**US$16.2m**	US$23.0m	**9,966**	14,767
– Venture Partnership Fund LP	**US$7.8m**	US$11.0m	**4,799**	7,078
HarbourVest Partners V – Direct Fund LP	**€3m**	€5.3m	**2,433**	4,385
HIPEP VI – Asia Pacific Fund	**US$17m**	US$21.5m	**10,458**	13,834
HIPEP VI – Emerging Markets Fund	**US$17.8m**	US$21.6m	**10,920**	13,915
Pantheon Europe Fund III LP	**€8.6m**	€8.6m	**6,996**	7,204
Pantheon Europe Fund V LP	**€27m**	€34.0m	**21,899**	28,400
Pantheon Asia Fund IV LP	**US$10.8m**	US$14.0m	**6,613**	9,008
Pantheon Asia Fund V LP	**US$13.3m**	US$18.3m	**8,151**	11,743
Pantheon Global Secondary Fund III LP	**US$5.8m**	US$7.5m	**3,538**	4,826
Esprit Capital Fund I LP	**£0.24m**	£0.5m	**240**	491
			102,267	142,166

26 Related Party Transactions

The following are considered related parties: The Board of Directors and F&C.

There are no transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on pages 25 and 26, and as set out in notes 5 and 6 on the accounts. There are no outstanding balances with the Board at year end. Transactions between the Company and F&C are detailed in note 4 on management fees; in note 11, where investments managed and advised by F&C are disclosed; and in note 15 in relation to fees owed to F&C at the Balance Sheet date.

Notes on the Accounts (continued)

27 Financial Risk Management

The Company is an investment company, listed on the London Stock Exchange, and conducts its affairs so as to qualify in the United Kingdom (UK) as an investment trust under the provisions of Section 1158 of the Corporation Tax Act 2010. In so qualifying, the Company is exempted in the UK from corporation tax on capital gains on its portfolio of investments.

The Company's investment objective is to secure long-term growth in capital and income through a policy of investing primarily in an internationally diversified portfolio of public listed equities, as well as unlisted securities and private equity, with the use of gearing. In pursuing the objective, the Company is exposed to financial risks which could result in a reduction of either or both of the value of the net assets and the profits available for distribution by way of dividend. These financial risks are principally related to the market (currency movements, interest rate changes and security price movements), liquidity and credit. The Board of Directors, together with the Manager, is responsible for the Company's risk management. The Directors' policies and processes for managing the financial risks are set out in (a), (b) and (c) below.

The accounting policies which govern the reported Balance Sheet carrying values of the underlying financial assets and liabilities, as well as the related income and expenditure, are set out in note 2 on the accounts. The policies are in compliance with UK Accounting Standards and best practice, and include the valuation of financial assets and liabilities at fair value except as noted in (d) below and in note 18 in respect of debenture stocks. The Company does not make use of hedge accounting rules.

(a) Market risks

The fair value of equity and other financial securities including derivatives held in the Company's portfolio fluctuates with changes in market prices. Prices are themselves affected by movements in currencies and interest rates and by other financial issues, including the market perception of future risks. The Board's policies for managing these risks within the Company's objective include: risk diversification – no more than 5% of the portfolio may be invested in unlisted securities, excluding private equity investments, and no single investment may be made which exceeds 10% of the value of the portfolio at the time of acquisition; currency exposure borrowings are limited to amounts and currencies commensurate with the portfolio's exposure to those currencies; and gearing-borrowings including the debentures' value at market value – should not normally exceed 20% of shareholders funds. Options may only be written on quoted stocks and the total nominal exposure is limited to a maximum of 5% of the UK portfolio at the time of investment for both put and call options. The Board meets regularly to review full, timely and relevant information on investment performance and financial results. The Manager assesses exposure to market risks when making each investment decision and monitors ongoing market risk within the portfolio.

A description of derivative positions, which are also exposed to market price changes, together with the Manager's and Board's strategies for using these positions for efficient portfolio management is contained in this note, under "Other market risk exposures" (page 59).

The Company's other assets and liabilities may be denominated in currencies other than Sterling and may also be exposed to interest rate risks. The Manager and the Board regularly monitor these risks. The Company does not normally hold significant cash balances. Borrowings are limited to amounts and currencies commensurate with the portfolio's exposure to those currencies, thereby limiting the Company's exposure to future changes in foreign exchange rates. Debenture stocks were issued as part of the Company's planned gearing. All contracts and compliance with them, including the Debenture trust deeds, are agreed and monitored by the Board. Gearing may be short or long-term in Sterling and foreign currencies, and enables the Company to take a long-term view of the countries and markets in which it is invested without having to be concerned about short-term volatility.

Income earned in foreign currencies is converted to Sterling on receipt. The Board regularly monitors the effects on net revenue of interest earned on deposits and paid on gearing.

27 Financial Risk Management (continued)

Currency Exposure

The carrying value of the Company's assets and liabilities at 31 December, by currency, are shown below:

2012	Short-term debtors £'000s	Cash and deposits/ (overdrafts) £'000s	Debentures £'000s	Unsecured loans £'000s	Short-term creditors £'000s	**Net monetary assets/ (liabilities) £'000s**	Investments £'000s	Net exposure £'000s
Sterling	2,760	8,407	(110,575)	(115,000)	(2,287)	**(216,695)**	816,108	599,413
US Dollar	407	11,408	–	(49,216)	(773)	**(38,174)**	878,109	839,935
Euro	–	4,936	–	–	–	**4,936**	325,804	330,740
Yen	122	1,143	–	(46,959)	(225)	**(45,919)**	100,082	54,163
Other	542	105	–	–	(230)	**417**	254,328	254,745
Total	**3,831**	**25,999**	**(110,575)**	**(211,175)**	**(3,515)**	**(295,435)**	**2,374,431**	**2,078,996**

2011	Short-term debtors £'000s	Cash and deposits/ (overdrafts) £'000s	Debentures £'000s	Unsecured loans £'000s	Short-term creditors £'000s	Net monetary assets/ (liabilities) £'000s	Investments £'000s	Net exposure £'000s
Sterling	4,691	(3,946)	(110,575)	(125,000)	(1,849)	(236,679)	786,872	550,193
US Dollar	1,069	(15,822)	–	–	(239)	(14,992)	827,977	812,985
Euro	–	1	–	–	–	1	289,317	289,318
Yen	88	1,385	–	(50,501)	(22)	(49,050)	95,472	46,422
Other	33	466	–	–	(5)	494	228,480	228,974
Total	5,881	(17,916)	(110,575)	(175,501)	(2,115)	(300,226)	2,228,118	1,927,892

The principal currencies to which the Company was exposed were the US Dollar, Euro and Yen. The exchange rates applying against Sterling at 31 December, and the average rates during the year, were as follows:

	2012	Average	2011
US Dollar	**1.6255**	1.5899	1.5541
Euro	**1.2329**	1.2308	1.1972
Yen	**140.5489**	126.8746	119.5725

Based on the financial assets and liabilities held, and exchange rates applying at each Balance Sheet date, a weakening or strengthening of Sterling against each of these currencies by 10% would have had the following approximate effect on annualised income after tax and on net asset value (NAV) per share:

			2012			2011
Weakening of Sterling	**US$ £'000s**	**€ £'000s**	**¥ £'000s**	US$ £'000s	€ £'000s	¥ £'000s
Income Statement Return after tax						
Revenue return	**676**	**383**	**109**	874	502	234
Capital return	**84,023**	**33,074**	**5,427**	81,194	28,932	9,686
Total return	**84,699**	**33,457**	**5,536**	82,068	29,434	9,920
NAV per share – pence	**14.67**	**5.80**	**0.96**	13.90	4.99	1.68

Notes on the Accounts (continued)

27 Financial Risk Management (continued)

Strengthening of Sterling	2012 US$ £'000s	2012 € £'000s	2012 ¥ £'000s	2011 US$ £'000s	2011 € £'000s	2011 ¥ £'000s
Income statement return after tax						
Revenue return	(676)	(383)	(109)	(874)	(502)	(234)
Capital return	(84,023)	(33,074)	(5,427)	(81,194)	(28,932)	(9,686)
Total return	(84,699)	(33,457)	(5,536)	(82,068)	(29,434)	(9,920)
NAV per share – pence	(14.67)	(5.80)	(0.96)	(13.90)	(4.99)	(1.68)

These analyses are broadly representative of the Company's activities during the current and prior year as a whole, although the level of the Company's exposure to currencies fluctuates in accordance with the investment and risk management processes.

Interest rate exposure

The exposure of the financial assets and liabilities to interest rate risks at 31 December is shown below:

	2012 Within one year £'000s	2012 More than one year £'000s	2012 Total £'000s	2011 Within one year £'000s	2011 More than one year £'000s	2011 Total £'000s
Exposure to floating rates						
Cash	9,660	–	9,660		–	–
Borrowings	–	–	–	–	–	–
Overdrafts	–	–	–	(17,916)	–	(17,916)
Exposure to fixed rates						
Cash	16,339	–	16,339	–	–	–
Debentures	–	(110,575)	(110,575)	–	(110,575)	(110,575)
Other borrowings	(115,000)	(96,175)	(211,175)	(175,501)	–	(175,501)
Net exposures						
At year end	(89,001)	(206,750)	(295,751)	(193,417)	(110,575)	(303,992)
Maximum in year	(129,784)	(215,607)	(345,391)	(233,966)	(110,575)	(344,541)
Minimum in year	(92,053)	(161,479)	(253,532)	(135,179)	(110,575)	(245,754)

Exposures vary throughout the year as a consequence of changes in the composition of the net assets of the Company arising out of the investment and risk management processes.

Interest received on cash balances, or paid on bank overdrafts and borrowings, is at ruling market rates. The interest rates applying on the debenture stocks are set out in note 18 on the accounts. There were no material holdings in fixed interest investment securities during the year or at the year end.

The Company's total returns and net assets are sensitive to changes in interest rates on cash and borrowings, except in respect of the debentures on which the interest rate is fixed. The debentures are valued in the accounts at par value.

Based on the financial assets and liabilities held, and the interest rates pertaining, at each Balance Sheet date, a decrease or increase in interest rates by 2% would have the following approximate effects on the Income Statement revenue and capital returns after tax and on the NAV:

	2012 Increase in rate £'000s	2012 Decrease in rate £'000s	2011 Increase in rate £'000s	2011 Decrease in rate £'000s
Revenue return	97	(97)	(179)	179
Capital return	97	(97)	(179)	179
Total return	194	(194)	(358)	358
NAV per share – pence	0.03	0.03	(0.06)	0.06

27 Financial Risk Management (continued)

Other market risk exposures

The portfolio of investments, valued at £2,374,431,000 at 31 December 2012 (2011: £2,228,118,000) is therefore exposed to market price changes. The Manager assesses these exposures at the time of making each investment decision. The Board reviews overall exposures at each meeting against indices and other relevant information. An analysis of the portfolio by country and major industrial sector is set out in note 16 on the accounts. Derivative contracts entered into during the year comprise options written in the expectation that they will not be exercised.

Based on the portfolio of investments held at each Balance Sheet date, and assuming other factors remain constant, a decrease or increase in the fair values of the portfolio by 20% would have had the following approximate effects on the net capital return attributable to equity shareholders and on the NAV::

		2012		2011
	Increase in value £'000s	**Decrease in value £'000s**	Increase in value £'000s	Decrease in value £'000s
Income statement capital return	**474,886**	**(474,886)**	445,624	(445,624)
NAV per share – pence	**82.28**	**(82.28)**	75.49	(75.49)

(b) Liquidity risk exposure

The Company is required to raise funds to meet commitments associated with financial instruments, private equity investments and share buybacks. These funds may be raised either through the realisation of assets or through increased borrowing. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given: the large number of quoted investments held in the Company's portfolio (504 at 31 December 2012); the liquid nature of the portfolio of investments; the industrial and geographical diversity of the portfolio (see note 16) and the existence of ongoing overdraft and loan facility agreements. Cash balances are held with approved banks, usually on overnight deposit. The Manager reviews liquidity at the time of making each investment decision. The Board reviews liquidity exposure at each meeting.

The Company has loan facilities of £225m as set out in notes 14 and 17 on the accounts. The facilities limit the amount which the Company may borrow at any one time as a proportion of the relevant portfolio of investments and cash. The most onerous financial covenant limits total borrowings to 33.3% of the Company's adjusted net asset value, which at 31 December 2012 was £2,080m. Actual borrowings at market value at 31 December 2012 were £211m in loans (see notes 14 and 17) and £126m debentures at market value (see note 18). The 11.25% debenture stock is governed by a trust deed and is redeemable in 2014 or at an earlier date or dates at the Company's behest. The perpetual debenture stock is also governed by a trust deed and is redeemable at par only on the security becoming enforceable. The Board does not therefore consider the repayment of these debenture stocks as a likely short-term liquidity issue.

At 31 December 2012 the Company had £102 million outstanding commitments to private equity investments, payable over more than one year (see note 25).

The remaining contractual maturities of the financial liabilities at each balance sheet date, based on the earliest date on which payment can be required, were as follows:

	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
2012				
Current liabilities				
Overdrafts	–	–	–	–
Other borrowings	115,000	–	–	115,000
Other creditors	3,515			3,515
Long-term liabilities	–	–	96,175	96,175
Debentures	–	–	110,575	110,575
	118,515	–	206,750	325,265
Interest payable on debentures	–	12,399	12,399	24,798
	118,515	**12,399**	**219,149**	**350,063**

Notes on the Accounts (continued)

27 Financial Risk Management (continued)

	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
2011				
Current liabilities				
Overdrafts	17,916	–	–	17,916
Other borrowings	175,501	–	–	175,501
Other creditors	2,115	–	–	2,115
Long-term liabilities				
Debentures	–	–	110,575	110,575
	195,532	–	110,575	306,107
Interest payable on debentures	–	12,399	24,798	37,197
	195,532	12,399	135,373	343,304

(c) Credit Risk and counterparty exposure

The Company is exposed to potential failure by counterparties to deliver securities for which the Company has paid, or to pay for securities which the Company has delivered. The Board approves all counterparties used in such transactions, which must be settled on the basis of delivery against payment (except where local market conditions do not permit).

A list of pre-approved counterparties is maintained by the Manager and regularly reviewed by the Board. Broker counterparties are selected based on a combination of criteria, including credit rating, balance sheet strength and membership of a relevant regulatory body. The rate of default in the past has been negligible. Payments in respect of private equity investments are made only to counterparties with whom a contracted commitment exists. Cash and deposits are held with approved banks.

The Company has an ongoing contract with its Custodian for the provision of custody services. The contract was reviewed and updated in 2010. Details of securities held in custody on behalf of the Company are received and reconciled monthly.

The Company has a separate agreement with the Custodian, covering stock lending arrangements. Details of stocks on loan and collateral held, and the income derived from stock lending activities, are received and reviewed regularly for compliance with rules set out in the agreement. With effect from 17 January 2013 the Company ceased stock lending. (see note 11).

To the extent that F&C carries out management and administrative duties (or causes similar duties to be carried out by third parties) on the Company's behalf, the Company is exposed to counterparty risk. The Board assesses this risk continuously through regular meetings with the management of F&C (including the Fund Manager) and with F&C's Internal Audit function. In reaching its conclusions, the Board also reviews F&C's parent group's annual Audit and Assurance Faculty Report, Group Accounts and other public information indicative of its financial position and performance.

The Company had no credit-rated bonds or similar securities in its portfolio at the year end (2011: none) and does not normally invest in them. None of the Company's financial liabilities are past their due date or impaired.

In summary, compared to the amounts included in the balance sheet, the maximum exposure to credit risk was as follows:

Current liabilities	**Exposure at Balance sheet date £'000s**	**2012 Maximum exposure £'000s**	Exposure at Balance sheet date £'000s	2011 Maximum exposure £'000s
Derivative financial instruments	**2,500**	**19,020**	–	11,630

27 Financial Risk Management (continued)

(d) Fair Values of financial assets and liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the balance sheet at fair value, or at a reasonable approximation thereof, except for the debenture which is carried at par value in accordance with Accounting Standards. The fair value of the debentures, derived from their quoted market price at 31 December 2012 was £125,548,000 (2011: £132,513,000). Borrowings under overdraft and loan facilities are short-term in nature and hence do not have a value materially different from their capital repayment amount. Borrowings in foreign currencies are converted into Sterling at exchanges rates ruling at each valuation date.

The fair value of investments quoted on active markets is determined directly by reference to published price quotations in these markets.

Unquoted investments, including private equity investments, are valued based on professional advice and assumptions that are not wholly supported by prices from current market transactions or by observable market data. The Directors make use of recognised valuation techniques and may take account of recent arms' length transactions in the same or similar investments. With respect specifically to investments in private equity funds or partnerships, the underlying managers provide regular valuations to the Directors, based on the latest information available to the managers and not necessarily co-terminous with the reporting dates of the Company. The Directors review the valuations for consistency with the Company's accounting policies and with fair value principles.

(e) Capital Risk Management

The objective of the Company is stated as being to provide shareholders with long-term growth in capital and income. In pursuing this long-term objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern. It must therefore maintain an optimal capital structure through varying market conditions. This involves the ability to:

- issue and buy back share capital within limits set by the shareholders in general meeting;
- borrow monies in the short and long term; and
- pay dividends to shareholders out of current year revenue earnings as well as out of brought forward revenue reserves.

Changes to ordinary share capital are set out in note 19 on the accounts. Dividend payments are set out in note 10 on the accounts. Borrowings are set out in notes 14, 17 and 18 on the accounts.

28 Post Balance Sheet Movement in Net Assets

The NAV per share (debt at par) on 28 February 2013 was 397.64p (31 December 2012: 360.19p).

Ten Year Record

All data is based on assets, liabilities, earnings and expenses as reported in accordance with the Company's accounting policies.

Assets

at 31 December

£m	2002	2003*	2004*	2005	2006	2007	2008	2009	2010	2011	2012
Total assets less current liabilities (excl loans)	1,915	2,259	2,346	2,527	2,587	2,694	2,003	2,069	2,425	2,214	**2,401**
Prior changes	218	201	215	111	179	203	221	111	282	286	**322**
Available for ordinary shares	1,697	2,058	2,131	2,416	2,408	2,491	1,782	1,958	2,143	1,928	**2,079**
Number of ordinary shares (million)	949	949	913	827	750	685	679	632	610	590	**577**

Net Asset Value

at 31 December

pence	2002	2003*	2004*	2005	2006	2007	2008	2009	2010	2011	2012
NAV per share	178.9	216.9	233.4	291.8	321.1	363.5	262.5	309.8	351.2	326.6	**360.2**
NAV return on 100p – 5 years†											**111.2**
NAV return on 100p – 10 years†											**244.8**

† Source: Morningstar UK Limited.

Share Price

at 31 December

pence	2002	2003*	2004*	2005	2006	2007	2008	2009	2010	2011	2012
Mid-market price per share	163.0	188.5	194.5	258.5	284.5	318.8	228.5	272.1	309.6	288.5	**320.5**
Share price High	235.0	191.8	196.0	259.0	287.5	326.3	319.0	275.3	311.0	327.9	**321.6**
Share price Low	150.0	141.0	163.0	188.0	240.0	273.0	209.0	185.8	251.4	261.5	**282.5**
Share price total return on 100p – 5 years†											**113.6**
Share price total return on 100p – 10 years†											**247.1**

† Source: Morningstar UK Limited.

Revenue

for the year ended 31 December

	2002	2003*	2004*	2005	2006	2007	2008	2009	2010	2011	2012
Available for ordinary shares – £'000s	38,758	40,893	42,293	49,122	48,197	45,909	46,989	35,609	34,654	40,270	**40,841**
Net revenue return per share – pence	4.08	4.31	4.54	5.57	6.16	6.40	6.90	5.31	5.61	6.74	**7.02**
Dividends per share – pence	3.50	3.70	4.20	4.75	5.30	5.85	6.45	6.65	6.75	7.10	**8.50**

Performance

(rebased at 31 December 2000)

	2002	2003*	2004*	2005	2006	2007	2008	2009	2010	2011	2012
NAV per share	100.0	121.2	130.5	163.1	179.5	203.2	146.7	173.2	196.3	182.6	**201.3**
Mid-market price per share	100.0	115.6	119.3	158.6	174.5	195.6	140.2	166.9	189.9	177.0	**196.6**
Net revenue return per share	100.0	105.6	111.3	136.5	151.0	156.9	169.1	130.1	137.5	165.2	**172.1**
Dividends per share	100.0	105.7	120.0	135.7	151.4	167.1	184.3	190.0	192.9	202.9	**242.9**
RPI	100.0	102.9	106.0	109.0	112.4	117.3	121.9	121.3	126.9	133.5	**137.7**

* Restated for changes in accounting policies.

Cost of running the Company

for the year ended 31 December

%	2002	2003*	2004*	2005	2006	2007	2008	2009	2010	2011	2012
Expressed as a percentage of average net assets											
Total Expense Ratio	0.63	0.64	0.55	0.57	0.58	0.76	0.64	0.63	0.59	0.57	**0.55**
Ongoing Charges	–	–	–	–	–	–	–	–	–	0.92	**0.90**

* restated for changes in accounting policies

Gearing

at 31 December

%	2002	2003*	2004*	2005	2006	2007	2008	2009	2010	2011	2012
Net gearing	8.1	8.3	7.6	4.4	7.0	7.0	12.2	6.0	13.2	15.8	**14.3**

* restated for changes in accounting policies

Definitions

AIC	Association of Investment Companies.
Average net assets	Average of net assets at end of each calendar quarter.
Management and performance fees	All directly incurred management fees and performance fees charged to revenue and capital.
NAV	Net asset value (assuming prior charges at balance sheet value).
NAV total return	Return on net assets per share assuming that all dividends paid to shareholders were reinvested.
Net gearing	Prior charges at balance sheet value, less cash (adjusted for settlements), as a percentage of net assets.
Ongoing charges	All operational, recurring costs that are payable by the Company or suffered within underlying investee funds (including private equity funds), in the absence of any purchases or sales of securities (per AIC guidelines issued May 2012)
Operating costs	All directly incurred costs charged to revenue and capital, including management and performance fees but excluding related taxation relief, interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling of investments and derivatives.
Prior charges	All debentures (at par value), loans and overdrafts, used for investment purposes.
RPI	All-items Retail Prices Index.
Share price total return	Return to the investor on mid-market prices assuming that all dividends received were reinvested.
Total Expense Ratio	Total Expense Ratio including costs charged to revenue and capital, excluding related tax relief, Interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling investments.
Total assets	Total assets less current liabilities before deducting prior charges.

Analysis of ordinary shareholders at 31 December 2012

Category	Holding
F&C savings plans	46.6%
Discretionary/Advisory	24.8%
Institutions	12.5%
Direct individuals	10.9%
Skandia IFA products*	3.8%
New Zealand individuals	1.4%
	100.0%

Source: F&C
*Independent Financial Adviser products

Information for Shareholders

Net asset value and share price

The Company's net asset value is released daily, on the working day following the calculation date, to the London Stock Exchange. The current share price of Foreign & Colonial Investment Trust is shown in the investment trust section of the stock market page in most leading newspapers, usually under "For & Col". Investors in New Zealand can obtain share prices from leading newspapers in that country.

Performance information

Information on the Company's performance is provided in the half-yearly and final reports which are sent to shareholders in August and March respectively and in the interim management statement announcements. More up-to-date performance information, including the full list of investments in the portfolio as at the most recent month end, is available on the Internet at www.foreignandcolonial.com under "Investor Information". The F&C website (at www.fandc.com) also provides a monthly update on the Company's geographic spread and largest holdings, along with comments from the Fund Manager.

UK capital gains tax ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £10,600 in the tax year ended 5 April 2013 without incurring any tax liability.

The rate of CGT of 18% will apply where taxable income and gains do not exceed the income tax higher rate threshold (£34,370 in 2012-13 tax year). The higher rate of 28% will apply to those whose income and gains exceed this figure.

For UK investors who acquired Foreign & Colonial Investment Trust stock prior to 31 March 1982, the costs for CGT purposes, based on the price at that date, adjusted for capital changes are as follows:

	Unit of Quotation	Market price
Ordinary shares	25p	14.875p
4.25% perpetual debenture stock	£100	£28.25

Shareholders in doubt as to their CGT position should consult their professional advisers.

Income tax

The final dividend of 2.50 pence per share is payable on 1 May 2013. Individual UK resident shareholders who are subject to UK income tax at the lower rate or the basic rate have no further tax liability. Shareholders not resident in the UK, and any shareholders in doubt as to their tax position, should consult their professional advisers.

Dividend Re-investment Plan ("DRIP")

The Company through Computershare Investor Services PLC now offers shareholders the opportunity to purchase further shares through the DRIP. DRIP forms may be obtained from Computershare through their secure website www.investorcentre.co.uk, or by phoning 0870 707 1694.

Association of Investment Companies ("AIC")

Foreign & Colonial Investment Trust is a member of the AIC, which publishes a monthly statistical information service in respect of member companies. The publication also has details of ISA and other investment plans available. For further details, please contact the AIC on 020 7282 5555, or visit the website: www.theaic.co.uk.

How to Invest

One of the most convenient ways to invest in Foreign & Colonial Investment Trust PLC is through one of the savings plans run by F&C Management Limited ("F&C").

F&C Private Investor Plan ("PIP")
A flexible way to invest with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at any time from £250.

F&C Investment Trust ISA
Use your ISA allowance to make an annual tax-efficient investment of up to £11,280 for the 2012/13 tax year (£11,520 for 2013/14) with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at any time from £250 and transfer any existing ISAs to us whilst maintaining all the tax benefits.

F&C Child Trust Fund ("CTF")
CTFs are closed to new investors; however, if your child has a CTF with another provider, it is easy to transfer it to F&C. Additional contributions can be made from as little as £25 per month or £100 lump sum – up to a maximum of £3,600 for the 2012/13 tax year (£3,720 for 2013/14).

F&C Children's Investment Plan ("CIP")
A flexible way to save for a child. With no maximum contributions, the plan can easily be written under trust to help reduce inheritance tax liability or kept in your name if you may need access to the funds before the child is 18. Investments can be made from a £250 lump sum or £25 a month. You can also make additional lump sum top-ups at any time from £100.

Junior ISA ("JISA")
This is a tax-efficient savings plan for children who did not qualify for a CTF. It allows you to invest up to £3,600 for the 2012/13 tax year (£3,720 for 2013/14) with all the tax benefits of the CTF. You can invest from £30 a month, or £500 lump sum, or a combination of both.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and you may not receive back the full amount originally invested. Tax rates and reliefs depend on the circumstances of the individual. The CTF and JISA accounts are opened in the child's name. Money cannot be withdrawn until the child turns 18.

Annual management charges and certain transaction costs apply according to the type of plan.

Annual account charge

ISA: £60+VAT

JISA: £25+VAT

PIP: £40+VAT (from 6 April 2013)

CIP/CTF: £25+VAT (from 6 April 2013)

You can pay the annual charge from your account, or by direct debit (in addition to any annual subscription limits)

Dealing charge

ISA: 0.2%

PIP/CIP: 0.2% (to 5 April 2013)

Fixed rate of £12 per trust which is reduced to £8 per trust for instructions placed online (from 6 April 2013)

JISA: Fixed rate of £12 which is reduced to £8 for instructions placed online

The dealing charge applies when shares are bought or sold but the fixed rate charge does not apply to the reinvestment of dividends or the investment of regular monthly savings.

There is no dealing charge on a CTF but a switching charge of £25 applies if more than 2 switches are carried out in one year.

Government stamp duty of 0.5% also applies on purchases (where applicable).

There may be additional charges made if you transfer a plan to another provider or transfer the shares from your plan. For full details of charges, please read the Key Features and Terms and Conditions of the plan before investing.

The above has been approved by F&C Management Limited which is a member of the F&C Asset Management Group and is authorised and regulated by the Financial Services Authority.

How to Invest (continued)

How to Invest

You can invest in all our savings plans online.

New Customers:

Contact our Investor Services Team

Call: **0800 136 420***

Email: **info@fandc.com**

Investing online: **www.fandc.com**

*8:30am – 5:30pm, weekdays

Calls may be recorded.

Existing Plan Holders:

Contact our Investor Services Team

Call: **0845 600 3030****

Email: **investor.enquiries@fandc.com**

By post: F&C Plan Administration Centre
PO Box 11114
Chelmsford
CM99 2DG

**9:00am – 5:00pm, weekdays.

Calls may be recorded.

If you have trouble reading small print, please let us know. We can provide literature in alternative formats, for example large print or on audiotape. Please call 0845 600 3030**.

The above has been approved by F&C Management Limited which is a member of the F&C Asset Management Group and is authorised and regulated by the Financial Services Authority.

Warning to shareholders – Boiler Room Scams

In recent years, many companies have become aware that their shareholders have been targeted by unauthorised overseas-based brokers selling what turn out to be non-existent or high risk shares, or expressing a wish to buy their shares. If you receive unsolicited investment advice or requests:

- Make sure you get the correct name of the person or organisation
- Check that they are properly authorised by the FSA before getting involved by visiting **www.fsa.gov.uk/pages/register/**
- Report the matter to the FSA by calling **0845 606 1234**
- If the calls persist, hang up.

More detailed information on this can be found on the Money Advice Service website **www.moneyadviceservice.org.uk**

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www.foreignandcolonial.com

info@fandc.com

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Bristol BS99 7NH

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