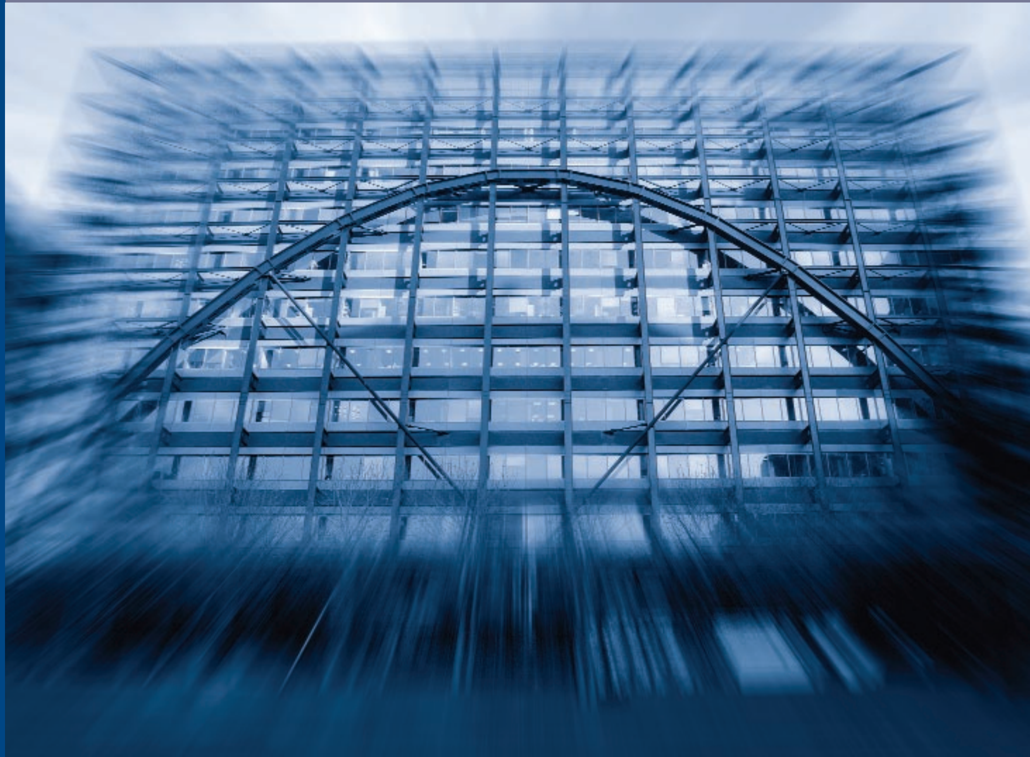
Interim Report & Financial Statements 2006

F&C Asset Management plc



F&C Investments

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Financial Highlights

- Underlying earnings per share of 7.4 pence.
- Operating margin of 41.0 per cent., despite the loss of Resolution plc funds.
- Average fee rate increased to 22 basis points for 1H 2006 from 21 basis points in 2005.
- £44.8m non-cash impairment charge arising from the further loss of institutional and investment trust management contracts and a reduction in the expected lives of remaining contracts.
- Interim dividend of 4.0 pence maintained.

Business Highlights

- Assets under management of £107bn as at 30 June 2006.
- Strong underlying net new business inflows in UK Retail and European Wholesale.
- Building blocks are in place to support enhanced performance.

Financial Summary

for the six months ended 30 June 2006

	30 June 2006	30 June 2005 (as restated)$	31 December 2005
Net revenues (before policyholder income)	**£126.0m**	£126.8m	£267.2m
Loss before tax	**£(29.2)m**	£(2.8)m	£(106.3)m
Underlying profit before tax*	**£51.2m**	£51.7m	£107.8m
Group operating profit*	**£51.7m**	£55.0m	£117.7m
Operating margin#	**41.0%**	43.4%	44.1%
Basic loss per ordinary share	**(4.4)p**	(0.15)p	(16.4)p
Underlying earnings per ordinary share*	**7.4p**	7.9p	15.9p
Interim dividend	**4.0p**	4.0p	4.0p
Final dividend	**–**	–	7.0p
Total dividends per ordinary share	**4.0p**	4.0p	11.0p
Assets under management	**£107.0bn**	£127.6bn	£131.0bn

* before amortisation and impairment of intangibles, restructuring costs and the cost of the Re-Investment Plan.

Group operating profit expressed as a percentage of net revenues (before policyholder income).

$ restated for consistency with the presentation applied in the financial statements for the year ended 31 December 2005.

Assets under management by client category

	30 June 2006 £bn	30 June 2005 £bn	31 December 2005 £bn
Insurance funds	**58.4**	80.9	79.2
Institutional clients	**31.6**	32.6	34.6
Investment Trusts	**6.5**	6.3	6.9
Open Ended Products – Third Party	**2.9**	2.3	2.7
SICAVs	**0.5**	0.9	0.5
Sub-Advisory	**7.1**	4.6	7.1
Total Retail	**17.0**	14.1	17.2
Total	**107.0**	127.6	131.0

Assets under management by asset type

	30 June 2006 £bn	30 June 2005 £bn	31 December 2005 £bn
Fixed interest	**55.1**	75.6	72.8
Equities	**40.0**	40.7	45.2
Property	**5.2**	6.0	6.5
Other Alternative Investments	**1.2**	1.0	1.2
Liquidity	**5.5**	4.3	5.3
Sub-total	**107.0**	127.6	131.0

Fund flows for the half-year to 30 June 2006

Client Category	Inflows £m	Outflows £m	Net £m
Insurance funds – Resolution	N/A	N/A	(20,121)
Insurance funds – Other	N/A	N/A	(748)
Institutional	1,353	(4,914)	(3,561)
Investment Trusts	94	(589)	(495)
Open Ended Products – Third Party	260	(95)	165
SICAVs	236	(182)	54
Sub Advisory	1,447	(1,471)	(24)
Total Retail	2,037	(2,337)	(300)
	N/A	N/A	(24,730)

Chief Executive's **Report**

The first half of 2006 saw good progress in implementing the strategy outlined a few months ago in our 2005 Annual Report and Financial Statements. The focus on performance, clear accountability and the upgrading of resources where necessary received particular attention.

Despite the withdrawal of £20.1 billion of funds by Resolution plc during Q1, the first six months generated investment management fees of £130.7 million, on a par with the same period in 2005. These management fees do, however, include some revenues which will not recur in future periods, as detailed below.

Having achieved our target of £33 million of annualised cost synergies stemming from the merger, further synergies and savings have been reinvested in the business. These, along with a strict cost discipline, have allowed the Group to finance new initiatives and to make senior hires while reporting lower costs than the second half of last year.

Underlying Earnings Per Share (EPS) for the period to 30 June are 7.4 pence. The Board continues to regard 'underlying earnings' as the most appropriate measure of performance. However, the loss of certain investment trust and institutional mandates, which were recognised as intangible assets at the time of the merger, together with a reassessment of the lives of the remaining contracts have led to a £44.8 million impairment charge. After this charge, further restructuring costs, the amortisation of intangible assets and the cost of the Re-Investment plan the basic loss per share was 4.4 pence.

Both investment performance and new business flows were stronger in the first quarter than in the second when sharp falls in global equity markets and increased market volatility affected results. Despite this, our UK retail fund sales in particular continued to be resilient through May and June, demonstrating momentum in this part of our business.

Overall, we are encouraged by progress year-to-date and notwithstanding the disappointment of certain investment trust and institutional outflows, we believe that the key building blocks have now been put in place to deliver improved investment performance over time, the prerequisite for generating organic growth.

Assets Under Management and Business Flows

Assets under management decreased from £131 billion at 31 December 2005 to £107 billion at 30 June 2006, principally reflecting the withdrawal of £20.1 billion of assets by Resolution plc as well as a number of smaller mandate losses.

Excluding insurance flows, the total net outflow for the first half amounted to £3.9 billion of which £3.5 billion occurred during the first quarter. Gross inflows during 1H 2006 were £3.4 billion.

In the UK retail market we generated net inflows of £165 million during the half year, representing a 158 per cent. year-on-year increase. A particular success has been the new F&C UK Opportunities Fund which has received encouraging support from multi-managers and discretionary intermediaries.

Our European wholesale business also enjoyed a strong first quarter but redemptions were high in the second quarter, particularly in Portugal where investors tend to be more risk averse. Whilst there was a small net outflow of £24 million in our sub-advisory business during the half year, the underlying strength of the business was masked by a £182 million outflow in Q1 as a result of the closure of the Friends Provident GPI SICAV range.

In the investment trust area we recorded a £495 million net outflow, principally as a result of the merger of the F&C Emerging Markets Investment Trust with a competitor and the loss of the F&C Latin American Investment Trust following the departure of the lead manager. The latter loss was particularly disappointing given the strong long term performance of the Trust. We remain committed to rebuilding our emerging equities franchise and have subsequently strengthened this area through focused recruitment.

In Q2 a longstanding Dutch pension client, Vervoer, for whom we have managed a balanced mandate, conducted a review of its operating model. Vervoer have subsequently appointed a fiduciary manager with responsibility for asset allocation, risk budgeting and underlying manager selection for specialist mandates. As a result, and despite our out-performance both at the overall mandate level and in most of the sub-portfolios, we have been notified of the withdrawal of all equity assets currently managed by F&C. This will amount to an outflow of approximately £1.5 billion in assets, which we expect to happen in Q3. We have also been notified by the

Electricity Supply Pension Scheme of the termination of our contract to manage their £1 billion property portfolio, with effect from Q3.

Financial Results

Revenues

As previously reported, most of the assets that we managed for Resolution plc were transferred back to Resolution during Q1 following its merger with Britannic Group plc. Despite the loss of £20.1 billion of Resolution-related funds during Q1 2006, investment management fees for the six months to 30 June of £130.7 million were on a par with the £131.1 million management fees earned during the same period in 2005. 1H 2006 revenues benefited from £2.7 million of revenue from Resolution and approximately £3.8 million in fees from the Vervoer equity portfolios and the Electricity Supply Pension Scheme property mandate, however, these revenues will not recur in 2H 2006, due to the imminent termination of these mandates.

The average fee rate has risen from 21 basis points in the year ended 31 December 2005 to 22 basis points for the first half of 2006.

Expenses

The expenses in our income statement include a number of recurring and non-recurring items, the significant elements of which are set out below:

	1H 2006 £m	2H 2005 £m	1H 2005 £m
Underlying operating costs	75.0	78.2	72.5
Amortisation of intangible assets	22.3	27.9	27.9
'Recurring expenditure'	**97.3**	**106.1**	**100.4**
Restructuring costs	6.9	10.8	13.8
Re-Investment Plan costs	6.3	9.3	12.9
Impairment of intangible assets	44.8	111.5	–
'Non-recurring expenditure'	**58.0**	**131.6**	**26.7**

The underlying operating costs of the Group for the six months to 30 June 2006 amount to £75.0 million. These are some £3.2 million less than the comparable costs for 2H 2005 and demonstrate the achievement of the anticipated cost synergy benefits arising from the merger, despite further investment during 1H 2006 to support a number of new revenue enhancing initiatives.

The restructuring costs incurred during 1H 2006 include the final tranche of staff related expenditure associated with the merger, the costs of further integration of our information technology (IT) infrastructure and the cost of providing for onerous lease obligations in respect of vacant premises. While further IT restructuring costs will be incurred in 2H 2006 the cumulative restructuring expenditure associated with the merger will not exceed the previously stated target of £50 million.

As previously highlighted, the Re-Investment Plan represents the one-off share-based payment arrangements which are linked to the crystallised incentives that employees agreed to rollover at the time of the merger. The level of associated costs will continue to fall, in line with the underlying three year term of the arrangements.

Amortisation and Impairment of Intangible Assets

The Group's balance sheet includes the net book value of management contracts acquired through business combinations. While these contracts have been amortised over their expected useful lives, for which a charge of £22.3 million has been recognised in 1H 2006, there is a requirement to test the carrying value of these assets where any indicator of potential impairment exists. The loss of both investment trust and institutional mandates during 1H 2006 (including Vervoer and ESPS) required a further impairment review to be performed. The resultant impairment charge of £44.8 million has been recognised at the end of the period and comprises £22.2 million in respect of investment trusts and £22.6 million on institutional contracts.

There are two key factors which have determined the quantum of the impairment charge recognised; firstly, the higher than anticipated mandate losses during the period; and secondly, the directors determined it appropriate to reduce the anticipated remaining lives of these contracts to 6 years for institutional contracts and 10 years for investment trusts, as a result of these higher than anticipated losses.

Further details of the impairment testing are provided in note 5 of the accompanying interim financial statements.

Underlying Earnings and Operating Margin

While the face of the income statement shows a loss after tax of £21.0 million for the period and a resultant basic loss per share of 4.4 pence, your Board continues to regard 'underlying earnings' as the most appropriate measure of the recurring performance of the Group. This measure of

Chief Executive's Report

performance excludes the amortisation of intangible assets and the non-recurring items highlighted above, an analysis of which is provided in note 3 to the financial statements.

The underlying earnings per share (EPS) for the six months to 30 June amount to 7.4 pence, compared with 15.9 pence for the year to 2005 and 7.9 pence for the first half of 2005.

The Group continues to display a strong underlying operating margin in comparison to our peers, achieving 41.0 per cent. for the six months to 30 June. The margin has fallen from 44.1 per cent. for 2005, although this is primarily as a result of the loss of revenue from Resolution.

During the period, we received £27 million cash compensation from Resolution plc in relation to the early termination of its contract. However, as the value of the related intangible asset for which this compensation was received also amounted to £27 million, no gain or loss has arisen and hence there is no impact on the Group income statement.

Debt Refinancing

While the Group continues to have a healthy cash position (shareholders cash of some £136 million as at 30 June 2006), it remains the Board's intention to refinance the £180 million debt facility, which falls due for payment to our parent company, Friends Provident, in November 2006. The Group is seeking to refinance this debt with debt that will qualify as regulatory capital. In order to maintain maximum flexibility, the Board has, in the meantime, agreed with Friends Provident that the current facility can be rolled over , if considered appropriate.

Pension Deficit

Since 31 December 2005, the Group's pension deficit has reduced from £48 million to £35 million. While this benefit is pleasing to note, it has largely been driven by the increase in corporate bond yields since the year-end.

Dividend

The Board has today declared an interim dividend of 4.0 pence per share, which will be payable on 20 October 2006, to shareholders on the register as at 22 September 2006.

Business Developments

As outlined in our 2005 Annual Report and Financial Statements, we have a straightforward view that asset management is a service industry and therefore our business philosophy is to seek to excel in everything that our clients expect from us. At the start of the year we launched Performance First, an initiative to drive top quartile performance throughout every part of the business through the definition of clear objectives and lines of responsibilities.

Investment performance is of course pivotal to the success of our business and we have continued to implement changes, where necessary, to improve it. Merger synergies have allowed us to finance the upgrading of resources while reducing our overall costs. During 1H 2006 we hired 12 senior investment professionals as well as significantly upgrading our marketing teams in both the UK and The Netherlands.

Specific action was taken to address two areas of performance weakness; emerging equities and Euro government bonds. In particular, we appointed a new Head of Emerging Equities and have undertaken focused recruitment in this area in order to rebuild our long term track record.

F&C has a major presence in fixed income with a strong record in credit, high yield and emerging debt, but our Euro government bond performance in London has lagged the benchmark. To address this we have consolidated our entire Euro government bond investment proposition in Amsterdam where the team servicing our Dutch insurance clients has a stronger record of delivering to client expectations. An additional benefit of this move is that it will enhance our ability to deliver Euro government / corporate aggregate product as our Euro / global credit team is already based in Amsterdam.

However, investment performance alone is no guarantee of client retention. While we believe the industry-wide shift from balanced to specialist mandates is largely played out in the UK, the rise of fiduciary management in The Netherlands is a risk factor, as demonstrated by the recent decision by Vervoer. As at 30 June balanced pension mandates (excluding insurance) represented 14.1% of revenues.

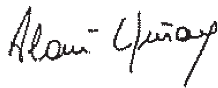
To address these industry developments we have further developed our "multi-boutique" investment framework and are focusing on higher margin specialist areas for net new business, such as private equity funds, high alpha equities,

emerging debt and high yield bonds. We have also been strengthening and developing key overlays for institutional clients in areas such as Global Tactical Asset Allocation and Liability Driven Investment (LDI). Building on the experience of our Dutch LDI pooled funds we are developing similar products with a view to launching into the UK and Irish market places in 2H 2006.

Finally, a key development during the half year has been the recruitment of David Logan as Chief Financial Officer. David joined the Group and was appointed to the Board as an Executive Director on 31 July. Prior to this he was a Partner in the Insurance and Investment Management Division at Deloitte.

Summary

Despite turbulent markets, good progress has been made in both our UK retail and European wholesale businesses which are in growth mode. However, institutional and investment trust net outflows will put pressure on short term revenues while we develop new product initiatives in these areas. Strong investment performance is without doubt essential in order to grow organically. While the necessary building blocks for improving performance are now largely in place, we will continue to invest where necessary to ensure your Company is well positioned to benefit from the considerable growth opportunities we see in the European asset management industry.



Alain L. Grisay
Chief Executive
4 August 2006

Condensed Consolidated Income Statement

	Notes	6 months ended 30 June 2006 £000	6 months ended 30 June 2005 (as restated)* £000	Year ended 31 December 2005 £000
Revenues				
Investment management fees		**130,738**	131,062	277,356
Investment income attributable to policyholders		**20,099**	13,354	28,918
Other income		**298**	366	691
Total revenues		**151,135**	144,782	306,965
Fee and commission expenses		**(5,026)**	(4,609)	(10,895)
Net revenues		**146,109**	140,173	296,070
Operating expenses				
Net operating costs: investment and insurance contracts attributable to policyholders		**(19,380)**	(12,656)	(27,634)
Operating expenses		**(75,012)**	(72,534)	(150,695)
Re-Investment Plan costs		**(6,298)**	(12,864)	(22,162)
Impairment of intangible assets – management contracts		**(44,815)**	–	(111,500)
Amortisation of intangible assets – management contracts		**(22,286)**	(27,874)	(55,801)
Total operating expenses before restructuring costs		**(167,791)**	(125,928)	(367,792)
Operating (loss)/profit before restructuring costs		**(21,682)**	14,245	(71,722)
Restructuring costs:				
– Reorganisation costs post acquisition of F&CGH Group	1(a)	**(6,927)**	(13,339)	(22,405)
– Operations outsourcing	1(b)	**–**	(423)	(2,235)
Operating (loss)/profit after restructuring costs		**(28,609)**	483	(96,362)
Finance revenue		**9,299**	6,793	15,570
Finance costs		**(10,391)**	(9,466)	(19,495)
Share of profit/(loss) of associates		**545**	(360)	(339)
Impairment in associates and other financial investments		**–**	–	(5,026)
Loss on disposal of subsidiaries		**–**	(275)	(672)
Loss before tax		**(29,156)**	(2,825)	(106,324)
Tax – Policyholders		**(865)**	(353)	(118)
Tax – Shareholders		**8,974**	2,456	29,169
Tax income	2	**8,109**	2,103	29,051
Loss for the period		**(21,047)**	(722)	(77,273)
Attributable to:				
Equity holders of the parent		**(21,047)**	(722)	(77,273)
Minority interests		**–**	–	–
Loss for the period		**(21,047)**	(722)	(77,273)
Memo – dividends proposed	4	**19,181**	18,854	33,381
– dividends paid	4	**33,472**	32,952	51,817
Basic loss per share	3	**(4.40)p**	(0.15)p	(16.36)p
Diluted loss per share	3	**(4.30)p**	(0.15)p	(15.77)p

* the restatement is presentational only and is explained on page 10.

Consolidated Balance Sheet

	Notes	As at 30 June 2006 £000	As at 30 June 2005 (as restated) £000	As at 31 December 2005 £000
Assets				
Non-current assets				
Property, plant and equipment		**10,646**	11,231	11,242
Intangible assets:				
– Goodwill	5	**569,846**	577,946	577,946
– Management contracts	5	**321,887**	551,158	416,141
– Other intangible assets	5	**1,421**	484	1,641
	5	**893,154**	1,129,588	995,728
Other financial investments		**3,991**	3,293	3,397
Loan to associate		**2,500**	2,500	2,500
Investment in associates		**560**	4,857	335
Deferred acquisition costs		**8,097**	8,122	8,342
Deferred tax assets		**32,680**	33,239	34,083
Total non-current assets		**951,628**	1,192,830	1,055,627
Current assets				
Financial investments		**1,108,614**	877,913	982,943
Reinsurance assets		**2,372**	2,371	2,617
Stock of units and shares		**746**	635	676
Trade and other receivables		**110,552**	116,217	92,858
Deferred acquisition costs		**3,399**	2,788	3,018
Cash and cash equivalents:				
– Shareholders		**136,232**	68,741	118,045
– Policyholders		**52,136**	37,804	28,152
		188,368	106,545	146,197
Total current assets		**1,414,051**	1,106,469	1,228,309
Total assets		**2,365,679**	2,299,299	2,283,936
Liabilities				
Non-current liabilities				
Interest bearing loans and borrowings		**34,800**	214,800	34,800
Provisions		**12,116**	11,284	12,960
Pension deficit	6	**35,035**	24,884	48,032
Deferred income		**14,288**	11,657	14,351
Deferred tax liabilities		**97,539**	165,838	125,295
Total non- current liabilities		**193,778**	428,463	235,438
Current liabilities				
Investment contract liabilities		**1,144,231**	917,690	1,006,928
Insurance contract liabilities		**2,372**	2,371	2,617
Interest bearing loans and borrowings		**185,000**	5,000	185,000
Trade and other payables		**88,359**	69,161	58,724
Provisions		**7,675**	1,776	6,463
Employee benefits		**17,814**	17,758	29,954
Deferred income		**3,990**	4,999	3,679
Current tax payable		**14,489**	9,764	9,713
Total current liabilities		**1,463,930**	1,028,519	1,303,078
Total liabilities		**1,657,708**	1,456,982	1,538,516
Equity attributable to equity holders of the parent				
Share capital	7	**485**	483	484
Share premium account		**32,414**	29,997	30,730
Merger reserve		**550,884**	719,797	606,146
Other reserves		**18,718**	63,792	52,179
Retained earnings		**106,320**	28,598	56,379
Total equity attributable to equity holders of the parent		**708,821**	842,667	745,918
Minority interests		**(850)**	(350)	(498)
Total equity	8	**707,971**	842,317	745,420
Total liabilities and equity		**2,365,679**	2,299,299	2,283,936

The financial statements were approved by the Board of Directors and authorised for issue on 4 August 2006.

Consolidated Statement of Recognised Income and Expense

	6 months ended 30 June 2006 £000	6 months ended 30 June 2005 (as restated) £000	Year ended 31 December 2005 £000
Loss for the period	**(21,047)**	(722)	(77,273)
Foreign exchange movements on translation of foreign operations	**(439)**	(11,083)	(4,246)
Actuarial gain/(loss) on defined benefit pension schemes	**12,229**	(6,910)	(30,734)
Gain/(loss) on available for sale financial investments	**642**	(871)	893
Fair value gains transferred to the Income Statement	**–**	–	(1,120)
Tax (expense)/income on items taken directly to equity	**(3,870)**	2,334	8,597
Goodwill written back on disposal of subsidiary	**–**	–	449
Net income/(expense) recognised directly in equity	**8,562**	(16,530)	(26,161)
Total recognised income and expense for the period	**(12,485)**	(17,252)	(103,434)
Attributable to:			
Equity holders of the parent	**(12,485)**	(17,252)	(103,434)
Minority interests	**–**	–	–
	(12,485)	(17,252)	(103,434)

Condensed Consolidated Cash Flow Statement

	Note	6 months ended 30 June 2006 £000	6 months ended 30 June 2005 £000	Year ended 31 December 2005 £000
Cash inflows/(outflows) from operating activities		**57,854**	(27,416)	44,364
Income tax paid		**(7,631)**	(6,204)	(14,359)
Net cash inflow/(outflow) from operating activities		**50,223**	(33,620)	30,005
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**–**	35	94
Acquisition of property, plant and equipment		**(785)**	(2,346)	(3,701)
Payment to increase investment in associate		**–**	(509)	(485)
Purchase of intangibles – management contracts		**–**	–	(1,249)
Purchase of intangibles – software		**(547)**	–	(989)
Return of capital from investments		**83**	–	132
Proceeds from disposal of subsidiaries		**–**	10	10
Cash transferred on disposal of subsidiary		**–**	(812)	(824)
Receipt of compensation for loss of Resolution plc funds	5	**27,000**	–	–
Expenses of F&CGH Group acquisition		**(199)**	(583)	(624)
Loan to associate		**–**	(2,500)	(2,500)
Payments to acquire investments		**(1,202)**	(14)	(35)
Investment income from investing activities		**5,813**	3,909	9,344
Net cash inflow/(outflow) from investing activities		**30,163**	(2,810)	(827)
Cash flows from financing activities				
Proceeds from issue of share capital		**1,684**	1,042	1,776
Interest paid on loans		**(6,474)**	(6,089)	(13,498)
Other interest paid		**(70)**	(44)	(392)
Equity dividends paid		**(33,472)**	(32,952)	(51,817)
Interest paid on preference shares		**(27)**	(20)	(47)
Purchase of own shares		**(241)**	(46)	(87)
Receipt from realisation of own shares		**385**	–	–
Net cash outflow from financing activities		**(38,215)**	(38,109)	(64,065)
Net increase/(decrease) in cash and cash equivalents		**42,171**	(74,539)	(34,887)
Cash and cash equivalents at 1 January		**146,197**	181,084	181,084
Cash and cash equivalents at 30 June (31 December)		**188,368**	106,545	146,197
Cash and cash equivalents				
Shareholders		**136,232**	68,741	118,045
Policyholders		**52,136**	37,804	28,152
		188,368	106,545	146,197

Accounting Policies

Basis of preparation and accounting policies

The interim condensed consolidated financial statements for the six months ended 30 June 2006 have been prepared in accordance with accounting policies that the Directors anticipate will be applied in the annual financial statements for 2006.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual report and financial statements, and should be read in conjunction with the Group's annual report and financial statements as at 31 December 2005.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual report and financial statements for the year ended 31 December 2005. However, the Directors have reassessed the estimated useful lives of certain intangible assets (management contracts). Full details are provided in note 5. The 2005 annual report and financial statements are available on our website (www.fandc.com) or from our registered office.

Certain figures reported in the 2005 interim financial statements have been reclassified within these interim financial statements, for consistency with the presentation applied in the financial statements for the year ended 31 December 2005, being the Group's first set of audited annual results prepared in accordance with International Financial Reporting Standards. These changes are presentational in nature and do not change the previously reported financial results for the six months to 30 June 2005 nor the aggregate assets and liabilities as at that date.

Notes to the Interim Financial Statements

1. Restructuring costs

(a) Integration, rationalisation and reorganisation of the business after acquisition of F&C Group (Holdings) Limited

The Directors consider it appropriate to disclose separately the following integration, reorganisation and restructuring costs relating to continuing operations due to the fundamental impact the acquisition had on the management and operational structure of the enlarged Group:

	6 months ended 30 June 2006 £000	6 months ended 30 June 2005 £000	Year ended 31 December 2005 £000
Termination and other related employee benefits	**3,760**	4,926	6,330
Premises costs	**846**	1,117	2,514
Information technology and related costs	**1,903**	2,305	6,081
Re-branding, administration and client servicing	**282**	1,956	2,335
Consultancy and other costs supporting the restructuring process	**136**	3,035	5,145
Restructuring costs	**6,927**	13,339	22,405
Tax income in respect of restructuring costs	**(2,078)**	(4,002)	(6,721)
Net effect of restructuring costs	**4,849**	9,337	15,684

(b) Operations outsourcing

The Directors consider that the following restructuring costs associated with the operations outsourcing project should be separately disclosed:

	6 months ended 30 June 2006 £000	6 months ended 30 June 2005 £000	Year ended 31 December 2005 £000
Information technology and related costs	**–**	–	366
Consultancy and other costs supporting the restructuring process	**–**	423	1,869
Operations outsourcing costs	**–**	423	2,235
Tax income in respect of operations outsourcing costs	**–**	(127)	(671)
Net effect of operations outsourcing costs	**–**	296	1,564

Notes to the Interim Financial Statements

2. Income taxes

The major components of tax (income)/expense for each period are:

Condensed Consolidated Income Statement

	6 months ended 30 June 2006 £000	6 months ended 30 June 2005 £000	Year ended 31 December 2005 £000
Current income tax:			
Current income tax expense	**12,184**	11,189	21,066
Adjustments in respect of previous periods	**1,738**	(943)	(1,640)
Deferred income tax:			
Relating to origination and reversal of temporary differences	**(20,330)**	(12,349)	(49,810)
Adjustments in respect of previous periods	**(1,701)**	–	1,333
Income tax income reported in the Condensed Consolidated Income Statement	**(8,109)**	(2,103)	(29,051)

Consolidated Statement of Changes in Equity

	6 months ended 30 June 2006 £000	6 months ended 30 June 2005 (as restated) £000	Year ended 31 December 2005 £000
Deferred and current income tax related to items charged or credited directly to equity	**3,870**	(2,334)	(8,597)

Effective rate of tax

The tax income for the six month period ended 30 June 2006 has been determined by using an effective annual tax rate for each tax jurisdiction and applying that rate to the pre-tax income of that jurisdiction. The combined effective tax rate on all jurisdictions, together with the net prior year adjustment of £37,000, brings the total tax income to £8,109,000 for the period to 30 June 2006.

3. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit/(loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the period plus the weighted average number of Ordinary Shares that would be issued on the conversion of all the dilutive potential Ordinary Shares into Ordinary Shares.

In the opinion of the Directors the profit before amortisation and impairment of intangibles, restructuring costs and cost of the Re-Investment Plan more accurately reflects the underlying earnings performance of the Group for each period.

Reconciliation of earnings per share

	6 months ended 30 June 2006 Basic p	6 months ended 30 June 2006 Diluted p	6 months ended 30 June 2005 Basic p	6 months ended 30 June 2005 Diluted p	Year ended 31 December 2005 Basic p	Year ended 31 December 2005 Diluted p
Loss per Ordinary Share	**(4.40)**	**(4.30)**	(0.15)	(0.15)	(16.36)	(15.77)
Amortisation of intangibles, net of tax	**3.26**		4.15		8.27	
Cost of the Re-investment Plan, net of tax	**0.92**		1.91		3.82	
Restructuring costs, net of tax:						
– Reorganisation post acquisition of F&CGH Group	**1.01**		1.98		3.32	
– Operations outsourcing	**–**		0.06		0.33	
Impairment of intangibles, net of tax	**6.57**		–		16.52	
Underlying earnings per share*	**7.36**		7.95		15.90	

* Defined as earnings per Ordinary Share before amortisation and impairment of intangibles, restructuring costs and the cost of the Re-Investment Plan

3. Earnings per share (cont'd)

The following reflects the income and share capital data used in the basic and diluted earnings per share calculations:

Income

	6 months ended 30 June 2006 £000	6 months ended 30 June 2005 £000	Year ended 31 December 2005 £000
Loss attributable to ordinary equity holders of the parent for basic loss per share	**(21,047)**	(722)	(77,273)
Amortisation of intangibles, net of tax	**15,600**	19,512	39,061
Cost of the Re-Investment Plan, net of tax	**4,409**	9,005	18,025
Restructuring costs, net of tax:			
– Reorganisation post acquisition of F&CGH Group	**4,849**	9,337	15,684
– Operations outsourcing	**–**	296	1,564
Impairment of intangibles, net of tax	**31,371**	–	78,050
Underlying profit attributable to ordinary equity holders of the parent*	**35,182**	37,428	75,111

* Defined as profit before amortisation and impairment of intangibles, restructuring costs and the cost of the Re-Investment Plan

Share capital

	30 June 2006 No.	30 June 2005 No.	31 December 2005 No.
Weighted average number of Ordinary Shares (excluding treasury shares) for basic loss per share	**477,830,981**	470,946,021	472,408,007
Dilutive potential weighted average number of Ordinary Shares	**489,899,726**	490,204,677	489,973,244

4. Ordinary dividends

	6 months ended 30 June 2006 £000	6 months ended 30 June 2005 £000	Year ended 31 December 2005 £000
Declared and paid during the period			
Equity dividends on Ordinary Shares:			
– Final dividend for 2005: 7.0p (2004: 7.0p)	**33,472**	32,952	32,952
– Interim dividend for 2005: 4.0p	**–**	–	18,865
	33,472	32,952	51,817
Proposed dividends, not recognised as a liability			
Equity dividends on Ordinary Shares:			
– Final dividend for 2005: 7.0p	**–**	–	33,381
– Interim dividend for 2006: 4.0p (2005: 4.0p)	**19,181**	18,854	–
	19,181	18,854	33,381

The proposed interim dividend for 2006 is based on 4.0p per share and 479,536,023 Ordinary Shares being eligible for dividends as at 30 June 2006. This dividend was approved by the Board on 4 August 2006. No liability for this dividend exists as at 30 June 2006.

Notes to the Interim Financial Statements

5. Goodwill and other intangible assets

	Goodwill £000	Management contracts £000	Other intangible assets – software and licences £000	Total £000
Cost:				
At 30 June 2005	577,946	615,439	5,146	1,198,531
Additions	–	501	1,388	1,889
Disposals	–	–	(2,359)	(2,359)
Foreign exchange gains / (losses)	–	3,909	(91)	3,818
At 31 December 2005	577,946	619,849	4,084	1,201,879
Additions	–	–	54	54
Disposals	(8,100)	(43,200)	–	(51,300)
Foreign exchange gains / (losses)	–	(153)	6	(147)
At 30 June 2006	**569,846**	**576,496**	**4,144**	**1,150,486**
Amortisation and impairment:				
At 30 June 2005	–	64,281	4,662	68,943
Disposals	–	–	(2,359)	(2,359)
Foreign exchange gains / (losses)	–	–	(91)	(91)
Impairment losses	–	111,500	–	111,500
Amortisation charge for period	–	27,927	231	28,158
At 31 December 2005	–	203,708	2,443	206,151
Amortisation charge for period	–	22,286	274	22,560
Impairment losses	–	44,815	–	44,815
Disposals	–	(16,200)	–	(16,200)
Foreign exchange gains / (losses)	–	–	6	6
At 30 June 2006	**–**	**254,609**	**2,723**	**257,332**
Net book values:				
At 30 June 2005	577,946	551,158	484	1,129,588
At 31 December 2005	577,946	416,141	1,641	995,728
At 30 June 2006	**569,846**	**321,887**	**1,421**	**893,154**

Goodwill arose on business combinations and relates to the business as a whole following the fundamental integration, rationalisation and reorganisations which took place after each acquisition.

Management contracts predominantly relate to contracts arising from business combinations, following the restatement of goodwill on transition to IFRS.

As indicated in the 2005 annual report and financial statements, Resolution plc withdrew the majority of its assets in the first quarter of 2006. The agreed compensation of £27,000,000 received from Resolution during the period has been recognised as proceeds in respect of the deemed disposal of intangible assets. The cost, with respect to the original valuation, of the assets disposed of was £43,200,000 and the related cumulative amortisation amounted to £16,200,000. Therefore the carrying value of the disposed asset equalled the proceeds received giving rise to neither a gain nor a loss. The £8,100,000 disposal of goodwill in the period is in respect of the remaining deferred tax relating to the £27,000,000 carrying value of the intangible assets disposed of.

5. Goodwill and other intangible assets (cont'd)

Impairment testing of intangible assets with finite lives

During the first half of 2006 the business experienced a level of fund outflows which was higher than anticipated. This level of lost business will have a significant impact on revenues and was enough to be considered an indicator of potential impairment of certain intangible assets, namely the related investment management contracts.

In accordance with IAS 36 'Impairment of Assets', a full impairment review of these assets was undertaken. The review resulted in impairment losses being recognised in respect of management contracts as follows:

	6 months ended 30 June 2006 £000	6 months ended 30 June 2005 £000	Year ended 31 December 2005 £000
F&C Investment Trust contracts	**22,194**	–	56,100
F&C Institutional contracts	**22,621**	–	55,400
Total impairment recognised in the Condensed Consolidated Income Statement	**44,815**	–	111,500

The cumulative impairment of management contracts at 30 June 2006 amounts to £156,315,000 (31 December 2005: £111,500,000).

The above contracts relate to the investment trust management contracts and institutional fund management contracts acquired as a result of the business combination of the ISIS and F&CGH Groups on 11 October 2004.

The recoverable amounts of the assets have been determined based on value in use calculations using cash flow projections based on the latest annual financial budget approved by the Board.

The discount rate applied to the cash flow projections is 10.1% (2005: 9.4%) for investment trust contracts, 10.1% (2005: 9.4%) for institutional contracts with no fixed term, and 9.1% (2005: 8.4%) for fixed term institutional contracts. These rates reflect the varying risks and uncertainties inherent in the revenues from the underlying assets, using the Group's weighted average cost of capital of 9.6%, calculated as at 30 June 2006, (31 December 2005: 8.9%), as a benchmark.

The revenue projections assume growth of 6% (2005: 6%) per annum, in line with the Group's long-term view of market growth, and consistent with that experienced over the last 15 years across the markets in which the managed assets are invested. The projections are derived using the estimated useful lives of the underlying contracts and assume a constant loss of revenues over the projection periods.

Operating costs for the first year of the projections are driven by the budgeted Group profit margin for 2006. Thereafter, costs have been grown at a minimum rate of 3.5% (2005: 3.5%) per annum, to accord with estimated future inflation and salary increases, with the margin capped at 45% (2005: 45%).

Impairment has been determined by comparing the results of the value in use calculations in respect of the remaining contracts at the period-end to the carrying value (cost less aggregate amortisation and prior impairment) of the assets at 30 June 2006, with any deficits arising constituting impairment to be recognised for the period.

Having continued to lose contracts at a rate which was higher than originally anticipated, the Group reconsidered the average expected lives of the related assets. Following this reappraisal, the Directors have revised their estimate of the remaining useful lives of the affected management contracts which, with effect from 1 July 2006, are consistent with the above loss rates and are now assessed as follows:

Investment trusts	– 10 years
Institutional (non-fixed term)	– 6 years

The original estimate of their useful lives on acquisition of the assets in October 2004 was 20 years for investment trusts and 10 years for non-fixed term institutional contracts. (The estimated useful lives of all other categories of management contracts remain unchanged.)

This represents a change in accounting estimate from that used up to 30 June 2006, and will accelerate the amortisation of the remaining value of the assets from July 2006. The effect of this change will be an increased amortisation charge of £1,686,000 in the second half of 2006, and an increased charge of £3,346,000 per annum in future periods until such time as the assets become fully amortised.

Notes to the Interim Financial Statements

6. Pension deficit

The deficit on defined benefit pension obligations is summarised as follows:

	30 June 2006 £000	30 June 2005 £000	31 December 2005 £000
Fair value of plan assets	**117,053**	103,828	116,097
Benefit obligation	**(152,088)**	(128,712)	(164,129)
Deficit in the schemes	**(35,035)**	(24,884)	(48,032)

The Income Statement charge for defined benefit pension obligations is summarised as follows:

	6 months ended 30 June 2006 £000	6 months ended 30 June 2005 £000	Year ended 31 December 2005 £000
Current service cost	**1,558**	1,784	2,905
Past service cost	**–**	–	514
Expected return on plan assets	**(3,698)**	(3,165)	(6,332)
Interest cost of benefit obligation	**3,800**	3,033	6,080
Total charge to Income Statement	**1,660**	1,652	3,167

7. Share capital

The Group recorded the following amounts within shareholders' equity as a result of the issue of Ordinary Shares:

	30 June 2006 £000	30 June 2005 £000	31 December 2005 £000
Issued Ordinary Shares of 0.1p each	**485**	483	484

The number of Ordinary Shares in issue was as follows:

	30 June 2006 No.	30 June 2005 No.	31 December 2005 No.
Allotted, issued and fully paid Ordinary Shares of 0.1p each	**484,646,094**	482,906,002	483,434,237
Ordinary Shares held as Treasury shares	**5,365,016**	11,555,046	6,564,104
Ordinary Shares available in the market	**479,281,078**	471,350,956	476,870,133

8. Consolidated reconciliation of equity

	6 months ended 30 June 2006 £000	6 months ended 30 June 2005 (as restated) £000	Year ended 31 December 2005 £000
Total equity attributable to equity holders of the parent at 1 January	**745,420**	877,658	877,658
Items reported in the Consolidated Statement of Recognised Income and Expense	**(12,485)**	(17,252)	(103,434)
Dividends paid	**(33,472)**	(32,952)	(51,817)
Share-based payment charges	**7,514**	14,218	21,822
Share capital allotted on exercise of options	**1,684**	1,042	1,776
Purchase of own shares	**(509)**	(47)	(87)
Settlement proceeds received on exercise of options	**171**	–	–
Partners' capital injected	**–**	–	2
Partners' drawings in advance of profits	**(352)**	(350)	(500)
Total equity attributable to equity holders of the parent at 30 June (31 December)	**707,971**	842,317	745,420

9. Contingencies

Contingent liabilities:

(a) Shareholding in F&C Group Management Limited (formerly Primrose Street Holdings Limited)

In December 2000, when Eureko agreed to acquire 90% of the issued share capital of F&C Group (Holdings) Limited from Hypo Vereins-Bank, approximately 73% of the ordinary issued shares of F&C Group Management Limited, a subsidiary company, were held in the form of two bearer share warrants which could not be located prior to the completion of the sale (the ''old Share Warrants'').

Since a bearer share warrant issued by a company entitles the bearer to the shares specified in the share warrant, there is a risk that a third party holding the old Share Warrants may claim that it is entitled to the specified shares in F&C Group Management Limited. If a third party were successful in establishing a claim in relation to the old Share Warrants, F&C Group (Holdings) Limited could be liable to indemnify F&C Group Management Limited under the original indemnity arrangements, which could, as set out below, have a material adverse effect on the F&C Asset Management Group's business, results of operations and/or financial condition.

Under the terms of the Sale and Purchase Agreement in respect of the Merger, Eureko Holdings has given a specific indemnity (guaranteed by Eureko) to F&C Asset Management plc in respect of losses arising in relation to the old Share Warrants in F&C Group Management Limited (including in respect of the indemnity granted by F&C Group (Holdings) Limited to F&C Group Management Limited) which is capped at approximately £432 million.

While there is a possibility that a third party may seek to establish that it is entitled to the shares specified in the old Share Warrants, the Directors have been informed that Eureko was advised at the time of the Merger that the prospect of a third party succeeding in such a claim is remote.

(b) European court case – VAT on investment trust management fees

In a current European court case, a UK investment trust is seeking to establish that management services to UK investment trusts should be a VAT exempt supply, rather than a taxable supply in accordance with current UK VAT law. If this case were successful, a number of companies in the Group, in common with other relevant fund managers in the UK, would face claims from those investment trusts to which they have supplied services for repayment of the VAT they have charged to them. The Association of Investment Trust Companies (a party to the above litigation) has indicated that it believes claims dating back as far as 1990 may be lodged with fund managers by investment trusts. Companies in the Group can submit repayment claims to HM Revenue and Customs, but only dating back as far as 2001, being the maximum time period permitted. The Group has received protective claims from a number of its investment trust clients and has lodged protective claims with HM Revenue and Customs. At present, the Directors are not able to judge the likelihood that the VAT court case will be successful, nor are they able to quantify the claims that may be received or the extent to which such claims could be mitigated and therefore, are not able to quantify the potential liability.

Contingent assets:

(a) Compensation for withdrawal of funds

During 2005 Banco Commercial Portugues S.A. (BCP), a Group client, withdrew approximately €2 billion of assets which were managed by the Group under the terms of long-term agreements. The Group is currently negotiating with BCP to attain value for shareholders, in line with the principles of the contractual agreement.

(b) European court case – Management services to authorised unit trusts and OEICs

Following a recent European court case (''the Abbey National case''), it has been ruled that certain services provided for the management of authorised unit trusts and Open Ended Investment Companies should be exempt from VAT. As a result of certain outsourced arrangements, the Group anticipates that certain services provided by suppliers will become exempt and the Group may recover VAT erroneously paid in respect of previous periods, much of which will have been treated as irrecoverable VAT from the Group's perspective. HM Revenue and Customs have set 1 October 2006 as the date from which changes arising from this court case should be implemented. It is too early to establish the potential quantum of output VAT which may be recovered by the Group, as it is linked to the extent of protective claims submitted by our suppliers and the provision of ongoing services from these outsourced providers.

10. The above financial information does not constitute statutory financial statements as defined in section 240 of the Companies Act 1985. The statutory financial statements for the year ended 31 December 2005, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

Independent Review Report to
F&C Asset Management plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the Condensed Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Recognised Income and Expenses, Condensed Consolidated Cash Flow Statement, Accounting Policies, and the related notes 1 to 9. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

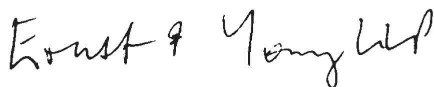
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.



ERNST & YOUNG LLP
Edinburgh

4 August 2006

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Keith Bedell-Pearce, Non-Executive*†
David Gray, Non-Executive†‡
John Heywood, Non-Executive*†
Brian Larcombe, Non-Executive*
David Logan, Executive
Karen McPherson, Non-Executive*‡
Jeff Medlock, Non-Executive
Philip Moore, Non-Executive
Keith Satchell, Non-Executive‡

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† Member of Audit & Compliance Committee
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F&C Asset Management plc is regulated by the Financial Services Authority

Website

Shareholders are encouraged to visit our website www.fandc.com