Interim Report & Financial Statements 2007

F&C Asset Management plc

F&C Investments

Expect excellence

Contents

Definitions

''F&C, FCAM, Group or Company''	F&C Asset Management plc and its subsidiaries
''FP''	Friends Provident plc, the Company's ultimate parent undertaking
''F&CGH''	F&C Group (Holdings) Limited and its subsidiaries

Forward-Looking Statements

This Interim Report and Financial Statements may contain certain ''forward-looking statements'' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words ''believes'', ''intends'', ''expects'', ''plans'', ''seeks'' and ''anticipates'', and words of similar meaning, are forward-looking.

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation and deflation; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which the Group operates.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in the Group's forward-looking statements. F&C undertakes no obligation to update the forward-looking statements contained in this Interim Report and Financial Statements. Nothing in this publication should be considered as a profit forecast.

Financial Summary

for the six months ended 30 June 2007

	30 June 2007	30 June 2006	31 December 2006
Net revenue†	**£119.2m**	£126.0m	£248.2m
Profit/(loss) before tax	**£7.9m**	£(29.2)m	£(30.6)m
Underlying profit before tax*	**£32.0m**	£51.2m	£88.7m
Group operating profit*	**£36.3m**	£51.7m	£90.5m
Operating margin#	**30.5%**	41.0%	36.5%
Basic earnings/(loss) per ordinary share	**1.5p**	(4.4)p	(4.9)p
Underlying earnings per ordinary share*	**4.2p**	7.4p	12.8p
Interim dividend	**2.0p**	4.0p	4.0p
Final dividend	**–**	–	7.0p
Total dividends per ordinary share	**2.0p**	4.0p	11.0p
Assets under management	**£101.3bn**	£107.0bn	£104.1bn

† before BCP compensation receipt.

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

Group operating profit expressed as a percentage of net revenue.

Assets under management by client category

	30 June 2007 £bn	30 June 2006 £bn	31 December 2006 £bn
Insurance funds	**57.2**	58.4	59.0
Institutional clients	**26.5**	31.6	28.1
Investment Trusts	**6.7**	6.5	6.5
Open Ended Products – Third Party	**3.4**	2.9	3.0
SICAVs	**0.7**	0.5	0.5
Sub-Advisory	**6.8**	7.1	7.0
Total Retail	**17.6**	17.0	17.0
Total	**101.3**	107.0	104.1

Assets under management by asset type

	30 June 2007 £bn	30 June 2006 £bn	31 December 2006 £bn
Fixed interest	**50.9**	55.1	54.0
Equities	**39.0**	40.0	38.2
Property	**5.4**	5.2	5.2
Other Alternative Investments	**1.5**	1.2	1.3
Money market	**4.5**	5.5	5.4
Total	**101.3**	107.0	104.1

Fund flows for the six months to 30 June 2007

Client Category	Inflows £m	Outflows £m	Net £m
Insurance funds	N/A	N/A	(2,787)
Institutional clients	1,677	(3,288)	(1,611)
Investment Trusts	158	(369)	(211)
Open Ended Products – Third Party	339	(136)	203
SICAVs	83	(24)	59
Sub Advisory	1,070	(1,438)	(368)
Total Retail	1,650	(1,967)	(317)
Total	N/A	N/A	(4,715)

Chief Executive's Report

The first half of 2007 saw satisfactory progress in executing the first phase of the three-year accelerated growth plan which we detailed in our 2006 Annual Report and Financial Statements. The plan builds on the improved investment performance achieved during 2006 with a range of initiatives to improve the quality of our revenues by focusing on higher margin and specialist products.

As we also outlined in our last report, the implementation of the plan requires a step up in the investment in the business in 2007. A progress report on these areas is provided under 'Business developments', below. This increased investment, as well as the impact of mandates lost during 2006, is of course reflected in the underlying earnings per share (EPS) of 4.2 pence for the period to 30 June.

We previously announced that the increased investment in the business will be financed through a rebasing of the 2007 dividend from its historic levels with a view to progressively growing the dividend thereafter. The Board has therefore announced an interim dividend of 2.0 pence per share.

The goal of the plan is to generate significant shareholder value and we have set ourselves a target of increasing underlying earnings per share by 50 per cent from 2007 to 2009. While we are only six months into the three-year plan, we are pleased to report that our progress is in line with our expectations.

Assets under management and business flows

Assets under management at 30 June 2007 were £101.3 billion compared to £104.1 billion as at 31 December 2006.

Institutional outflows of £3.3 billion largely reflected the pipeline of £5.2 billion outflows that we highlighted to the market on 31 January 2007. These outflows were principally represented by lower fee Dutch balanced mandates shifting to fiduciary managers, an industry-wide trend in The Netherlands, and were not related to investment performance. However, we are pleased to report that we generated £1.7 billion in gross institutional inflows during H1, a 24 per cent increase on H1 2006. Q2 institutional inflows were 62 per cent higher than Q1 inflows.

Net outflows for insurance clients were £2.8 billion which included a £1.6 billion outflow of insurance funds resulting from the reinsurance of Friends Provident's annuity book with Swiss Re. Fees on these assets were significantly below our average fee rate.

Our UK retail business has continued to exhibit excellent momentum. Net retail sales of open ended funds during H1 were up 23 per cent compared to an industry-wide decline of 17 per cent in UK domiciled net retail sales (source: IMA). During the period we also re-negotiated our pricing with Friends Provident on a range of flagship fund products which has enabled us to increase our support to the Friends Provident distribution network. This has already resulted in improved sales volumes at higher revenue margins. Currently this business is still recorded under insurance funds and is not therefore reflected under open ended – third party funds.

Net outflows of £0.2 billion in investment trusts deserve some explanation, since these represent a combination of trusts reducing gearing, share buy-backs and also the wind-up of Investors Capital Trust, which nevertheless achieved a very successful rollover of 62 per cent of its assets into a new vehicle of the same name. No investment trust mandates were lost in H1 and, as previously announced, we launched a new closed-end vehicle, F&C Event Driven Limited, during the period.

Sub-advisory business saw net outflows during H1 reflecting investor sentiment in Portugal in favour of cash.

Net sales of SICAV funds achieved a modest increase of 9 per cent compared to H1 2006.

Financial results

Revenues

Investment management fees for the six months to 30 June 2007 were £125.1 million compared to £130.7 million during the same period in 2006, a favourable comparison despite the fall in assets under management during 2006. H1 investment management revenues compare favourably to H2 2006 given performance fees largely crystallise in the second half of the year. The average fee rate has risen from 22 basis points for the year ended 31 December 2006 to 23.5 basis points for H1 2007, reflecting both the higher fee profile of our new business initiatives and the lower fee nature of many of the asset outflows.

Expenses

Underlying operating expenses for the six months to 30 June 2007 were £83.7 million, which is some £8.7 million higher than the first half of 2006, reflecting some of the necessary investment in people, enhanced product and distribution capabilities and the associated infrastructure required to achieve our three-year growth plan, together with a number of non-recurring items.

Amortisation and impairment of intangible assets

During 2006, asset outflows in respect of institutional and investment trust mandates were higher than expected and this led to a £58.5 million impairment charge in respect of the carrying value of intangible assets. In addition, the Board re-assessed the expected useful lives of management contracts and accordingly changed the amortisation period of the related assets.

During H1 2007, outflows, for which intangible assets exist, were broadly in line with expectations and as a result there is no requirement to perform an impairment review nor recognise any impairment charge. The amortisation charge of £21.1 million reflects the revised amortisation period.

Underlying earnings and operating margin

Underlying earnings per share for the six months to 30 June 2007 amount to 4.2 pence. The reduction from the comparable period in 2006 primarily reflects the revenue loss from asset outflows during 2006, the impact of the incremental operating costs to support the three-year plan and a reduced level of investment income from private equity investments. The operating margin for the six months to 30 June 2007 is 30.5 per cent, which is in line with the expectations previously set out. Underlying earnings per share for the period have been negatively impacted by some 0.7 pence in respect of items which will not recur in 2H 2007, including the effect of the change in the UK Corporation Tax rate, outlined below.

Pension

Since 31 December 2006, the Group pension deficit has reduced by some £20.9 million to £24.5 million, reflecting the benefit of £8.0 million of additional cash contributions made to facilitate the merger of our two UK schemes and the impact of the increase in corporate bond yields, which partially drive the quantum of pension liabilities.

Dividend

In line with our stated intention to rebase the 2007 dividend to finance investment in the business, the Board has declared an interim dividend of 2.0 pence per share, which will be payable on 19 October 2007, to shareholders on the register as at 21 September 2007.

During 2007 the Board intends to achieve dividend cover of at least 1.5 times underlying earnings and thereafter will seek to deliver progressive dividend growth.

Investment Trust VAT Case

The European Court of Justice (ECJ) has recently delivered a judgement which is expected to lead to investment management fees charged to Investment Trust Companies (ITC) becoming exempt from VAT. However, we await an announcement from HM Revenue and Customs (HMRC) as to how they intend to implement the results of this case in the UK.

The Group continues to disclose a contingent liability in respect of VAT which could potentially become payable to ITCs. It is not possible to quantify the extent of any liability arising due to the number of uncertainties which exist, including the period for which VAT may be repayable and the determination of how much may be recovered from HMRC.

Your Board has lodged all possible protective claims with HMRC in order to minimise the quantum of any liability arising.

Recent experience of other VAT cases suggests it may take a significant amount of time to resolve all issues arising in respect of the case.

Change in the rate of UK Corporation Tax

Legislative approval has been granted to change the UK corporation tax rate from 30 per cent to 28 per cent. While this rate does not apply until 2008, it does impact the value of both deferred tax assets and liabilities recognised in the Group's financial statements. The tax charge on underlying profits for the six months to 30 June 2007 includes the write-down by £0.8 million of deferred tax assets, while the reduction in tax provision in respect of the intangible assets and the Re-Investment Plan results in a release of £4.2 million to the Income Statement. The latter benefit has been excluded from underlying earnings in line with the treatment of the related costs.

Business developments

The first phase of the three-year plan has focused on the execution of new product launches in order to start building track records that can then be marketed and used to generate fund inflows. Progress has been made in each initiative.

In the Liability Driven Investment arena our pooled funds have now garnered the support of six consulting firms. The strength of our liability modelling capabilities has received a further endorsement with our appointment as investment manager to Synesis Life plc following a rigorous due diligence process.

In the alternatives arena we have successfully launched the F&C Tourmaline Fund, a fixed income hedge fund and F&C Event Driven Limited, a £75 million listed fund of hedge funds. As we enter the third quarter we have also commenced fund raising on the F&C Garnet Fund, an FX volatility trading and forward rate bias hedge fund. We anticipate launching a further single strategy hedge fund later this year having finalised the recruitment of a team.

During H1 we successfully established the risk management infrastructure for our Collateralised Debt Obligation platform and completed our first issue, via a private placement. We have also recruited a senior investment banker as Head of Structured Credit to progress this initiative.

We have continued to expand our private equity fund of funds business with the launch of F&C European Capital Partners LP, focusing on funds operating in the mid-market space. The partnership had its first close in Q1 with €112 million and is targeting to raise €200 million by year end.

Chief Executive's Report

The F&C GTAA Alpha Fund, a tactical asset allocation fund, was launched in H1 and is now registered for marketing across all of our key territories. Further multi-asset products are being developed for launch in H2 including the F&C Diversified Growth Fund.

In the real-estate sphere we have launched a new property development fund in Portugal, the Corinthian Irish Retail Portfolio with Friends First in Ireland and have secured new revenues through our appointment as project manager to a major City development deal.

The expansion of our multi-manager capabilities saw the launch of the F&C Lifestyle range of funds of funds in March. These are unique in the UK retail market in that their asset allocation is linked to a third-party risk profiling tool, thereby providing advisers with a seamless solution that helps address the challenges of the FSA's Treating Customers Fairly initiative. Significant distribution deals have been announced with Paradigm, Lighthouse Group and Thinc Group. We have a strong pipeline of interest from other significant intermediaries.

We have also made progress in cross-selling our existing capabilities into new markets. For example, we are developing new SRI opportunities in North America, evidenced by our appointment as sub-advisor to the Calvert International Opportunities Fund, a new socially responsible US mutual fund. Elsewhere, our SICAV funds have been registered for sale in Switzerland and Austria and we will further expand our footprint into the Nordic region.

Further important product initiatives are being planned for H2, including the establishment of a quantitative equity strategies desk and our entry into the 130/30 funds product segment. These latter types of funds, which have seen significant growth in the US market, combine aspects of traditional long-only funds with the ability to short-sell a proportion of the portfolio and invest the proceeds into additional long-positions. F&C intends to be a market leader in the development of a suite of these products commencing with the launch of the F&C Enhanced Alpha UK Fund.

A key development for our business in The Netherlands in H2 will be the launch of our own fiduciary management service. We will present our proposition to clients in Q4. This will better position us to retain existing institutional clients wanting to adopt a fiduciary model and allow us to attract new clients with an offering which we believe is competitive. Our fiduciary service incorporates the addition of credible external manager selection with our existing local client servicing and reporting and proven skills in asset allocation and liability modelling.

Progress has also been made in developing our infrastructure with the selection of a new Decision, Risk and Dealing system. A further development during H1 was the agreement to terminate our operational outsourcing contract with Mellon relating to the legacy F&C business. As we now look to grow the business, we have determined that our key operational priority is to have a single solution to ensure a consistent and integrated approach to client servicing. The in-sourcing of those functions outsourced to Mellon was completed successfully by end July.

During H1, Eureko BV, our second largest strategic shareholder, reduced its stake in F&C from 19.6 per cent to 10.6 per cent via a successful placing in order to re-deploy its capital towards its expansion into central and southern Europe. Eureko remains a major strategic shareholder in F&C and continues to be represented on the Board. Importantly, the reduction in Eureko's shareholding in F&C does not impact our contracts with Eureko group companies which run until at least 2014. As a result of this change in shareholding, the free-float of F&C shares has increased to 35 per cent of issued share capital.

Finally, on 25 July 2007 our majority shareholder Friends Provident announced an agreement to merge with Resolution to create a major new life insurance group, Friends Financial. The intention is that, conditional on the Friends Financial merger completing, appropriate terms being agreed and the approval of F&C's minority shareholders, F&C would acquire Resolution Asset Management. The enlarged business would manage in excess of £160 billion of assets and the combination represents a further opportunity to create value for our shareholders. As a related party transaction, the acquisition would require the approval of F&C's minority shareholders. We will therefore communicate any proposals to you in due course. We remain committed to the execution of our three-year plan.

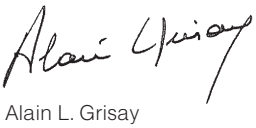
Summary

The focus of 2006 was the improvement of investment performance on existing products and delivering strong investment performance remains a top priority. Alongside this, H1 2007 saw the launch of a significant number of new products. We are very satisfied that these launches, along with key hires, have met the anticipated timetable of our three-year growth plan.

Strong investment performance on existing products combined with the new initiatives now enables us to increasingly turn our attention to strengthening our distribution capabilities. We have already hired a number of new sales and marketing personnel in the UK, The Netherlands and Germany. In H2 we will further extend our Continental European footprint by adding a presence in the Nordic Region. Significantly, we have recently announced the recruitment of Cristobal Mendez de Vigo, latterly the Chief Executive of Allianz Global Investors in Australia, to the new executive committee position of Head of Institutional and European Wholesale Distribution and Business Development.

The renewed focus on distribution will be accompanied by a step up in our brand building activities, including the signing of a three-season principal sponsorship deal with Birmingham City Football Club.

In summary, first half financial performance is in line with our expectations and we have made good progress in executing the plan through key recruitment and product launches. Sustaining strong investment performance remains a top priority while increasingly we are focusing on the enhancement of our distribution capabilities and further new business initiatives. The potential acquisition of Resolution Asset Management would bring additional opportunities for F&C but irrespective of this our core strategy remains one of focusing on generating new business in higher margins areas.



Alain L. Grisay
Chief Executive
3 August 2007

Consolidated Income Statement

for the six months ended 30 June 2007

	Notes	6 months ended 30 June 2007 £000	6 months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Revenue				
Investment management fees		**125,106**	130,738	257,667
Other income		**602**	298	3,677
Total revenue		**125,708**	131,036	261,344
Fee and commission expenses		**(6,543)**	(5,026)	(10,530)
Net revenue		**119,165**	126,010	250,814
Movement on unit-linked assets		**59,677**	7,040	106,700
Movement on unit-linked liabilities		**(58,861)**	(6,321)	(105,007)
Operating expenses				
Operating expenses		**(83,660)**	(75,012)	(159,397)
Re-Investment Plan costs		**(3,483)**	(6,298)	(11,593)
Impairment of intangible assets – management contracts		**–**	(44,815)	(58,478)
Amortisation of intangible assets – management contracts		**(21,078)**	(22,286)	(43,046)
Total operating expenses before restructuring costs		**(108,221)**	(148,411)	(272,514)
Operating profit/(loss) before restructuring costs		**11,760**	(21,682)	(20,007)
Restructuring costs:				
– Reorganisation costs post acquisition of F&CGH Group		**–**	(6,927)	(9,704)
Operating profit/(loss) after restructuring costs		**11,760**	(28,609)	(29,711)
Finance revenue		**8,976**	9,299	20,614
Finance costs		**(13,608)**	(10,391)	(22,077)
Share of profit of associates		**800**	545	1,445
Impairment in associates and other financial investments		**–**	–	(764)
Loss on disposal of subsidiaries		**–**	–	(61)
Profit/(loss) before tax		**7,928**	(29,156)	(30,554)
Tax – Policyholders		**(598)**	(865)	(836)
Tax – Shareholders		**410**	8,974	8,864
Tax – (Expense)/income	1	**(188)**	8,109	8,028
Profit/(loss) for the period		**7,740**	(21,047)	(22,526)
Attributable to:				
Equity holders of the parent		**7,266**	(21,047)	(23,525)
Minority interests		**474**	–	999
Profit/(loss) for the period		**7,740**	(21,047)	(22,526)
Basic earnings/(loss) per share	2	**1.51p**	(4.40)p	(4.91)p
Diluted earnings/(loss) per share	2	**1.47p**	(4.40)p	(4.91)p
Memo – dividends proposed	3	**9,667**	19,181	33,761
– dividends paid	3	**33,831**	33,472	52,660

Consolidated Balance Sheet

as at 30 June 2007

	Notes	As at 30 June 2007 £000	As at 30 June 2006 £000	As at 31 December 2006 £000
Assets				
Non-current assets				
Property, plant and equipment		**12,015**	10,646	12,799
Intangible assets:				
– Goodwill	4	**569,846**	569,846	569,846
– Management contracts	4	**264,593**	321,887	284,315
– Other intangible assets	4	**1,220**	1,421	1,131
	4	**835,659**	893,154	855,292
Other financial investments		**2,094**	3,991	2,074
Trade and other receivables		**2,500**	2,500	2,500
Investment in associates		**2,089**	560	1,406
Deferred acquisition costs		**7,413**	8,097	7,863
Deferred tax assets		**29,372**	32,680	33,445
Total non-current assets		**891,142**	951,628	915,379
Current assets				
Financial investments		**1,143,511**	1,108,614	1,128,841
Reinsurance assets		**2,206**	2,372	2,345
Stock of units and shares		**791**	746	740
Trade and other receivables		**101,326**	110,552	86,224
Deferred acquisition costs		**3,516**	3,399	3,367
Cash and cash equivalents:				
– Shareholders		**182,903**	136,232	214,311
– Policyholders		**35,611**	52,136	53,272
		218,514	188,368	267,583
Total current assets		**1,469,864**	1,414,051	1,489,100
Total assets		**2,361,006**	2,365,679	2,404,479
Liabilities				
Non-current liabilities				
Interest bearing loans and borrowings		**258,626**	34,800	258,511
Trade and other payables		**7,475**	3,986	3,984
Employee benefits		**2,161**	–	–
Provisions		**9,003**	12,116	9,148
Pension deficit	5	**24,538**	35,035	45,403
Deferred income		**13,190**	14,288	13,733
Deferred tax liabilities		**76,673**	97,539	86,079
Total non- current liabilities		**391,666**	197,764	416,858
Current liabilities				
Investment contract liabilities		**1,171,933**	1,144,231	1,175,105
Insurance contract liabilities		**2,206**	2,372	2,345
Interest bearing loans and borrowings		**–**	185,000	5,000
Trade and other payables		**78,418**	84,373	62,220
Provisions		**8,737**	7,675	9,317
Employee benefits		**19,310**	17,814	32,815
Deferred income		**4,526**	3,990	4,242
Current tax payable		**9,836**	14,489	12,817
Total current liabilities		**1,294,966**	1,459,944	1,303,861
Total liabilities		**1,686,632**	1,657,708	1,720,719
Equity attributable to equity holders of the parent				
Share capital	6	**485**	485	485
Share premium account		**33,503**	32,414	32,594
Merger reserve		**506,104**	550,884	520,677
Other reserves		**(1,781)**	18,718	(2,708)
Retained earnings		**135,867**	106,320	132,282
Total equity attributable to equity holders of the parent		**674,178**	708,821	683,330
Minority interests		**196**	(850)	430
Total equity	7	**674,374**	707,971	683,760
Total liabilities and equity		**2,361,006**	2,365,679	2,404,479

The financial statements were approved by the Board of Directors and authorised for issue on 3 August 2007.

Consolidated Statement of Recognised Income and Expense

for the six months ended 30 June 2007

	Note	6 months ended 30 June 2007 £000	6 months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Profit/(loss) for the period		**7,740**	(21,047)	(22,526)
Foreign exchange movements on translation of foreign operations		**927**	(439)	(4,422)
Actuarial gain on defined benefit pension schemes		**13,081**	12,229	2,483
Gain on available for sale financial investments		**–**	642	1,887
Fair value gains transferred to the Income Statement		**–**	–	(2,382)
Tax expense on items taken directly to equity	1	**(4,469)**	(3,870)	(761)
Other		**–**	–	98
Net income/(expense) recognised directly in equity		**9,539**	8,562	(3,097)
Total recognised income and expense for the period		**17,279**	(12,485)	(25,623)
Attributable to:				
Equity holders of the parent		**16,805**	(12,485)	(26,622)
Minority interest		**474**	–	999
		17,279	(12,485)	(25,623)

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2007

	6 months ended 30 June 2007 £000	6 months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Cash inflows from operating activities*	**3,198**	58,206	129,454
Income tax paid	**(12,648)**	(7,631)	(18,293)
Net cash (outflow)/inflow from operating activities	**(9,450)**	50,575	111,161
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**4**	–	1
Acquisition of property, plant and equipment	**(1,113)**	(785)	(4,077)
Purchase of intangibles – software	**(484)**	(547)	(701)
Return of capital from investments	**–**	83	97
Capital distributions received from associates	**–**	–	374
Refund of acquisition consideration for loss of Resolution Life funds	**–**	27,000	27,000
Expenses of acquisition of F&CGH Group	**(18)**	(199)	(207)
Proceeds from disposal of investments	**–**	–	165
Payments to acquire investments	**(1,971)**	(1,202)	(1,815)
Investment income from investing activities	**5,094**	5,813	12,167
Distributions to minority interests	**(708)**	(352)	(500)
Net cash inflow from investing activities	**804**	29,811	32,504
Cash flows from financing activities			
Proceeds from issue of share capital	**910**	1,684	1,865
Repayment of loan from Eureko B.V.	**–**	–	(9,000)
Repayment of loans from FP Group	**(5,000)**	–	(205,000)
Proceeds from long-term borrowings	**–**	–	260,000
Payments in respect of expenses for long-term borrowings	**(269)**	–	(2,095)
Interest paid on loans	**(103)**	(6,474)	(14,045)
Other interest paid	**(237)**	(70)	(568)
Equity dividends paid	**(33,831)**	(33,472)	(52,660)
Interest paid on preference shares	**(30)**	(27)	(53)
Cash movement from dealings in own shares	**(1,863)**	144	(684)
Net cash outflow from financing activities	**(40,423)**	(38,215)	(22,240)
Net (decrease)/increase in cash and cash equivalents	**(49,069)**	42,171	121,425
Effect of exchange rate fluctuations on cash held	**–**	–	(39)
Cash and cash equivalents at 1 January	**267,583**	146,197	146,197
Cash and cash equivalents at 30 June (31 December)	**218,514**	188,368	267,583
Cash and cash equivalents			
Shareholders	**182,903**	136,232	214,311
Policyholders	**35,611**	52,136	53,272
	218,514	188,368	267,583

* Cash inflows from operating activities includes investments and disinvestments relating to unit-linked assets attributable to policyholders in the Group's insurance subsidiary. Movements in these activities can result in significant fluctuations in "Cash flows from operating activities".

Accounting Policies

Basis of Preparation and Accounting Policies

The interim consolidated financial statements for the six months ended 30 June 2007 have been prepared in accordance with accounting policies that the Directors anticipate will be applied in the annual financial statements for 2007.

The interim consolidated financial statements, which are in a condensed format, 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 2006.

The accounting policies adopted in the preparation of the interim 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 2006. The 2006 annual report and financial statements are available on our website (www.fandc.com) or from our registered office.

Certain figures reported in the 2006 interim consolidated financial statements have been reclassified within these interim consolidated financial statements, for consistency with the presentation applied in the financial statements for the year ended 31 December 2006, being the Group's latest 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 2006 nor the aggregate assets and liabilities at that date.

Notes to the Interim Financial Statements

1. Income taxes

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

Consolidated Income Statement

	6 months ended 30 June 2007 £000	6 months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Current income tax:			
Current income tax expense	**9,586**	12,184	22,177
Adjustments in respect of previous periods	**45**	1,738	519
Deferred income tax:			
Relating to origination and reversal of temporary differences	**(5,855)**	(20,330)	(28,928)
Adjustment in respect of corporation tax rate change	**(3,454)**	–	–
Adjustments in respect of previous periods	**(134)**	(1,701)	(1,796)
Tax expense/(income) reported in the condensed consolidated income statement	**188**	(8,109)	(8,028)

Consolidated Statement of Changes in Equity

	6 months ended 30 June 2007 £000	6 months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Deferred and current income tax related to items charged or credited directly to equity	**4,469**	3,870	761

Effective rate of tax

The tax expense for the six month period ended 30 June 2007 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 £89,000 and an adjustment of £3,454,000 to reflect the change in the corporation tax rate, brings the total expense to £188,000 for the period to 30 June.

The Finance Bill 2007, which has been substantially enacted, changes the corporation tax rate from 30% to 28%, with effect from 31 March 2008. As a result, the income statement for the six months to 30 June 2007 reflects a £3,454,000 tax credit thereby ensuring the Group's deferred tax balances reflect the rate at which timing differences are expected to reverse. This credit comprises two elements: a £778,000 tax charge which impacts the underlying earnings of the Group and a £4,232,000 tax credit which is excluded from underlying earnings, to be consistent with the treatment of amortisation of intangible assets and the Re-Investment plan to which it relates.

2. 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 underlying profit before amortisation and impairment of intangibles, restructuring costs, BCP compensation receipt and cost of the Re-Investment Plan more accurately reflects the earnings performance of the Group for each period.

Reconciliation of earnings per share

	30 June 2007 Basic p	30 June 2007 Diluted p	30 June 2006 Basic p	30 June 2006 Diluted p	31 December 2006 Basic p	31 December 2006 Diluted p
Earnings/(loss) per Ordinary Share	**1.51**	**1.47**	(4.40)	(4.40)	(4.91)	(4.91)
BCP compensation receipt, net of tax	**–**		–		(0.38)	
Amortisation of intangibles, net of tax	**2.10**		3.26		6.29	
Cost of Re-Investment Plan, net of tax	**0.59**		0.92		1.81	
Restructuring costs, net of tax:						
– Reorganisation post acquisition of F&CGH Group	**–**		1.01		1.45	
Impairment of intangibles, net of tax	**–**		6.57		8.54	
Underlying earnings per share*	**4.20**		7.36		12.80	

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

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 2007 £000	6 months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Profit/(loss) attributable to ordinary equity holders of the parent for basic earnings/(loss) per share	**7,266**	(21,047)	(23,525)
BCP compensation receipt, net of tax	**–**	–	(1,817)
Amortisation of intangibles, net of tax	**10,118**	15,600	30,132
Cost of Re-Investment Plan, net of tax	**2,861**	4,409	8,668
Restructuring costs, net of tax:			
– Reorganisation post acquisition of F&CGH Group	**–**	4,849	6,975
Impairment of intangibles, net of tax	**–**	31,371	40,935
Underlying profit attributable to ordinary equity holders of the parent*	**20,245**	35,182	61,368

* Profit attributable to ordinary equity holders of the parent before amortisation and impairment of intangibles, restructuring costs, BCP compensation receipt and the cost of the Re-Investment Plan.

Share capital

	30 June 2007 No.	30 June 2006 No.	31 December 2006 No.
Weighted average number of Ordinary Shares (excluding treasury shares) for basic earnings per share	**482,295,034**	477,830,981	479,285,850
Weighted average number of Ordinary Shares (excluding treasury shares) adjusted for the effect of dilution	**494,939,505**	489,899,726	492,273,252

3. Dividends

	6 months ended 30 June 2007 £000	6 months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Declared and paid during the period			
Equity dividends on Ordinary Shares:			
– Final dividend for 2006: 7.0p (2005: 7.0p)	**33,831**	33,472	33,472
– Interim dividend for 2006: 4.0p	**–**	–	19,188
	33,831	33,472	52,660
Proposed dividends as at 30 June (31 December)			
Equity dividends on Ordinary Shares:			
Final dividend for 2006: 7.0p	**–**	–	33,761
Interim dividend for 2007: 2.0p (2006: 4.0p)	**9,667**	19,181	–

The proposed interim dividend for 2007 is based on 2.0p per share and 483,359,193 Ordinary Shares being eligible for dividends as at 30 June 2007. This dividend was approved by the Board on 3 August 2007. No liability for this dividend exists as at 30 June 2007.

4. Goodwill and other intangible assets

	Goodwill £000	Management contracts £000	Other intangible assets – software and licences £000	Total £000
Cost:				
At 1 July 2006	569,846	576,496	4,144	1,150,486
Additions	–	–	111	111
Disposals	–	–	(76)	(76)
Foreign exchange losses	–	(3,149)	(28)	(3,177)
At 31 December 2006	569,846	573,347	4,151	1,147,344
Additions	–	–	454	454
Foreign exchange gains	–	1,356	–	1,356
At 30 June 2007	**569,846**	**574,703**	**4,605**	**1,149,154**
Amortisation and impairment:				
At 1 July 2006	–	254,609	2,723	257,332
Amortisation charge for the period	–	20,760	391	21,151
Disposals	–	–	(66)	(66)
Impairment losses	–	13,663	–	13,663
Foreign exchange gains	–	–	(28)	(28)
At 31 December 2006	–	289,032	3,020	292,052
Amortisation charge for the period	–	21,078	365	21,443
At 30 June 2007	**–**	**310,110**	**3,385**	**313,495**
Net book values:				
At 30 June 2006	569,846	321,887	1,421	893,154
At 31 December 2006	569,846	284,315	1,131	855,292
At 30 June 2007	**569,846**	**264,593**	**1,220**	**835,659**

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

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

Full details of the impairment of management contracts in 2006 were given in that year's annual and interim reports and financial statements.

5. Pension deficit

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

	30 June 2007 £000	30 June 2006 £000	31 December 2006 £000
Fair value of plan assets	**141,841**	117,053	134,352
Benefit obligation	**(166,379)**	(152,088)	(179,755)
Deficit in the schemes	**(24,538)**	(35,035)	(45,403)

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

	6 months ended 30 June 2007 £000	6 months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Current service cost	**1,497**	1,558	3,578
Past service cost	**–**	–	263
Expected return on plan assets	**(4,124)**	(3,698)	(7,768)
Interest cost of benefit obligation	**4,392**	3,800	8,136
Total charge to Income Statement	**1,765**	1,660	4,209

6. Share capital

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

	30 June 2007 £000	30 June 2006 £000	31 December 2006 £000
Issued Ordinary Shares of 0.1p each	**485**	485	485

The number of Ordinary Shares in issue was as follows:

	30 June 2007 No.	30 June 2006 No.	31 December 2006 No.
Allotted, issued and fully paid Ordinary Shares of 0.1p each	**485,339,767**	484,646,094	484,775,590
Ordinary Shares held as Treasury shares	**(3,350,640)**	(5,365,016)	(2,472,502)
Ordinary Shares available in the market	**481,989,127**	479,281,078	482,303,088

7. Condensed consolidated reconciliation of equity

	6 months ended 30 June 2007 £000	6 months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Total equity attributable to equity holders of the parent – at 1 January	**683,760**	745,420	745,420
Items reported in the Consolidated Statement of Recognised Income and Expense	**17,279**	(12,485)	(25,623)
Dividends paid	**(33,831)**	(33,472)	(52,660)
Share-based payment charges credited to equity	**8,817**	7,514	15,690
Share capital allotted on exercise of options	**909**	1,684	1,865
Purchase of own shares	**(1,922)**	(509)	(684)
Cash received into Treasury as settlement of options	**70**	171	252
Distribution and allocation of profits to minority interests	**(558)**	–	–
Partners' drawings	**(150)**	(352)	(500)
Total equity attributable to equity holders of the parent – at 30 June (31 December)	**674,374**	707,971	683,760

8. Contingencies

Contingent liabilities:

(a) Shareholding in F&C Group Management Limited

In December 2000, Eureko B.V. agreed to acquire 90% of the issued share capital of F&C Group (Holdings) Limited from Hypo Vereinsbank. Approximately 73% of the ordinary issued shares of F&C Group Management Limited (formerly Primrose Street Holdings Limited), a subsidiary company of F&C Group (Holdings) Limited, were held in the form of two bearer share warrants which could not be located (the "old Share Warrants").

Since a bearer share warrant issued by a company entitles the bearer to the shares specified therein, 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 have a material adverse effect on the Group's business, results of operations and/or financial condition.

Under the terms of the Merger, Eureko Holdings has given a specific indemnity (guaranteed by Eureko B.V.) to the Group 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 B.V. 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

The European Court of Justice (ECJ) delivered its judgement on 28 June 2007 regarding the JP Morgan Claverhouse Investment Trust/Association of Investment Companies (Claverhouse) case. In this case Claverhouse 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. In the judgement the ECJ has restricted the discretion of Member States to limit the scope of fund management exemption. While this judgement is in favour of Claverhouse, the Group is currently waiting for the decision from the UK VAT tribunal and/or for HM Revenue and Customs' (HMRC) comment on the judgement, prior to removing VAT from investment trust management fees.

If this case were successful, a number of Group companies, in common with other 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 Companies (The AIC) (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. Under current VAT law, companies in the Group can submit repayment claims to HMRC, but only dating back as far as 2001, being the maximum time period permitted. However, separate legal proceedings have challenged the validity of how the 'capping rules' introduced by HMRC in 1997 are applied. If this case is successful AND it is held that VAT should not be charged on investment trust management fees, then the Group may be eligible to reclaim VAT from HMRC in respect of the period between 1990 and 1996, which would be used to partially fund the repayment back to investment trusts. The Group has received protective claims from a number of its investment trust clients and has lodged protective claims with HMRC. Until comment is received from HMRC and/or the UK VAT tribunal decision is known, the Directors are not able to confirm that investment trust management fees will become exempt. In addition, until there is an indication of the quantum of claims received and the extent to which such claims could be mitigated, the Directors are not able to reliably estimate the potential liability.

8. Contingencies (cont'd)

Contingent assets:

(a) 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 outsourced arrangements, certain services provided to the Group are now exempt and the Group may recover VAT erroneously paid in respect of previous periods. This VAT was previously treated as irrecoverable from the Group's perspective. On 1 October 2006 the changes arising from this court case were implemented for subsequent services. The Group is currently working with suppliers to establish the potential quantum of historic output VAT which may be recovered by the Group, as it is linked to the extent of protective claims submitted by our suppliers.

The Directors are not able to reliably estimate any financial benefit arising until they know the extent of cash receivable from suppliers, the extent to which some of this may be repayable to clients' funds which bore the original cost, and the extent of any sums repayable to HMRC, as these were originally the subject of "partial exemption" rules and hence the Group may have already received some of the input VAT.

(b) Compensation from Eureko B.V. – defined pension deficit

Under the terms of the Sale and Purchase Agreement relating to the Merger in 2004, the Group has contractual protection such that it will be reimbursed for the quantum of the pension deficit (at the date of the Merger) in respect of overseas defined benefit pension arrangements. The execution of this contractual arrangement is ongoing although it is not yet possible to reliably estimate any amount receivable by the Group.

9. 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 2006, 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 2007 which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Recognised Income and Expense, Condensed Consolidated Cash Flow Statement, Accounting Policies, and the related notes 1 to 8. 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 the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

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 financial statements 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 UK. 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 2007.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Edinburgh
3 August 2007

Corporate Information

Directors

Robert Jenkins, Chairman‡
Keith Bedell-Pearce, Senior Independent Non-executive†*
Alain Grisay, Chief Executive
Dick de Beus, Non-executive‡
John Heywood, Non-executive*†
Brian Larcombe, Non-executive*†‡
David Logan, Chief Financial Officer
Nick MacAndrew, Non-executive†
Jeff Medlock, Non-executive
Philip Moore, Non-executive‡
Gerhard Roggemann, Non-executive
James Smart, Non-executive

* Member of Remuneration Committee
† Member of Audit & Compliance Committee
‡ Member of Nomination Committee

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