Schroders

Press Release
Schroders plc

4 March 2010

Annual Results to 31 December 2009 (audited)

- Strong investment performance across asset classes: 79 per cent. of funds outperforming[1]
- Record net inflows £15.0 billion (2008: net outflows £9.6 billion)
- Funds under management £148.4 billion (2008: £110.2 billion)
- Total profit before tax and exceptional items £200.2 million (2008: £290.5 million)
- Total profit before tax £137.5 million (2008: £123.1 million)
- Dividend 21.0 pence per share (unchanged) taking the full-year dividend to 31.0 pence per share (unchanged)

	2009 £m	2008 £m
Asset Management	192.0	249.8
Private Banking	20.1	39.7
	212.1	**289.5**
Group segment	(11.9)	1.0
Profit before tax and exceptional items	**200.2**	**290.5**
Exceptional items	(62.7)	(167.4)
Profit before tax	**137.5**	**123.1**
Total dividend (pence per share)	**31.0**	**31.0**

Exceptional items relate to realised and unrealised losses on Group investment capital, redundancy and other rationalisation costs and the impairment of intangibles associated with prior period acquisitions.

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[1] Performance is compared to benchmark or peer group for three years to end December 2009.

Management Statement

2009 was a remarkable year for financial markets with equities extending the sharp downward trend of the previous year to reach new lows in the first quarter, before staging a sustained rally which led to significant gains over the year as a whole. Investor sentiment swung from extreme caution earlier in the year to a search for yield and risk assets, as confidence developed that a full-blown banking crisis and prolonged economic recession had been avoided.

Our focus on the organic growth opportunities in our business, through delivering superior investment performance for clients, maintaining a product range that meets investor demand across market cycles and developing global distribution partnerships, was well rewarded in 2009. Gross sales were £54.1 billion (2008: £41.6 billion) generated across a wide range of products, net new business inflows were a record £15.0 billion (2008: net outflows £9.6 billion) and funds under management ended the year at a record £148.4 billion (2008: £110.2 billion).

Lower net revenue margins and reduced performance fees resulted in a fall in net revenue to £788.9 million (2008: £872.9 million). Total profit before tax and exceptional items was £200.2 million (2008: £290.5 million). Exceptional items were £62.7 million (2008: £167.4 million), £23.6 million of which related principally to actions taken to reduce our cost base, with £39.1 million of losses on Group investment capital, most of which arose in prior years and had previously been recognised in reserves. In 2009, gains of £15.8 million were recognised in reserves. Total profit before tax and after exceptional items was £137.5 million (2008: £123.1 million).

Asset Management

Asset Management net revenue fell to £679.2 million (2008: £748.7 million). Net revenue margins at 62 basis points declined on 2008 (66 basis points) reflecting the high level of new business in fixed income, net inflows in Institutional and lower performance fees of £34.5 million (2008: £50.7 million) as some funds failed to reach the high watermarks set in 2008. Asset Management profit before tax and exceptional items was £192.0 million (2008: £249.8 million).

Investment performance has been strong across equities, fixed income and alternatives with 79 per cent. of funds outperforming benchmark or peer group over three years.

In Institutional, investment performance, together with a range of new products and a strengthened sales capability, led to significantly increased gross sales of £18.6 billion as well as reduced outflows. Net Institutional inflows were £4.9 billion (2008: net outflows £3.8 billion), diversified across asset classes and regions. Funds under management in Institutional ended the year up 29 per cent. at £76.7 billion (2008: £59.6 billion).

In Intermediary, gross sales were £29.0 billion with record net inflows of £9.6 billion (2008: net outflows £6.2 billion). All regions achieved net inflows, with a particularly strong performance in continental Europe where we were the leading active manager in net sales of mutual funds. In the UK we maintained our leading position with substantial onshore and offshore fund flows through the year. Our joint venture asset management business in China continued to perform well, with year end funds under management (not reported in overall funds under management) of £7.7 billion (2008: £4.9 billion) and a £9.9 million profit contribution (2008: £6.4 million). Funds under management in Intermediary ended the year up 52 per cent. at £59.1 billion (2008: £38.9 billion).

Private Banking

Private Banking net revenue fell to £97.7 million (2008: £111.3 million) reflecting reduced fees and commissions, and lower interest income in the low interest rate environment. Core operating expenses were marginally lower as we continued to invest in growth initiatives. After a £6.3 million doubtful debt provision, profit before tax fell to £20.1 million (2008: £38.2 million).

Despite the lower profit in 2009, we navigated the banking crisis well, generating competitive performance for clients, winning new business and maintaining a conservative and liquid balance sheet. Our Private Banking business is positioned for growth, with a strong client service proposition and investment culture, an efficient operating platform and a recognised brand. Net new business in 2009 amounted to £0.5 billion (2008: £0.4 billion) and funds under management ended the year at £12.6 billion (2008: £11.7 billion).

Group

The result for the Group segment was a loss before tax and exceptional items of £11.9 million (2008: profit £1.0 million), due to a lower yield on the Group's capital. We maintained a strong financial position with shareholders' equity of £1,649.0 million (2008: £1,632.2 million) including £1,059.0 million of Group investment capital in excess of regulatory and operating requirements.

Dividend

The Board has approved a second interim dividend of 21.0 pence per share in lieu of a final dividend. The second interim dividend will be payable on 29 March 2010 to shareholders on the Register at 12 March 2010. This brings the total dividend for the year to 31.0 pence per share, unchanged on 2008.

Board

Sir Peter Job will retire from the Board at the conclusion of the Annual General Meeting on 6 May. He joined the Board in 1999 and has served as both Senior Independent Director and Chairman of the Remuneration Committee. We are very grateful to Peter for his support and wise counsel over more than ten years.

With effect from the conclusion of the Annual General Meeting, Andrew Beeson will become Senior Independent Director and Chairman of the Remuneration Committee and Merlyn Lowther will succeed him as Chairman of the Audit Committee.

We welcome Robin Buchanan to the Board with effect from 4 March 2010. He was previously the Senior Partner of Bain & Company in the UK and more recently Dean and then President of London Business School.

Outlook

After the gains over the past nine months, and with most developed countries still facing economic and financial challenges, a period of consolidation in financial markets is likely. However, 2010 has started well with high levels of net inflows in Institutional and Intermediary and we see further significant organic growth opportunities longer term, based on strong investment performance for clients, a broad product range, a proven distribution capability and a geographically diversified business.

Copies of this announcement are available on the Schroders website: www.schroders.com. Michael Dobson, Chief Executive, and Kevin Parry, Chief Financial Officer, will host a presentation and webcast for the investment community, to discuss the Group's results at 9 a.m. GMT on Thursday, 4 March 2010 at 31 Gresham Street, London, EC2V 7QA. The webcast can be viewed live at www.schroders.com/ir and www.StreetEvents.com. For individuals unable to attend the presentation or participate in the live webcast, a replay will be available from midday on Thursday, 4 March 2010 on www.schroders.com/ir.

Forward-looking statements

This announcement, the Annual Report and Accounts for 2009 from which it is extracted and the Schroders website may contain forward-looking statements with respect to the financial condition, results of operations and businesses of the Group. Such statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances 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 forward-looking statements and forecasts. 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 or in the Annual Report and Accounts should be construed as a profit forecast.

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Consolidated Income Statement

for the year ended 31 December 2009

	2009			2008		
	Before exceptionals £m	**Exceptional items £m**	**Total £m**	Before exceptionals £m	Exceptional items £m	Total £m
Revenue	998.5	(39.1)	959.4	1,083.0	(147.2)	935.8
Cost of sales	(209.6)	-	(209.6)	(210.1)	-	(210.1)
Net revenue	**788.9**	**(39.1)**	**749.8**	**872.9**	**(147.2)**	**725.7**
Operating expenses	(615.1)	(23.6)	(638.7)	(627.4)	(20.2)	(647.6)
Operating profit	**173.8**	**(62.7)**	**111.1**	**245.5**	**(167.4)**	**78.1**
Interest receivable and similar income	12.5	-	12.5	39.0	-	39.0
Interest payable and similar charges	(1.7)	-	(1.7)	(0.2)	-	(0.2)
Net finance income	10.8	-	10.8	38.8	-	38.8
Share of profit of associates and joint ventures	15.6	-	15.6	6.2	-	6.2
Profit before tax	**200.2**	**(62.7)**	**137.5**	**290.5**	**(167.4)**	**123.1**
Tax			(41.8)			(51.8)
Profit after tax			**95.7**			**71.3**
Attributable to:						
Minority interests			0.3			(5.4)
Equity holders of the parent			95.4			76.7
			95.7			**71.3**
Memo – dividends			**(84.9)**			**(86.7)**
Basic earnings per share before exceptional items*			**54.0p**			**75.5p**
Basic earnings per share			**34.3p**			**27.5p**
Diluted earnings per share			**34.2p**			**27.3p**

*Non-GAAP measure of performance

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Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	2009 £m	2008 £m
Profit for the year	**95.7**	71.3
Net foreign exchange (losses)/gains on translation of foreign operations	**(112.8)**	322.7
Net gains/(losses) on hedges recognised directly in equity	**65.8**	(169.3)
Actuarial losses on defined benefit pension schemes	**(69.6)**	(29.6)
Net gains/(losses) on available-for-sale financial assets	**15.8**	(194.3)
Amounts recycled through the income statement	**42.4**	107.4
Tax on items taken directly to equity	**43.1**	(1.0)
Other comprehensive income for the year	**(15.3)**	35.9
Total comprehensive income for the year net of tax	**80.4**	107.2
Attributable to:		
Minority interests	**0.3**	(5.4)
Equity holders of the parent	**80.1**	112.6
	80.4	107.2

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Consolidated Balance Sheet

31 December 2009

	2009 £m	2008 £m
Non-current assets		
Goodwill	**115.6**	112.8
Intangible assets	**26.3**	50.7
Property, plant and equipment	**21.3**	27.7
Associates and joint ventures	**46.5**	32.7
Financial assets	**129.7**	154.8
Loans and advances to customers	**495.1**	417.0
Deferred tax	**71.1**	43.1
Retirement benefit scheme surplus	**-**	22.4
Trade and other receivables	**4.9**	6.8
	910.5	**868.0**
Current assets		
Financial assets	**1,339.2**	1,661.7
Loans and advances to customers	**469.1**	385.4
Current tax	**20.5**	15.5
Trade and other receivables	**338.7**	358.9
Cash and cash equivalents	**1,502.6**	1,067.6
	3,670.1	**3,489.1**
Non-current assets held for sale	**-**	2.0
Assets backing unit-linked liabilities	**5,708.0**	3,714.3
Total assets	**10,288.6**	**8,073.4**
Equity		
Called-up share capital	**288.8**	286.7
Share premium account	**72.5**	61.2
Other reserves	**180.5**	228.6
Retained profits	**1,106.6**	1,055.4
Equity attributable to equity holders of the parent	**1,648.4**	**1,631.9**
Minority interests	**0.6**	0.3
Total equity	**1,649.0**	**1,632.2**
Non-current liabilities		
Financial liabilities	**37.6**	26.4
Deposits by customers and banks	**383.1**	198.8
Deferred tax	**2.5**	4.1
Provisions	**12.8**	10.2
Retirement benefit scheme deficits	**46.5**	7.4
Trade and other payables	**84.1**	70.0
	566.6	**316.9**
Current liabilities		
Financial liabilities	**43.6**	118.9
Deposits by customers and banks	**1,904.5**	1,858.2
Provisions	**4.8**	8.7
Current tax	**16.5**	22.8
Trade and other payables	**395.6**	401.4
	2,365.0	**2,410.0**
Unit-linked liabilities	**5,708.0**	3,714.3
Total equity and liabilities	**10,288.6**	**8,073.4**

Approved by the Board of Directors on 3 March 2010

Kevin Parry Bruno Schroder (Directors)

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

For the year ended 31 December 2009	Share capital £m	Share premium £m	Other reserves £m	Retained profits £m	Minority interests £m	Total £m
At 1 January 2009	286.7	61.2	228.6	1,055.4	0.3	1,632.2
Net foreign exchange losses on translation of foreign operations	-	-	(112.8)	-	-	(112.8)
Net gains on hedges recognised directly in equity	-	-	65.8	-	-	65.8
Actuarial losses on defined benefit pension schemes	-	-	-	(69.6)	-	(69.6)
Net gains on available-for-sale financial assets	-	-	-	15.8	-	15.8
Amounts recycled through the income statement	-	-	7.4	35.0	-	42.4
Tax on items taken directly to equity	-	-	-	43.1	-	43.1
Profit for the year	-	-	-	95.4	0.3	95.7
Total comprehensive income for the year	**-**	**-**	**(39.6)**	**119.7**	**0.3**	**80.4**
Shares issued	2.1	11.3	-	-	-	13.4
Share-based payments	-	-	-	27.6	-	27.6
Dividends	-	-	-	(84.9)	-	(84.9)
Net loss on consideration paid in the form of shares	-	-	(0.1)	-	-	(0.1)
Own shares purchased	-	-	(19.6)	-	-	(19.6)
Transfers	-	-	11.2	(11.2)	-	-
At 31 December 2009	**288.8**	**72.5**	**180.5**	**1,106.6**	**0.6**	**1,649.0**

Year ended 31 December 2008	Share capital £m	Share premium £m	Other reserves £m	Retained profits £m	Minority interests £m	Total £m
At 1 January 2008	294.5	58.1	64.0	1,279.1	0.5	1,696.2
Net foreign exchange gains on translation of foreign operations	-	-	322.7	-	-	322.7
Net losses on hedges recognised directly in equity	-	-	(169.3)	-	-	(169.3)
Actuarial losses on defined benefit pension schemes	-	-	-	(29.6)	-	(29.6)
Net losses on available-for-sale financial assets	-	-	-	(194.3)	-	(194.3)
Amounts recycled through the income statement	-	-	-	107.4	-	107.4
Tax on items taken directly to equity	-	-	-	(1.0)	-	(1.0)
Profit for the year	-	-	-	76.7	(5.4)	71.3
Total comprehensive income for the year	**-**	**-**	**153.4**	**(40.8)**	**(5.4)**	**107.2**
Shares issued	0.8	3.1	-	-	-	3.9
Shares cancelled	(8.6)	-	8.5	(71.8)	-	(71.9)
Share-based payments	-	-	-	24.4	-	24.4
Dividends	-	-	-	(86.7)	(0.7)	(87.4)
Net loss on consideration paid in the form of shares	-	-	(0.2)	-	-	(0.2)
Own shares purchased	-	-	(45.5)	-	-	(45.5)
Transfers	-	-	48.4	(48.4)	5.9	5.9
Share issue costs	-	-	-	(0.4)	-	(0.4)
At 31 December 2008	**286.7**	**61.2**	**228.6**	**1,055.4**	**0.3**	**1,632.2**

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Consolidated Cash Flow Statement

for the year ended 31 December 2009

	2009 £m	2008 £m
Net cash from operating activities	**370.9**	133.5
Investing activities		
Aggregate cash flows arising from the acquisition of subsidiaries	**-**	(33.6)
Acquisition of joint ventures	**(1.2)**	-
Purchase of intangible assets	**(1.2)**	(9.3)
Purchase of property, plant and equipment	**(4.9)**	(6.9)
Net disposal/(purchase) of non-current financial assets	**0.5**	(11.4)
Net disposal of current financial assets	**324.1**	452.5
Net disposal/(purchase) of non-current assets held for sale	**0.8**	(3.3)
Interest received	**12.5**	39.0
Dividends and capital distributions received from associates and joint ventures	**2.7**	9.5
Net cash from investing activities	**333.3**	436.5
Financing activities		
Redemption of non-voting ordinary shares	**-**	(71.8)
Proceeds from issue of non-voting ordinary shares	**13.4**	3.9
Acquisition of own shares	**(19.6)**	(45.5)
Distributions made to minority interests	**-**	(0.7)
Dividends paid	**(84.9)**	(86.7)
Net cash used in financing activities	**(91.1)**	(200.8)
Net increase in cash and cash equivalents	**613.1**	369.2
Opening cash and cash equivalents	**1,197.1**	716.9
Net increase in cash and cash equivalents	**613.1**	369.2
Effect of exchange rate changes	**(40.9)**	111.0
Closing cash and cash equivalents	**1,769.3**	1,197.1
Closing cash and cash equivalents consists of:		
Cash and cash equivalents backing unit-linked liabilities	**266.7**	129.5
Other cash and cash equivalents held by the Group	**1,502.6**	1,067.6
	1,769.3	1,197.1

The financial information included in this statement does not constitute the Group's statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts for 2008 have been delivered to the Registrar of Companies and the auditors' opinion on those accounts was unqualified and did not contain a statement made under Section 498(2) or Section 498(3) of the Companies Act 2006. An unqualified auditors' opinion has also been issued on the statutory accounts for the year ended 31 December 2009 which will be delivered to the Registrar of Companies in due course.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), which comprise Standards and Interpretations approved by either the International Accounting Standards Board or the International Financial Reporting Interpretations Committee or their predecessors, as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

With the exception of the Standards which were issued during the year, but which were not effective at the balance sheet date, the Group adopted all Standards and Interpretations that were either issued, or which had become effective, during the year. Standards and Interpretations not yet adopted at the balance sheet date were:

IFRS 3 (Amended)	Business Combinations
IFRS 9	Financial Instruments
IAS 27 (Amended)	Consolidation of Separate Financial Statements

In addition, a number of other existing Standards and Interpretations have also been revised to ensure consistency with the amended Standards listed above.

The main impact on the Group of the amendments to IFRS 3 will be the requirement for costs relating to business combinations to be expensed, where previously they were capitalised and for adjustments to contingent consideration to be recognised within the income statement. The Group's accounting policy in respect of business combinations will be amended accordingly.

IFRS 9 has not yet been endorsed by the European Union. As it currently stands, the Standard would require the Group to reclassify a significant number of its financial assets that are currently classified as being either available-for-sale or held to maturity. The Group's decision as to how it wishes to reclassify such instruments will determine the impact of the new Standard. The Group's accounting policy in respect of financial assets will be amended on initial application of the Standard.

The Directors do not anticipate that the adoption of the amended IAS 27 or any other of the new or revised Standards and Interpretations will have a material impact on the financial statement of the Group.

The Standards and Interpretations adopted in the year required the Group to amend its disclosures within notes to the accounts, but had no impact on the Group's financial statements. Standards and Interpretations adopted were:

IFRS 7 (Amended)	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IAS 1 (Amended)	Presentation of Financial Statements

Comparative amounts in the balance sheet in respect of unit-linked liabilities and assets held to cover such liabilities have been restated by £479.6 million in order to record the holdings of assets controlled by the life company that are beneficially owned by third parties. Such holdings arise where the life company is in a position to be able to control a fund in which it invests. This restatement does not change the Group's net assets and has no net impact on the Group's income statement.

The accounting policies used in preparing the financial information in this announcement are the same as those outlined in the 2009 Annual Report and Accounts.

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Segmental Reporting

Operating Segments

The Group has three continuing business segments: Asset Management, Private Banking, and Group. Asset Management principally comprises investment management including advisory services, equity products, fixed income securities and alternative asset classes such as property, commodities, private equity and funds of hedge funds; Private Banking principally comprises investment management and banking services provided to high net worth individuals and certain smaller institutions; and Group principally comprises the income on the Group's investments in cash, liquid debt securities, investments in equities, venture and buy-out funds and related vehicles less Group costs and provisions.

During the year, the Group has adopted IFRS 8, which replaced IAS 14 Segment Reporting. A key difference between IAS 14 and IFRS 8 is that the latter requires segment information to be presented on the same basis as that provided for internal reporting purposes to the Group's chief operating decision-maker. The chief operating decision-maker is the Group's Chief Executive. Within the note below, segment information is presented on that basis. Comparatives for 2008 have been restated accordingly.

Within the Group's last annual financial statements, the Group segment was disclosed as two separate segments – Group and Private Equity. As a result of the adoption of IFRS 8, the Group and Private Equity segments, which have similar economic characteristics, have been aggregated into a single segment.

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.

Year ended 31 December 2009	**Asset Management £m**	**Private Banking £m**	**Group £m**	**Inter-segment eliminations and adjustments £m**	**Total £m**
External revenue	884.4	83.0	(32.4)	5.1	**940.1**
External net interest	-	19.3	-	-	**19.3**
Inter-segment revenues	-	(0.2)	-	0.2	**-**
Total revenue	884.4	102.1	(32.4)	5.3	**959.4**
Cost of sales	(205.2)	(4.4)	-	-	**(209.6)**
Net revenue	679.2	97.7	(32.4)	5.3	**749.8**
Operating expenses	(517.6)	(77.6)	(38.4)	(5.1)	**(638.7)**
Operating profit/(loss)	161.6	20.1	(70.8)	0.2	**111.1**
External interest receivable and similar income	2.7	-	9.8	-	**12.5**
Inter-segment interest receivable/(payable)	0.6	-	(0.4)	(0.2)	**-**
Interest receivable and similar income	3.3	-	9.4	(0.2)	**12.5**
Interest payable and similar charges	(0.1)	-	(1.6)	-	**(1.7)**
Net finance income/(expense)	3.2	-	7.8	(0.2)	**10.8**
Share of profit of associates and joint ventures	9.9	-	5.7	-	**15.6**
Profit/(loss) before tax	174.7	20.1	(57.3)	-	**137.5**

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Exceptional items included in the analysis above:	Asset Management £m	Private Banking £m	Group £m	Inter-segment eliminations and adjustments £m	Total £m
Revenues	-	-	(39.1)	-	**(39.1)**
Operating expenses	(17.3)	-	(6.3)	-	**(23.6)**
	(17.3)	-	(45.4)	-	**(62.7)**
Profit /(loss)before tax and exceptional items	192.0	20.1	(11.9)	-	**200.2**
Profit/(loss) before tax	174.7	20.1	(57.3)	-	**137.5**

Year ended 31 December 2008	Asset Management £m	Private Banking £m	Group £m	Inter-segment eliminations and adjustments £m	Total £m
External revenue	953.6	88.8	(139.5)	4.3	**907.2**
External net interest	-	28.6	-	-	**28.6**
Inter-segment revenues	-	(1.2)	-	1.2	**-**
Total revenue	953.6	116.2	(139.5)	5.5	**935.8**
Cost of sales	(204.9)	(4.9)	(0.3)	-	**(210.1)**
Net revenue	748.7	111.3	(139.8)	5.5	**725.7**
Operating expenses	(537.3)	(73.1)	(32.9)	(4.3)	**(647.6)**
Operating profit/(loss)	211.4	38.2	(172.7)	1.2	**78.1**
External interest receivable and similar income	6.7	-	32.3	-	**39.0**
Inter-segment interest receivable/(payable)	6.5	-	(5.3)	(1.2)	**-**
Interest receivable and similar income	13.2	-	27.0	(1.2)	**39.0**
Interest payable and similar charges	(0.1)	-	(0.1)	-	**(0.2)**
Net finance income/(expense)	13.1	-	26.9	(1.2)	**38.8**
Share of profit/(loss)of associates and joint ventures	6.6	-	(0.4)	-	**6.2**
Profit/(loss) before tax	231.1	38.2	(146.2)	-	**123.1**

Exceptional items included in the analysis above:	Asset Management £m	Private Banking £m	Group £m	Inter-segment eliminations and adjustments £m	Total £m
Revenues	-	-	(147.2)	-	(147.2)
Operating expenses	(18.7)	(1.5)	-	-	(20.2)
	(18.7)	(1.5)	(147.2)	-	(167.4)
Profit before tax and exceptional items	249.8	39.7	1.0	-	290.5
Profit/(loss) before tax	231.1	38.2	(146.2)	-	123.1

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Exceptional items

Exceptional items comprise:	**2009 £m**	2008 £m
Within revenues:		
Net losses on financial assets	**(39.1)**	(147.2)
Within operating expenses:		
Redundancy costs	**(7.8)**	(13.6)
Surplus space provision and office rationalisation arising from the cost reduction programme	**(6.8)**	-
Other rationalisation costs	**(3.9)**	-
Impairment of joint ventures and intangible assets	**(3.7)**	(6.6)
Provision for bad and doubtful debts	**(1.4)**	-
	(23.6)	(20.2)
Total exceptional items	**(62.7)**	(167.4)

The Group believes that the deterioration of the world's financial markets that occurred during 2008 and which continued to affect markets in 2009 constituted rare events that had a material impact on the value of the Group's investment capital and intangible assets arising from business combinations. As such, losses on such assets during the year have been classified as exceptional items, together with the cost of redundancies and actions related to the cost reduction programme that have arisen as a direct consequence of market conditions.

Operating expenses

Included in operating expenses:	**2009 £m**	2008 £m
Salaries and other remuneration	**343.6**	340.5
Social security costs	**36.7**	27.1
Other pension costs	**18.2**	19.4
Employee benefits expense	**398.5**	387.0
Operating lease payments	**31.8**	29.4

The average number of employees employed by the Company and its subsidiary undertakings during the year was:

	2009 Number	2008 Number
Full-time employees	**2,540**	2,699
Contract and temporary staff	**118**	254
	2,658	2,953
They were employed as follows (all continuing operations):		
Asset Management	**2,281**	2,588
Private Banking	**322**	314
Group	**55**	51
	2,658	2,953

Net finance income

Included in net finance income:

	2009 £m	2008 £m
Bank interest receivable	**9.5**	15.5
Other interest receivable on financial assets not at fair value through profit or loss	**0.5**	6.6
Interest on financial assets held at fair value through profit or loss	**2.5**	16.9
Interest receivable and similar income	**12.5**	39.0
Interest payable on bank loans and overdrafts	**-**	(0.1)
Other interest payable on financial liabilities not at fair value through profit or loss	**(1.7)**	(0.1)
Interest payable and similar charges	**(1.7)**	(0.2)

Retirement benefit obligations

The charge for retirement benefit costs is as follows:

	2009 £m	2008 £m
Pension costs – defined contribution plans	**15.0**	15.9
Pension costs – defined benefit plans	**2.8**	3.4
Other post-employment benefits	**0.4**	0.1
	18.2	19.4
The defined benefit scheme charge in respect of the UK scheme consists of:		
Current service cost	**7.5**	8.5
Past service cost	**0.2**	-
Expected return on scheme assets	**(35.0)**	(34.9)
Curtailment	**(0.5)**	(0.5)
Interest on scheme liabilities	**29.6**	28.8
Total charge in respect of the UK scheme	**1.8**	1.9
Charges in respect of other defined benefit schemes	**1.0**	1.5
Total defined benefit scheme charges	**2.8**	3.4

The principal scheme in the UK is the Schroders Retirement Benefits Scheme ('the Scheme') which is non-contributory and administered by the Trustee. It is a funded scheme comprising a defined benefit section and a defined contribution section. It is open to new entrants and has 305 active members in the defined benefit section and 813 active members in the defined contribution section at 31 December 2009 (2008: 299 and 878 respectively). The most recent triennial valuation of the Scheme was carried out as at 31 December 2008. It discloses that the market value of the assets of the Scheme represented 92 per cent. of the liability at that date, calculated on the funding basis applicable to the Scheme, for the benefits that had accrued to members at that date allowing for future increases in earnings and pensions. The deficit identified has been met in full during 2010 by a single cash contribution.

The Company paid effective contributions to the defined benefit section in 2009 of 35.8 per cent. of pensionable salaries to cover the accrual of ongoing benefits. For joiners on or after 1 June 1989, pensionable salaries for this purpose were subject to the statutory earnings cap which was in force until April 2006, after which this cap was replaced by a notional earnings cap.

The pension cost under IAS 19 for the defined benefit section of the Scheme has been determined by independent qualified actuaries, Hewitt Associates Limited, and is based on an assessment of the Scheme as at 31 December 2009. This assessment was carried out using the projected unit method and the principal financial assumptions set out below. Assets were taken at bid value and are held by an independent custodian.

The Group has not materially changed any of the principal financial assumptions underlying the calculation of the Scheme's net financial position, although such assumptions have been amended where applicable to reflect current market conditions and expectations.

In the year, the contributions to the defined benefits section of the Scheme totalled £8.6 million (2008: £12.4 million). The balance sheet liability at 31 December 2009 was £41.1 million (2008: asset of £22.4 million).

Administration expenses and the levy payable to the Pensions Protection Fund are met directly by the Group. The actual return on Scheme assets was £35.1 million (2008: negative return of £5.1 million).

The Group operates a number of smaller pension schemes around the world, some of which are funded defined benefit schemes with valuations performed regularly by qualified actuaries. Actuarial assumptions vary according to the economic conditions of the countries in which the funds are situated. In addition, there are several defined contribution schemes.

The additional disclosures required by IAS 19 are set out below. Figures shown are for the defined benefits section of the UK Scheme only.

(**a) Balance sheet assets:**	**2009 £m**	2008 £m
(Deficit)/surplus in the UK Scheme	**(41.1)**	22.4

(b) Income statement charge:	**2009 £m**	2008 £m
Pension benefits	**1.8**	1.9

Pension benefits

The amounts recognised in the balance sheet are determined as follows:	**2009 £m**	2008 £m
Present value of funded obligations	**(614.1)**	(525.2)
Fair value of plan assets	**573.0**	547.6
Net (liability)/asset recognised in the balance sheet	**(41.1)**	22.4

Scheme assets do not include any of the Company's shares (2008: nil) or buildings occupied by the Group (2008: nil).

The cumulative amount of actuarial gains and losses recognised in respect of the Scheme through the statement of comprehensive income is a £91.6 million loss (2008: £21.3 million loss).

The expected rates of return on individual categories of the Scheme assets (net of investment expenses only) are determined by reference to the following:

Bonds – based on an outperformance of 0.4 per cent. (2008: 0.6 per cent.) per annum above the yield on long-dated government bonds at the balance sheet date.

Equities – based on an outperformance of 4.1 per cent. (2008: 3.9 per cent.) per annum above the yield on long-dated government bonds at the balance sheet date.

Liability-matching - based on an outperformance of 1.0 per cent. (2008: 1.8 per cent.) per annum above the yield on long-dated government bonds at the balance sheet date.

Other - based on the long-term expected return on cash implied by swaps yields, together with an expected return on hedge funds based on outperformance of 1.0 per cent. per annum above the yield on long-dated government bonds at the balance sheet date (2008: based on the long-term expected return on cash implied by swaps yields, together with an expected return on hedge funds based on outperformance of 1.0 per cent. per annum above the yield on long-dated government bonds at the balance sheet date).

The movement in the present value of the UK defined benefit obligation during the year is as follows:

	2009 £m	2008 £m
At 1 January	**525.2**	512.8
Current service cost	**7.5**	8.5
Past service cost	**0.2**	-
Interest cost	**29.6**	28.8
Curtailment	**(0.5)**	(0.5)
Actuarial losses/(gains)	**70.4**	(9.4)
Benefits paid	**(18.3)**	(15.0)
At 31 December	**614.1**	525.2

The movement in the fair value of the Scheme assets during the year is as follows:

	2009 £m	2008 £m
At 1 January	**547.6**	555.3
Expected return	**35.0**	34.9
Actuarial gains/(losses)	**0.1**	(40.0)
Contributions by employer	**8.6**	12.4
Benefits paid	**(18.3)**	(15.0)
At 31 December	**573.0**	547.6

The fair value of Scheme assets at the balance sheet date is analysed as follows:

	2009 £m	2008 £m
Equity instruments*	**289.2**	250.6
Debt instruments	**78.3**	45.4
Liability-matching assets	**190.6**	204.8
Other assets**	**14.9**	46.8
	573.0	547.6

*Includes property

**Includes hedge funds

35 per cent. of the Scheme's assets are liability-driven investments (including bonds and derivatives such as interest rate and inflation swaps and cash) so as to match the profile of the Scheme's liabilities. The remaining 65 per cent. is invested in a diversified portfolio of growth assets with an allocation of approximately 45 per cent. to equities and 20 per cent. to a range of other asset classes, including property, private equity, hedge funds, currency, high yield and emerging market bonds. The combination and the spread across the different asset classes has been designed to reduce risk while still generating an expected return in excess of the cost of meeting the Scheme's liabilities.

The principal financial assumptions used were as follows:

	2009 **%**	2008 %
Discount rate	**5.5**	5.7
Inflation rate	**3.9**	3.0
Future salary increases	**4.7**	4.5
Future pension increases (for benefits earned before 13 August 2007)	**3.6**	3.0
Future pension increases (for benefits earned after 13 August 2007)	**2.3**	2.1
Expected return on Scheme assets analysed as:		
Equities	**8.6**	7.8
Bonds	**4.9**	4.5
Liability-matching assets	**5.5**	5.7
Other assets	**5.2**	4.4
Number of years a current pensioner is expected to live beyond age 60:		
Men	**28**	28
Women	**31**	30
Number of years future pensioners currently aged 45 are expected to live beyond age 60:		
Men	**30**	30
Women	**32**	31

The history of the Scheme is as follows:

	2009 **£m**	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligation	**(614.1)**	(525.2)	(512.8)	(500.8)	(471.7)
Fair value of Scheme assets	**573.0**	547.6	555.3	517.6	480.5
(Deficit)/surplus in the Scheme	**(41.1)**	22.4	42.5	16.8	8.8
Experience adjustments on Scheme liabilities	**16.6**	2.0	(0.6)	(1.0)	10.1
Experience adjustments on Scheme assets	**0.1**	(40.0)	(1.4)	14.4	34.8

The amounts under IAS 19 that have been recognised in the statement of comprehensive income ('SOCI') in respect of the UK Scheme are set out below:

	2009		2008	
	£m	**%**	£m	%
Actual return less expected return on UK Scheme assets	**0.1**		(40.0)	
% of year-end market value of assets		**-**		(7.3)
Experience gains and losses arising on UK Scheme liabilities	**16.6**		2.0	
% of year-end present value of Scheme liabilities		**2.7**		0.4
Change in assumptions underlying the present value of the UK Scheme liabilities	**(87.0)**		7.4	
% of year-end present value of UK Scheme liabilities		**(14.2)**		1.4
Actuarial (losses)/gains recognised in SOCI	**(70.3)**		(30.6)	
% of year-end present value of UK Scheme liabilities		**(11.4)**		(5.8)

The sensitivity of the 2009 pension liabilities to changes in assumptions are as follows:

Assumption	**Assumption change**	**Estimated reduction in pension liabilities £m**	**Estimated reduction in pension liabilities %**
Discount rate	Increase by 0.5% per annum	57.8	9.4
Expected rate of salary increases	Reduce by 0.5% per annum	2.3	0.4
Expected rate of pension increases in payment	Reduce by 0.5% per annum	38.7	6.3
Life expectancy	Reduce by one year	14.2	2.3

Membership details as at 31 December 2009 are as follows:

Active workers	305
Total pensionable salary roll	£23.2 million per annum
Average age (active)	46
Average service in plan	10.5 years
Number of deferred members	1,466
Total deferred pensions (at date of leaving Scheme)	£9.9 million per annum
Average age (deferred)	48
Number of pensioners	645
Average age (pensioners)	68
Total pensions in payment	£14.0 million per annum

The Group currently expects to make contributions totalling approximately £9.0 million during 2010, payable monthly, to cover the accrual of ongoing benefits in the Scheme. In addition, the Group made a contribution of £53.2 million in February 2010 in relation to the deficit identified on the Scheme's funding basis at 31 December 2008, as identified above.

Tax expense

As of 1 April 2008, the UK standard rate of corporation tax changed from 30 per cent. to 28 per cent., leading to a change in the effective UK corporation tax rate used from 28.5 per cent. in 2008 to 28.0 per cent. in 2009.

The tax charge for the year is higher (2008: higher) than the UK standard rate of corporation tax of 28 per cent. The differences are explained below:

	2009 £m	2008 £m
Profit before tax	**137.5**	123.1
Profit before tax multiplied by corporation tax at the UK rate of 28 per cent. (2008: 28.5 per cent.)	**38.5**	35.1
Effects of:		
Impact of profits/losses arising in jurisdictions with higher tax rates	**4.3**	2.7
Impact of profits/losses arising in jurisdictions with lower tax rates	**(3.0)**	(7.5)
Non-taxable income net of disallowable expenses	**(2.1)**	(0.3)
Movement in unrecognised deferred tax - current year	**9.0**	12.3
Effect of share price movements on deferred tax assets relating to share schemes	**(1.1)**	2.8
Foreign exchange movements on tax balances	**(0.6)**	(0.7)
UK tax on profits of overseas entities after double tax relief	**1.6**	4.9
Overseas tax on profits of UK entities after double tax relief	**1.6**	0.6
Prior year adjustments:		
UK tax	**(4.6)**	2.9
Foreign tax	**(3.5)**	1.0
Deferred tax	**1.7**	(2.0)
Total tax charge for the year	**41.8**	51.8

Analysis of credit to equity	**2009 £m**	2008 £m
Current income tax on Equity Compensation Plan and share option awards	**(5.4)**	(0.8)
Current income tax on movements on available -or-sale financial assets	**(8.0)**	(1.3)
Deferred tax on Equity Compensation Plan and share option awards - current year	**(10.0)**	11.3
Deferred tax on Equity Compensation Plan and share option awards - prior year	**(0.1)**	0.4
Deferred tax on actuarial gains and losses on defined benefit pension schemes	**(19.6)**	(8.6)
Tax (credit)/charge reported in equity	**(43.1)**	1.0

Dividends

	2009		2008	
	£m	**Pence per share**	£m	Pence per share
Declared and paid in year:				
Final dividend paid	**57.4**	**21.0**	59.4	21.0
Interim dividend paid	**27.5**	**10.0**	27.3	10.0
	84.9	**31.0**	86.7	31.0
Second interim dividend for 2009 payable 29 March 2010	**58.2**	**21.0**		

Dividends of £4.0 million (2008: £3.5 million) on shares held by the employee trusts have been waived.

Earnings per share

Basic earnings per share is calculated by dividing the profit for the financial year attributable to equity holders of the parent of £95.4 million (2008: £76.7 million) by the weighted average number of shares in issue during the year, less the weighted average number of own shares. The post-tax attributable profit adjusted for exceptional items is £150.3 million (2008: £210.9 million).

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

There is no difference between the profit for the financial year 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:

	2009 Number	2008 Number
Weighted average number of shares used in calculation of basic earnings per share	**278,180,961**	279,534,683
Effect of dilutive potential shares – share options	**680,378**	1,128,445
Effect of dilutive potential shares – contingently issuable shares	**158,122**	632,053
Weighted average number of shares used in calculation of diluted earnings per share	**279,019,461**	281,295,181

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

Goodwill

	2009 £m	2008 £m
At 1 January	**112.8**	95.2
Exchange translation adjustments	**(10.1)**	29.6
Additions	**0.1**	12.1
Reversal of contingent consideration	**-**	(24.1)
Transfers from intangible assets	**12.8**	-
At 31 December	**115.6**	**112.8**

At 31 December 2008, the initial accounting for two acquisitions of the Group had been determined only provisionally. The accounting for these acquisitions has now been finalised and, in respect of the 2008 acquisition of Swiss Re Asset Management Funds (Switzerland) AG, intangible assets of £12.8 million have been reclassified in the year as goodwill. This is recorded above within the 'Transfers from intangible assets' line. A small adjustment was also made in relation to the 2008 acquisition of E.Sun SITE, recorded within the 'Additions' line above.

Intangible assets

	2009			2008		
	Intangible assets arising from business combinations £m	**Software £m**	**Total £m**	Intangible assets arising from business combinations £m	Software £m	Total £m
Cost						
At 1 January	**44.5**	**49.0**	**93.5**	12.5	36.4	48.9
Exchange translation adjustments	**(2.6)**	**(1.3)**	**(3.9)**	11.5	3.4	14.9
Additions	**-**	**1.2**	**1.2**	20.5	9.3	29.8
Transfers to goodwill	**(12.8)**	**-**	**(12.8)**	-	-	-
Disposals	**-**	**(1.0)**	**(1.0)**	-	(0.1)	(0.1)
At 31 December	**29.1**	**47.9**	**77.0**	44.5	49.0	93.5
Amortisation						
At 1 January	**(14.3)**	**(28.5)**	**(42.8)**	(2.7)	(21.1)	(23.8)
Exchange translation adjustments	**0.9**	**0.9**	**1.8**	(1.8)	(2.9)	(4.7)
Amortisation and impairment for the year	**(5.3)**	**(5.4)**	**(10.7)**	(9.8)	(4.5)	(14.3)
Disposals	**-**	**1.0**	**1.0**	-	-	-
At 31 December	**(18.7)**	**(32.0)**	**(50.7)**	(14.3)	(28.5)	(42.8)
Carrying amount at 31 December	**10.4**	**15.9**	**26.3**	30.2	20.5	50.7

There were no additions to intangible assets arising from business combinations during the year. However, at 31 December 2008, the initial accounting for two acquisitions of the Group had been determined only provisionally. The accounting for these acquisitions has now been finalised and, in respect of the 2008 acquisition of Swiss Re Asset Management Funds (Switzerland) AG, intangible assets of £12.8 million have been reclassified in the period as goodwill. This is recorded above within the 'Transfers to goodwill' line.

The amortisation charge for the year in respect of fund management contracts was £2.6 million (2008: £3.2 million). In addition, a charge for impairment of £2.7 million (2008: £6.6 million) was taken in respect of reduced expected future cash inflows from entities acquired by the Group. Discount rates of between 10.2 per cent. and 10.5 per cent. were used in calculating the estimated levels of impairment.

Amortisation of intangible assets is recorded in the income statement as an operating expense.

Property, plant and equipment

	2009			2008		
	Office equipment, computers and cars £m	**Long leasehold premises and leasehold improvements* £m**	**Total £m**	Office equipment, computers and cars £m	Long leasehold premises and leasehold improvements* £m	Total £m
Cost						
At 1 January	**26.8**	**53.0**	**79.8**	21.3	44.6	65.9
Exchange translation adjustments	**(1.4)**	**(2.1)**	**(3.5)**	2.7	5.7	8.4
Additions	**2.2**	**2.7**	**4.9**	3.6	3.3	6.9
Disposals	**(3.5)**	**(3.3)**	**(6.8)**	(0.8)	(0.6)	(1.4)
At 31 December	**24.1**	**50.3**	**74.4**	26.8	53.0	79.8
Depreciation						
At 1 January	**(19.3)**	**(32.8)**	**(52.1)**	(15.4)	(24.9)	(40.3)
Exchange translation adjustments	**1.0**	**1.1**	**2.1**	(2.2)	(3.6)	(5.8)
Depreciation charge for the year	**(2.8)**	**(6.2)**	**(9.0)**	(2.5)	(4.9)	(7.4)
Disposals	**3.1**	**2.8**	**5.9**	0.8	0.6	1.4
At 31 December	**(18.0)**	**(35.1)**	**(53.1)**	(19.3)	(32.8)	(52.1)
Net book value at 31 December	**6.1**	**15.2**	**21.3**	7.5	20.2	27.7

* Includes lease deposits of £3.1 million (2008: £1.8 million)

Depreciation of property, plant and equipment is recorded in the income statement as an operating expense.

At 31 December 2009 and 2008, none of the above assets were held under finance leases. The Group has future commitments to purchase property, plant and equipment with a value of £0.7 million (2008: £nil).

Joint ventures

The Group's principal joint venture is a 30 per cent. interest in the ordinary share capital of Bank of Communications Schroder Fund Management Co. Ltd., which is involved in the management of funds in China.

The Group accounts for its holdings in joint ventures using the equity method of accounting. The Group's share of the assets, liabilities, revenue and expenses of the joint ventures is as follows:

	2009			2008		
	China joint venture £m	**Other joint ventures £m**	**Total £m**	China joint venture £m	Other joint ventures £m	Total £m
Non-current assets	**3.4**	**0.7***	**4.1**	0.7	1.5*	2.2
Current assets	**32.8**	**1.5**	**34.3**	24.3	0.3	24.6
Non-current liabilities	**(1.1)**	**-**	**(1.1)**	(0.2)	-	(0.2)
Current liabilities	**(7.0)**	**(0.3)**	**(7.3)**	(4.6)	(0.1)	(4.7)
Total equity	**28.1**	**1.9**	**30.0**	20.2	1.7	21.9
Revenue	**26.5**	**0.5**	**27.0**	16.2	0.5	16.7
Expenses	**(13.2)**	**(0.5)**	**(13.7)**	(7.0)	(0.3)	(7.3)
Tax	**(3.4)**	**-**	**(3.4)**	(2.8)	-	(2.8)
Group's share of joint ventures' profit for the year	**9.9**	**-**	**9.9**	6.4	0.2	6.6

*Balance consists of goodwill.

Unit-linked liabilities and assets backing unit-linked liabilities

Assets backing unit-linked liabilities comprise:

	2009 **£m**	2008 £m
Investments in authorised unit trusts	**1,905.4**	1,510.7
Other financial assets*	**3,535.9**	2,074.1
Cash and cash equivalents*	**266.7**	129.5
	5,708.0	**3,714.3**

The life company's assets are regarded as current assets as clients are able to withdraw funds within one year.

Unit-linked liabilities comprise:

	2009 **£m**	2008 £m
Financial liabilities due to life company investors	**5,062.9**	3,234.7
Financial liabilities due to third party investors**	**645.1**	479.6
	5,708.0	3,714.3

*Represents the assets of underlying funds in which the life company invests where the Group is in a position to be able to exercise control over those funds.

**Such liabilities arise in respect of assets controlled by the Group that are beneficially owned by third parties.

The above assets and unit-linked liabilities arise within the Group's wholly-owned entity, Schroder Pension Management Limited ('the life company'), which purchases units in open-ended authorised unit trusts on behalf of clients seeking to invest in unit trusts with a life assurance wrapper.

Non-current financial assets

	2009			
	Held to maturity £m	**Fair value through profit or loss £m**	**Available-for-sale £m**	**Total £m**
Equities – listed	**-**	**-**	**32.9**	**32.9**
Equities – unlisted	**-**	**-**	**30.6**	**30.6**
Debt securities – listed	**27.3**	**-**	**0.3**	**27.6**
Debt securities – unlisted	**-**	**-**	**2.5**	**2.5**
Investments	**27.3**	**-**	**66.3**	**93.6**
Derivative contracts	**-**	**36.1**	**-**	**36.1**
	27.3	**36.1**	**66.3**	**129.7**

	2008			
	Held to maturity £m	Fair value through profit or loss £m	Available-for-sale £m	Total £m
Equities – listed	-	-	24.1	24.1
Equities – unlisted	-	-	36.8	36.8
Debt securities – listed	69.0	-	0.2	69.2
Other – unlisted	-	-	0.5	0.5
Investments	69.0	-	61.6	130.6
Derivative contracts	-	24.2	-	24.2
	69.0	24.2	61.6	154.8

The Group's held to maturity financial assets are held within the Group's Private Banking operations as part of their banking book.

Effective from 1 July 2008, the Group adopted the amendment to IAS 39 issued in October 2008 and reclassified held for trading financial assets out of the fair value through profit or loss category and into the available-for-sale category. The carrying value of the reclassified financial assets at 31 December 2009 is £7.8 million (2008: £7.6 million).

Current financial assets

	2009			
	Held to maturity £m	**Fair value through profit or loss £m**	**Available-for-sale £m**	**Total £m**
Equities – listed	**-**	**71.1**	**86.8**	**157.9**
Equities – unlisted	**-**	**11.2**	**20.9**	**32.1**
Debt securities – listed	**196.6**	**393.8**	**59.5**	**649.9**
Debt securities – unlisted	**280.9**	**0.6**	**192.1**	**473.6**
Investments	**477.5**	**476.7**	**359.3**	**1,313.5**
Derivative contracts	**-**	**25.7**	**-**	**25.7**
	477.5	**502.4**	**359.3**	**1,339.2**

	2008			
	Held to maturity £m	Fair value through profit or loss £m	Available-for-sale £m	Total £m
Equities – listed	-	48.5	53.6	102.1
Equities – unlisted	-	39.5	124.7	164.2
Debt securities – listed	72.3	363.1	184.6	620.0
Debt securities – unlisted	704.4	10.7	3.6	718.7
Investments	776.7	461.8	366.5	1,605.0
Derivative contracts	-	56.7	-	56.7
	776.7	518.5	366.5	1,661.7

The Group's held to maturity investments are held within the Group's Private Banking operations as part of their banking book.

Effective from 1 July 2008, the Group adopted the amendment to IAS 39 issued in October 2008 and reclassified held for trading financial assets out of the fair value through profit or loss category and into the available-for-sale category. The carrying value of the reclassified financial assets at 31 December 2009 is £59.7 (2008: £262.1 million).

Deferred tax assets

	2009			
	Accelerated capital allowances £m	**Temporary differences including bonuses £m**	**Tax losses carried forward £m**	**Total £m**
At 1 January	**3.6**	**38.1**	**1.4**	**43.1**
Exchange translation adjustments	**-**	**(0.6)**	**-**	**(0.6)**
Changes in timing differences – income statement (expense)/credit	**(0.7)**	**(5.8)**	**5.3**	**(1.2)**
Debit taken to equity	**-**	**29.8**	**-**	**29.8**
At 31 December	**2.9**	**61.5**	**6.7**	**71.1**

	2008			
	Accelerated capital allowances £m	Temporary differences including bonuses £m	Tax losses carried forward £m	Total £m
At 1 January	4.5	36.8	1.5	42.8
Exchange translation adjustments	0.1	4.7	-	4.8
Changes in timing differences – income statement (expense)/credit	(1.0)	0.1	(0.1)	(1.0)
Effect of changes in tax rates – income statement expense	-	(3.2)	-	(3.2)
Transfers	-	(0.3)	-	(0.3)
At 31 December	**3.6**	**38.1**	**1.4**	**43.1**

Share capital

	Number of shares	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2009	286,713,360	226.0	60.7	286.7	61.2
Shares issued	2,064,537	-	2.1	2.1	11.3
At 31 December 2009	**288,777,897**	**226.0**	**62.8**	**288.8**	**72.5**

	Number of shares	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2008	294,498,843	226.0	68.5	294.5	58.1
Shares issued	752,747	-	0.8	0.8	3.1
Shares cancelled	(8,538,230)	-	(8.6)	(8.6)	-
At 31 December 2008	**286,713,360**	**226.0**	**60.7**	**286.7**	**61.2**

	2009 Number	2008 Number	**2009 £m**	2008 £m
Authorised:				
Ordinary shares of £1 each	**226,022,400**	226,022,400	**226.0**	226.0
Non-voting ordinary shares of £1 each	**113,977,598**	113,977,598	**114.0**	114.0
	339,999,998	339,999,998	**340.0**	340.0
Allotted, called-up and fully paid:				
Ordinary shares of £1 each	**226,022,400**	226,022,400	**226.0**	226.0
Non-voting ordinary shares of £1 each	**62,755,497**	60,690,960	**62.8**	60.7
	288,777,897	286,713,360	**288.8**	286.7

The difference between the share classes

The non-voting ordinary shares carry the same rights as ordinary shares except that they do not confer the right to attend and vote at any general meeting of the Company, and that on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares.

Own shares

Employee trusts have been established for the purposes of satisfying certain share-based awards. At 31 December 2009, trusts held 1,438,135 (2008: 4,406,488) non-voting ordinary shares costing £12.4 million (2008: £42.1 million), with a market value of £15.4 million (2008: £30.1 million). In addition, the trusts held 9,088,588 (2008: 9,450,527) voting ordinary shares costing £92.7 million (2008: £97.7 million), with a market value of £120.9 million (2008: £81.1 million). Dividends on shares held by the trusts are waived. In addition, the Group holds a further 600,000 non-voting ordinary shares within treasury. The shares cost £5.9 million and have a market value of £6.4 million.

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Other reserves

	Shares to be issued £m	**Capital reserves £m**	**Own shares held £m**	**Net exchange differences* £m**	**Hedging reserve* £m**	**Total £m**
At 1 January 2009	**5.0**	**203.4**	**(100.8)**	**294.4**	**(173.4)**	**228.6**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**(112.8)**	**65.8**	**(47.0)**
Amounts recycled through the income statement	**-**	**-**	**-**	**7.4**	**-**	**7.4**
Net income and expense recognised directly in equity	**-**	**-**	**-**	**(105.4)**	**65.8**	**(39.6)**
Shares cancelled	**-**	**-**	**-**	**-**	**-**	**-**
Consideration paid in the form of shares	**(5.0)**	**-**	**4.9**	**-**	**-**	**(0.1)**
Own shares purchased	**-**	**-**	**(19.6)**	**-**	**-**	**(19.6)**
Retained profits transfers	**-**	**(29.2)**	**25.8**	**14.6**	**-**	**11.2**
At 31 December 2009	**-**	**174.2**	**(89.7)**	**203.6**	**(107.6)**	**180.5**

	Shares to be issued £m	Capital reserves £m	Own shares held £m	Net exchange differences* £m	Hedging reserve* £m	Total £m
At 1 January 2008	10.1	161.8	(75.5)	(28.3)	(4.1)	64.0
Exchange differences on translation of foreign operations	-	-	-	322.7	(169.3)	153.4
Net income and expense recognised directly in equity	-	-	-	322.7	(169.3)	153.4
Shares cancelled	-	8.5	-	-	-	8.5
Consideration paid in the form of shares	(5.1)	-	4.9	-	-	(0.2)
Own shares purchased	-	-	(45.5)	-	-	(45.5)
Retained profits transfers	-	33.1	15.3	-	-	48.4
At 31 December 2008	5.0	203.4	(100.8)	294.4	(173.4)	228.6

*Net exchange differences arise on the translation of the net assets of the Group's non-sterling operations into sterling. The hedging reserve offsets such differences, recording the changes in fair value of financial instruments used to hedge these exposures.

Retained profits reserve

	Associates and joint ventures reserve £m	Fair value reserve* £m	Profit and loss reserve £m	Total £m
At 1 January 2009	**14.6**	**16.9**	**1,023.9**	**1,055.4**
Actuarial losses on defined benefit pension schemes	**-**	**-**	**(69.6)**	**(69.6)**
Net gains on available-for-sale financial assets	**3.2**	**12.6**	**-**	**15.8**
Amounts recycled through the income statement	**-**	**35.0**	**-**	**35.0**
Tax on items taken directly to equity	**-**	**8.0**	**35.1**	**43.1**
Other comprehensive income	**3.2**	**55.6**	**(34.5)**	**24.3**
Profit for the year	**15.6**	**-**	**79.8**	**95.4**
Total comprehensive income for the year	**18.8**	**55.6**	**45.3**	**119.7**
Share-based payments	**-**	**-**	**27.6**	**27.6**
Dividends	**-**	**-**	**(84.9)**	**(84.9)**
Transfers within retained profits reserve	**(2.7)**	**-**	**2.7**	**-**
Transfers to/from other reserves	**-**	**(14.6)**	**3.4**	**(11.2)**
At 31 December 2009	**30.7**	**57.9**	**1,018.0**	**1,106.6**

	Associates and joint ventures reserve £m	Fair value reserve* £m	Profit and loss reserve £m	Total £m
At 1 January 2008	20.8	99.4	1,158.9	1,279.1
Actuarial losses on defined benefit pension schemes	-	-	(29.6)	(29.6)
Net losses on available-for-sale financial assets	(3.1)	(191.2)	-	(194.3)
Amounts recycled through the income statement	-	107.4	-	107.4
Tax on items taken directly to equity	-	1.3	(2.3)	(1.0)
Other comprehensive income	(3.1)	(82.5)	(31.9)	(117.5)
Profit for the year	6.2	-	70.5	76.7
Total comprehensive income for the year	3.1	(82.5)	38.6	(40.8)
Shares cancelled	-	-	(71.8)	(71.8)
Share-based payments	-	-	24.4	24.4
Dividends	-	-	(86.7)	(86.7)
Transfers within retained profits reserve	(9.3)	-	9.3	-
Transfers to/from other reserves	-	-	(48.4)	(48.4)
Share issue costs	-	-	(0.4)	(0.4)
At 31 December 2008	14.6	16.9	1,023.9	1,055.4

*The fair value reserve represents the difference between the cost (or, if an asset has been reclassified, fair value at the date of reclassification) and the fair value of unimpaired financial assets classified as available-for-sale.

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Reconciliation of net cash from operating activities

	2009 £m	2008 £m
Operating profit	**111.1**	78.1
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of software	**14.4**	11.9
Impairment and amortisation of intangible assets acquired in business combinations	**5.3**	9.8
Impairment of associates and joint ventures	**1.0**	-
Impairment of financial assets	**34.4**	81.3
Other amounts recycled through the income statement in respect of financial assets	**0.6**	26.1
Increase in trade and other receivables	**(148.3)**	(134.1)
Increase in trade and other payables and provisions	**214.4**	112.9
Increase in unit-linked liabilities	**1,993.7**	986.5
Net charge for provisions	**2.5**	6.2
Net losses on financial assets and liabilities held at fair value through profit or loss	**0.3**	48.2
Share-based payments expensed	**27.6**	24.4
Other non-cash movements*	**19.8**	(134.2)
Payments made to UK defined benefit pension scheme	**(8.6)**	(12.4)
UK corporation tax recovered/(paid)	**4.8**	(21.7)
Overseas tax paid	**(43.9)**	(90.8)
Interest paid	**(1.7)**	(0.2)
Net purchase of assets backing unit-linked liabilities	**(1,856.5)**	(858.5)
Net cash from operating activities	**370.9**	133.5

*Principally foreign exchange movements.

Key Risks and mitigations

Managing risk

For many years the management of risk has been embedded in our culture. Like any asset management business we are exposed to a range of risks. These risks, if not managed properly, increase the possibility of the Group not being able to meet its objectives. The executive oversight of risk lies with the Chief Financial Officer, supported by the Group Risk Committee. The non-executive oversight of risk lies with the Audit Committee. A detailed description of the governance framework is set out in the Annual Report and Accounts in the risk management and internal controls report.

The external events of 2007 and 2008, including the failure of Northern Rock and Lehman Brothers, together with the government bailouts of banks and other financial institutions, caused us to reassess how we manage risk. We now group the risks we face into market and liquidity risks, credit risks, operational risks and emerging risks. We are in the business of seeking a return on risks taken on behalf of our clients. The first line of defence against unexpected outcomes lies with line managers whether they are investors, distribution employees or part of infrastructure support. Consequently, a designated senior member of management who sits on the Group Management Committee has risk management responsibility within each business area.

The senior management team, supported by its management functions, takes the lead role in ensuring that appropriate controls are in place across the business to maintain the quality standards expected by our clients and regulators. It is the responsibility of all employees to ensure that the control culture of Schroders is embedded within our working practices. Line management is supplemented by independent oversight functions led by the Chief Risk Officer which provide a second line of defence. The Chief Risk Officer has allocated responsibility for each category of risk to a member of his team.

Internal Audit provides retrospective assurance over the operation of controls and is the third line of defence against unanticipated outcomes. Individual risks are managed in a variety of different ways depending on the nature of the risks and their potential impacts to mitigate adverse consequences. We continuously upgrade our risk control processes and technological support tools to increase their effectiveness. The following is a summary of the risks that the Board currently considers key to our business. It is not intended to provide an exhaustive list of all the risks faced by our business or a complete list of all the controls in operation.

Market and liquidity risk

We face risks from movements in the financial markets in which we operate, arising from holding investments as both principal and agent. We have principal exposure in our Private Banking business where we hold bank paper and government securities. The Group's investment capital is invested in bank paper; government and corporate bonds; fixed income; equities; hedge funds; property; and private equity. There is agency exposure in Asset Management and Private Banking in respect of the assets we manage on behalf of our clients.

Market risk

Market risk arises from market movements which can cause a fall in the value of principal investments and a decline in the value of funds under management. Revenues and net new business are also at risk from a failure to meet performance targets or a loss of confidence in markets that can affect investors in a period of falling markets.

Market risk within Private Banking, arising from the assets held on the balance sheet, is monitored and managed at a local level and collectively by the Private Banking Risk Committee. Group management regularly reviews all holdings within Group capital. All principal investments across all businesses are managed within approved limits. Our geographically diversified, broad product range enables us to provide clients with solutions tailored to a variety of market conditions and serves to diversify individual market dependencies.

Liquidity risk

Liquidity risk is the risk that cashflows cannot be generated to meet redemptions or other obligations as they arise. Liquidity issues can arise as a result of market conditions or through inherently illiquid investments. To mitigate this risk within client portfolios, we seek to match, where possible, the liquidity of a portfolio's underlying investments with its liquidity requirements. We actively monitor the market for indicators of declines in liquidity to enable pre-emptive actions to be taken. We also review products and portfolios to identify capacity constraints.

Each of our regulated subsidiaries and the Group as a whole meet regulatory capital requirements. In addition, we also maintain sufficient liquidity on our balance sheet for our anticipated needs taking account of the risks we face.

Credit risk

We face credit risk as a result of counterparty exposure. In order to manage this risk we actively monitor counterparty creditworthiness and operate with limits expressed in terms of value and in term to maturity. Where possible, we also diversify our exposure across different counterparties. All counterparties are reviewed on a regular basis and limits are amended following changes to their financial performance. We actively monitor market data and rating agency outputs in assessing counterparties.

We also face credit risk through lending to private clients by Private Banking, although this is mitigated where possible through the collateralisation in the form of cash, portfolio investments or property.

Operational risk

Operational risk arises through the investment process, distribution channels, product development and the operation of our infrastructure, and as a consequence of our diversified business model.

Investment

Investment performance risk is the risk that portfolios will not meet their investment objectives. We adhere to a clearly defined investment process which seeks to meet investment targets within stated risk parameters. Individual portfolio performance, valuations and risk profiles are monitored by fund managers and management on a regular basis, allowing issues to be identified and mitigated. We use tools and governance principles within our investment risk framework and we review performance that lies outside expectations.

Recognising that not all products will outperform all of the time, we also offer a diversified product set which reduces the concentration of risk on the performance of any one fund or asset class. Fund performance is monitored as part of our investment performance risk management process.

Distribution

Distribution risks arise from relationship management across different distribution channels and products. We distribute through three channels, institutional clients, often advised by consultants; retail clients, intermediated through banks, brokers and independent advisers; and private clients. The broad range of distribution channels mitigates against a key dependency on any channel. No single client accounts for more than one per cent. of our revenues.

Product

Product risk arises from complexity and the development of new, sophisticated products to meet changes in client demand. We have a dedicated product development team and a new product approval and review procedure. Product risk can also arise from capacity constraints where demand exceeds the easily accessible supply of investments capable of delivering the required return. We actively monitor potential capacity constraints and mitigate by 'closing' the product to new investment.

Technology

We are reliant on technology and qualified professionals to maintain our infrastructure. Our technology is partly outsourced and our platform utilises well-established, tested technology from outsourcers judged to be financially stable and able to provide the required level of service. Outsourced suppliers are an important part of our business model and we work with our outsourced suppliers to maintain the quality and continuity of service. Detailed due diligence is undertaken before entering into new arrangements, and performance is reviewed on an ongoing basis. Continuity and business resumption planning is in place across the business with clear identification of key staff.

People

All of our operations are heavily dependent on people. High quality resource is relatively scarce in our industry. We ensure we employ people with skill sets appropriate to our changing business needs. This requires the recruitment and development of specialist skills as the range of our product offerings deepens and our investment and distribution strategies develop into more complex areas.

To mitigate human resource risks, we have competitive remuneration plans, with appropriate deferred benefits, targeted at key staff. We also operate from several international centres to reduce the reliance on single pools of talent and individual country stability. Clear objectives are also set for each employee and we measure success in the annual review process. This allows us to identify employee development initiatives which are a motivational force in retaining talented executives.

Geographic diversity

Our business is diverse and international which mitigates aggregate risks whilst introducing local risks as a result of local laws, business custom and tradition. We employ local staff with local expertise and also move employees internationally around the Group.

Emerging risks

Emerging risks are associated with situations outside Schroders that could cause risk to the Group. These are the hardest to define. We are concerned currently that regulatory developments could inadvertently affect the fund management industry due to changing regulation for the financial sector as a whole. We therefore maintain a dialogue with regulators and respond to consultations to assist them in their supervisory duties and draw their attention to important concerns.

The changing financial positions of countries can affect their financial stability. We allocate our capital within operational constraints to spread our concentration risk.

Directors' responsibility statement

To the best of their knowledge, each of the Directors listed below confirm that:

- The Group financial statements of Schroders plc, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of Schroders plc and the undertakings included in the consolidation taken as a whole;
- The management statement includes a fair review of the development and performance of the business and the position of Schroders plc and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that it faces;
- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- They have each taken all the steps that ought to have been taken by them as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors:

Michael Miles	Chairman
Michael Dobson	Chief Executive
Alan Brown	Chief Investment Officer
Philip Mallinckrodt	Head of Private Banking
Kevin Parry	Chief Financial Officer
Massimo Tosato	Executive Vice Chairman and Head of Distribution
Andrew Beeson	Independent non-executive Director
Luc Bertrand	Independent non-executive Director
Lord Howard of Penrith	Independent non-executive Director
Sir Peter Job	Senior Independent Director
Merlyn Lowther	Independent non-executive Director
Bruno Schroder	Non-executive Director

3 March 2010

Five-year consolidated financial summary

	2009 **£m**	2008 £m	2007 £m	2006 £m	2005 £m
Profit before tax	**137.5**	123.1	392.5	290.0	250.7
Tax	**(41.8)**	(51.8)	(88.8)	(68.1)	(57.4)
Profit after tax before minority interests	**95.7**	71.3	303.7	221.9	193.3
Minority interests	**(0.3)**	5.4	(4.0)	(0.6)	(2.0)
Profit for the year	**95.4**	76.7	299.7	221.3	191.3

Earnings per share:	**2009** **Pence**	2008 Pence	2007 Pence	2006 Pence	2005 Pence
Basic earnings per share	**34.3**	27.5	104.8	76.9	65.7
Diluted earnings per share	**34.2**	27.3	103.2	75.7	65.1

Dividends:	**2009**	2008	2007	2006	2005
Cost (£m)	**84.9**	86.7	74.9	63.4	59.5
Pence per share*	**31.0**	31.0	26.5	22.0	20.5
Total equity (£m)	**1,649.0**	1,632.2	1,696.2	1,443.6	1,343.1
Net assets per share (pence)**	**571**	569	576	491	450

*Dividends per share are those amounts approved by the shareholders to be paid within the year on a per share basis to the shareholders on the register at the specified dates.
**Net assets per share are calculated by using the actual number of shares at the balance sheet date.

Funds under management – 2009 flows

	Total **£bn**	**Institutional** **£bn**	**Intermediary** **£bn**	**Private Banking** **£bn**
31 December 2008	**110.2**	**59.6**	**38.9**	**11.7**
Gross inflows	54.1	18.6	29.0	6.5
Gross outflows	(39.1)	(13.7)	(19.4)	(6.0)
Net flows	**15.0**	**4.9**	**9.6**	**0.5**
Investment returns	23.2	12.2	10.6	0.4
31 December 2009	**148.4**	**76.7**	**59.1**	**12.6**

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Group capital

	2009 £m	2008 £m
Asset Management:		
Cash and cash equivalents	216	95
Liquid debt securities	56	235
Other net assets	76	136
Total Asset Management operational capital	**348**	**466**
Private Banking:		
Cash and cash equivalents	1,011	662
Other net liabilities	(769)	(395)
Total Private Banking operational capital	**242**	**267**
Group:		
Cash and cash equivalents	276	310
Liquid debt securities	532	118
Mortgage and asset backed securities	-	105
Third party hedge funds	19	53
Seed capital	141	252
Private equity	90	58
Other investments	1	3
Total Group investment capital	**1,059**	**899**
Total capital	**1,649**	**1,632**

Liquid debt securities includes bank CDs and deposits.

Income and Cost Metrics for the Group

Before exceptional items, except for *	**2009**	2008
Group cost: revenue	**62%**	58%
Group cost: operating revenues	**79%**	73%
Compensation costs: operating revenue	**49%**	45%
Return on average capital (pre-tax)*	**8%**	7%
Return on average capital (post-tax)*	**6%**	4%
Asset Management costs: net revenue	**74%**	69%
Asset Management net revenue on average funds under management	**62bps**	66bps
Asset Management costs on average funds under management	**46bps**	46bps
Asset Management costs on closing funds under management	**37bps**	53bps

Exchange rates - closing

	2009	2008	2007	2006	2005
Sterling:					
Euro	**1.13**	1.03	1.36	1.48	1.45
US dollar	**1.61**	1.44	1.99	1.96	1.72
Swiss franc	**1.67**	1.53	2.25	2.39	2.26
Australian dollar	**1.80**	2.06	2.27	2.48	2.35
Hong Kong dollar	**12.52**	11.14	15.52	15.22	13.36
Japanese yen	**150.33**	130.33	222.38	233.20	202.39
Singaporean dollar	**2.27**	2.07	2.87	3.00	2.86