Interim Report 2006

Schroders

2006 Interim Report

Schroders

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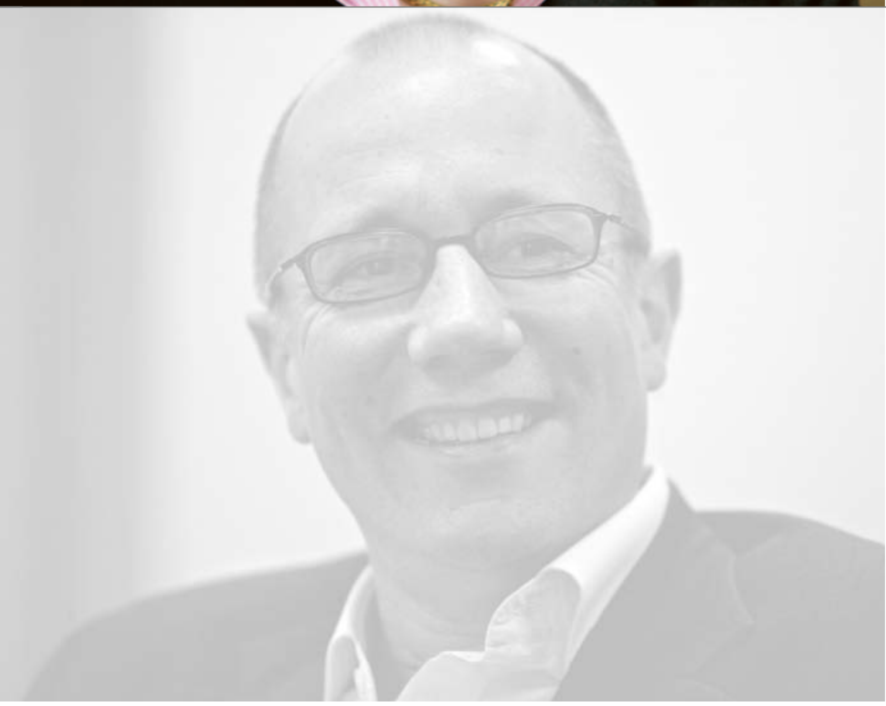

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Financial highlights

Group profit before tax

£132.3 million

Group underlying† profit

up 28 per cent.

Asset Management profit

£96.8 million

Funds under management

£122.3 billion

Interim dividend

7.5 pence per share

Results

	Six months ended 30 June 2006 (unaudited) £mn	Six months ended 30 June 2005 (unaudited) £mn	Year ended 31 December 2005 £mn
Asset Management profit	96.8	99.8	193.9
Private Banking profit	11.2	2.2	6.3
Private Equity profit	17.7	18.0	40.3
Group Net Income/(Costs)	6.6	3.5	10.2
Profit before tax	**132.3**	**123.5**	**250.7**
Funds under management (£bn)	122.3	112.1	122.5
Interim/final dividend (pence per share)	7.5	7.0	14.5

[†]The term 'underlying' denotes that the relevant 2005 comparative has been adjusted to remove the impact of the one-off gain recorded in the first half of 2005 on the discontinuation of a project to outsource the UK custody and portfolio accounting services. The effect of this adjustment is to reduce profit before tax in the first half of 2005 by £20.4 million (split between £20.1 million in the Asset Management segment and £0.3 million in Private Banking).

Group profit before tax increased to £132.3 million, compared with £123.5 million in the first half of 2005. Adjusting for the one-off gain in 2005 of £20.4 million arising from a discontinued outsourcing contract, underlying† profit increased by 28 per cent.

Asset Management

Asset Management revenue increased by 21 per cent. to £377.3 million (H1 2005: £311.9 million), driven by higher margins and overall market levels. Gross profit rose to £300.4 million (H1 2005: £250.3 million).

Asset Management expenses were £208.4 million (H1 2005: £174.0 million), reflecting higher variable staff costs linked to stronger revenues and increased investment in marketing and operating infrastructure. Asset Management profit before tax was £96.8 million, an increase in underlying† profit of 21 per cent.

Investment performance was competitive in the period across a broad range of strategies in equities, fixed income and property. Recent consultant upgrades included our core and global active value quantitative products and our new pooled balanced product, the Diversified Growth Fund.

Net inflows in Retail were £2.3 billion (H1 2005: £1.6 billion), reflecting a return to growth in comparison to the second half of 2005. A strong first quarter was followed by a positive, but slower second quarter, as investor flows were checked by market volatility. A combination of positive investment results and active marketing restored net inflows in European equities. Emerging markets, in particular the BRIC (Brazil, Russia, India, China) product, and the absolute return Strategic Bond Fund contributed significantly to retail inflows. Retail funds under management were £38.5 billion at the end of June (end 2005: £36.0 billion).

Institutional saw net outflows of £4.6 billion (H1 2005: £2.0 billion), principally as a result of performance issues in Japanese equities in earlier years and continued outflows in UK balanced mandates. We have strengthened our Japanese equities team and performance has improved. Institutional funds under management were £75.7 billion at the end of June (end 2005: £78.7 billion).

The acquisition of NewFinance Capital announced in February was completed on 3 May 2006 and its results from that date have been consolidated in this report. For the two months, revenue was £1.8 million with costs of £1.1 million, contributing £0.7 million to Asset Management profit before tax. Assets under management in funds of hedge funds at the end of June 2006 totalled £1.7 billion.

Private Banking

Private Banking revenue increased by 31 per cent. to £46.2 million (H1 2005: £35.2 million) principally driven by increased activity in Switzerland and higher transactional revenues in the UK and Channel Islands banking businesses. Costs increased by 5 per cent. to £34.0 million (H1 2005: £32.4 million), resulting in a pre-tax profit of £11.2 million (H1 2005: £2.2 million).

Net new business inflows were £0.3 billion (H1 2005: £0.4 billion) and funds under management at the end of June were £8.1 billion (end 2005: £7.8 billion).

Investment in a project to centralise the Private Banking back-office operations in Zurich is underway. Operating on a single technology and operations platform should lead to significant improvements in client service and cost efficiencies from the second half of 2007.

Private Equity

Realised gains and carried interest participations in Private Equity resulted in a profit before tax of £17.7 million (H1 2005: £18.0 million). At the end of the period the Group's remaining interests in private equity were valued at £155.0 million (end June 2005: £171.0 million).

Group Net Income/(Costs)

Profit for the period was £6.6 million (H1 2005: £3.5 million). Higher earnings on seed and investment capital were partially offset by lower interest income.

Share Capital

During the first half of the year the Company repurchased for cancellation 5,508,960 non-voting ordinary shares. These repurchases neutralised the dilutive effect of issuing new shares following the exercise of options granted under the Company's share option plans. As set out in the notice of meeting for the 2006 Annual General Meeting, it is the Company's policy to use such repurchases to maintain the ratio of ordinary shares to non-voting ordinary shares over the medium term. The effect of these repurchases has been to return the ratio to its level in April 2000, when the Company was established in its present form following the sale of the investment banking business. The Company has no current intention to implement a general share repurchase programme.

Dividend

In the light of the growth in underlying[†] profit and the Group's strong financial position, the Board has declared an increased interim dividend of 7.5 pence per share (H1 2005: 7.0 pence per share). The dividend will be paid on 29 September 2006 to shareholders on the register at the close of business on 25 August 2006.

Summary

Against a background of volatile markets the Group has produced continued growth in revenue and profit in the first half of 2006. Overall, as previously stated, 2006 is a year of consolidation for Schroders as equity market growth slows and we invest in talent, business development and operating infrastructure. We have a major product development programme underway to meet changing client needs in areas such as liability-driven investing, quantitative strategies and absolute return products. Combined with the strength of our existing business across regions, products and sales channels, this period of investment should position the Group well for 2007.

Michael Dobson
Chief Executive

11 August 2006

Forward-looking statements

This interim report contains certain forward-looking statements 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 will 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. Nothing in this report should be construed as a profit forecast.

[†]Refer to footnote on page 3.

Independent review report to Schroders plc

Introduction

We have been instructed by Schroders plc to review the financial information for the six months ended 30 June 2006 which comprises the condensed consolidated income statement, condensed consolidated balance sheet as at 30 June 2006, condensed consolidated statement of recognised income and expense, condensed consolidated cash flow statement, comparative figures and associated notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

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

This interim report has been prepared in accordance with the International Accounting Standard 34, 'Interim Financial Reporting'.

The maintenance and integrity of the Schroders' website is the responsibility of the Directors; the work we have carried out does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the financial statements presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

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

PricewaterhouseCoopers LLP
Chartered Accountants
London

11 August 2006

Condensed consolidated income statement

	Notes	**Six months ended 30 June 2006 (unaudited) £mn**	Six months ended 30 June 2005 (unaudited) £mn	Year ended 31 December 2005 £mn
Revenue		451.3	367.6	808.0
Cost of sales		(77.9)	(62.5)	(131.0)
Gross profit		373.4	305.1	677.0
Gain on discontinued outsourcing contract		-	20.4	20.4
Administrative expenses		(255.1)	(218.4)	(473.4)
Depreciation and amortisation		(4.2)	(5.4)	(10.9)
Operating profit		114.1	101.7	213.1
Share of profit of associates		9.1	9.0	13.7
Share of profit/(loss) of joint ventures		0.1	-	(0.2)
		9.2	9.0	13.5
Interest receivable and similar income		9.8	13.2	25.3
Interest payable and similar charges		(0.8)	(0.4)	(1.2)
Profit before tax		132.3	123.5	250.7
UK tax		(11.6)	(14.4)	(16.2)
Foreign tax		(22.4)	(18.4)	(41.2)
Tax	4	(34.0)	(32.8)	(57.4)
Profit after tax		98.3	90.7	193.3
Attributable to:				
Minority interests		0.3	0.9	2.0
Equity holders of the parent		98.0	89.8	191.3
		98.3	90.7	193.3
Memo – dividends	5	(42.0)	(39.2)	(59.5)
Basic earnings per share	6	33.7p	30.8p	65.7p
Diluted earnings per share	6	33.2p	30.6p	65.1p

Condensed consolidated balance sheet

	Notes	30 June 2006 (unaudited) £mn	30 June 2005 (unaudited) £mn	31 December 2005 £mn
Non-current assets				
Intangible assets	7, 13	81.4	32.1	30.2
Property, plant and equipment	8	9.9	7.3	9.4
Associates		30.2	33.7	31.6
Joint ventures		4.0	-	4.1
Other investments		144.7	113.9	123.9
Deferred tax		56.0	54.1	54.9
Trade and other receivables		352.2	205.5	303.0
Life company investments	12	82.4	-	-
		760.8	446.6	557.1
Current assets				
Investments		1,568.4	1,676.3	1,795.9
Current tax		13.8	13.6	17.7
Trade and other receivables		795.3	648.6	544.9
Cash and cash equivalents		504.8	367.1	402.4
		2,882.3	2,705.6	2,760.9
Non-current assets held for sale		31.8	15.8	23.4
Total assets		3,674.9	3,168.0	3,341.4
Equity				
Called up share capital	9	296.6	297.0	298.5
Share premium account		34.2	26.8	32.1
Other reserves	13	15.1	-	-
Capital reserves		143.4	136.1	187.0
Own shares	14	(90.6)	(34.6)	(45.7)
Retained profits		944.4	801.7	870.9
Equity attributable to equity holders of the parent		1,343.1	1,227.0	1,342.8
Minority interests		0.1	3.7	0.3
Total equity		1,343.2	1,230.7	1,343.1
Non-current liabilities				
Debt securities in issue		15.2	-	12.0
Deferred tax		2.8	2.0	2.8
Provisions		9.4	7.5	10.1
Trade and other payables		378.7	203.4	185.3
Life company technical provisions	12	82.4	-	-
		488.5	212.9	210.2
Current liabilities				
Debt securities in issue		0.4	4.2	4.2
Provisions		12.4	12.1	14.7
Current tax		43.7	37.4	32.9
Trade and other payables		1,786.7	1,670.7	1,736.3
		1,843.2	1,724.4	1,788.1
Total equity and liabilities		3,674.9	3,168.0	3,341.4

Condensed consolidated statement of recognised income and expense

	Six months ended 30 June 2006 (unaudited) £mn	Six months ended 30 June 2005 (unaudited) £mn	Year ended 31 December 2005 £mn
Exchange differences on translation of foreign operations	(30.1)	16.9	38.6
Net gains/(losses) on hedges recognised directly in equity	18.0	(13.0)	(26.9)
Actuarial (losses)/gains on defined benefit pension schemes	(1.2)	(14.5)	5.1
Net gains on available-for-sale investments	17.7	5.2	44.3
Tax on items taken directly to equity	6.4	4.5	6.8
Net income and expense recognised directly in equity	10.8	(0.9)	67.9
Profit for the period	98.3	90.7	193.3
Total recognised income and expense for the period	109.1	89.8	261.2
Attributable to:			
Minority interests	0.3	0.9	2.0
Equity holders of the parent	108.8	88.9	259.2
	109.1	89.8	261.2

Condensed consolidated cash flow statement

	Notes	**Six months ended 30 June 2006 (unaudited) £mn**	Six months ended 30 June 2005 (unaudited) £mn	Year ended 31 December 2005 £mn
Net cash from/(used in) operating activities	11	169.3	(38.0)	92.2
Investing activities				
Proceeds from disposal of business		-	-	0.2
Acquisition of subsidiaries		(19.3)	-	(0.8)
Cash acquired with acquisition		6.8	-	0.8
Purchase of joint ventures		-	-	(4.2)
Purchase of intangible assets		(0.9)	-	(1.8)
Purchase of property, plant and equipment		(2.6)	(1.7)	(5.7)
Purchase of non-current asset investments		(13.8)	(29.1)	(62.4)
Purchase of non-current assets held for sale		(38.8)	-	(23.4)
Disposal of non-current assets held for sale		26.6	-	-
Proceeds from sale of intangible assets		-	-	0.1
Proceeds from sale of non-current asset investments		18.3	25.8	73.9
Proceeds from sale of property, plant and equipment		0.3	0.2	0.5
Proceeds from repayment of loans by associates		-	30.3	30.3
Net disposal/(purchase) of current asset investments		72.0	(4.6)	(68.9)
Interest received		6.6	7.8	15.7
Dividends/capital distributions received from associates and joint ventures		8.4	0.1	9.0
Net cash from/(used in) investing activities		63.6	28.8	(36.7)
Financing activities				
Proceeds from issue of share capital		24.7	0.1	21.8
Acquisition of own shares		(86.8)	(7.5)	(23.7)
Disposal of own shares		34.5	-	-
Redemption of ordinary share capital		(56.3)	(0.2)	(15.3)
Distributions made to minority interests		-	(8.3)	(11.9)
Dividends paid		(42.0)	(39.2)	(59.5)
Net cash used in financing		(125.9)	(55.1)	(88.6)
Net increase/(decrease) in cash and cash equivalents		107.0	(64.3)	(33.1)
Opening cash and cash equivalents		402.4	432.1	432.1
Net increase/(decrease) in cash and cash equivalents		107.0	(64.3)	(33.1)
Effect of exchange rate changes		(4.6)	(0.7)	3.4
Closing cash and cash equivalents		504.8	367.1	402.4

Explanatory notes to interim financial report

1. Basis of preparation

The interim report is unaudited and does not constitute statutory accounts within the meaning of s240 of the Companies Act 1985. The statutory accounts for 2005, 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 financial statements have 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 most recent annual financial statements. As a result of the incorporation of a life assurance company within the Group during the period, an additional policy in respect of life assurance companies is presented below:

Life assurance company investments and technical provisions are recognised and measured under IAS 39 'Financial Instruments: Recognition and Measurement' which applies to investment contracts that do not meet the insurance contract definition under IFRS 4 'Insurance Contracts'. IAS 39 requires the investments in life funds to be carried at fair value as a non-current asset, with gains and losses recorded in the income statement in the period in which they arise. The technical provision to offset this asset is classified as non-current to reflect the long-term nature of the business. The liability is also recorded at fair value. See note 12 for further information on the life assurance company.

2. Segmental reporting

Primary reporting format – business segments

The Group has four continuing classes of business: Asset Management, Private Banking, Private Equity and Group Net Income/(Costs). Asset Management principally comprises investment management including advisory services, property 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 Net Income/(Costs) consists of income on the Group's liquid and seed capital less Group costs and provisions, and the results of the leasing business and the residual assets.

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 2006	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group Net Income/(Costs) £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	-
Revenue	377.3	46.2	10.2	14.3	3.3	451.3
Cost of sales	(76.9)	(1.0)	-	-	-	(77.9)
Gross profit	300.4	45.2	10.2	14.3	3.3	373.4
Administrative expenses	(205.6)	(32.6)	(1.6)	(15.3)	-	(255.1)
Depreciation and amortisation	(2.8)	(1.4)	-	-	-	(4.2)
Operating profit	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)
Profit before tax	96.8	11.2	17.7	6.6	-	132.3

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

Explanatory notes to interim financial report

2. Segmental reporting (continued)

Six months ended 30 June 2005	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group Net Income/(Costs) £mn	Inter-segment elimination £mn	Total £mn
External revenue	311.9	27.9	9.8	7.9	-	357.5
External net interest	-	10.1	-	-	-	10.1
Inter-segment interest payable	-	(2.8)	-	-	2.8	-
Revenue	311.9	35.2	9.8	7.9	2.8	367.6
Cost of sales	(61.6)	(0.9)	-	-	-	(62.5)
Gross profit	250.3	34.3	9.8	7.9	2.8	305.1
Gain on discontinued outsourcing contract	20.1	0.3	-	-	-	20.4
Administrative expenses	(170.6)	(30.4)	(1.4)	(16.0)	-	(218.4)
Depreciation and amortisation	(3.4)	(2.0)	-	-	-	(5.4)
Operating profit	96.4	2.2	8.4	(8.1)	2.8	101.7
Share of profit of associates	0.1	-	8.9	-	-	9.0
External interest receivable and similar income	1.8	-	0.7	10.7	-	13.2
Inter-segment interest receivable	1.7	-	-	1.1	(2.8)	-
Interest receivable and similar income	3.5	-	0.7	11.8	(2.8)	13.2
Interest payable and similar charges	(0.2)	-	-	(0.2)	-	(0.4)
Profit before tax	99.8	2.2	18.0	3.5	-	123.5

Year ended 31 December 2005	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group Net Income/(Costs) £mn	Inter-segment elimination £mn	Total £mn
External revenue	667.8	58.5	28.7	31.0	-	786.0
External net interest	-	22.0	-	-	-	22.0
Inter-segment interest payable	-	(6.4)	-	-	6.4	-
Revenue	667.8	74.1	28.7	31.0	6.4	808.0
Cost of sales	(128.8)	(2.0)	-	(0.2)	-	(131.0)
Gross profit	539.0	72.1	28.7	30.8	6.4	677.0
Gain on discontinued outsourcing contract	20.1	0.3	-	-	-	20.4
Administrative expenses	(367.3)	(61.9)	(3.0)	(41.2)	-	(473.4)
Depreciation and amortisation	(6.7)	(4.2)	-	-	-	(10.9)
Operating profit	185.1	6.3	25.7	(10.4)	6.4	213.1
Share of profit of associates	-	-	13.7	-	-	13.7
Share of loss of joint ventures	(0.2)	-	-	-	-	(0.2)
	(0.2)	-	13.7	-	-	13.5
External interest receivable and similar income	4.9	-	0.9	19.5	-	25.3
Inter-segment interest receivable	4.3	-	-	2.1	(6.4)	-
Interest receivable and similar income	9.2	-	0.9	21.6	(6.4)	25.3
Interest payable and similar charges	(0.2)	-	-	(1.0)	-	(1.2)
Profit before tax	193.9	6.3	40.3	10.2	-	250.7

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

Explanatory notes to interim financial report

3. Retirement benefit obligations

The charge for retirement benefit costs is as follows:

	Six months ended 30 June 2006 £mn	Six months ended 30 June 2005 £mn	Year ended 31 December 2005 £mn
Pension costs – defined contribution plans	4.2	3.2	7.3
Pension costs – defined benefit plans	3.2	3.8	6.8
Other post-employment benefits	0.1	-	-
	7.5	7.0	14.1
The defined benefit scheme charge in respect of the UK scheme consists of:			
Current service cost	6.5	6.6	13.1
Expected return on scheme assets	(14.6)	(14.1)	(28.6)
Interest on scheme liabilities	11.1	11.0	21.9
Total charge in respect of the UK scheme	3.0	3.5	6.4
Charges in respect of other defined benefit schemes	0.2	0.3	0.4
Total defined benefit scheme charges	3.2	3.8	6.8

The amounts disclosed in respect of the UK defined benefit scheme ('the Scheme') have been projected from previous valuations of the Scheme. They do not represent the results of a full actuarial valuation. Since the publication of the Group's last Annual Report and Accounts, the Group has adopted an increased assumption for life expectancy as a result of the findings of recent investigations into mortality in the UK. The effect of this change in assumption is a reduction in the net pension asset of £18.3 million. The amounts under IAS 19 that have been recognised in the condensed statement of recognised income and expense ('SORIE') in respect of the Scheme are set out below:

	Six months ended 30 June 2006 £mn	**%**	Six months ended 30 June 2005 £mn	%	Year ended 31 December 2005 £mn	%
Actual return less expected return on Scheme assets	(6.4)		11.6		34.8	
% of period end market value of Scheme assets		(1.3)		2.6		7.2
Experience gains and losses arising on Scheme liabilities	-[1]		-[1]		10.1	
% of period end present value of Scheme liabilities		-[1]		-[1]		2.1
Changes in assumptions underlying the present value of the Scheme liabilities	5.2		(26.1)		(39.4)	
% of period end present value of Scheme liabilities		1.1		(5.7)		(8.4)
Actuarial (losses)/gains recognised in SORIE	(1.2)		(14.5)		5.5	
% of period end present value of Scheme liabilities		(0.3)		(3.2)		(1.2)

[1] Calculation is only done as part of the year-end valuation of the Scheme.

The amounts recognised in the balance sheet in respect of the Scheme are determined as follows:

	30 June 2006 £mn	30 June 2005 £mn	31 December 2005 £mn
Present value of funded obligations	(478.0)	(456.9)	(471.7)
Fair value of plan assets	486.7	444.1	480.5
Net asset/(liability) recognised in the balance sheet	8.7	(12.8)	8.8

The movement in the Scheme's surplus/(deficit) during the period is as follows:

	Six months ended 30 June 2006 £mn	Six months ended 30 June 2005 £mn	Year ended 31 December 2005 £mn
As at 1 January	8.8	(30.9)	(30.9)
Pension cost	(3.0)	(3.5)	(6.4)
Contributions	4.1	36.1	40.6
Actuarial (losses)/gains recognised in SORIE	(1.2)	(14.5)	5.5
Surplus/(deficit) in the Scheme	8.7	(12.8)	8.8

Explanatory notes to interim financial report

4. Tax expense

	Six months ended 30 June 2006 £mn	Six months ended 30 June 2005 £mn	Year ended 31 December 2005 £mn
Current tax:			
UK corporation tax on profits of the period	28.3	21.2	29.6
Double taxation relief	(15.1)	(9.7)	(17.4)
	13.2	11.5	12.2
Adjustments in respect of prior periods	0.1	0.2	(0.1)
	13.3	11.7	12.1
Foreign tax – current	22.0	18.2	39.4
Foreign tax – adjustments in respect of prior periods	(0.8)	0.2	0.7
Total current tax	34.5	30.1	52.2
Deferred tax – origination and reversal of temporary differences	(4.2)	1.2	3.9
Adjustments in respect of prior periods	3.7	1.5	1.3
Total tax charge for the period	34.0	32.8	57.4

The tax charge for the period has been arrived at by forecasting an effective annual tax rate for each material tax jurisdiction and applying that rate individually to the pre-tax income of that jurisdiction. A weighted average approach is adopted for other jurisdictions. Inclusion of prior year adjustments brings the overall effective tax rate for the period to 26 per cent. (interim 2005: 27 per cent.). In total, a credit of £6.4 million has been included in respect of tax within the SORIE, £6.0 million of which relates to Equity Compensation Plan and share options issued to employees of UK Group companies. The balance of £0.4 million relates to a deferred tax credit on the actuarial losses within the UK defined benefit pension scheme.

5. Dividends

	Six months ended 30 June 2006		Six months ended 30 June 2005		Year ended 31 December 2005	
	£mn	**Pence per share**	£mn	Pence per share	£mn	Pence per share
Declared and paid in period:						
Final dividend paid	42.0	14.5	39.2	13.5	39.2	13.5
Interim dividend paid	-	-	-	-	20.3	7.0
	42.0	14.5	39.2	13.5	59.5	20.5
Interim dividend for 2006	21.5	7.5				

6. Earnings per share

Basic earnings per share is calculated by dividing the profit for the financial period attributable to equity holders of the parent of £98.0 million (interim 2005: £89.8 million) by the weighted average number of ordinary shares in issue during the period of 298,367,758 (interim 2005: 296,962,906), less the weighted average number of own shares of 8,188,670 (interim 2005: 5,649,699).

Diluted earnings per share is calculated as for basic earnings per share with a further adjustment to the weighted average number of ordinary shares to reflect the effects of all dilutive potential ordinary shares.

There is no difference between the profit for the financial period attributable to equity holders of the parent used in the basic and diluted earnings per share calculations.

Reconciliation of the figures used in calculating basic and diluted earnings per share:

	Six months ended 30 June 2006 Number	Six months ended 30 June 2005 Number	Year ended 31 December 2005 Number
Weighted average number of ordinary shares used in calculation of basic earnings per share	290,179,088	291,313,207	291,207,587
Effect of dilutive potential ordinary shares – share options	4,088,332	2,292,432	2,715,583
Effect of dilutive potential ordinary shares – contingently issuable shares	462,615	-	-
Weighted average number of ordinary shares used in calculation of diluted earnings per share	294,730,035	293,605,639	293,923,170

Contingently issuable shares are part of the deferred consideration arising on the acquisition of NewFinance Capital Holdings Limited (see note 13). They consist of shares in Schroders plc payable on the first, second and third anniversary of the date of completion.

There have been no material transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

Explanatory notes to interim financial report

7 . Intangible assets

In the six months to 30 June 2006, the Group acquired software with a value of £0.9 million (interim 2005: £nil). No disposals of software were made during the period (interim 2005: £nil).

At 30 June 2006, the Group had contractually committed to purchase software with a value of £0.2 million (interim 2005: £nil).

On the acquisition of NewFinance Capital Holdings Limited, the Group acquired intangible assets of £53.5 million, consisting of fund management agreements with a value of £10.5 million and goodwill of £43.0 million (see note 13). The fund management agreements are being amortised over periods varying between 5.0 and 7.5 years.

8. Property, plant and equipment

In the six months to 30 June 2006, the Group acquired property, plant and equipment with a value of £2.6 million (interim 2005: £1.7 million) and made disposals of £0.1 million (interim 2005: £0.1 million).

At 30 June 2006, the Group had contractually committed to purchase property, plant and equipment with a value of £0.2 million (interim 2005: £nil).

The Group acquired property, plant and equipment with a value of £0.4 million on the acquisition of NewFinance Capital Holdings Limited (see note 13).

9. Share capital

	30 June 2006 Number	30 June 2005 Number	31 December 2005 Number	**30 June 2006 £mn**	30 June 2005 £mn	31 December 2005 £mn
Authorised:						
Ordinary shares of £1 each	226,022,400	226,022,400	226,022,400	226.0	226.0	226.0
Non-voting ordinary shares of £1 each	113,977,598	113,977,598	113,977,598	114.0	114.0	114.0
Subscriber shares of 1p each	200	200	200	-	-	-
	340,000,198	340,000,198	340,000,198	340.0	340.0	340.0
Allotted, called up and fully paid:						
Ordinary shares of £1 each	226,022,400	226,022,400	226,022,400	226.0	226.0	226.0
Non-voting ordinary shares of £1 each	70,566,501	70,939,776	72,449,151	70.6	71.0	72.5
Subscriber shares of 1p each	-	200	200	-	-	-
	296,588,901	296,962,376	298,471,751	296.6	297.0	298.5

During the period the Group issued a total of 3,626,310 of its own non-voting ordinary shares (interim 2005: 31,953) and repurchased and cancelled 5,509,160 shares, including 200 subscriber shares, (interim 2005: 31,953 shares).

Explanatory notes to interim financial report

10. Reconciliation of equity

	Six months ended 30 June 2006 £mn	Six months ended 30 June 2005 £mn	Year ended 31 December 2005 £mn
At 1 January	1,342.8	1,119.2	1,119.2
Net gains on first time adoption of IAS 32 and 39	-	47.8	47.8
Profit after tax	98.3	90.7	193.3
Minority interests	(0.3)	(0.9)	(2.0)
Dividends	(42.0)	(39.2)	(59.5)
Retained profit for the period after minority interests and dividends	56.0	50.6	131.8
Exchange differences on translation of foreign operations	(30.1)	16.9	38.6
Net gains/(losses) on hedges recognised directly in equity	18.0	(13.0)	(26.9)
Actuarial (losses)/gains on defined benefit pension schemes	(1.2)	(14.5)	5.1
Net gains on available-for-sale investments	17.7	5.2	44.3
Tax on actuarial losses/(gains) on defined benefit pension schemes	0.4	4.4	(1.6)
Tax on Equity Compensation Plan and share option awards	6.0	0.1	8.4
Net income and expense recognised directly in equity	10.8	(0.9)	67.9
Share-based payments	15.2	10.0	23.3
Share-based payments vested	-	-	(7.3)
Cancellation of non-voting ordinary shares	(56.3)	(0.2)	(15.3)
Net amounts recycled through the income statement in respect of investments and associates	(12.5)	-	(31.0)
Impairments of available-for-sale investments	(0.4)	-	-
New share capital subscribed	24.7	0.1	22.0
Acquisition of own shares	(86.8)	(7.5)	(23.7)
Obligation to deliver own shares as a result of acquisition	15.1	-	-
Disposal of own shares	34.5	7.9	8.1
Total equity attributable to equity holders of the parent	1,343.1	1,227.0	1,342.8

Explanatory notes to interim financial report

11. Reconciliation of net cash from operating activities

	Six months ended 30 June 2006 £mn	Six months ended 30 June 2005 £mn	Year ended 31 December 2005 £mn
Operating profit	114.1	101.7	213.1
Adjustments for:			
Depreciation and amortisation	4.2	5.4	10.9
Impairment of available-for-sale assets recycled through the income statement	6.4	-	1.3
Other amounts recycled through the income statement in respect of investments	(16.5)	-	(32.3)
Increase in trade and other receivables	(277.5)	(168.1)	(154.2)
Increase in trade and other payables and provisions	214.7	384.8	402.1
Increase in life assurance company technical provision	82.4	-	-
Net decrease in debt securities in issue	(0.5)	(30.1)	(18.0)
Profit on disposal of business	(2.7)	(0.2)	(0.2)
Charge for provisions	1.0	1.0	9.4
Impairment of non-current assets held for sale	2.2	-	-
Gains on investments at fair value through profit or loss	(19.5)	(6.9)	(24.2)
Share-based payments expensed	15.2	10.0	23.3
Other non-cash movements	13.5	(6.2)	(26.1)
Special payment made to UK pension scheme	-	(30.3)	(30.3)
United Kingdom corporation tax recovered/(paid)	4.2	(6.9)	(16.1)
Overseas tax paid	(18.2)	(21.4)	(34.7)
Interest received	4.0	6.5	11.8
Interest paid	(0.8)	(0.4)	(1.2)
Net purchase of life assurance company investments	(82.4)	-	-
Net disposal/(purchase) of current asset investments	125.5	(276.9)	(242.4)
Net cash from/(used in) operating activities	169.3	(38.0)	92.2

12. Life company investments and technical provisions

Two new captions are presented on the face of the balance sheet – ‘Life company investments’ and ‘Life company technical provisions’ – as a result of the the incorporation of Schroder Pension Management Limited (‘SPML’), a wholly-owned subsidiary of the Group, which commenced trading on 6 April 2006 as a life assurance company after obtaining FSA approval.

SPML has been incorporated to allow the Group’s defined contribution and smaller defined benefit clients to invest in its unit-linked funds, replacing the Group’s Pension Fund Pooling Vehicles.

SPML is not a retail life assurance company and there is no intention to underwrite significant insurance business which would expose the Group to insurance risk.

Like the rest of the asset management business, SPML earns fee income from the funds it manages on behalf of its clients. However, unlike other funds, the funds run by SPML that policyholders invest in are owned by SPML and are represented as a non-current asset (‘Life company investments’) on the balance sheet. The asset is offset by a corresponding non-current liability (‘Life company technical provisions’), being the monies owed to the policyholders.

Note 1 ‘Basis of preparation’ sets out the accounting policy adopted by the Group in respect of the life assurance company investments and technical provisions.

Explanatory notes to interim financial report

13. Acquisitions

On 3 May 2006, the Group acquired 100 per cent. of the issued share capital of NewFinance Capital Holdings Limited for consideration of £56.7 million. This transaction has been accounted for using the purchase method of accounting. As allowable under IFRS 3 'Business Combinations', the initial accounting for the acquisition has been determined only provisionally due to the timing of the acquisition relative to the reporting date.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Book value/fair value £mn
Net assets acquired:	
Property, plant and equipment	0.4
Non-current asset investments	0.1
Joint ventures	0.1
Cash at bank	6.8
Debtors	1.8
Creditors	(6.0)
	3.2
Goodwill	43.0
Intangible assets	10.5
	56.7
Satisfied by:	
Cash	19.3[1]
Deferred consideration	37.4
Total consideration	56.7

[1] Includes acquisition costs of £0.6 milllion

There was no material difference between the fair value and the carrying value of the assets and liabilities on acquisition.

Deferred consideration is stated at its fair value at the date of acquisition and consists of a notional £20.6 million investment in funds managed by NewFinance Capital, the award of shares in Schroders plc with a value of £15.1 million and deferred cash payments of £1.7 million. Deferred consideration of £36.4 million is due to be paid in equal amounts at the first, second and third anniversary of the date of completion, subject to certain non-performance related criteria. The remaining deferred cash balance of £1.0 million is payable within ten working days of agreement between the parties of the audited completion accounts. The award of deferred shares is classified within equity on the face of the balance sheet as 'Other reserves'.

Additional contingent cash consideration of £20.1 million is payable provided certain stringent performance criteria are met. The Directors consider that the recognition criteria as set out in IFRS 3 have not yet been met and the contingent consideration has therefore not been provided for in this report. The Directors will continue to review performance under the terms of the acquisition agreement to determine over time whether such contingent consideration should be recognised for consolidation purposes.

The goodwill arising on the acquisition of NewFinance Capital Holdings Limited is attributable to the anticipated profitability of the hedge funds of funds business acquired. The intangible assets represent values attributed to fund management contracts acquired (see note 7).

The result contributed by NewFinance Capital Holdings Limited and its subsidiaries in the period between the date of acquisition and the balance sheet date was a profit of £0.7 million before tax.

If the acquisition had been completed on 1 January 2006, an aggregation of the Group's gross profit for the period and that of the acquiree would have been £381.4 million, and the profit before tax for the period on the same basis would have been £135.2 million. The Directors note that such aggregations ignore the increased effects of the integration costs and synergistic benefits of the acquisition that would arise over the period since 1 January 2006.

14. Own shares

'Own shares' are shares held by employee trusts for the purposes of satisfying certain equity-based awards where such shares have not vested unconditionally in employees of the Group. During the period, the number of own shares held increased from 7.1 million to 10.0 million, 1.4 million of which were purchased to hedge obligations relating to the acquisition of NewFinance Capital Holdings Limited. Of the 10.0 million own shares held, 3.2 million were voting shares purchased at a cost of £32.1 million. At 31 December 2005, the Group held no voting shares as own shares. As a result of a combination of higher share prices and the purchase of the voting shares, the average cost of an own share increased from £6.43 to £9.06 in the period.

Shareholder information

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Registered in England. Company No. 3909886

Registered office

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31 Gresham Street
London EC2V 7QA
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Fax: +44 (0) 20 7658 6965

Company Secretary

Graham Staples
Schroders plc
31 Gresham Street
London EC2V 7QA
Tel: +44 (0) 20 7658 6000
Fax: +44 (0) 20 7658 6965

www.schroders.com
Email: company.secretary@schroders.com

Interim dividend calendar

Ex-dividend date	23 August 2006
Record date	25 August 2006
Payment date	29 September 2006

Investor information

Enquiries and notifications concerning dividends, share certificates, share transfers and address changes should be sent to the Registrar; other shareholder enquiries should be addressed to the Company Secretary at the registered office.

The Company's governance reports, corporate governance guidelines and the terms of reference of the Board Committees can be found at www.schroders.com.

Registrar

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

UK shareholder helpline:	0870 241 8113
International shareholder helpline:	+44 121 415 7192
Fax:	+44 (0) 870 600 3980

Overseas branch register

An overseas branch register is operated in Bermuda for the benefit of shareholders with registered addresses in Bermuda. Enquiries should be directed to Lloyds TSB Registrars.

Shareview

The Shareview service from the Registrar gives direct access to details of your share investments including balance movements, indicative share prices, information on recent dividends, portfolio valuation and general information for shareholders. Shareholders must register at www.shareview.co.uk. You will need to enter the shareholder reference on your share certificate and other personal details. Having selected your own PIN, a user ID will be sent to you.

Dividend reinvestment plan

This service was introduced to provide shareholders with a cost efficient way of increasing their shareholding in the Company. Applications for the dividend reinvestment plan must be received by the Registrar by 8 September 2006 if you wish your interim dividend for 2006, due to be paid on 29 September 2006, to be reinvested to buy additional Schroders shares. A copy of the Schroders dividend reinvestment plan information pack and application form can be downloaded from www.schroders.com or alternatively you can call the Schroders DRIP helpline on 0870 241 3018 for the UK or +44 212 415 7192 from overseas.

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Dealing services

Shareview Dealing is a shareholder service offered by the Registrar. It is a simple way to buy or sell shares via the internet or telephone with quick settlement. For further information visit www.shareview.co.uk/dealing or call 0870 850 0852.

JPMorgan Cazenove Ltd operates a postal dealing service in the Company's shares. Further information is available from:

JPMorgan Cazenove Ltd
20 Moorgate
London
EC2R 6DA
Tel: +44 (0) 20 7588 2828
Fax: +44 (0) 20 7155 9000

Share price information

Share price information can be found at www.schroders.com or through your broker. The Financial Times Cityline service also provides this information with calls charged at 60p per minute:

Ordinary shares	0906 003 3939
Non-voting ordinary shares	0906 003 3941

Dividend mandates

We recommend that all dividend payments are made directly into a bank or building society account. This provides tighter security and access to funds more quickly. A dividend mandate form can be downloaded from www.schroders.com or alternatively you can call the shareholder helpline on 0870 241 8113.

Overseas dividend mandates

Schroders offers a service to our overseas shareholders in participating countries which enables shareholders to receive their dividends in local currencies. If you are eligible, and have not yet taken advantage of this mandating process, you should already have received a letter informing you of this and a mandate form. You can check your eligibility and/or request a mandate form if applicable via the shareholder helpline.

E-communications

Shareholders wishing to receive Annual and Interim Report and Accounts and other shareholder communications in electronic rather than paper form should register their instruction at www.shareview.co.uk.

Sharegift

If you only have a small number of shares whose value makes them uneconomic to sell, you may wish to consider donating to charity through Sharegift, an independent charity share donation scheme. For further information, please contact either the Registrar or Sharegift, telephone +44 (0) 20 7337 0501, or see the website at www.sharegift.org.

Capital gains tax

Capital gains tax values at 31 March 1982 and values relating to the disposal of the investment banking business in 2000 can be found at www.schroders.com or can be obtained from the Company Secretary at the registered office.

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