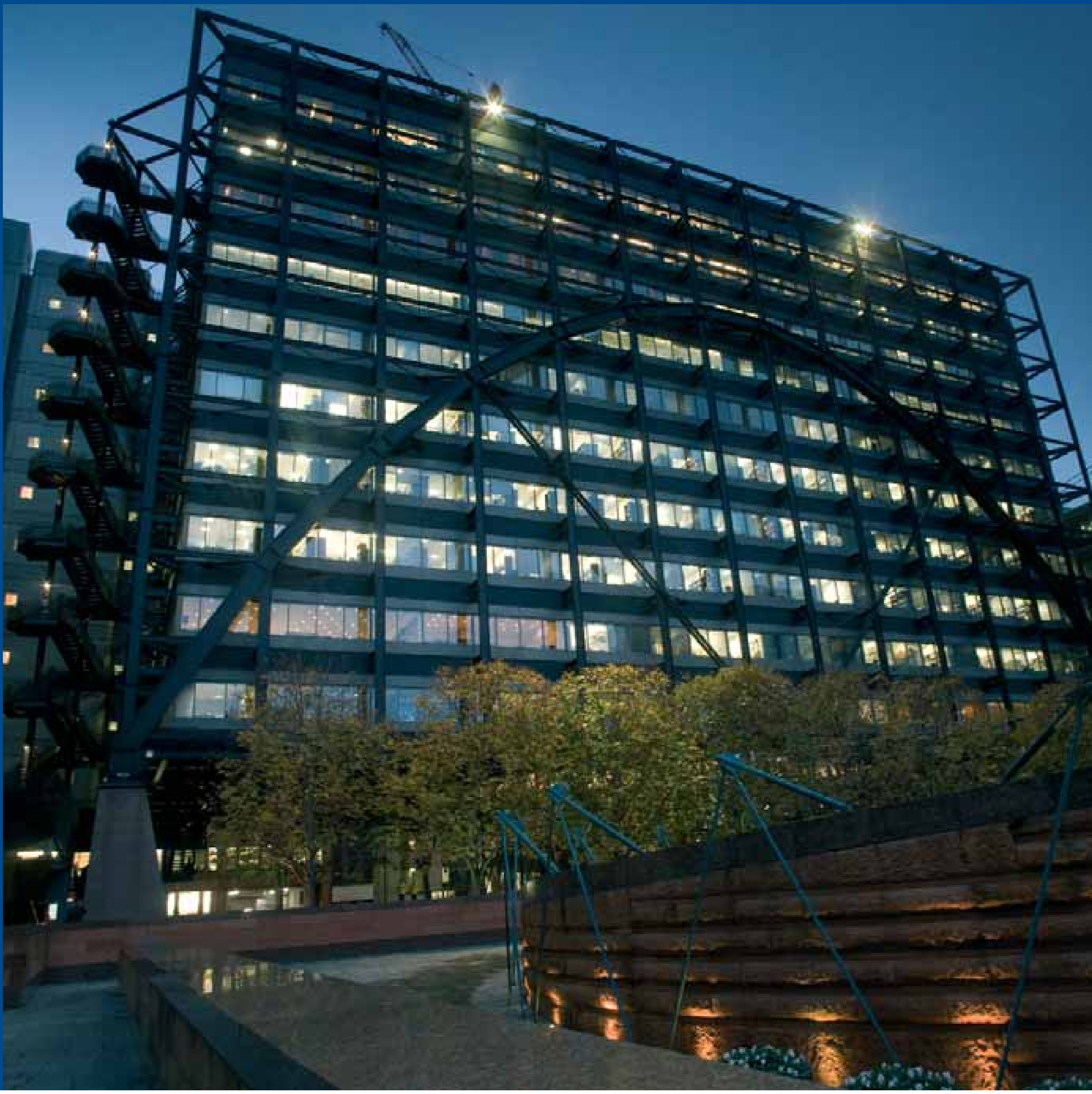
F&C Asset Management plc

Interim Report & Financial Statements 2008



F&C Investments

Expect excellence

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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

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 and Business Summary

for the six months ended 30 June 2008

Business Highlights

- Resilient financial performance with underlying earnings per share of 4.2 pence in-line with the first six months of 2007
- Average net fee rate increased to 23.3 bps (FY 2007: 22.5 bps)
- £12 million of annualised cost savings identified from 2008 budget with full-effect for 2009
- Positive net flows in International Wholesale and UK Retail
- £750 million pipeline of new institutional business despite impact of corporate uncertainty
- Distribution extended to Asia, Canada, Chile, Italy, Spain and Russia
- Proposed merger of F&C Property and REIT to create a leading international property asset manager

Financial Summary

	6 months ended 30 June 2008	6 months ended 30 June 2007	Year ended 31 December 2007
Net revenue	**£117.9m**	£119.2m	£264.5m
Profit before tax	**£3.4m**	£7.9m	£25.9m
Underlying profit before tax *†	**£27.8m**	£32.0m	£77.3m
Operating profit *	**£30.0m**	£36.3m	£81.8m
Operating margin #	**25.4%**	30.5%	30.9%
Basic earnings per ordinary share	**0.6p**	1.5p	3.5p
Underlying earnings per ordinary share *†	**4.2p**	4.2p	10.4p
Interim dividend	**2.0p**	2.0p	2.0p
Final dividend	**—**	—	4.0p
Total dividends per ordinary share	**2.0p**	2.0p	6.0p
Assets under management	**£96.5bn**	£101.3bn	£103.6bn

* Before amortisation of intangibles, exceptional employment costs, Investment Trust VAT expense and the cost of the Re-Investment Plan.
† Excluding minority interest.
# Operating profit expressed as a percentage of net revenue.

Chief Executive’s **Report**

The first half of 2008 saw the toughest market conditions in recent history as the impact of the credit crisis spread through the financial system. Markets have been dogged by fears of recession, a stream of write-downs and re-capitalisations in the banking sector and concerns over rising inflation levels. All of these factors have driven both equities and bonds lower.

Alongside this weak market environment, on 31 January Friends Provident, our 52 per cent shareholder, announced that wealth management was no longer core to its revised strategy and that it would seek to divest its interest in F&C. The uncertainty resulting from this process has constrained our ability to gather new assets.

Against this challenging back drop our strategy of seeking a diversified business by asset class, client type and geographic spread has resulted in a resilient financial performance for the six months to 30 June 2008. Investment management revenues have been stable at similar levels to the first six months of 2007 and underlying earnings per share of 4.2 pence were identical to the same period last year. Consequently the Board has announced an unchanged interim dividend of 2.0 pence per share.

During the first six months of 2008 we implemented the second phase of our three-year growth plan, seeking to build on the investments made in 2007 in new products, investment personnel and systems enhancements through a number of distribution initiatives. These are discussed below. Meanwhile overall investment performance has been satisfactory for the first half of the year.

Consistent with our stated objectives in the three-year plan to seek bolt-on opportunities to improve our high fee suite of products, on 22 July your Board announced an agreement to combine our property asset management operations in the UK and Ireland with REIT, a property asset manager with an international portfolio valued at £3.5 billion. The combined business will be branded F&C REIT Asset Management and will be 70 per cent owned by F&C on completion.

While we continue to invest in our business in areas where we believe that new revenues will be generated within a reasonable timescale, market conditions have deteriorated significantly since the launch of our three-year plan. We have therefore sought to manage costs prudently to ensure that we both maximise the opportunities arising from the investments made in 2007 and adjust our cost base to reflect the weaker business environment. Headcount has reduced by over 40 since year end as some of the efficiencies from last year’s infrastructure projects come through. Furthermore we have initiated actions to achieve some £12 million of annualised cost savings, compared with our 2008 budget, for which a full-year benefit is expected in 2009.

Assets under management and business flows

Assets under management at 30 June 2008 were £96.5 billion compared to £103.6 billion at 31 December 2007. This 7 per cent decline reflects a combination of reductions in market levels as well as net outflows, concentrated in lower fee margin client categories.

We saw the strongest growth in our international wholesale business, indicating early signs of progress in our distribution initiatives and a particularly successful campaign in Germany with Hypo Vereinsbank around our co-branded *Stiftungsfonds* product. Momentum is building in this area with inflows during the second quarter 63 per cent higher than those achieved in the first quarter. Gross sales for the half year were £481 million, some 139 per cent higher than full year gross sales during 2007, and net sales during the first six months of 2008 were £274 million.

We also saw positive net sales in our UK retail business despite deteriorating investor sentiment during the period under review. Gross sales were £289 million during the first six months of 2008, down 15 per cent from the record levels achieved in the same period last year. Net sales of £86 million were down 58 per cent year on year but compared favourably to the industry which overall saw a 62 per cent fall in net retail sales according to IMA data. We have continued to gain UK retail market share.

In the institutional arena we generated £723 million of new business though overall we had net outflows of £1.9 billion during the first six months. However, as at 30 June we had a pipeline in excess of £750 million of new institutional business, which we expect to be funded over the remainder of this year. This pipeline includes new institutional mandates in the US and our first ever Canadian mandate. Whilst we are not aware of any client losses specifically as a result of the corporate uncertainty, there is little doubt that it is impacting on our ability to gather new assets in the UK as a number of consultant ‘buy’ ratings have been put ‘on hold’, despite the underlying products gathering consultant endorsements.

Net outflows for insurance clients were £1.7 billion over the six months to end June, some 39 per cent lower than the net outflows in first half of 2007. Sub-advisory net outflows of £663 million in the first half reflected the continued switch out of money market mutual funds in Portugal into banking products. Both of these client categories are at the lower end of our fee range.

Finally, in the investment trust business a small overall net outflow principally represents share buyback activity by individual trusts. One new trust, F&C Managed Portfolio Trust plc, was successfully launched during the period.

Financial results

Revenues

Investment management fees for the six months to 30 June 2008, at £125.0 million were almost identical to those in the same period in 2007, despite the decline in assets under management. The average fee rate has risen from 22.5 basis points for the full year ended 31 December 2007 to 23.3 basis points for H1 2008, reflecting the improving fee profile of new business wins and the lower fee nature of the asset outflows.

Expenses

Underlying operating expenses for the six months to 30 June 2008 were £88.9 million, which is some £5.2 million higher than the first half of 2007, reflecting the increased run-rate from some of the investments made last year, albeit less than the overall run-rate for 2007. As previously stated, action has been taken to identify some £12 million of annualised savings from the original 2008 budget and headcount has reduced by over 40. A £2.1 million exceptional employment expense was incurred to realise these cost savings.

Amortisation and impairment of intangible assets

During H1 2008, 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.

Underlying earnings and operating margin

Underlying earnings per share for the six months to 30 June 2008 amount to 4.2 pence, in-line with the same period last year. The operating margin for the six months to 30 June 2008 was 25 per cent reflecting both the increased expense run-rate resulting from investments made during the course of 2007 and the fact that any performance fees tend to crystallise in the second half of the year.

Dividend

The Board has declared an interim dividend of 2.0 pence per share, which will be payable on 17 October 2008, to shareholders on the register as at 12 September 2008.

Business developments

Having invested in the business during 2007 and upgraded our product suite, the focus of 2008 has been to enhance our distribution network both through strengthening our presence in existing countries and entry into new territories.

We have therefore added to distribution and business development teams in some of our existing territories and have opened an office in Hong Kong as a first step toward building a distribution presence in Asia. We see attractive opportunities for asset gathering from Sovereign Wealth Funds, central banks, pension schemes and wholesale relationships in Asia and have recruited an experienced locally based investment professional to develop this business.

Additionally, we have also made progress in establishing a presence in Chile, one of Latin America's most developed financial services markets, where we have appointed IM Trust as our local representative. A number of our funds have now been approved by the regulatory authorities for distribution to Chilean pension schemes.

In Europe we have registered our funds for distribution in Spain and begun a targeted marketing campaign, initially focused on multi-managers and discretionary fund buyers, which seeks to leverage off our newly established presence on the Allfunds Bank platform. We have also initiated relations with banks in Italy and Russia as a route for establishing a presence in those markets.

We have achieved successes with our shareholder engagement overlay product, reo® (responsible engagement overlay), winning our first ever reo® mandates in both Germany and Denmark. reo® is a fee based service which can be applied to externally managed portfolios and enables investors to engage with companies on Environmental, Social and Governance matters.

In the UK retail market much of our focus during the period under review has been to work with our strategic partners to grow our Lifestyle multi-manager fund range by assisting them in embedding this investment solution into their businesses. In particular, we have sought to broaden access to the funds across a range of major product platforms and during the first six months of the year the funds have been added to the Standard Life, Winterthur Life and Zurich product ranges. During the second half of the year we will continue to work with our Lifestyle distribution partners to migrate their existing client assets into these funds.

As we stated previously, our presence in the UK institutional market is being impacted by the corporate uncertainty where a number of consultants have placed 'buy' ratings on hold. Encouragingly, the business has a record number of consultant product ratings, particularly for our Liability Driven Investment capabilities and the F&C Diversified Growth Fund which we launched last year. The latter product recently won Product of the Year at the 2008 European Pensions Awards. We have therefore increased our level of activity with the consultant community and appointed a new Head of Global Consultants, so that we will be well positioned to accelerate our asset gathering once our ownership situation is resolved.

Alongside these organic growth initiatives, the proposed merger of our property business in the UK and Ireland with REIT is an exciting development that demonstrates our continued focus on developing new revenues. It will combine REIT's strong track record, entrepreneurial approach and geographic diversity with our own strong track record, fund management skills and distribution network. The combined entity, F&C REIT Asset Management, will manage in excess of £8.5 billion of property assets and extend our property investment capabilities beyond the UK and Ireland into Continental Europe and India. We believe

Chief Executive's Report

that this business combination, which is subject to shareholder and regulatory approval, will create significant opportunities to enhance our product range through, for example, the launch of an Indian property fund. The combination is underpinned by a five year commitment to attractive minimum base management fees of £14 million per annum by REIT's largest client and we expect the transaction to be earnings enhancing for the first full-year post-Completion. Further details of this transaction will be set out in a Circular to be sent to shareholders ahead of an Extraordinary General Meeting.

Summary

Despite the twin challenges of fragile global financial markets and a period of corporate uncertainty, we believe that the strategic direction set out last year of targeting new business in specialist and higher margin areas while maintaining a diversified business remains the right one. Having invested in the business in 2007, our focus is to ensure that shareholders see the return on those investments. The delivery of strong investment performance, the further development of our 'multi-specialist' business model and the focus on distribution therefore remain priorities.

With regard to our long-term ownership, we are continuing to work with our advisers to find a solution that will enable us to either continue with, or accelerate, our strategy at the same time as enabling Friends Provident to achieve its objective of maximising the value of its holding in F&C. We continue to make satisfactory progress.

Finally, while your Board considers that the market environment is likely to continue to be challenging through the remainder of the year, it firmly believes that once our ownership issues are resolved and markets begin to stabilise, your Company will be significantly better placed for growth as result of the actions taken since the launch of our three-year plan.

Alain L. Grisay

Alain Grisay

Chief Executive
5 August 2008

Assets Under Management

The tables below disclose Assets Under Management at 30 June 2008 and Fund flows for the six months to 30 June 2008.

1. Assets Under Management by Client Category

	30 June 2008 £bn	31 March 2008 £bn	31 December 2007 £bn
Insurance Funds	55.7	58.8	58.9
Institutional Funds	25.4	26.7	27.3
Sub-Advisory	5.6	6.2	6.5
Investment Trusts	5.9	6.0	6.6
UK Retail (Mutual Funds)	2.8	3.0	3.3
International Wholesale (Mutual Funds)	1.1	1.1	1.0
Total	**96.5**	**101.8**	**103.6**

	30 June 2008 €bn	31 March 2008 €bn	31 December 2007 €bn
Insurance Funds	70.4	73.6	80.2
Institutional Funds	32.1	33.6	37.1
Sub-Advisory	7.0	7.8	8.9
Investment Trusts	7.4	7.5	9.0
UK Retail (Mutual Funds)	3.6	3.8	4.5
International Wholesale (Mutual Funds)	1.4	1.3	1.3
Total	**121.9**	**127.6**	**141.0**

2. Assets Under Management by Asset Class

	30 June 2008 £bn	31 March 2008 £bn	31 December 2007 £bn
Fixed Interest	55.1	56.6	53.5
Equities	31.3	33.9	37.0
Property	5.2	5.3	5.3
Other Alternative Investments	1.6	2.0	1.9
Money Market	3.3	4.0	5.9
Total	**96.5**	**101.8**	**103.6**

	30 June 2008 €bn	31 March 2008 €bn	31 December 2007 €bn
Fixed Interest	69.6	70.9	72.9
Equities	39.6	42.5	50.3
Property	6.5	6.6	7.3
Other Alternative Investments	2.0	2.5	2.5
Money Market	4.2	5.1	8.0
Total	**121.9**	**127.6**	**141.0**

3. Fund Flows

a) Fund flows for the six months to 30 June 2008

	Inflows £m	Outflows £m	Net £m
Insurance Funds	N/A	N/A	(1,711)
Institutional	723	(2,604)	(1,881)
Sub-Advisory	195	(858)	(663)
Investment Trusts	43	(137)	(94)
UK Retail (Mutual Funds)	289	(203)	86
International Wholesale (Mutual Funds)	481	(207)	274
Total	**N/A**	**N/A**	**(3,989)**

b) Fund flows for the quarter to 31 March 2008

	Inflows £m	Outflows £m	Net £m
Insurance Funds	N/A	N/A	(328)
Institutional	388	(1,568)	(1,180)
Sub-Advisory	101	(484)	(383)
Investment Trusts	35	(80)	(45)
UK Retail (Mutual Funds)	168	(109)	59
International Wholesale (Mutual Funds)	298	(115)	183
Total	**N/A**	**N/A**	**(1,694)**

c) Fund flows for the quarter to 30 June 2008

	Inflows £m	Outflows £m	Net £m
Insurance Funds	N/A	N/A	(1,383)
Institutional	335	(1,036)	(701)
Sub-Advisory	94	(374)	(280)
Investment Trusts	8	(57)	(49)
UK Retail (Mutual Funds)	121	(94)	27
International Wholesale (Mutual Funds)	183	(92)	91
Total	**N/A**	**N/A**	**(2,295)**

Condensed Consolidated Income Statement

for the six months ended 30 June 2008

	Note	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Revenue				
Investment management fees	2	**125.0**	125.1	267.2
Other income	2	**0.2**	0.6	10.6
Total revenue	2	**125.2**	125.7	277.8
Fee and commission expenses	2	**(7.3)**	(6.5)	(13.3)
Net revenue	2	**117.9**	119.2	264.5
Net (losses)/gains and investment income on unit-linked assets		**(95.7)**	59.7	45.0
Movement in fair value of unit-linked liabilities		**96.7**	(58.9)	(43.9)
Operating expenses				
Operating expenses		**(88.9)**	(83.7)	(183.8)
Amortisation of intangible assets – management contracts		**(22.5)**	(21.1)	(42.4)
Exceptional employment costs	3	**(2.1)**	–	–
Investment Trust VAT expense	3	**(0.1)**	–	(4.2)
Re-Investment Plan costs	3	**–**	(3.5)	(6.4)
Total operating expenses		**(113.6)**	(108.3)	(236.8)
Operating profit		**5.3**	11.7	28.8
Finance revenue		**12.3**	9.0	23.8
Finance costs		**(14.2)**	(13.6)	(27.3)
Share of profit of associates		**–**	0.8	0.6
Profit before tax		**3.4**	7.9	25.9
Tax – Policyholders		**(0.7)**	(0.6)	(0.6)
Tax – Shareholders		**0.6**	0.4	(6.6)
Tax expense	4	**(0.1)**	(0.2)	(7.2)
Profit for the period		**3.3**	7.7	18.7
Attributable to:				
Equity holders of the parent		**3.0**	7.2	17.1
Minority interests		**0.3**	0.5	1.6
Profit for the period		**3.3**	7.7	18.7
Basic earnings per share	5	**0.61p**	1.51p	3.54p
Diluted earnings per share	5	**0.60p**	1.47p	3.43p
		£m	£m	£m
Memo – dividends paid	6	**19.7**	33.8	43.5
– dividends proposed	6	**9.9**	9.7	19.7

Condensed Consolidated Balance Sheet

as at 30 June 2008

	Note	30 June 2008 £m	30 June 2007 £m	31 December 2007 £m
Assets				
Non-current assets				
Property, plant and equipment		10.6	12.0	11.4
Intangible assets:				
– Goodwill	7	569.9	569.9	569.9
– Management contracts	7	240.9	264.6	253.7
– Other intangible assets	7	1.5	1.2	1.1
	7	812.3	835.7	824.7
Financial investments		3.1	2.1	3.8
Other receivables		0.3	2.5	0.8
Investment in associates		–	2.1	–
Deferred acquisition costs		8.5	7.4	8.1
Deferred tax assets		31.1	29.3	29.0
Total non-current assets		865.9	891.1	877.8
Current assets				
Financial investments		934.9	1,143.5	1,042.8
Reinsurance assets		2.3	2.2	2.3
Stock of units and shares		0.8	0.8	0.8
Trade and other receivables		121.0	101.4	96.7
Deferred acquisition costs		3.4	3.5	3.8
Cash and cash equivalents:				
– Shareholders		210.1	182.9	216.2
– Policyholders		66.3	35.6	58.2
		276.4	218.5	274.4
Total current assets		1,338.8	1,469.9	1,420.8
Non-current assets held for sale	8	14.7	–	–
Total assets		2,219.4	2,361.0	2,298.6
Liabilities				
Non-current liabilities				
Interest bearing loans and borrowings		258.9	258.6	258.7
Other payables		10.9	7.5	7.2
Employee benefits		2.9	2.2	2.0
Provisions		8.6	9.0	10.2
Pension deficit	9	31.3	24.5	26.8
Deferred income		12.2	13.2	12.1
Deferred tax liabilities		70.4	76.7	73.4
Total non-current liabilities		395.2	391.7	390.4
Current liabilities				
Investment contract liabilities		982.9	1,171.9	1,090.1
Insurance contract liabilities		2.3	2.2	2.3
Other financial liabilities		0.5	–	–
Trade and other payables		108.2	78.3	58.9
Provisions		9.8	8.8	10.1
Employee benefits		17.6	19.3	33.7
Deferred income		4.5	4.5	4.3
Current tax payable		9.6	9.9	15.3
Total current liabilities		1,135.4	1,294.9	1,214.7
Total liabilities		1,530.6	1,686.6	1,605.1
Equity attributable to equity holders of the parent				
Share capital	11	0.5	0.5	0.5
Share premium account		33.8	33.5	33.8
Merger reserve		490.7	506.1	499.3
Other reserves		24.8	(1.8)	13.6
Retained earnings		138.4	135.9	145.2
Total equity attributable to equity holders of the parent		688.2	674.2	692.4
Minority interests		0.6	0.2	1.1
Total equity	12	688.8	674.4	693.5
Total liabilities and equity		2,219.4	2,361.0	2,298.6

The interim financial statements were approved by the Board of Directors and authorised for issue on 5 August 2008.

Condensed Consolidated Statement of Recognised Income and Expense

for the six months ended 30 June 2008

	Note	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Profit for the period		**3.3**	7.7	18.7
Foreign exchange movements on translation of foreign operations		**12.0**	1.0	14.9
Actuarial (losses)/gains on defined benefit pension schemes		**(6.3)**	13.1	11.1
Gain on available for sale financial investments		**–**	–	1.9
Fair value gains on available for sale financial investments transferred to the Income Statement		**(1.1)**	–	–
Tax credit/(charge) on items taken directly to equity	4	**2.1**	(4.5)	(4.5)
Net income recognised directly in equity		**6.7**	9.6	23.4
Total recognised income and expense for the period		**10.0**	17.3	42.1
Attributable to:				
Equity holders of the parent		**9.7**	16.8	40.5
Minority interests		**0.3**	0.5	1.6
		10.0	17.3	42.1

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2008

	Note	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Cash flows from operating activities				
Operating profit		5.3	11.7	28.8
Cash outflow relating to restructuring costs		(0.6)	(2.6)	(2.9)
Adjustments for non-cash items	13	30.7	31.6	59.9
Changes in working capital and provisions	13	5.5	(37.5)	(0.8)
Cash inflows from operating activities*		40.9	3.2	85.0
Income tax paid		(11.9)	(12.7)	(21.3)
Net cash inflow/(outflow) from operating activities		29.0	(9.5)	63.7
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		0.2	–	–
Acquisition of property, plant and equipment		(2.0)	(1.1)	(2.2)
Purchase of intangibles – software		(1.0)	(0.5)	(0.8)
Return of capital from investments		–	–	0.1
Distributions received from associates		–	–	1.9
Loan repayment from ISIS EP LLP		0.5	–	1.0
Expenses of acquisition of F&C Group (Holdings) Limited		–	–	(0.1)
Payments to acquire investments		(18.4)	(2.0)	(2.0)
Investment income from investing activities		7.7	5.1	14.4
Net cash (outflow)/inflow from investing activities		(13.0)	1.5	12.3
Cash flows from financing activities				
Proceeds from issue of share capital		–	0.9	1.2
Repayment of loans from Friends Provident Group		–	(5.0)	(5.0)
Payments in respect of expenses for long-term borrowings		–	(0.3)	(0.3)
Interest paid		(0.1)	(0.3)	(17.9)
Equity dividends paid		(19.7)	(33.8)	(43.5)
Interest on Preference Shares		–	–	(0.1)
Cash movement from dealing in own shares		0.1	(1.9)	(2.2)
Distributions to minority interests		(0.9)	(0.7)	(0.9)
Net cash outflow from financing activities		(20.6)	(41.1)	(68.7)
Net (decrease)/increase in cash and cash equivalents		(4.6)	(49.1)	7.3
Effect of exchange rate fluctuations on cash held		6.6	–	(0.5)
Cash and cash equivalents at 1 January		274.4	267.6	267.6
Cash and cash equivalents at 30 June (31 December)		276.4	218.5	274.4
Cash and cash equivalents				
Shareholders		210.1	182.9	216.2
Policyholders		66.3	35.6	58.2
		276.4	218.5	274.4

* 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 statement of compliance

This condensed set of interim consolidated financial statements ("interim financial statements") has been prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34: Interim Financial Reporting, as adopted by the EU and the Disclosure and Transparency Rules issued by the Financial Services Authority.

Section 240 Statement

The comparative figures for the year ended 31 December 2007 included in these condensed interim financial statements do not constitute the company's statutory financial statements for that financial year within the meaning of section 240 of the Companies Act 1985 but are derived from the 2007 annual report & financial statements. Those financial statements, which were prepared in accordance with IFRS and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the EU were approved by the Board of Directors on 20 March 2008 and have been delivered to the Registrar of Companies. Those financial statements have been reported on by the company's auditors, their report is unqualified and does not contain statements under Section 237(2) or (3) of the Companies Act 1985.

Significant accounting policies

The interim financial statements for the six months ended 30 June 2008 have been prepared in accordance with accounting policies that the Directors anticipate will be applied in the annual financial statements for the year ending 31 December 2008.

The accounting policies adopted in the preparation of the interim 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 2007, with the addition of the new policy adopted in 2008, as described below:

Non-current assets held for sale

Non-current assets acquired with the intention to subsequently dispose of them through sale are classified as "held for sale" and measured at the lower of their carrying amount and fair value less costs to sell.

Assets are only considered to be classified as held for sale if:

(a) the carrying amount will be recovered through a sale transaction rather than through continuing use;
(b) management is committed to the sale within one year of acquisition;
(c) the asset is available for immediate sale in its present condition;
(d) the asset is marketed for sale at a price that is reasonable in relation to its current fair value.

Upon sale, post-tax gains or losses on such assets are recognised in the Income Statement as investment income.

Financial statements

The preparation of the interim financial statements requires management to make estimates and assumptions in respect of the reported revenues and expenses, assets and liabilities and disclosure of contingencies at the date of the interim financial statements. Although these estimates and assumptions are based on management's best judgement at the date of the interim financial statements, actual results may differ from these estimates.

The interim 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 for the year ended 31 December 2007.

The 2007 annual report and financial statements are available on the Company's website (www.fandc.com) or from its registered office.

Certain figures reported in the 2007 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 2007, the Group's latest set of audited annual results prepared in accordance with IFRS adopted by the EU. These changes are presentational in nature and do not change the previously reported financial results for the six months to 30 June 2007 nor the aggregate assets and liabilities at that date.

Notes to the Interim Financial Statements

1. Segment reporting

The Group operates as a single asset management business, which does not comprise different business segments, and the Board views the business as a whole as the primary reportable entity.

The Group has provided segment information on a geographical basis by location of assets, and in the absence of business segments, has disclosed the geographical segments in the primary reporting format.

1. Segment reporting (cont'd)

(a) Geographical segments – by location of assets

	The United Kingdom			The Netherlands			Portugal			The Republic of Ireland			Other			Eliminations			Consolidated		
	30 June 2008 £m	30 June 2007 £m	31 December 2007 £m	30 June 2008 £m	30 June 2007 £m	31 December 2007 £m	30 June 2008 £m	30 June 2007 £m	31 December 2007 £m	30 June 2008 £m	30 June 2007 £m	31 December 2007 £m	30 June 2008 £m	30 June 2007 £m	31 December 2007 £m	30 June 2008 £m	30 June 2007 £m	31 December 2007 £m	30 June 2008 £m	30 June 2007 £m	31 December 2007 £m
Revenue																					
External clients	**84.7**	90.4	202.8	**26.7**	25.7	54.1	**9.5**	5.7	12.3	**1.8**	1.8	4.2	**2.5**	2.1	4.4	**–**	–	–	**125.2**	125.7	277.8
Inter-segment sales	**9.8**	11.3	15.0	**–**	–	–	**–**	–	–	**–**	0.2	0.3	**–**	–	–	**(9.8)**	(11.5)	(15.3)	**–**	–	–
Segment revenue	**94.5**	101.7	217.8	**26.7**	25.7	54.1	**9.5**	5.7	12.3	**1.8**	2.0	4.5	**2.5**	2.1	4.4	**(9.8)**	(11.5)	(15.3)	**125.2**	125.7	277.8
Segment result	**(5.6)**	3.8	1.4	**4.4**	3.4	17.4	**4.5**	2.2	5.2	**0.1**	0.7	1.4	**1.9**	1.6	3.4	**–**	–	–	**5.3**	11.7	28.8
Operating profit																			**5.3**	11.7	28.8
Finance revenue																			**12.3**	9.0	23.8
Finance costs																			**(14.2)**	(13.6)	(27.3)
Share of profit of associates	**–**	0.8	0.6	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**–**	0.8	0.6
Tax expense																			**(0.1)**	(0.2)	(7.2)
Profit for the period																			**3.3**	7.7	18.7
Other information																					
Segment assets	**1,392.7**	1,569.7	1,520.2	**135.9**	135.6	145.3	**53.0**	38.9	41.8	**10.3**	10.1	11.1	**11.0**	10.1	8.0	**(9.9)**	(13.3)	(35.6)	**1,593.0**	1,751.1	1,690.8
Investment in associates	**–**	2.1	–	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**–**	2.1	–
Unallocated corporate assets																			**626.4**	607.8	607.8
Consolidated total assets																			**2,219.4**	2,361.0	2,298.6
Segment liabilities	**(1,182.8)**	(1,333.1)	(1,258.0)	**(14.6)**	(18.9)	(31.1)	**(1.8)**	(2.1)	(1.4)	**(2.5)**	(0.7)	(2.7)	**–**	–	–	**9.9**	13.3	35.6	**(1,191.8)**	(1,341.5)	(1,257.6)
Unallocated corporate liabilities																			**(338.8)**	(345.1)	(347.5)
Consolidated total liabilities																			**(1,530.6)**	(1,686.6)	(1,605.1)
Capital expenditure	**1.5**	1.0	2.8	**–**	–	0.1	**0.1**	–	–	**–**	–	0.1	**–**	–	–	**–**	–	–	**1.6**	1.0	3.0
Depreciation and amortisation	**(14.8)**	(14.6)	(29.9)	**(6.5)**	(6.0)	(12.2)	**(2.3)**	(1.4)	(2.8)	**(0.4)**	(0.4)	(1.0)	**(0.6)**	(0.4)	(1.0)	**–**	–	–	**(24.6)**	(22.8)	(46.9)
Other non–cash expenses	**(3.4)**	(8.6)	(12.8)	**(0.6)**	(0.4)	(0.7)	**(0.3)**	(0.1)	(0.5)	**(0.1)**	–	(0.2)	**–**	–	–	**–**	–	–	**(4.4)**	(9.1)	(14.2)

1. Segment reporting (cont'd)

(b) Revenue by location of clients

	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
The United Kingdom	**56.9**	66.2	145.8
The Netherlands	**29.9**	28.3	61.3
Portugal	**14.7**	11.8	24.2
The Republic of Ireland	**6.3**	7.3	19.9
Other	**17.4**	12.1	26.6
Total revenue	**125.2**	125.7	277.8

2. Net revenue

	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Investment management fees	**122.8**	123.5	246.4
Performance related management fees*	**2.2**	1.6	20.8
Investment management fees	**125.0**	125.1	267.2
Other income#	**0.2**	0.6	10.6
Total revenue	**125.2**	125.7	277.8
Renewal commission on open-ended investment products	**(4.9)**	(3.9)	(8.4)
Other selling expenses	**(2.4)**	(2.6)	(4.9)
Fee and commission expenses	**(7.3)**	(6.5)	(13.3)
Total net revenue	**117.9**	119.2	264.5

* The majority of the Group's performance fee arrangements are on a calendar year basis. In accordance with the Group's accounting policy the majority of these performance fees have generally been recognised in the second half of the financial year.

Other income for the year ended 31 December 2007 includes:

- £2.4m receipt from Eureko B.V. in settlement of the historic pension liabilities arising on non-UK defined benefit schemes acquired as part of the merger in 2004;
- £2.4m of other income received from Friends Provident as reimbursement of costs associated with the potential acquisition of Resolution Asset Management; and
- £5.2m income arising as a result of the termination of outsourced investment operations, including the release of deferred income.

Notes to the Interim Financial Statements

3. Exceptional costs

The Group has classified the following items as exceptional operating expenses:

	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Exceptional employment costs	2.1	–	–
Investment Trust VAT expense	0.1	–	4.2
Re-Investment Plan costs	–	3.5	6.4
	2.2	3.5	10.6

As a result of the challenging and volatile market conditions, management has identified and initiated actions to achieve some £12.0 million of annualised cost savings, compared with the original Group budget for 2008, established in 2007. The full annualised benefit of the savings is expected to be realised in 2009. Management has sought to avoid undertaking any initiative which would impede the significant distribution activity which is the key focus for business growth.

The Directors consider the one-off costs of achieving these savings to be exceptional in nature and have therefore excluded the £2.1 million of employment costs incurred to achieve cost savings from the measurement of underlying earnings. It is anticipated that the final tranche of costs of up to £1.0 million to achieve the targeted cost savings will be incurred in 2H 2008.

4. Income taxes

The major components of tax expense for each period are:

Consolidated Income Statement

	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Current income tax:			
Current income tax expense	8.6	9.6	22.3
Adjustments in respect of previous periods	(2.7)	0.1	0.3
Deferred income tax:			
Relating to origination and reversal of temporary differences	(5.7)	(5.9)	(10.1)
Adjustment in respect of Corporation Tax rate change	(0.1)	(3.5)	(4.0)
Adjustments in respect of previous periods	–	(0.1)	(1.3)
Tax expense reported in the Consolidated Income Statement	0.1	0.2	7.2

Consolidated Statement of Changes in Equity

	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Deferred and current income tax credited/(charged) relating to items taken directly to equity	2.1	(4.5)	(4.5)

Effective rate of tax

The tax expense for the six month period ended 30 June 2008 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 prior year adjustment of £2.7 million and an adjustment of £0.1 million to reflect the change in the corporate tax rate, brings the total tax expense to £0.1 million for the period to 30 June 2008.

The Finance Bill 2007 changed the corporation tax rate from 30% to 28% with effect from 31 March 2008. As a result, the UK effective tax rate for the year to 31 December is 28.5%. The income statement for the six months to 30 June 2008 includes a credit of £0.1 million, being a further adjustment to the Group's deferred tax balances to reflect the rate at which timing differences are expected to reverse.

5. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit 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 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 earnings" before amortisation of intangibles, exceptional employment costs, Investment Trust VAT expense and cost of the Re-Investment Plan more accurately reflects the earnings performance of the Group for each period.

Reconciliation of earnings per share

	6 months ended 30 June 2008 Basic p	6 months ended 30 June 2008 Diluted p	6 months ended 30 June 2007 Basic p	6 months ended 30 June 2007 Diluted p	Year ended 31 December 2007 Basic p	Year ended 31 December 2007 Diluted p
Earnings per Ordinary Share	**0.61**	**0.60**	1.51	1.47	3.54	3.43
Investment Trust VAT expense, net of tax	**0.01**	**0.01**	–	–	0.60	0.58
Amortisation of intangibles, net of tax	**3.26**	**3.21**	2.10	2.04	5.25	5.07
Exceptional employment costs, net of tax	**0.30**	**0.30**	–	–	–	–
Cost of Re-Investment Plan, net of tax	**–**	**–**	0.59	0.58	0.98	0.95
Underlying earnings per share	**4.18**	**4.12**	4.20	4.09	10.37	10.03

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

Reconciliation of Earnings

	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Earnings attributable to ordinary equity holders of the parent for basic earnings per share	**3.0**	7.2	17.1
Investment Trust VAT expense, net of tax	**–**	–	2.9
Amortisation of intangibles, net of tax	**16.1**	10.1	25.4
Exceptional employment costs, net of tax	**1.5**	–	–
Cost of Re-Investment Plan, net of tax	**–**	2.9	4.8
Underlying earnings attributable to ordinary equity holders of the parent	**20.6**	20.2	50.2

Share capital

	6 months ended 30 June 2008 No.	6 months ended 30 June 2007 No.	Year ended 31 December 2007 No.
Weighted average number of Ordinary Shares (excluding own shares held by Employee Benefit Trusts) for basic earnings per share	**492,437,937**	482,295,034	484,192,096
Dilutive potential weighted average number of Ordinary Shares	**500,249,791**	494,939,505	500,812,646

Notes to the **Interim Financial Statements**

6. Dividends

	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Declared and paid during the period			
Equity dividends on Ordinary Shares:			
– Final dividend for 2007: 4.0p (2006: 7.0p)	**19.7**	33.8	33.8
– Interim dividend for 2007: 2.0p	**–**	–	9.7
	19.7	33.8	43.5
Proposed dividends as at 30 June (31 December)			
Equity dividends on Ordinary Shares:			
– Final dividend for 2007: 4.0p	**–**	–	19.7
– Interim dividend for 2008: 2.0p (2007: 2.0p)	**9.9**	9.7	–

The proposed interim dividend for 2008 is based on 2.0p per share and 492,856,480 Ordinary Shares being eligible for dividends as at 30 June 2008. This dividend was approved by the Board on 5 August 2008.

7. Goodwill and other intangible assets

	Goodwill £m	Management contracts £m	Software and licences £m	Total £m
Cost:				
At 1 July 2007	569.9	574.7	4.6	1,149.2
Additions	–	–	0.4	0.4
Disposals	–	–	(0.2)	(0.2)
Foreign exchange gains	–	10.4	0.1	10.5
At 31 December 2007	569.9	585.1	4.9	1,159.9
Additions	–	–	1.0	1.0
Foreign exchange gains	–	9.7	–	9.7
At 30 June 2008	**569.9**	**594.8**	**5.9**	**1,170.6**
Amortisation and impairment:				
At 1 July 2007	–	310.1	3.4	313.5
Amortisation charge for the period	–	21.3	0.5	21.8
Disposals	–	–	(0.1)	(0.1)
At 31 December 2007	–	331.4	3.8	335.2
Amortisation charge for the period	–	22.5	0.6	23.1
At 30 June 2008	**–**	**353.9**	**4.4**	**358.3**
Net book values:				
At 30 June 2007	569.9	264.6	1.2	835.7
At 31 December 2007	569.9	253.7	1.1	824.7
At 30 June 2008	**569.9**	**240.9**	**1.5**	**812.3**

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.

8. Non-current assets held for sale

The Group has injected seed capital into two new funds which it has launched in 2008 and currently holds in excess of 50 per cent of the beneficial and voting rights attached to the holdings. The Group technically controls the funds and therefore the funds are considered subsidiaries of the Group. As the Group is committed to dispose of its entire investment in the funds within a year of the original investment, the investments in these funds is classified as being "held for sale".

	30 June 2008 £m	30 June 2007 £m	31 December 2007 £m
Seed capital investments classified as non-current assets held for sale	**14.7**	–	–

The fair value of non-current assets held for sale at 30 June 2008 was £16.7m (30 June 2007 – £nil; 31 December 2007 – £nil).

9. Employee benefits – Pension scheme obligations

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

	30 June 2008 £m	30 June 2007 £m	31 December 2007 £m
Fair value of plan assets	**145.6**	141.9	150.6
Benefit obligations	**(176.9)**	(166.4)	(177.4)
Deficit in the schemes	**(31.3)**	(24.5)	(26.8)

The primary reason for the increase in the deficit is the fall in asset values over the period. The valuation of the UK liabilities at 30 June 2008 is based on a discount rate of 6.10% (31 December 2007: 5.60%) and an inflation rate of 3.70% (31 December 2007: 3.30%) reflecting the changes in market conditions in H1 2008.

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

	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Current service cost	**1.7**	1.5	4.1
Past service cost	**0.2**	–	0.5
Expected return on plan assets	**(4.5)**	(4.1)	(8.9)
Interest cost of benefit obligations	**4.9**	4.4	9.0
Total defined benefit pension expense recognised in the Consolidated Income Statement	**2.3**	1.8	4.7

Notes to the Interim Financial Statements

10. Employee benefits – Share-based payments

Summary of share-based payment expense:

	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Total share-based payment expense recognised in the Consolidated Income Statement	**6.9**	9.8	16.4

In accordance with the Group's accounting policy, a review has been performed in H1 2008 of the number of awards expected to vest and the estimated fair value of cash-settled awards.

The Group has made the following significant awards during the period ended 30 June 2008:

	Long Term Remuneration Plan (deferred shares)	Executive Directors' Remuneration Plan (deferred shares)
Grant date	25 March 2008	25 March 2008
Share price at issue date	£1.8525	£1.8525
Awards granted	10,142,964	1,025,640
Vesting date	25 March 2011	25 March 2011

Full details of these schemes are disclosed in the 2007 annual report and financial statements and the basis of measuring fair value is consistent with that disclosed therein.

11. Share capital

The Group has the following amounts recorded within shareholders' equity:

	30 June 2008 £m	30 June 2007 £m	31 December 2007 £m
Issued Ordinary Shares of 0.1p each	**0.5**	0.5	0.5

The number of Ordinary Shares in issue was as follows:

	30 June 2008 No.	30 June 2007 No.	31 December 2007 No.
Allotted, called up and fully paid Ordinary Shares of 0.1p each	**495,725,314**	485,339,767	495,705,530
Ordinary Shares held by Employee Benefit Trusts	**(3,250,186)**	(3,350,640)	(3,433,228)
Ordinary Shares available in the market	**492,475,128**	481,989,127	492,272,302

12. Condensed consolidated reconciliation of equity

	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Total equity – at 1 January	**693.5**	683.8	683.8
Items reported in the Consolidated Statement of Recognised Income and Expense	**10.0**	17.3	42.1
Ordinary dividends paid	**(19.7)**	(33.8)	(43.5)
Share-based payment charges credited to equity	**6.2**	8.8	13.0
Share capital allotted on exercise of options	**–**	0.9	1.2
Dealings in own shares	**(0.3)**	(1.8)	(2.2)
Distributions to minority interests	**(0.9)**	(0.8)	(0.9)
Total equity – at 30 June (31 December)	**688.8**	674.4	693.5
Attributable to:			
Equity holders of the parent	**688.2**	674.2	692.4
Minority interests	**0.6**	0.2	1.1
	688.8	674.4	693.5

13. Analysis of cash flow statement movements

	6 months ended 30 June 2008 £m	6 months ended 30 June 2007 £m	Year ended 31 December 2007 £m
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	**1.5**	1.4	3.7
Amortisation of intangible assets	**23.1**	21.4	43.2
Gain on disposal of property, plant and equipment	**(0.1)**	–	–
Equity-settled share-based payment expenses	**6.2**	8.8	13.0
	30.7	31.6	59.9
Changes in working capital and provisions:			
Increase in trade and other receivables	**(25.0)**	(12.9)	(9.0)
Increase in trade and other payables	**39.2**	10.7	3.0
Increase in stock of units and shares	**–**	(0.1)	(0.1)
Increase/(decrease) in other liabilities	**5.5**	(1.3)	(1.1)
(Decrease) in investment contract liabilities	**(107.2)**	(7.9)	(77.5)
(Decrease)/increase in employee benefit liabilities	**(15.2)**	(11.3)	2.9
Decrease/(increase) in deferred acquisition costs	**–**	0.3	(0.6)
Increase/(decrease) in deferred income	**0.3**	(0.3)	(1.5)
Pension charge to operating profit less defined benefit pension contributions paid	**(2.4)**	(8.0)	(7.9)
(Decrease)/increase in provisions for liabilities and charges	**(3.2)**	(0.8)	0.2
Decrease/(increase) in financial investments	**113.5**	(5.9)	90.8
	5.5	(37.5)	(0.8)

14. Related party transactions

In the ordinary course of business, the Group undertakes transactions with related parties, as defined by IAS 24 ‘Related Party Disclosures’. Material related party transactions for the period are set out below. There are no significant changes in the type or nature of related party transactions from those disclosed in the 2007 annual report and financial statements.

(i) Related party transactions with the Friends Provident Group (FP Group)

Friends Provident plc is the parent undertaking and ultimate controlling party of the F&C Group.

Companies within the F&C Group provide investment management services to companies in the FP Group and are entitled to receive management fees in line with the contractual terms of relevant investment management agreements.

Companies within the FP Group provide, under the Shared Services Agreement, services in respect of accounting and other professional services. Fees are paid monthly in arrears. The Shared Services Agreement is terminable on six months’ written notice by either party. The investment management agreements with the FP Group are terminable with twelve months’ notice, but revert to long-term contracts of between 5 and 10 years, from inception, if Friends Provident’s shareholding in the Company were to fall below 50%.

14. Related party transactions (cont'd)

	Total invoiced and accrued during the 6 months ended 30 June 2008 £m	Outstanding at 30 June 2008 £m	Total invoiced and accrued during the 6 months ended 30 June 2007 £m	Outstanding at 30 June 2007 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Management fees						
Management fees	**16.7**	**–**	17.5	0.2	35.8	2.5
Amounts outstanding at 30 June (31 December) are included within trade and other receivables.						
Shared services and administration services						
Shared service fees	**(0.1)**	**–**	(0.2)	–	(0.3)	–
Administration service fees	**(0.3)**	**(0.1)**	(0.5)	(0.1)	(0.7)	–
Amounts outstanding at 30 June are included within trade and other payables.						
Other recharges						
Other recharges to the FP Group	**0.1**	**–**	0.1	–	2.5	2.4
Other recharges from the FP Group	**(0.1)**	**–**	–	(0.8)	(0.3)	(0.9)
Other recharges includes charges made to or from the FP Group for premises, staff costs and other related expenditure. Amounts outstanding at 30 June (31 December) are included within trade and other receivables and payables.						
Dividends and interest payable						
Ordinary dividends	**(10.3)**	**–**	(17.8)	–	(22.8)	–
Dividends on Preference Shares	**–**	**–**	–	–	(0.1)	–
Loan interest	**–**	**–**	(0.1)	–	(0.1)	–
Other transactions#						
Reinsurance premiums	**(0.1)**	**–**	(0.1)	–	(0.1)	–
Reinsurance claims	**0.1**	**–**	0.1	–	0.1	–

The Group's insurance contracts are all annuity contracts and are 100% reinsured to Friends Provident Pensions Limited, a subsidiary undertaking of Friends Provident plc.

14. Related party transactions (cont'd)

OEICs and private equity SPVs

Where the FP Group controls an F&C managed OEIC or private equity special purpose vehicle, it is required to consolidate them and hence the investment management fees received by F&C are related party transactions.

	Total invoiced and accrued during the 6 months ended 30 June 2008 £m	Outstanding at 30 June 2008 £m	Total invoiced and accrued during the 6 months ended 30 June 2007 £m	Outstanding at 30 June 2007 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Investment management fees	5.2	0.8	5.5	1.0	10.7	0.9
Carried interest receipts	1.2	–	–	–	–	–

(ii) Related party transactions with Eureko B.V. and subsidiary companies (Eureko Group)

Since the acquisition of F&C Group (Holdings) Limited in 2004, the Eureko Group has held in excess of 10% of the Ordinary Shares of the Company and is entitled to Board representation. Consequently, transactions between the F&C Group and the Eureko Group are considered to be related party transactions.

Companies within the F&C Group provide investment management services to the Eureko Group. F&C Group has entitlement to receive management fees in line with the contracted terms of relevant investment management agreements. The Eureko Group investment management agreements referred to below are deemed significant. These agreements are subject to long term contracts terminable on 12 months' notice falling on or after the ninth anniversary of their commencement date (typically October 2004). In the event of a change of control whereby a third party acquires a controlling interest in F&C, whether directly or indirectly (as a result of a change of control occurring within Friends Provident), immediate termination is possible with compensation payable to F&C by the Eureko Group based on revenue streams.

Companies within the Eureko Group provide, under the Transitional Services Agreement, services in respect of investment accounting and other administration services.

	Total invoiced and accrued during the 6 months ended 30 June 2008 £m	Outstanding at 30 June 2008 £m	Total invoiced and accrued during the 6 months ended 30 June 2007 £m	Outstanding at 30 June 2007 £m	Total invoiced and accrued during 2007 £m	Outstanding at 31 December 2007 £m
Shared services and administrative services						
Eureko Group	(0.3)	–	(0.5)	–	(0.7)	–
Management fees						
Eureko Group	16.6	2.7	16.6	4.7	36.6	6.3
Amounts outstanding at 30 June (31 December) are included within trade and other receivables.						
Dividends payable to Eureko B.V.						
Ordinary dividends	(2.0)	–	(6.5)	–	(7.5)	–

Amounts owed from/to Eureko

In addition to the above, the Group was owed £4.4m at 30 June 2008 (31 December 2007: £6.5m; 30 June 2007: £4.8m) by Eureko B.V. and its subsidiaries. The Group owed Eureko B.V. £2.9m at 30 June 2008 (31 December 2007: £2.9m; 30 June 2007: £2.9m) in respect of estimated purchase consideration for the acquisition of F&C Group (Holdings) Limited on 11 October 2004.

The Group also owed Eureko B.V. £4.3m at 30 June 2008 (31 December 2007: £3.8m; 30 June 2007: £3.7m) in respect of taxation balances.

15. Contingent Liabilities

(a) Ordinary business activities

In the normal course of its business, the Group is subject to matters of litigation or dispute. While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Group.

(b) Friends Provident disinvestment

On 31 January 2008, Friends Provident plc, the Company's 52 per cent majority shareholder, announced the results of its strategic review. Among the conclusions announced by Friends Provident was that wealth management was no longer core to its strategy and as a result it may seek to divest of its shareholding in F&C. The F&C Board is working with Friends Provident to find a solution which will meet the needs of all parties.

The Directors do not believe this announcement has any material financial impact on the financial position of the Group at 30 June 2008, as reported herein. Whilst no certainty exists as to the potential outcome, it is possible that a course of action could trigger change of control clauses which exist within a number of the Group's contractual arrangements.

16. Post balance sheet events

Proposed business combination of F&C Asset Management's property business and REIT

On 22 July 2008 F&C announced that it had entered into agreement with the owners of REIT to combine F&C's property asset management operations in the UK and Ireland ("F&C Property") and REIT under a new brand, F&C REIT. REIT is a property asset manager which manages an international property portfolio with a value in excess of £3.5 billion, focused on commercial property investments in the UK and Europe. REIT comprises REIT Asset Management, which is owned by Leo Noé and Ivor Smith, and REIT Worldwide, which is owned by discretionary trusts established for the benefit in part of the families of Leo Noé and Ivor Smith (the "Trusts"). Summary details of the proposed transaction are as follows:

- F&C's current property asset management operations will be combined with REIT to form F&C REIT Asset Management LLP ("F&C REIT");
- F&C will pay to the owners of REIT consideration of £25 million cash and £35 million loan notes;
- F&C will be the majority owners of F&C REIT with a 70 per cent interest; and
- REIT owners will hold a 30 per cent ownership interest in the combined business. Subject to F&C REIT meeting certain earnings related performance targets for the combined business, the ownership interest of the REIT owners may increase up to 40 per cent over the period to 31 December 2014.

The completion of the transaction is subject to the satisfaction of, inter alia, the following conditions:

- Approval by F&C shareholders at an Extraordinary General Meeting, notice of which will be included in a Circular to be sent to F&C shareholders. Friends Provident, which owns 52.2 per cent of F&C, and Eureko, which owns 10.3 per cent of F&C, have given irrevocable commitments to vote in favour of the transaction;
- Regulatory approvals, including the approval of the Financial Services Authority; and
- Any necessary competition law notifications or clearances being made or obtained in Germany.

The Class 1 Circular and notice of meeting to approve the transaction is expected to be sent to shareholders by mid-August. The Extraordinary General Meeting is expected to be held in August with completion due in September 2008.

A copy of the full text of the press release announcing the details of this proposed business combination is available on the Company's website: www.fandc.com.

Key Risks

The identification of key business risks is carried out by the Board in conjunction with management. Quarterly reports are prepared by each area of the business covering all locations. The quarterly reports identify the key risks within each area of the business. These reports are discussed in detail by the Management Committee and all significant items, together with management actions to mitigate the risks, are reported to the Board on a regular basis.

In addition to the "normal risks" facing the business relating to market conditions, interest rates, foreign currency and personnel, the key risks to which the Group will be exposed in the second half of the financial year are substantially the same as those outlined in the 2007 annual report & financial statements.

Responsibility Statement of the directors in respect of the interim financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the Board

W Marrack Tonkin
Company Secretary
5 August 2008

Independent Review Report to
F&C Asset Management plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2008 which comprises the Condensed Income Statement, Condensed Balance Sheet, Condensed Statement of Recognised Income and Expense, Condensed Cash Flow Statement and the related explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). 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 financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the DTR of the UK FSA.

As disclosed in the Accounting Policies, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this interim financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants, Edinburgh
5 August 2008

Corporate Information

Directors

Robert Jenkins, Chairman‡

Keith Bedell-Pearce, Senior Independent Non-executive*†

Alain Grisay, Chief Executive

Dick de Beus, Non-executive‡

Brian Larcombe, Non-executive*†‡

David Logan, Chief Financial Officer

Nick MacAndrew, Non-executive†

Jeff Medlock, Non-executive

Sir Adrian Montague, 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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Corporate information

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Website

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

F&C Investments

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