Press Release
Schroders plc

21 February 2006

Preliminary Results to 31 December 2005 (unaudited)

Schroders plc today announces its preliminary results to 31 December 2005 prepared under International Financial Reporting Standards (IFRS). Results for comparative periods have been restated from UK GAAP to IFRS.

Further growth in profits

Asset Management profit increased 60 per cent. to £193.9 million. Group profit before tax rose 18 per cent. to £250.7 million. Funds under management were up 16 per cent. to £122.5 billion. The Board has recommended an increased final dividend of 14.5 pence per share (2004: 13.5 pence per share) which brings the total dividend in respect of 2005 to 21.5 pence per share (2004: 20.0 pence per share). The Group announces the acquisition of NewFinance Capital.

	Year ended 31 December 2005 £mn	Year ended 31 December 2004 £mn
Asset Management profit	193.9*	120.9
Private Banking profit	6.3*	3.5
Private Equity profit	40.3	83.8**
Group Net Income/(Costs)	10.2*	3.4
Profit before tax	**250.7***	**211.6****
Funds under management (£bn)	122.5	105.6
Final dividend (pence)	14.5	13.5

* Profit before tax includes a gain on a discontinued outsourcing contract of £20.4 million, of which £20.1 million arose in Asset Management and £0.3 million in Private Banking; and a provision of £9.2 million (2004: £2.7 million) in relation to surplus office space.
** Including a profit of £47.8 million relating to the disposal of a private equity investment by Internet Finance Partners.

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Management Statement

2005 was another year of progress for Schroders. Group profit before tax rose 18 per cent. to £250.7 million (2004: £211.6 million) and Asset Management profit increased 60 per cent. to £193.9 million (2004: £120.9 million) as a result of further growth in gross margins and strong performance from most equity markets. Private Banking profit improved to £6.3 million (2004: £3.5 million) and Private Equity, with profit of £40.3 million, again made an important contribution to Group profitability whilst not matching the exceptional returns of the previous year (2004: £83.8 million). Total operating costs rose to £484.3 million (2004: £408.6 million) principally due to higher variable compensation costs linked to revenue growth and a £9.2 million provision for surplus space in London. Funds under management at the end of 2005 totalled £122.5 billion (2004: £105.6 billion).

Asset Management

Revenue and profit in Asset Management rose sharply in 2005 as equity markets performed well and gross profit margins reached 51 basis points (2004: 46 basis points). Margins have increased consistently in the past five years as our mix of business has fundamentally changed. Retail now constitutes 53 per cent. of Asset Management gross profit and we have successfully developed a range of specialist products which command higher fees from institutional investors.

Regulatory and accounting developments are acting as a catalyst for change in the asset management industry, as best practice standards are being re-evaluated and new approaches are introduced. Many institutional investors face significant challenges in restoring pension plan funding ratios in the face of sharp declines in long-term bond yields. We are seeing an increasing number of opportunities in liability driven investment for our pension fund clients, and last year we applied this technique when restructuring the investments of the Schroder Retirement Benefits Scheme.

A strong pipeline of products is essential for the future growth of our business and we launched innovative products in strategic credit, enhanced equity income and global property securities during the year, as well as a series of more conventional funds. We have also continued to invest in systems to support the new instruments and investment strategies required by our investment teams.

Against a background of rising markets we generated good returns for our clients, with approximately 65 per cent. of our retail funds outperforming their peer groups over three years and 61 per cent. of institutional funds ahead of their benchmarks over the same time period. Our fixed income business in particular finished the year well positioned with strong performance across a range of products.

Institutional saw net outflows, as clients continued to move away from balanced towards specialist mandates, but at a reduced level of £5.6 billion (2004: £8.4 billion). Gross profit in Institutional increased to £254.1 million (2004: £219.6 million) as a result of our focus on higher margin business, and funds under management in Institutional ended the year at £78.7 billion (2004: £69.1 billion).

Gross sales in Retail were up 33 per cent. in 2005, but net flows were constrained by our decision to soft-close some products for capacity reasons and portfolio manager changes on our European equity funds. As a result, net sales overall were flat (2004: £5.9 billion), although gross profit increased to £284.9 million (2004: £215.0 million). We expect resumed growth in our Retail business with new retail products coming on stream and a strengthened portfolio management team in Europe. Funds under management in Retail ended the year at £36.0 billion (2004: £30.2 billion).

Our business in Continental Europe and Asia Pacific developed well and both regions produced sharply increased profit. In China we formed with Bank of Communications a joint venture fund management business, 30 per cent. owned by Schroders, and we successfully launched an equity mutual fund, followed by a money market fund in January 2006. In the US, we made good progress towards launching a range of international and domestic products for retail investors.

Private Banking

Private Banking profit increased to £6.3 million (2004: £3.5 million), we won net new business of £0.6 billion (2004: £0.7 billion) and funds under management at year end were £7.8 billion (2004: £6.3 billion). Good progress has been made in the past four years, bringing the business into profit, generating net new business and upgrading the product offering. We will continue to develop our investment management and banking services for our private clients and streamline our operations platform in order to continue to grow profit.

Private Equity

We had significant realised gains and carried interest profits in Private Equity during the year at £40.3 million, albeit down on the exceptional levels of the previous year (2004: £83.8 million). The timing of realisations on our private equity investments is difficult to predict but we expect to see further profits on our investment portfolio over the medium term. In private equity funds of funds, performance on our first two funds has been strong and we will shortly close our third fund, bringing funds raised in this asset class to approximately £600 million.

Acquisition of NewFinance Capital

We have announced today that we have signed an agreement to acquire NewFinance Capital, a London-based manager of funds of hedge funds. As at 31 December 2005, NewFinance Capital had assets under management of approximately $2.5 billion with net revenues of approximately $20 million in 2005. The consideration will be $101 million with up to a further $41 million contingent on certain revenue targets being met, to be paid over a four year period.

This acquisition increases our exposure to alternatives, broadens our product offering to clients with a range of institutional quality funds and gives us critical mass in an asset class we believe will continue to be in demand by high net worth and, increasingly, institutional investors. We will merge our existing funds of hedge funds business, with $700 million under management, into NewFinance Capital and the three managing partners of NewFinance Capital, Marc Hotimsky, Georges Saier and Thorkild Juncker, will take responsibility for the combined business.

Board

We also announced today that Mr Luc Bertrand will join the Board as an independent non-executive director with effect from 1 March 2006. He will become a member of the Audit Committee. Mr Bertrand is Chairman of the Executive Committee of Belgian company Ackermans & van Haaren NV and we are delighted to welcome him to the Board.

Dividend

In the light of the continued growth in profits and the Group's strong financial position, the Board has recommended an increased final dividend of 14.5 pence per share, payable on 28 April 2006 to shareholders on the register at 24 March 2006. This brings the total dividend for 2005 to 21.5 pence per share (2004: 20.0 pence per share).

Outlook

Despite the sharp rise in most equity markets and very low bond yields, we see the favourable environment for capital markets continuing in 2006, although equity markets are unlikely to match the returns of last year.

In the past four years the Group's profitability has been restored to previous peak levels as a result of a fundamental change in the business mix, a tight control of fixed costs and, more recently, rising equity markets. After four years of sharply increasing profits, 2006 is likely to be a year of consolidation for Schroders as we make investments for the long-term in talent, new product development and infrastructure upgrades. These, together with our strong financial position, broadly diversified business, brand strength and continuity of ownership, will underpin the platform for the next stage of growth.

Michael Dobson
Chief Executive

21 February 2006

This preliminary announcement does not constitute the full Annual Report for 2005. The Annual Report will be posted to shareholders on 14 March.

Forward-looking statements

This preliminary announcement 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 announcement should be construed as a profit forecast.

Consolidated Income Statement

year ended 31 December 2005

	2005 £mn	2004 £mn
Revenue	808.0	631.3
Profit on disposal of Internet Finance Partners investment	-	47.8
Total revenue	808.0	679.1
Cost of sales	(131.0)	(87.9)
Gross profit	677.0	591.2
Gain on discontinued outsourcing contract	20.4	-
Administrative expenses	(473.4)	(396.2)
Depreciation and amortisation	(10.9)	(12.4)
Operating profit	213.1	182.6
Share of profit of associates and joint ventures	13.5	6.0
Interest receivable and similar income	25.3	23.7
Interest payable and similar charges	(1.2)	(0.7)
Profit before tax	250.7	211.6
UK tax	(16.2)	(6.0)
Foreign tax	(41.2)	(34.3)
Tax	(57.4)	(40.3)
Profit after tax	193.3	171.3
Attributable to:		
Minority interests	2.0	15.6
Equity holders of the parent	191.3	155.7
	193.3	171.3
Memo - dividends	(59.5)	(56.4)
Basic earnings per share	65.7p	53.5p
Diluted earnings per share	65.1p	53.1p

Consolidated Balance Sheet
as at 31 December 2005

	2005 £mn	2004 £mn
Non-current assets		
Intangible assets	30.2	35.8
Property, plant and equipment	9.4	7.5
Associates and joint ventures	35.7	54.9
Other investments	123.9	64.9
Deferred tax	54.9	54.1
Trade and other receivables	303.0	212.1
	557.1	429.3
Current assets		
Investments	1,795.9	1,346.6
Current tax	17.7	2.0
Trade and other receivables	544.9	489.1
Cash and cash equivalents	402.4	432.1
	2,760.9	2,269.8
Non-current assets held for sale	23.4	31.2
Total assets	3,341.4	2,730.3
Equity		
Called up share capital	298.5	297.0
Share premium account	32.1	26.7
Capital reserves	187.0	160.5
Own shares held	(45.7)	(30.1)
Retained profits	870.9	665.1
Equity attributable to equity holders of the parent	1,342.8	1,119.2
Minority interests	0.3	11.4
Total equity	1,343.1	1,130.6
Non-current liabilities		
Debt securities in issue	12.0	-
Deferred tax	2.8	4.2
Provisions	10.1	6.9
Trade and other payables	185.3	232.1
	210.2	243.2
Current liabilities		
Debt securities in issue	4.2	34.3
Provisions	14.7	12.0
Current tax	32.9	30.4
Trade and other payables	1,736.3	1,279.8
	1,788.1	1,356.5
Total equity and liabilities	3,341.4	2,730.3

Consolidated Statement of Recognised Income and Expense
year ended 31 December 2005

	2005 £mn	2004 £mn
Exchange differences on translation of foreign operations	38.6	(26.4)
Net (losses)/gains on hedges recognised directly in equity	(26.9)	18.4
Actuarial gains/(losses) on defined benefit pension schemes	5.1	(8.4)
Share based payments	23.3	14.5
Net gains on available-for-sale investments	44.3	-
Tax on items taken directly to equity	6.8	4.3
Net income recognised directly in equity	91.2	2.4
Profit for the year	193.3	171.3
Total recognised income and expense for the year	284.5	173.7
Attributable to:		
Minority interests	2.0	15.6
Equity holders of the parent	282.5	158.1
	284.5	173.7
Effect of changes in accounting policy for IASs 32 and 39:		
Equity holders of the parent		47.8

Consolidated Cash Flow Statement

year ended 31 December 2005

	2005 £mn	2004 £mn
Net cash from operating activities	92.2	24.1
Investing activities		
Proceeds from disposal of business	0.2	2.8
Acquisition of subsidiaries	(0.8)	-
Cash acquired with acquisitions	0.8	-
Purchase of joint ventures	(4.2)	-
Purchase of intangible assets	(1.8)	(3.8)
Purchase of property, plant and equipment	(5.7)	(3.4)
Purchase of non-current asset investments	(62.4)	(59.4)
Purchase of non-current assets held for sale	(23.4)	-
Proceeds from sale of intangible assets	0.1	-
Proceeds from sale of non-current asset investments	73.9	57.2
Proceeds from sale of property, plant and equipment	0.5	1.0
Proceeds from repayment of loans by associates	30.3	-
Net purchase of current asset investments	(68.9)	(5.8)
Interest received	15.7	11.6
Dividends/capital distributions received from associates and joint ventures	9.0	0.2
Disposal of Internet Finance Partners investment	-	42.2
Net cash (used in)/from investing activities	(36.7)	42.6
Financing activities		
Proceeds from issue of share capital	21.8	0.6
Acquisition of own shares	(23.7)	(8.9)
Redemption of ordinary share capital	(15.3)	(0.6)
Distributions made to minority interests	(11.9)	(4.4)
Dividends paid	(59.5)	(56.4)
Net cash used in financing	(88.6)	(69.7)
Net decrease in cash and cash equivalents	(33.1)	(3.0)
Opening cash and cash equivalents	432.1	438.5
Net decrease in cash and cash equivalents	(33.1)	(3.0)
Effect of exchange rate changes	3.4	(3.4)
Closing cash and cash equivalents	402.4	432.1

Notes to the Accounts

Basis of Preparation

The preliminary results for the year ended 31 December 2005 are unaudited. The financial information included in this statement does not constitute the Group's statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 2005 will be delivered to the Registrar of Companies in due course.

The annual report will be posted to shareholders on 14 March 2006 and further copies will be available from the Company Secretary at the Company's registered office. The Company's Annual General Meeting will be held on 26 April 2006 at 11.30 a.m. at 31 Gresham Street, London, EC2V 7QA.

Accounting Policies

In preparing the financial information included in this statement the Group has applied policies which are in accordance with International Financial Reporting Standards as adopted by the European Commission at 31 December 2005. Full details of the Group’s accounting policies can be found in Appendix 2 of the Transition to International Financial Reporting Standards press release dated 15 June 2005 on our website (http://ir.schroders.com/schrodersplc/irhome/results).

Segmental Reporting

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 for a broad range of institutional and retail clients; 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 other residual assets.

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	-
Total 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 and joint ventures	(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
Administrative expenses include the following non-cash expenses:						
Share-based payments	(18.4)	(2.1)	-	(2.8)	-	(23.3)
Provisions	(0.2)	-	-	(9.2)	-	(9.4)
	(18.6)	(2.1)	-	(12.0)	-	(32.7)
Segment assets	647.8	1,971.1	161.5*	777.5	(216.5)	3,341.4
Segment liabilities	(369.2)	(1,800.0)	(0.4)	(45.2)	216.5	(1,998.3)
	278.6	171.1	161.1	732.3	-	1,343.1
Capital expenditure on segment assets	6.8	0.7	-	-	-	7.5

* Includes £31.6 million investment in associates

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

Segmental Reporting (continued)

Year ended 31 December 2004	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group Net Income/ (Costs) £mn	Inter-segment elimination £mn	Total £mn
External revenue	520.8	50.4	31.7	9.1	-	612.0
External net interest	-	19.3	-	-	-	19.3
Inter-segment interest payable	-	(4.7)	-	-	4.7	-
Revenue	520.8	65.0	31.7	9.1	4.7	631.3
Profit on disposal of Internet Finance Partners investment	-	-	47.8	-	-	47.8
Total revenue	520.8	65.0	79.5	9.1	4.7	679.1
Cost of sales	(86.2)	(1.7)	-	-	-	(87.9)
Gross profit	434.6	63.3	79.5	9.1	4.7	591.2
Administrative expenses	(311.8)	(56.0)	(2.8)	(25.6)	-	(396.2)
Depreciation	(8.1)	(3.8)	-	(0.5)	-	(12.4)
Operating profit	114.7	3.5	76.7	(17.0)	4.7	182.6
Share of profit of associates	0.2	-	5.8	-	-	6.0
External interest receivable and similar income	3.4	-	1.3	19.0	-	23.7
Inter-segment interest receivable	3.0	-	-	1.7	(4.7)	-
Interest receivable and similar income	6.4	-	1.3	20.7	(4.7)	23.7
Interest payable and similar charges	(0.4)	-	-	(0.3)	-	(0.7)
Profit before tax	120.9	3.5	83.8	3.4	-	211.6
Administrative expenses include the following non-cash expenses:						
Share-based payments	(10.5)	(1.5)	-	(2.5)	-	(14.5)
Provisions	(0.4)	-	-	(1.8)	-	(2.2)
	(10.9)	(1.5)	-	(4.3)	-	(16.7)
Segment assets	495.4	1,571.8	178.9*	668.5	(184.3)	2,730.3
Segment liabilities	(294.5)	(1,410.7)	(3.1)	(75.7)	184.3	(1,599.7)
	200.9	161.1	175.8	592.8	-	1,130.6
Capital expenditure on segment assets	4.9	2.3	-	-	-	7.2

* includes £54.9 million investment in associates

As part of the transition to IFRS, certain unaudited comparative balances provisionally disclosed in our interim results announcement dated 16 August 2005 have been revised on finalisation. The two principal changes are:

(i) A reclassification of costs of £1.1 million from the Asset Management segment to the Private Banking segment.
(ii) A reclassification of £16.8 million from Retained Profits to Current Liabilities to correctly account for the interaction of the adjustments required to adopt IFRS2 'Share-based payment' and the treatment of 'Own Shares'.

Tax on Profit on Ordinary Activities

	2005 £mn	2004 £mn
Profit on ordinary activities before tax	250.7	211.6
Profit on ordinary activities before tax multiplied by corporation tax at the UK standard rate of 30% (2004: 30%)	75.2	63.5
Effects of:		
Impact of profits/(losses) arising in jurisdictions with higher tax rates	3.1	1.5
Impact of profits/(losses) arising in jurisdictions with lower tax rates	(22.9)	(31.6)
Non taxable income net of disallowable expenses	(5.5)	(3.1)
Provision against deferred tax	2.9	12.9
Additional tax credit for pension contributions	-	(4.2)
UK tax on profits of overseas entities	2.7	0.4
Prior year adjustments		
UK prior year - current	(0.1)	0.5
Foreign tax prior year - current	0.7	(1.0)
Deferred tax prior year	1.3	1.4
Total tax charge for the year	57.4	40.3

Reconciliation of Net Cash from Operating Activities

	2005 £mn	2004 £mn
Operating profit	213.1	182.6
Adjustments for:		
Depreciation and amortisation	10.9	12.4
Impairment of available-for-sale assets	1.3	-
Amounts recycled through the income statement	(32.3)	-
(Increase)/decrease in trade and other receivables	(154.2)	35.0
Increase/(decrease) in trade and other payables and provisions	402.1	(44.1)
Net decrease in debt securities in issue	(18.0)	(6.4)
Profit on disposal of business	(0.2)	(2.6)
Profit on disposal of Internet Finance Partners investment	-	(47.8)
Reversal of impairment of non-current asset investments	-	(1.3)
Charge for provisions	9.4	2.2
Gains on current asset investments	(24.2)	(16.0)
Share-based payments expensed	23.3	14.5
Other non-cash movements	(26.1)	14.8
Special payment made to UK pension scheme	(30.3)	-
United Kingdom corporation tax paid	(16.1)	(1.5)
Overseas tax paid	(34.7)	(17.0)
Interest received	11.8	13.2
Interest paid	(1.2)	(0.7)
Net purchase of current asset investments	(242.4)	(113.2)
Net cash from operating activities	92.2	24.1

Five Year Financial Summary

	Prepared under IFRS 2005 £mn	Prepared under IFRS 2004 £mn	Prepared under UK GAAP* 2004 £mn	2003 £mn	2002 £mn	2001 £mn
Profit/(loss) before tax	250.7	211.6	191.0	65.0	18.9	(8.1)
Tax	(57.4)	(40.3)	(41.4)	(16.4)	7.7	(12.6)
Profit/(loss) after tax before minority interests	193.3	171.3	149.6	48.6	26.6	(20.7)
Minority interests	(2.0)	(15.6)	(15.6)	-	(0.5)	0.1
Profit/(loss) for the year	191.3	155.7	134.0	48.6	26.1	(20.6)
Earnings per share:						
Basic earnings /(loss) per share (pence)	65.7	53.5	46.0	16.5	8.8	(7.0)
Diluted earnings/(loss) per share (pence)	65.1	53.1	45.7	16.4	8.8	(7.0)
Dividends:						
Cost (£mn)	59.5	56.4	57.8	53.7	53.3	53.9
Pence per share	20.5	19.5	20.0	18.5	18.5	18.5
Total equity (£mn)	1,343.1	1,130.6	1,114.1	1,029.2	1,051.9	1,112.5
Net assets per share (pence)	450	381	383	350	355	372

* The main adjustments necessary that would make this information comply with International Financial Reporting Standards are those concerned with the measurement of share-based payments, dividends, leases, employee benefits, intangible assets (including goodwill), revenue, and non-current assets classified as being held for sale.

Funds under Management – 2005 Flows

	Total £bn	Institutional £bn	Retail £bn	Private Banking £bn
31 December 2004	105.6	69.1	30.2	6.3
Gross sales	31.5	9.1	20.3	2.1
Gross redemptions	(36.5)	(14.7)	(20.3)	(1.5)
Net asset gains/(losses)	(5.0)	(5.6)	-	0.6
Market movement	21.9	15.2	5.8	0.9
31 December 2005	122.5	78.7	36.0	7.8

Income and Cost Metrics for the Group

	2005	2004
Group cost: income ratio	66%	66%
Group cost: gross profits	72%	69%
Return on average capital (pre-tax)	20%	20%
Return on average capital (post-tax)	16%	16%
Asset Management cost: gross profits	69%	74%
Asset Management gross profit on average funds under management	51bps	46bps
Asset Management costs on average funds under management	35bps	34bps
Asset Management costs on closing funds under management	33bps	31bps