

# Press Release Schroders plc

9 August 2007

Interim Results to 30 June 2007

## Profit before tax up 40 per cent.

- Group profit before tax **£185.6 million** (H1 2006: £132.3 million)
- Asset Management profit before tax **£123.2 million** (H1 2006: £96.8 million)
- Private Banking profit before tax **£15.9 million** (H1 2006: £11.2 million)
- Private Equity profit before tax **£36.2 million** (H1 2006: £17.7 million)
- Funds under management **£137.6 billion** (31 December 2006: £128.5 billion)
- Interim dividend **9.0 pence** per share (interim dividend 2006: 7.5 pence per share)

	Six months ended 30 June 2007 (unaudited) £mn	Six months ended 30 June 2006 (unaudited) £mn	Year ended 31 December 2006 £mn
Asset Management profit	123.2	96.8	219.0
Private Banking profit	15.9	11.2	26.9
Private Equity profit	36.2	17.7	34.6
Group	10.3	6.6	9.5
Profit before tax	185.6	132.3	290.0

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### Schroders

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## Management Statement

Group profit before tax increased by 40 per cent. to £185.6 million (H1 2006: £132.3 million) reflecting significantly higher profits from Asset Management, Private Banking and Private Equity investments. Funds under management at the end of June totalled £137.6 billion (31 December 2006: £128.5 billion). Net inflows in the second quarter were £0.7 billion after net outflows of £1.0 billion in the first quarter to bring net outflows for the half year to £0.3 billion.

### Asset Management

Net inflows into higher margin products in 2006, which continued during the period, contributed to an 18 per cent. increase in Asset Management gross profit to £353.3 million (H1 2006: £300.4 million) and a 27 per cent. increase in profit before tax to £123.2 million (H1 2006: £96.8 million).

Net Retail sales were £3.6 billion in the first half (H1 2006: £2.3 billion) and were broadly diversified. By region, we had a particularly strong result in Asia, with £1.7 billion of net sales, and in the UK with £1.3 billion of net sales. By product, we saw significant demand for a wide range of asset classes including emerging market equity and debt, European equities, global equities, property securities and multi-manager funds. Retail funds under management at the end of June were £48.7 billion (31 December 2006: £42.5 billion).

Institutional generated strong gross sales, up 36 per cent. on the first half of 2006, with high levels of new business across quantitative equities, multi-asset mandates for UK pension funds, fixed income and funds of hedge funds. Outflows in the UK and, to a lesser extent, Japanese equities led to net outflows of £4.1 billion: despite this, Institutional revenues were up 15 per cent. on the first half of 2006 and funds under management rose to £79.6 billion at the end of June (31 December 2006: £77.4 billion).

Alternatives accounted for £14.9 billion of funds under management (31 December 2006: £12.5 billion). Within alternatives, NewFinance Capital, our funds of hedge funds business, had strong net inflows in the first half and funds under management increased to £2.3 billion. Aareal Asset Management, the European property business acquired in February 2007, has been integrated with our existing property business and we are preparing to launch further European property funds.

More than two thirds of our revenues are generated outside the UK with well established positions in developed markets and rapidly growing businesses in emerging markets. In Latin America, funds under management reached £2.9 billion with continuing growth in Argentina, Brazil and Chile and a developing business in Mexico. In China, our joint venture asset management company had funds under management of £1.9 billion at the end of June (not reported in total funds under management) and is operating profitably.

### Private Banking

Private Banking profit before tax increased by 42 per cent. to £15.9 million (H1 2006: £11.2 million). The establishment of the Private Banking service centre in Zurich was completed in April and we expect to see further efficiency gains as a result, as well as improved client service. Net new business flows in the first half were £0.2 billion (H1 2006: £0.2 billion) and funds under management at the end of June increased to £9.3 billion (31 December 2006: £8.6 billion).

### Private Equity and Group

Returns on our investment capital reflected in the income statement in the first half were £56.8 million, representing an annualised return of 15 per cent. This included realised gains and carried interest participations on Private Equity investments of £38.4 million (H1 2006: £19.3 million). Unrealised profit on investment capital included within shareholders' equity totalled £103.2 million at 30 June 2007 (31 December 2006: £103.7 million).

## **Dividend**

In the light of these results the Board has declared an increased interim dividend of 9.0 pence per share (H1 2006: 7.5 pence per share). The dividend will be paid on 21 September 2007 to shareholders on the register at the close of business on 17 August 2007.

## **Summary**

The first half of 2007 has been another strong period for the Group with a significant increase in profit before tax and substantial inflows of higher margin business. Our diversified product set and broad geographical representation position us well for more challenging conditions in equity and fixed income markets. We continue to see a wide range of future growth opportunities for the Group.

**Michael Dobson**  
Chief Executive

9 August 2007

### **Forward-looking statements**

This interim results announcement contains certain forward-looking statements and forecasts with respect to the financial condition, results of operations and businesses of Schroders plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements and forecasts are based on the Directors' current view and information known to them at the date of this announcement. The Directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Nothing in this announcement should be construed as a profit forecast.

## Condensed Consolidated Income Statement

	Six months ended 30 June 2007 (unaudited) £mn	Six months ended 30 June 2006 (unaudited) £mn	Year ended 31 December 2006 £mn
Revenue	558.6	451.3	967.2
Cost of sales	(109.1)	(77.9)	(169.0)
<b>Gross profit</b>	<b>449.5</b>	<b>373.4</b>	<b>798.2</b>
Administrative expenses	(285.9)	(259.3)	(542.3)
<b>Operating profit</b>	<b>163.6</b>	<b>114.1</b>	<b>255.9</b>
Share of profit of associates	9.0	9.1	15.6
Share of profit/(loss) of joint ventures	3.0	0.1	(0.2)
	12.0	9.2	15.4
Interest receivable and similar income	10.4	9.8	20.1
Interest payable and similar charges	(0.4)	(0.8)	(1.4)
<b>Profit before tax</b>	<b>185.6</b>	<b>132.3</b>	<b>290.0</b>
UK tax	(18.4)	(11.6)	(23.5)
Foreign tax	(27.2)	(22.4)	(44.6)
Tax	(45.6)	(34.0)	(68.1)
<b>Profit after tax</b>	<b>140.0</b>	<b>98.3</b>	<b>221.9</b>
<b>Attributable to:</b>			
Minority interests	0.3	0.3	0.6
Equity holders of the parent	139.7	98.0	221.3
	<b>140.0</b>	<b>98.3</b>	<b>221.9</b>
Memo – dividends	(49.5)	(42.0)	(63.4)
<b>Basic earnings per share</b>	<b>49.0p</b>	<b>33.7p</b>	<b>76.9p</b>
<b>Diluted earnings per share</b>	<b>48.2p</b>	<b>33.2p</b>	<b>75.7p</b>

The interim dividend payable for 2007 is 9.0 pence per share, amounting to a distribution of £25.8 million

## Condensed Consolidated Balance Sheet

	30 June 2007 (unaudited) £mn	30 June 2006 (unaudited) £mn	31 December 2006 £mn
<b>Non-current assets</b>			
Goodwill	75.3	67.2	65.3
Intangible assets	21.0	14.2	15.0
Property, plant and equipment	19.3	9.9	12.7
Associates	16.1	30.2	21.7
Joint ventures	10.5	4.0	3.6
Financial assets	248.0	144.7	198.6
Deferred tax	35.1	56.0	44.4
Retirement benefit scheme asset	68.3	8.7	16.8
Trade and other receivables	397.8	343.5	404.0
	891.4	678.4	782.1
<b>Current assets</b>			
Financial assets	1,681.8	1,568.4	1,664.0
Current tax	7.0	13.8	16.5
Trade and other receivables	641.0	795.3	617.0
Cash and cash equivalents	415.8	504.8	439.2
	2,745.6	2,882.3	2,736.7
Non-current assets held for sale	65.3	31.8	60.1
<b>Assets backing insurance unit-linked liabilities</b>			
Investments in authorised unit trusts	1,624.7	40.9	1,307.4
Other financial assets	592.5	-	211.7
Cash and cash equivalents	13.6	41.5	12.9
	2,230.8	82.4	1,532.0
<b>Total assets</b>	5,933.1	3,674.9	5,110.9
<b>Equity</b>			
Called up share capital	294.0	296.6	293.9
Share premium account	48.0	34.2	36.4
Other reserves	10.1	15.1	15.1
Capital reserves	160.5	150.2	156.3
Own shares held	(75.9)	(90.6)	(90.9)
Net exchange differences	(65.3)	(17.9)	(53.7)
Retained profits	1,204.2	955.5	1,086.3
<b>Equity attributable to equity holders of the parent</b>	1,575.6	1,343.1	1,443.4
Minority interests	0.4	0.1	0.2
<b>Total equity</b>	1,576.0	1,343.2	1,443.6
<b>Non-current liabilities</b>			
Financial liabilities	-	15.2	-
Deferred tax	2.4	2.8	2.4
Provisions	10.7	9.4	10.8
Trade and other payables	316.5	378.7	325.2
	329.6	406.1	338.4
<b>Current liabilities</b>			
Financial liabilities	0.3	0.4	0.3
Provisions	9.3	12.4	13.9
Current tax	45.7	43.7	31.9
Trade and other payables	1,741.4	1,786.7	1,750.8
	1,796.7	1,843.2	1,796.9
<b>Insurance unit-linked liabilities</b>			
Liability linked to life company investments	2,230.8	82.4	1,532.0
<b>Total equity and liabilities</b>	5,933.1	3,674.9	5,110.9

## Condensed Consolidated Statement of Recognised Income and Expense

	<b>Six months ended 30 June 2007 (unaudited) £mn</b>	Six months ended 30 June 2006 (unaudited) £mn	Year ended 31 December 2006 £mn
Exchange differences on translation of foreign operations	(11.6)	(30.1)	(65.9)
Net gains on hedges recognised directly in equity	8.2	18.0	32.2
Actuarial gains/(losses) on defined benefit pension schemes	40.5	(1.2)	5.5
Net gains on available-for-sale financial assets	26.3	17.7	65.2
Amounts recycled through the income statement	(21.0)	(12.9)	(26.8)
Tax on items taken directly to equity	(9.8)	6.4	6.6
<b>Net income and expense recognised directly in equity</b>	<b>32.6</b>	<b>(2.1)</b>	<b>16.8</b>
<b>Profit for the period</b>	<b>140.0</b>	<b>98.3</b>	<b>221.9</b>
<b>Total recognised income and expense for the period</b>	<b>172.6</b>	<b>96.2</b>	<b>238.7</b>
<b>Attributable to:</b>			
Minority interests	0.3	0.3	0.6
Equity holders of the parent	172.3	95.9	238.1
	<b>172.6</b>	<b>96.2</b>	<b>238.7</b>

## Condensed Consolidated Cash Flow Statement

	<b>Six months ended 30 June 2007 (unaudited) £mn</b>	Six months ended 30 June 2006 (unaudited) £mn	Year ended 31 December 2006 £mn
<b>Net cash from operating activities</b>	196.0	210.8	209.2
<b>Investing activities</b>			
Acquisition of subsidiaries	(27.7)	(19.3)	(19.8)
Cash acquired with acquisitions	6.2	6.8	6.8
Purchase of joint ventures	(1.4)	-	-
Purchase of intangible assets	(6.1)	(0.9)	(4.6)
Purchase of property, plant and equipment	(8.6)	(2.6)	(7.1)
Purchase of non-current financial assets	(70.1)	(13.8)	(62.9)
Purchase of non-current assets held for sale	(28.1)	(38.8)	(90.1)
Disposal of non-current assets held for sale	9.6	26.6	50.8
Proceeds from sale of non-current financial assets	22.2	18.3	64.1
Proceeds from sale of property, plant and equipment	-	0.3	0.4
Net proceeds from (purchase)/sale of current financial assets	(81.5)	72.0	58.6
Interest received	9.6	6.6	9.0
Dividends/capital distributions received from associates and joint ventures	14.7	8.4	23.6
<b>Net cash (used in)/from investing activities</b>	<b>(161.2)</b>	<b>63.6</b>	<b>28.8</b>
<b>Financing activities</b>			
Proceeds from issue of share capital	16.7	24.7	27.8
Acquisition of own shares	(17.7)	(86.8)	(90.8)
Disposal of own shares	19.0	34.5	37.3
Redemption of ordinary share capital	(21.8)	(56.3)	(84.3)
Dividends paid	(49.5)	(42.0)	(63.4)
<b>Net cash used in financing</b>	<b>(53.3)</b>	<b>(125.9)</b>	<b>(173.4)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(18.5)</b>	<b>148.5</b>	<b>64.6</b>
Opening cash and cash equivalents	452.1	402.4	402.4
Net (decrease)/increase in cash and cash equivalents	(18.5)	148.5	64.6
Effect of exchange rate changes	(4.2)	(4.6)	(14.9)
<b>Closing cash and cash equivalents</b>	<b>429.4</b>	<b>546.3</b>	<b>452.1</b>
Closing cash and cash equivalents consists of:			
Cash and cash equivalents backing insurance-unit linked liabilities	13.6	41.5	12.9
Other cash and cash equivalents held by the Group	415.8	504.8	439.2
	<b>429.4</b>	<b>546.3</b>	<b>452.1</b>

## Notes to the Accounts

### Basis of Preparation

The interim report, expected to be forwarded to shareholders on 17 August, is unaudited and does not constitute statutory accounts within the meaning of s240 of the Companies Act 1985. The statutory accounts for 2006, which were prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union ('IFRS'), and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS, have been delivered to the Registrar of Companies. The auditors' opinion on these accounts was unqualified and did not contain a statement made under s237 (2) or s237 (3) of the Companies Act 1985.

The interim report has been prepared in accordance with IAS 34 'Interim Financial Reporting' and the Listing Rules of the Financial Services Authority ('FSA').

The accounting policies applied in these interim financial statements are consistent with those applied in the Group's statutory accounts for 2006.



## Segmental Reporting

### Primary reporting format - business segments

The Group has four continuing classes of business: Asset Management, Private Banking, Private Equity and Group. Asset Management principally comprises investment management including advisory services, property, life company business and alternative assets; Private Banking principally comprises investment management and banking services provided to high net worth individuals and certain smaller institutions; Private Equity principally comprises the Group's investments in private equity, venture and buyout funds and related vehicles; Group consists of income on the Group's liquid and seed capital less Group costs and provisions, and the results of the leasing business.

The allocation of costs to individual business segments is undertaken in order to provide management information on the cost of providing services and to provide managers with a tool to manage and control expenditure. Costs are allocated on a basis that aligns the charge with the resources employed by the Group in a particular area of its business. Typical dynamic allocation bases are square footage occupied and number of staff employed by particular business segments.

Six months ended 30 June 2007	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group £mn	Inter-segment elimination £mn	Total £mn
External revenue	460.9	38.6	29.4	18.4	-	547.3
External net interest	-	11.3	-	-	-	11.3
Inter-segment interest payable	-	(0.9)	-	-	0.9	-
<b>Total revenue</b>	460.9	49.0	29.4	18.4	0.9	558.6
Cost of sales	(107.6)	(1.5)	-	-	-	(109.1)
<b>Gross profit</b>	353.3	47.5	29.4	18.4	0.9	449.5
Administrative expenses	(240.5)	(31.6)	(2.2)	(11.6)	-	(285.9)
<b>Operating profit</b>	112.8	15.9	27.2	6.8	0.9	163.6
Share of profit of associates	-	-	9.0	-	-	9.0
Share of profit of joint ventures	3.0	-	-	-	-	3.0
	3.0	-	9.0	-	-	12.0
External interest receivable and similar income	3.5	-	-	6.9	-	10.4
Inter-segment interest receivable	4.1	-	-	(3.2)	(0.9)	-
Interest receivable and similar income	7.6	-	-	3.7	(0.9)	10.4
Interest payable and similar charges	(0.2)	-	-	(0.2)	-	(0.4)
<b>Profit before tax</b>	123.2	15.9	36.2	10.3	-	185.6

Inter-segment amounts represent interest payable and receivable on inter-segmental loans and cash balances held by Private Banking on behalf of Group companies.

## Segmental Reporting (continued)

Six months ended 30 June 2006	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group £mn	Inter-segment elimination £mn	Total £mn
External revenue	377.3	37.7	10.2	14.3	-	439.5
External net interest	-	11.8	-	-	-	11.8
Inter-segment interest payable	-	(3.3)	-	-	3.3	-
<b>Total revenue</b>	377.3	46.2	10.2	14.3	3.3	451.3
Cost of sales	(76.9)	(1.0)	-	-	-	(77.9)
<b>Gross profit</b>	300.4	45.2	10.2	14.3	3.3	373.4
Administrative expenses	(208.4)	(34.0)	(1.6)	(15.3)	-	(259.3)
<b>Operating profit</b>	92.0	11.2	8.6	(1.0)	3.3	114.1
Share of profit of associates	-	-	9.1	-	-	9.1
Share of profit of joint ventures	0.1	-	-	-	-	0.1
	0.1	-	9.1	-	-	9.2
External interest receivable and similar income	2.8	-	-	7.0	-	9.8
Inter-segment interest receivable	2.4	-	-	0.9	(3.3)	-
Interest receivable and similar income	5.2	-	-	7.9	(3.3)	9.8
Interest payable and similar charges	(0.5)	-	-	(0.3)	-	(0.8)
<b>Profit before tax</b>	96.8	11.2	17.7	6.6	-	132.3

Inter-segment amounts represent interest payable and receivable on inter-segmental loans and cash balances held by Private Banking on behalf of Group companies.

## Tax Expense

	Six months ended 30 June 2007 £mn	Six months ended 30 June 2006 £mn	Year ended 31 December 2006 £mn
<b>Current tax</b>			
UK corporation tax on profits of the period	55.2	28.3	38.7
Double taxation relief	(36.1)	(15.1)	(20.8)
	19.1	13.2	17.9
Adjustments in respect of prior periods	0.2	0.1	(6.2)
	19.3	13.3	11.7
Foreign tax - current	27.2	22.0	47.1
Foreign tax - adjustments in respect of prior periods	-	(0.8)	(0.8)
<b>Total current tax</b>	46.5	34.5	58.0
Deferred tax - origination and reversal of temporary differences	(0.5)	(4.2)	6.5
Adjustments in respect of prior periods	(0.4)	3.7	3.6
<b>Total tax charge for the period</b>	45.6	34.0	68.1

## Reconciliation of Net Cash from Operating Activities

	Six months ended 30 June 2007 £mn	Six months ended 30 June 2006 £mn	Year ended 31 December 2006 £mn
Operating profit	163.6	114.1	255.9
<b>Adjustments for:</b>			
Depreciation and amortisation of software	3.7	4.2	7.5
Amortisation of fund management contracts	0.8	-	1.0
Impairment of available-for-sale financial assets recycled through the income statement	-	6.4	1.4
Other amounts recycled through the income statement in respect of financial assets	(21.0)	(16.5)	(24.7)
Increase in trade and other receivables	(38.0)	(277.5)	(238.5)
(Decrease)/increase in trade and other payables and provisions	(17.8)	214.7	195.1
Increase in insurance unit-linked liabilities	698.8	82.4	1,532.0
Net decrease in financial liabilities	-	(0.5)	(15.9)
Profit on disposal of business	-	(2.7)	(2.7)
(Credit)/charge for provisions	(0.8)	1.0	5.8
Impairment of non-current assets held for sale	0.2	2.2	-
Net gains on financial assets held at fair value through profit or loss	(28.1)	(19.5)	(30.3)
Share-based payments expensed	13.0	15.2	27.5
Other non-cash movements	21.4	13.5	42.7
United Kingdom corporation tax (paid)/recovered	(1.4)	4.2	5.1
Overseas tax paid	(34.2)	(18.2)	(36.2)
Interest received	0.4	4.0	10.6
Interest paid	(0.4)	(0.8)	(1.4)
Net purchase of assets backing insurance unit-linked liabilities	(698.1)	(40.9)	(1,519.1)
Net disposal/(purchase) of current financial assets	133.9	125.5	(6.6)
<b>Net cash from operating activities</b>	196.0	210.8	209.2

## Funds under Management – 2007 Flows

	Institutional £bn	Retail £bn	Private Banking £bn	Total £bn
<b>31 December 2006</b>	77.4	42.5	8.6	128.5
Inflows	5.7	8.1	1.6	15.4
Outflows	(9.8)	(4.5)	(1.4)	(15.7)
Net asset (losses)/gains	(4.1)	3.6	0.2	(0.3)
Investment returns	5.0	2.6	0.5	8.1
Adjustment on purchase of Aareal Asset Management	1.3	-	-	1.3
<b>30 June 2007</b>	<b>79.6</b>	<b>48.7</b>	<b>9.3</b>	<b>137.6</b>

## Income and Cost Metrics for the Group

	Six months ended 30 June 2007	Six months ended 30 June 2006
Group cost: income ratio	61%	66%
Group cost: gross profit	64%	69%
Return on average capital (pre-tax)	25%	20%
Return on average capital (post-tax)	19%	15%
Asset Management cost: gross profit	68%	69%
Asset Management gross profit on average funds under management	57bps	51bps
Asset Management costs on average funds under management	39bps	36bps
Asset Management costs on closing funds under management	38bps	37bps