

LAZARD FUND MANAGERS LIMITED
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2006
INCORPORATED IN ENGLAND & WALES
REGISTERED NUMBER: 1970853

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30/04/2007
COMPANIES HOUSE

LAZARD FUND MANAGERS LIMITED

BOARD OF DIRECTORS

M R Chapman
W J Smith
C W Wilson

REPORT OF THE DIRECTORS

The directors present their report and the financial statements for the year ended 31 December 2006

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company is a wholly-owned subsidiary of Lazard Asset Management Ltd and acts as authorised corporate director to Lazard Investment Funds and Lazard Portfolio Funds, both are open ended investment companies. There have not been any significant changes in the company's principal activities in the year under review and the company expects to continue to trade in this way for the foreseeable future.

At the end of the year there were eleven sub-funds of Lazard Investment Funds, one common investment fund under management, and under Lazard Portfolio Funds there were three new sub-funds, Lazard Global Listed Infrastructure, Lazard UK Diversified and Lazard Global Thematic.

Total assets under management grew through the year by £534,057,486 (31%) to £2,258,223,418 through new business growth as well as underlying market growth. By consequence revenues increased by £3,024,412 (26%) to £14,876,121 resulting in a pre-tax profit of £3,790,189 (2005 £896,667).

The profit for the year after taxation was £2,671,432 (2005 £896,667). No ordinary dividend has been declared (2005 £900,000). No final dividend is proposed (2005 £nil).

Principal risks and uncertainties faced by the company include the loss of clients and withdrawal of assets under management due to influences from general market conditions, product types and the performance of the company's strategies. In order to mitigate these risks, the Lazard Asset Management group exerts strong control and oversight over its strategies and funds through the Lazard Investment Council, a management committee comprised of the group's senior investment specialists. The company also calls on strong and experienced Marketing and Client Services departments to ensure clients are kept aware of market conditions and Lazard's relative performance through regular client meetings and reporting.

There have been no changes to the authorised and allotted share capital during the year.

The company is regulated by the Financial Services Authority.

FINANCIAL RISK MANAGEMENT

The Lazard Asset Management group take appropriate steps to minimise the impact of operational risks faced by the company through the operation of its Management Committee which oversees the company's risks and ensures that the company creates and implements processes to identify, measure and monitor those risks.

The company does not have any involvement in the use of financial instruments and the associated market risks of holding or trading in such instruments.

Credit risk is limited to amounts receivable through direct deduction of management fees from mutual funds by the Trustees.

LAZARD FUND MANAGERS LIMITED

REPORT OF THE DIRECTORS (Continued)

Liquidity risk is limited to cash and cash equivalents that are held in interest bearing current accounts or short-term deposits with major financial institutions. The company also assesses the adequacy of its liquidity on a constant basis through its obligations under the regulatory requirements of the Financial Services Authority.

DIRECTORS

The present directors, all of whom served throughout the year, are listed above.

DIRECTORS' INTERESTS

None of the directors had any interests in the shares of the company or any UK group company at any time during the year.

The Management Committee on an ongoing basis monitors the impact of foreign exchange and cash flow risk.

AUDITORS

Each of the directors at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and in accordance with Section 385 of the Companies Act 1985 a resolution will be proposed at the forthcoming Annual General Meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the profit or loss for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

LAZARD FUND MANAGERS LIMITED

REPORT OF THE DIRECTORS (Continued)

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'H Dunbar Jonson', with a stylized flourish at the end.

H Dunbar Jonson
Company Secretary

50 Stratton Street
London W1J 8LL

26 April 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LAZARD FUND MANAGERS LIMITED

We have audited the financial statements of Lazard Fund Managers Limited for the year ended 31 December 2006 which comprise the profit and loss account, balance sheet and the related notes 1 to 13. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report, and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

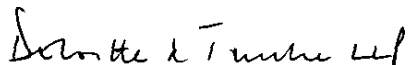
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT (Continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

26 April 2007

LAZARD FUND MANAGERS LIMITED

PROFIT AND LOSS ACCOUNT **FOR THE YEAR ENDED 31 DECEMBER 2006**

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
		£	£
Turnover	2	14,876,121	11,851,709
Administrative expenses	3	(11,337,373)	(11,132,510)
Operating profit		<hr/> 3,538,748	<hr/> 719,199
Interest receivable		248,070	174,522
Interest payable		(3,851)	(1,023)
Other income	4	7,222	3,969
Profit on Ordinary Activities before Taxation		<hr/> 3,790,189	<hr/> 896,667
Tax on profit on ordinary activities	5	(1,118,757)	-
Profit for the financial year	9, 10	<hr/> 2,671,432	<hr/> 896,667

No gains or losses have been recognised in these financial statements in the current or prior year other than those reflected in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented

A reconciliation of the movement in shareholders' funds is shown in note 10

All activities of the company are regarded as continuing

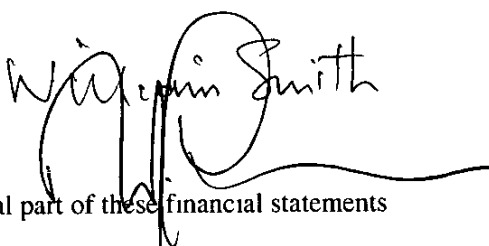
The notes on pages 8 to 11 form an integral part of these financial statements

LAZARD FUND MANAGERS LIMITED**BALANCE SHEET AT 31 DECEMBER 2006**

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
		£	£
Current Assets			
Investments	1d	33,390	26,302
Debtors	6	13,595,932	12,085,145
Cash at bank and in hand		8,827,704	5,141,235
		<hr/>	<hr/>
		22,457,026	17,252,682
Current liabilities			
Creditors due within one year	7	(16,932,978)	(14,400,066)
		<hr/>	<hr/>
Net current assets		5,524,048	2,852,616
		<hr/>	<hr/>
Net Assets		5,524,048	2,852,616
		<hr/>	<hr/>
Capital and Reserves			
Called up share capital	8	1,950,000	1,950,000
Profit and loss account	9	3,574,048	902,616
		<hr/>	<hr/>
Equity shareholders' funds	10	5,524,048	2,852,616
		<hr/>	<hr/>

The financial statements on pages 6 to 11 were approved by the Board of Directors on 26 April 2007 and were signed on its behalf by

)
) Directors
)



The notes on page 8 to 11 form an integral part of these financial statements

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2006**

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards

a) Basis of accounting

The financial statements have been prepared under the historical cost convention

b) Turnover

Turnover represents investment management fees receivable during the year and net income from transactions in units during the year as reflected in note 2 and is derived entirely from activities performed in the United Kingdom

c) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted

2 TURNOVER

	<u>2006</u> £	<u>2005</u> £
Transactions in units of the unit trusts under management		
Units sold	754,221,926	470,359,569
Units liquidated	340,473,314	266,014,049
	1,094,695,240	756,373,618
Costs of units sold and liquidated	(1,094,639,238)	(756,226,715)
Net income from transactions in units	56,002	146,903
Management fees	14,820,119	11,704,806
	14,876,121	11,851,709

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

3 ADMINISTRATIVE EXPENSES

- a) The company has no direct employees (2005 nil) The directors receive no emoluments in respect of their services as directors of the company (2005 £nil) The directors, and other staff involved in the company's operations, are employed by Lazard Asset Management Limited, are remunerated by that company and that remuneration is included in a management charge levied by that company
- b) Audit fees are charged to and paid by Lazard Asset Management Limited

4 OTHER INCOME

Other income in 2006 and 2005 related to trail commission from investments generated through the Cofunds platform

5 TAX ON PROFIT ON ORDINARY ACTIVITIES	<u>2006</u> £	<u>2005</u> £
Corporation tax		
Corporation tax charge for the year	1,066,400	-
Prior year charge	52,357	-
Total tax on profit on ordinary activities	<u>1,118,757</u>	<u>-</u>

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 30% (2005 30%) The current year tax charge for the year is less than 30% for the reasons set out in the following reconciliation

	<u>2006</u> £	<u>2005</u> £
Profit on ordinary activities before tax	<u>3,790,189</u>	<u>896,667</u>
Tax on profit on ordinary activities at standard rate	1,137,057	269,000
Factors affecting charge		
Losses (brought forward) / carried forward	(70,657)	(269,000)
Prior year adjustment	52,357	-
Total tax on profit on ordinary activities	<u>1,118,757</u>	<u>-</u>

LAZARD FUND MANAGERS LIMITED**NOTES ON THE FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

6	DEBTORS	<u>2006</u> £	<u>2005</u> £
	Amounts due within one year		
	Trade debtors	13,595,690	11,859,661
	Vat recoverable	-	225,127
	Prepayments and accrued income	242	357
		<u>13,595,932</u>	<u>12,085,145</u>
7	CREDITORS	<u>2006</u> £	<u>2005</u> £
	Amounts payable within one year		
	Trade creditors	15,484,067	13,068,481
	Amounts owed to groups undertakings	-	1,000,000
	Corporation Tax	1,118,757	-
	Other creditors	330,154	331,585
		<u>16,932,978</u>	<u>14,400,066</u>
8	SHARE CAPITAL	<u>2006</u> £	<u>2005</u> £
	Authorised 5,000,000 (2005 5,000,000) ordinary shares of £1 each	5,000,000	5,000,000
	Allotted, called up and fully paid		
	1,950,000 (2005 1,950,000 ordinary shares of £1 each)	1,950,000	1,950,000
9	RESERVES	<u>2006</u> £	<u>2005</u> £
	Profit and loss account		
	At 1 January	902,616	905,949
	Profit for the financial year	2,671,432	896,667
	Dividends paid	-	(900,000)
		<u>3,574,048</u>	<u>902,616</u>
	At 31 December		

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

10 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>2006</u> £	<u>2005</u> £
Profit for the financial year	2,671,432	896,667
Dividends paid	-	(900,000)
	<hr/>	<hr/>
Net increase/(decrease) in shareholders' funds	2,671,432	(3,333)
Opening shareholders' funds	2,852,616	2,855,949
	<hr/>	<hr/>
Closing shareholders' funds	<u>5,524,048</u>	<u>2,852,616</u>

11 CASH FLOW STATEMENT

The company is a member of a group whose parent company publishes consolidated financial statements that include a consolidated cash flow statement. It is, therefore, not required to produce a cash flow statement as part of these financial statements.

12 RELATED PARTY DISCLOSURES

The company is exempt from disclosing transactions with 90% or greater owned group companies which are related parties as it is part of a group whose ultimate holding company in the EU publishes consolidated financial statements.

13 ULTIMATE PARENT COMPANY

Lazard Ltd, a Bermudian company, is the parent company of the largest group which includes the company and for which group accounts are to be prepared. The company's ultimate parent company and ultimate controlling party is LAZ-MD Holdings LLC, a Delaware Limited Liability Company.

The company's immediate controlling party is Lazard Asset Management Limited, a company incorporated in Great Britain and registered in England and Wales.

The parent company of the smallest group, which includes the company and for which group accounts are to be prepared, is Lazard Asset Management (UK) Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

Copies of the parent's financial statements may be obtained from The Secretary, Lazard Asset Management (UK) Holdings Limited, 50 Stratton Street, London, W1J 8LL.