

# Press Release

## Schroders plc

Annual Results to 31 December 2012 (audited)

7 March 2013

- Profit before tax £360.0 million (2011: £407.3 million)
- Earnings per share 104.7 pence (2011: 115.9 pence)
- Full-year dividend 43.0 pence per share (2011: 39.0 pence)
- Net inflows £9.4 billion (2011: £3.2 billion)
- Assets under management £212.0 billion (2011: £187.3 billion)

	2012 £m	2011 £m
<b>Profit</b>		
Asset Management	348.5	389.4
Private Banking	11.8	23.8
	<b>360.3</b>	<b>413.2</b>
Group segment	(0.3)	(5.9)
<b>Total profit before tax</b>	<b>360.0</b>	<b>407.3</b>
<b>Earnings per share (pence)</b>	<b>104.7</b>	<b>115.9</b>
<b>Total dividend (pence per share)</b>	<b>43.0</b>	<b>39.0</b>

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## Management Statement

Financial markets and investor sentiment fluctuated sharply in the first half of 2012, with early gains in equity markets given back in the second quarter as concerns grew over the Eurozone and faltering economic growth. In the second half confidence recovered as central banks continued to provide liquidity, convincing actions were taken in Europe to address the challenges facing the single currency and the likelihood of a hard landing for the Chinese economy receded. Sentiment improved markedly and, with equity valuations looking historically attractive against bonds and investors seeking to reduce their underweight positions, equity markets moved higher.

Against this volatile background Schroders had a solid year, with four quarters of positive net new business flows in Institutional and Intermediary, £9.4 billion of net new business for the year as a whole and assets under management reaching their highest ever level of £212.0 billion (2011: £187.3 billion). Profit before tax was down 12 per cent. at £360.0 million (2011: £407.3 million), with a small reduction in net revenue attributable to lower net revenue margins, and a 4 per cent. increase in costs as we continued to invest in the business.

### Asset Management

Asset Management net revenue declined 3 per cent. to £1,014.8 million (2011: £1,041.5 million) including performance fees of £28.4 million (2011: £36.6 million). Net revenue margins, excluding performance fees, were 54 basis points (2011: 56 basis points) reflecting the significant growth of Institutional in recent years. Asset Management profit before tax was £348.5 million (2011: £389.4 million).

Last year we continued our programme of selective investment in support of future growth. Notable areas were Multi-asset and Fixed Income; control functions in the context of the significant expansion in our business and the increased regulatory agenda; and information technology upgrades in order to give us greater scale benefits and provide our fund managers with a leading support capability.

Investment performance for clients has been strong across the board with 71 per cent. of funds outperforming benchmark or peer group over the three years to the end of 2012 and 78 per cent. outperforming over one year. Net new business in Institutional was £6.4 billion (2011: £6.8 billion) with positive flows in most asset classes and a particularly strong performance in Equities. Assets under management in Institutional ended the year at £123.7 billion (2011: £108.4 billion).

Despite weak retail investor demand early in the year, we achieved four quarters of positive net inflows in Intermediary in 2012 and net inflows for the year as a whole were £3.3 billion (2011: net outflows £3.8 billion), predominantly in Multi-asset. Assets under management in Intermediary ended the year at £72.0 billion (2011: £62.9 billion).

During the year we announced two acquisitions which are complementary to our organic growth strategy. In India we acquired a 25 per cent. shareholding in Axis Asset Management, the asset management subsidiary of the third largest private sector bank in the country. India's demographics and economic growth prospects will lead over time to a major asset management opportunity and Axis shares our long-term approach to building businesses as well as bringing a strong distribution capability.

Towards the end of the year we announced the acquisition of STW, a US fixed income business with US\$11.6 billion of assets under management at 31 December 2012. STW has an excellent investment track record, adds 100 new institutional client relationships and meets our strategic objectives of building scale in Fixed Income and growing our presence in the US. We expect the transaction to complete in the first half of 2013.

## **Private Banking**

Our Private Banking business faced a number of challenges in 2012. Net revenue declined 17 per cent. to £94.4 million (2011: £114.3 million), with lower management fee and commission income as a result of subdued client activity and business outflows. Net revenue was also impacted by a further £7.9 million of loan losses on previously impaired loans, principally as a result of the continued weakness in the commercial property market.

Costs were reduced by 9 per cent. to £82.6 million (2011: £90.5 million) and profit before tax was £11.8 million (2011: £23.8 million).

We continued to generate inflows in the UK private client and charities business but we saw outflows from our cash management service, and in our Swiss business reflecting changes in our client base. Net outflows were £0.3 billion (2011: net inflows: £0.2 billion) and assets under management ended the year at £16.3 billion (2011: £16.0 billion).

In the short term we may see further net outflows, but longer term we remain positive about opportunities in Private Banking. We are streamlining the management structure, adding to our talent pool and strengthening our business development activities.

## **Group**

The Group segment comprises returns on investment capital, which increased during 2012, and central costs including management, governance and the Group's insurance arrangements. The loss before tax for the year was £0.3 million (2011: loss £5.9 million).

Shareholders' equity at the end of 2012 was £2.1 billion (2011: £1.9 billion).

## **Dividend**

Recognising our financial strength and confidence in the Company's long-term growth prospects, the Board has decided to increase the final dividend to 30.0 pence (2011: 26.0 pence). This will bring the total dividend for the year to 43.0 pence (2011: 39.0 pence), an increase of 10 per cent. The final dividend will be paid on 9 May 2013 to shareholders on the register at 2 April 2013.

It remains our policy in the long term to increase dividends progressively, in line with the trend in profitability.

## **The Board**

In September, we welcomed Nichola Pease as a non-executive Director. Her experience of the asset management industry brings additional insights to our discussions.

After nine years on the Board, Merlyn Lowther will stand down at the 2013 Annual General Meeting. We thank her for her contribution over many years, most recently as Chairman of the Audit and Risk Committee. Ashley Almanza will succeed Merlyn as Chairman of the Audit and Risk Committee and Nichola Pease will join the Committee.

In November, we announced that, after ten years' service, Kevin Parry had decided to step down from the Board in May 2013. We also thank Kevin for his contribution to Schroders, initially as a non-executive Director and then as Chief Financial Officer. We intend to appoint Richard Keers to the Board as Chief Financial Officer on 5 May 2013. Richard's previous experience in PricewaterhouseCoopers' financial services practice since 1988, and as the Global Relationship Partner for Schroders from 2006 to 2010, positions him well for his new role.

## **Outlook**

With economic activity likely to be subdued for some time, and with austerity programmes being increasingly challenged, the outlook for markets is still uncertain. However, corporate balance sheets are healthy and, while earnings may only grow modestly in 2013, dividends remain well supported. In the first two months of the year equity markets have extended their strong showing as investors have continued to switch funds from low-yielding cash and bonds. Good investment performance and a broad product range have enabled us to benefit from this pick up in investor demand for Equities.

We are confident that the strategy that has served the Company well over the past decade, of building a diversified business across different client types, asset classes and regions, and of focusing on the long term rather than on short-term trends or market cycles, will continue to deliver value for shareholders.

Copies of this announcement are available on the Schroders website: [www.schroders.com](http://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, 7 March 2013 at 31 Gresham Street, London, EC2V 7QA. The webcast can be viewed live at [www.schroders.com/ir](http://www.schroders.com/ir) and [www.cantos.com](http://www.cantos.com). For individuals unable to attend the presentation or participate in the live webcast, a replay will be available from midday on Thursday, 7 March 2013 at [www.schroders.com/ir](http://www.schroders.com/ir).

The Annual Report and Accounts will be available on the Schroders website: [www.schroders.com](http://www.schroders.com) on 22 March 2013.

## **Forward-looking statements**

This announcement, the Annual Report and Accounts for 2012 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 are based on current expectations and assumptions but relate to events and circumstances in the future. Without limitation, any statements preceded or followed by or that include the words 'targets', 'plans', 'believes', 'expects', 'aims' or 'anticipates' or the negative of these terms or other similar terms are intended to identify such forward-looking statements. 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 or on the Schroders website should be construed as a profit forecast.

## Consolidated income statement

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Revenue	2	1,425.4	1,501.9
Cost of sales		(329.7)	(363.3)
Net gains on financial instruments and other income		39.2	14.0
<b>Net revenue<sup>1</sup></b>		<b>1,134.9</b>	<b>1,152.6</b>
Operating expenses	3	(791.2)	(761.8)
<b>Operating profit</b>		<b>343.7</b>	<b>390.8</b>
Net finance income		11.8	14.5
Share of profit of associates and joint ventures		4.5	2.0
<b>Profit before tax</b>		<b>360.0</b>	<b>407.3</b>
Tax	4	(76.8)	(91.5)
<b>Profit after tax</b>		<b>283.2</b>	<b>315.8</b>
<b>Earnings per share</b>			
Basic	5	104.7p	115.9p
Diluted	5	101.3p	111.9p
<b>Dividends per share<sup>2</sup></b>	6	<b>39.0p</b>	<b>39.0p</b>

<sup>1</sup>Non-GAAP measure of performance.

<sup>2</sup>Interim and final dividends declared during the year.

## Consolidated statement of comprehensive income

for the year ended 31 December 2012

	<b>2012</b>	2011
	<b>£m</b>	£m
<b>Profit for the year</b>	<b>283.2</b>	315.8
Net exchange differences on translation of foreign operations after hedging	(21.8)	2.1
Actuarial gains/(losses) on defined benefit pension schemes	10.4	(0.5)
Net fair value movement arising from available-for-sale financial assets	(9.5)	(16.3)
Net fair value movement arising from available-for-sale financial assets held by joint ventures	1.5	(3.5)
Tax on items taken directly to other comprehensive income	(4.1)	(1.7)
<b>Other comprehensive losses for the year net of tax</b>	<b>(23.5)</b>	(19.9)
<b>Total comprehensive income for the year net of tax</b>	<b>259.7</b>	295.9

## Consolidated statement of financial position

31 December 2012

	Notes	2012 £m	2011 £m
<b>Assets</b>			
Cash and cash equivalents		2,542.8	2,338.7
Trade and other receivables		414.7	411.2
Financial assets		2,019.8	2,165.2
Associates and joint ventures		79.4	58.4
Property, plant and equipment		15.0	16.2
Goodwill and intangible assets		142.1	144.1
Deferred tax		47.8	50.1
Retirement benefit scheme surplus	10	67.2	55.7
		<b>5,328.8</b>	5,239.6
<b>Assets backing unit-linked liabilities</b>			
Cash and cash equivalents		820.5	673.6
Financial assets		8,525.8	7,971.6
		<b>9,346.3</b>	8,645.2
<b>Total assets</b>		<b>14,675.1</b>	13,884.8
<b>Liabilities</b>			
Trade and other payables		559.3	580.9
Financial liabilities		2,585.1	2,642.1
Current tax		40.8	51.8
Provisions	11	64.0	52.7
Deferred tax		1.9	2.6
Retirement benefit scheme deficits	10	7.8	7.9
		<b>3,258.9</b>	3,338.0
<b>Unit-linked liabilities</b>		<b>9,346.3</b>	8,645.2
<b>Total liabilities</b>		<b>12,605.2</b>	11,983.2
<b>Net assets</b>		<b>2,069.9</b>	1,901.6
<b>Equity</b>		<b>2,069.9</b>	1,901.6

## Consolidated statement of changes in equity

for the year ended 31 December 2012

	Share capital £m	Share premium £m	Own Shares £m	Net exchange differences £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2012	282.5	87.8	(172.5)	123.8	25.8	34.9	1,519.3	1,901.6
<b>Profit for the year</b>	-	-	-	-	4.5	-	278.7	283.2
Net exchange differences on translation of foreign operations	-	-	-	(28.3)	-	-	-	(28.3)
Net exchange differences on hedging of foreign operations	-	-	-	6.5	-	-	-	6.5
Actuarial gains on defined benefit pension schemes	-	-	-	-	-	-	10.4	10.4
Net fair value movements on available-for-sale financial assets taken to other comprehensive income	-	-	-	-	1.5	16.3	-	17.8
Transfer to income statement on derecognition or impairment of available-for-sale financial assets	-	-	-	-	-	(25.5)	-	(25.5)
Net exchange differences on available-for-sale financial assets	-	-	-	(0.2)	-	(0.1)	-	(0.3)
Tax on items taken directly to other comprehensive income	-	-	-	-	-	-	(4.1)	(4.1)
<b>Other comprehensive (losses)/income</b>	-	-	-	(22.0)	1.5	(9.3)	6.3	(23.5)
Shares issued	0.5	2.3	-	-	-	-	-	2.8
Shares cancelled	(0.5)	-	-	-	-	-	0.5	-
Share-based payments	-	-	-	-	-	-	45.3	45.3
Tax in respect of share schemes	-	-	-	-	-	-	6.3	6.3
Dividends attributable to owners of the parent	-	-	-	-	-	-	(104.1)	(104.1)
Own shares purchased	-	-	(41.7)	-	-	-	-	(41.7)
<b>Transactions with owners</b>	-	2.3	(41.7)	-	-	-	(52.0)	(91.4)
<b>Transfers</b>	-	-	49.1	-	(6.3)	-	(42.8)	-
<b>At 31 December 2012</b>	<b>282.5</b>	<b>90.1</b>	<b>(165.1)</b>	<b>101.8</b>	<b>25.5</b>	<b>25.6</b>	<b>1,709.5</b>	<b>2,069.9</b>
Notes	7	7	8					



**for the year ended 31 December 2011**

	Share capital £m	Share premium £m	Own shares £m	Net exchange differences £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2011	290.4	84.7	(199.1)	122.1	35.5	50.8	1,415.3	1,799.7
<b>Profit for the year</b>	-	-	-	-	2.0	-	313.8	315.8
Net exchange differences on translation of foreign operations	-	-	-	1.1	-	-	0.1	1.2
Net exchange differences on hedging of foreign operations	-	-	-	1.0	-	-	-	1.0
Transfer to the income statement of cumulative foreign exchange on derecognition of foreign operations	-	-	-	(0.1)	-	-	-	(0.1)
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	(0.5)	(0.5)
Net fair value movements on available-for-sale financial assets taken to other comprehensive income	-	-	-	-	(3.5)	(10.6)	-	(14.1)
Transfer to income statement on derecognition or impairment of available for-sale financial assets	-	-	-	-	-	(5.4)	-	(5.4)
Net exchange differences on available-for-sale financial assets	-	-	-	(0.3)	-	-	-	(0.3)
Tax on items taken directly to other comprehensive income	-	-	-	-	-	0.1	(1.8)	(1.7)
<b>Other comprehensive income/(losses)</b>	-	-	-	1.7	(3.5)	(15.9)	(2.2)	(19.9)
Shares issued	0.5	3.1	-	-	-	-	-	3.6
Shares cancelled	(8.4)	-	-	-	-	-	(16.0)	(24.4)
Share-based payments	-	-	-	-	-	-	42.7	42.7
Tax in respect of share schemes	-	-	-	-	-	-	(6.1)	(6.1)
Dividends attributable to owners of the parent	-	-	-	-	-	-	(104.8)	(104.8)
Dividends attributable to non-controlling interests	-	-	-	-	-	-	(3.3)	(3.3)
Own shares purchased	-	-	(101.4)	-	-	-	(0.3)	(101.7)
<b>Transactions with owners</b>	(7.9)	3.1	(101.4)	-	-	-	(87.8)	(194.0)
<b>Transfers</b>	-	-	128.0	-	(8.2)	-	(119.8)	-
<b>At 31 December 2011</b>	<b>282.5</b>	<b>87.8</b>	<b>(172.5)</b>	<b>123.8</b>	<b>25.8</b>	<b>34.9</b>	<b>1,519.3</b>	<b>1,901.6</b>
Notes	7	7	8					

## Consolidated cash flow statement

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Net cash from operating activities	9	<b>489.2</b>	<b>426.8</b>
<b>Cash flows from investing activities</b>			
Acquisition of associates		(23.3)	-
Net acquisition of property, plant and equipment and intangible assets		(12.8)	(12.7)
Net disposal of financial assets		54.1	114.6
Non-banking interest received		12.0	15.0
Distributions received from associates and joint ventures		6.5	9.0
<b>Net cash from investing activities</b>		<b>36.5</b>	<b>125.9</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of non-voting ordinary shares		2.8	3.6
Purchase of non-voting ordinary shares for cancellation		-	(24.4)
Acquisition of own shares		(41.7)	(101.7)
Repayments of borrowings		-	(18.6)
Dividends paid		(104.1)	(104.8)
Other flows		(1.9)	(4.8)
<b>Net cash used in financing activities</b>		<b>(144.9)</b>	<b>(250.7)</b>
<b>Net increase in cash and cash equivalents</b>		<b>380.8</b>	<b>302.0</b>
Opening cash and cash equivalents		3,012.3	2,711.7
Net increase in cash and cash equivalents		380.8	302.0
Effect of exchange rate changes		(29.8)	(1.4)
<b>Closing cash and cash equivalents</b>		<b>3,363.3</b>	<b>3,012.3</b>
<b>Closing cash and cash equivalents consists of:</b>			
Cash backing unit-linked liabilities		<b>820.5</b>	<b>673.6</b>
Other cash and cash equivalents held by the Group:			
Cash		1,718.7	1,396.9
Cash equivalents		824.1	941.8
		<b>2,542.8</b>	<b>2,338.7</b>
		<b>3,363.3</b>	<b>3,012.3</b>

The cash backing unit-linked liabilities cannot be used by the Group as it is not legally entitled to draw on the assets of the Life Company for its own corporate purposes.

## Basis of preparation

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 2011 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 2012 which will be delivered to the Registrar of Companies in due course.

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

## 1. Segmental reporting

### Operating segments

The Group has three business segments: Asset Management, Private Banking and Group. Asset Management principally comprises investment management including advisory services, equity products, fixed income securities, multi-asset, property and alternative asset classes such as commodities, private equity and funds of hedge funds. Private Banking principally comprises investment management and banking services provided to high net worth individuals and charities. Group principally comprises the Group's investment capital and treasury management activities, insurance arrangements and the management of costs associated with governance and corporate management. Insurance activities comprise acting as insurer to the Group, including the results of the captive insurer which provides reinsurance for certain activities of the Group. Provisions for actual and potential claims that are within the insurance cover are consequently recorded in the Group segment, net of any recognisable external insurance asset. The expected insurance recovery may be in excess of the amount that is allowed to be recorded under accounting rules.

Segment information is 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 Chief Executive. One of the key measures used in respect of performance measurement is net revenue.

The allocation of costs to individual business segments is undertaken in order to provide management information on the business performance 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 the business.

## 1. Segmental reporting continued

Year ended 31 December 2012	Asset Management £m	Private Banking £m	Group £m	Total £m
Fee income	1,295.5	96.3	0.5	1,392.3
Banking interest receivable	-	33.1	-	33.1
<b>Revenue</b>	<b>1,295.5</b>	<b>129.4</b>	<b>0.5</b>	<b>1,425.4</b>
Fee expense	(303.1)	(7.2)	(0.1)	(310.4)
Banking interest payable	-	(19.3)	-	(19.3)
<b>Cost of sales</b>	<b>(303.1)</b>	<b>(26.5)</b>	<b>(0.1)</b>	<b>(329.7)</b>
Net gains/(losses) on financial instruments and other income*	22.4	(8.5)	25.3	39.2
<b>Net revenue</b>	<b>1,014.8</b>	<b>94.4</b>	<b>25.7</b>	<b>1,134.9</b>
Operating expenses	(671.4)	(82.6)	(37.2)	(791.2)
<b>Operating profit/(loss)</b>	<b>343.4</b>	<b>11.8</b>	<b>(11.5)</b>	<b>343.7</b>
Net finance income	0.1	-	11.7	11.8
Share of profit/(loss) of associates and joint ventures	5.0	-	(0.5)	4.5
<b>Profit/(loss) before tax</b>	<b>348.5</b>	<b>11.8</b>	<b>(0.3)</b>	<b>360.0</b>

\*For Private Banking, includes fair value movements on loans held at fair value and other loan losses.

Year ended 31 December 2011	Asset Management £m	Private Banking £m	Group £m	Total £m
Fee income	1,359.3	106.3	0.4	1,466.0
Banking interest receivable	-	35.9	-	35.9
<b>Revenue</b>	<b>1,359.3</b>	<b>142.2</b>	<b>0.4</b>	<b>1,501.9</b>
Fee expense	(335.4)	(6.4)	-	(341.8)
Banking interest payable	-	(21.5)	-	(21.5)
<b>Cost of sales</b>	<b>(335.4)</b>	<b>(27.9)</b>	<b>-</b>	<b>(363.3)</b>
Net gains/(losses) on financial instruments and other income	17.6	-	(3.6)	14.0
<b>Net revenue</b>	<b>1,041.5</b>	<b>114.3</b>	<b>(3.2)</b>	<b>1,152.6</b>
Operating expenses	(658.5)	(90.5)	(12.8)	(761.8)
<b>Operating profit/(loss)</b>	<b>383.0</b>	<b>23.8</b>	<b>(16.0)</b>	<b>390.8</b>
Net finance (charge)/income	(0.3)	-	14.8	14.5
Share of profit/(loss) of associates and joint ventures	6.7	-	(4.7)	2.0
<b>Profit/(loss) before tax</b>	<b>389.4</b>	<b>23.8</b>	<b>(5.9)</b>	<b>407.3</b>

## 2. Revenue

	<b>2012</b>	2011
	<b>£m</b>	£m
Management fees	1,223.9	1,267.0
Performance fees	28.5	37.8
Other fees	139.9	161.2
Interest income receivable by Private Banking subsidiaries	33.1	35.9
	<b>1,425.4</b>	1,501.9

## 3. Operating expenses

	<b>2012</b>	2011
	<b>£m</b>	£m
Operating expenses include:		
Salaries and other remuneration	472.4	455.3
Social security costs	45.7	39.4
Pension costs	27.6	5.1
<b>Employee benefits expense</b>	<b>545.7</b>	499.8

## 4. Tax expense

Analysis of charge in the year:

	<b>2012</b>	2011
	<b>£m</b>	£m
UK corporation tax on profits for the year	29.6	31.6
Adjustments in respect of prior years	1.7	-
Foreign tax – current	54.6	67.1
Foreign tax – adjustments in respect of prior years	(8.6)	0.8
<b>Current tax</b>	<b>77.3</b>	99.5
Origination and reversal of temporary differences	(6.5)	(7.9)
Adjustments in respect of prior years	4.6	(1.7)
Effect of changes in corporation tax rates	1.4	1.6
<b>Deferred tax</b>	<b>(0.5)</b>	(8.0)
<b>Tax charge reported in the income statement</b>	<b>76.8</b>	91.5

The UK standard rate of corporation tax reduced from 26 per cent. to 24 per cent. on 1 April 2012 resulting in a UK effective tax rate for the year of 24.5 per cent. (2011: effective rate of 26.5 per cent.). The tax charge for the year is lower (2011: lower) than a charge based on the UK effective rate. The reconciliation of the income statement tax charge to the UK rate on profits before tax including the impact of taxes incurred in overseas operations and differences in accounting versus tax profit is set out below:

	<b>2012</b>	2011
	<b>£m</b>	£m
Profit before tax	360.0	407.3
Less post-tax profits of associates and joint ventures	(4.5)	(2.0)
<b>Profit before tax of consolidated Group entities</b>	<b>355.5</b>	405.3
Profit before tax of consolidated Group entities multiplied by corporation tax at the UK rate of 24.5 per cent. (2011: 26.5 per cent.)	87.1	107.4
<b>Effects of:</b>		
Different statutory tax rates of overseas jurisdictions	(1.2)	(1.9)
Permanent differences including non-taxable income and non-deductible expenses	(9.0)	(10.5)
Net creation/(utilisation) of tax losses for which no deferred tax asset was recognised	1.1	(3.8)
Foreign exchange movements on tax balances	-	(0.9)
Deferred tax adjustments in respect of changes in corporation tax rates	1.1	1.6
Adjustments to prior year estimates	(2.3)	(0.4)
<b>Tax charge reported in the income statement</b>	<b>76.8</b>	91.5

## 5. Earnings per share

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

	<b>2012</b>	2011
	<b>Number</b>	Number
	<b>Millions</b>	Millions
Weighted average number of shares used in calculation of basic earnings per share	270.3	272.3
Effect of dilutive potential shares – share options	8.4	9.2
Effect of dilutive potential shares – contingently issuable shares	0.5	0.5
<b>Weighted average number of shares used in calculation of diluted earnings per share</b>	<b>279.2</b>	282.0

## 6. Dividends

	<b>2013</b>		<b>2012</b>		2011	
	<b>£m</b>	<b>Pence per share</b>	<b>£m</b>	<b>Pence per share</b>	£m	Pence per share
Declared and paid in year:						
Final dividend	80.1	30.0	69.4	26.0	70.1	26.0
Interim dividend			34.7	13.0	34.7	13.0
			<b>104.1</b>	<b>39.0</b>	104.8	39.0

Dividends of £6.0 million (2011: £6.2 million) on shares held by the employee trusts have been waived; dividends may not be paid on treasury shares. The 2012 final dividend is payable on 9 May 2013 and will be accounted for in 2013.

## 7. Share capital and share premium

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2012	282.5	226.0	56.5	282.5	87.8
Shares issued	0.5	-	0.5	0.5	2.3
Shares cancelled	(0.5)	-	(0.5)	(0.5)	-
<b>At 31 December 2012</b>	<b>282.5</b>	<b>226.0</b>	<b>56.5</b>	<b>282.5</b>	<b>90.1</b>

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2011	290.4	226.0	64.4	290.4	84.7
Shares issued	0.5	-	0.5	0.5	3.1
Shares cancelled	(8.4)	-	(8.4)	(8.4)	-
At 31 December 2011	282.5	226.0	56.5	282.5	87.8

	2012 Millions	2011 Millions
<b>Issued and fully paid:</b>		
Ordinary shares of £1 each	226.0	226.0
Non-voting ordinary shares of £1 each	56.5	56.5
	<b>282.5</b>	<b>282.5</b>

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.

Details of shares held in treasury are included in note 8.

During the year, 0.5 million non-voting ordinary shares were cancelled, all of which had previously been held in treasury.



## 8. Own shares

Own shares include the Group's shares (both ordinary and non-voting ordinary) that are held by employee trusts or in treasury.

Movements during the year were as follows:

	2012 £m	2011 £m
At 1 January	(172.5)	(199.1)
Own shares purchased	(41.7)	(101.4)
Cancellation of own shares held in treasury*	5.6	75.3
Awards vested*	43.5	52.7
<b>At 31 December</b>	<b>(165.1)</b>	<b>(172.5)</b>

\*Own shares balances are transferred to the profit and loss reserve insofar as they relate to treasury shares that have been cancelled or share-based payments that have vested.

	2012			2011		
	Number of vested shares Millions	Number of unvested shares Millions	Total Millions	Number of vested shares Millions	Number of unvested shares Millions	Total Millions
Ordinary shares held within trusts	3.0	11.6	14.6	2.4	12.3	14.7
Non-voting ordinary shares held within trusts	0.6	0.2	0.8	0.6	0.1	0.7
Non-voting ordinary shares held as treasury shares*	-	0.1	0.1	-	0.6	0.6
	<b>3.6</b>	<b>11.9</b>	<b>15.5</b>	<b>3.0</b>	<b>13.0</b>	<b>16.0</b>

\*Non-voting ordinary shares held as treasury shares do not vest but are included in unvested shares for presentational purposes only.

During the year 0.5 million non-voting ordinary shares held within treasury were cancelled.

## 9. Reconciliation of net cash from operating activities

	2012 £m	2011 £m
<b>Operating profit</b>	<b>343.7</b>	390.8
<b>Adjustments for income statement non-cash movements:</b>		
Depreciation of property, plant and equipment and amortisation of intangible assets	12.0	14.1
Net (gains)/losses and impairments taken through the income statement on financial instruments	(22.0)	3.2
Share-based payments	45.3	42.7
Charge for provisions net of releases	17.2	11.3
Other non-cash movements	4.0	(7.6)
	<b>56.5</b>	63.7
<b>Adjustments for other income statement cash movements:</b>		
Payments made to the defined benefit pension schemes	-	(3.1)
<b>Adjustments for statement of financial position movements:</b>		
Decrease in trade and other receivables	82.5	61.9
(Decrease)/increase in trade and other payables and provisions	(58.5)	26.3
	<b>24.0</b>	88.2
<b>Adjustments for Life Company movements:</b>		
Net purchase of assets backing unit-linked liabilities	(554.2)	(405.9)
Net increase in unit-linked liabilities	701.1	371.8
	<b>146.9</b>	(34.1)
<b>Tax paid</b>	(81.6)	(78.5)
<b>Interest paid</b>	(0.3)	(0.2)
<b>Net cash from operating activities</b>	<b>489.2</b>	426.8

## 10. Retirement benefit obligations

The disclosures are provided mainly in respect of the principal defined benefit (DB) scheme in the UK which is the DB section of the funded Schroders Retirement Benefits Scheme (the Scheme). Some disclosures are also provided in respect of the DC section of the Schroders Retirement Benefits Scheme (the DC section).

The income statement charge for retirement benefit costs is as follows:

	<b>2012</b>	2011
	<b>£m</b>	£m
Pension costs – defined contribution plans	27.2	22.2
Pension charge/(credit) – defined benefit plans	0.3	(17.3)
Other post-employment benefits	0.1	0.2
	<b>27.6</b>	5.1

The income statement charge/(credit) in respect of defined benefit plans consists of:

Current service cost	-	2.8
Expected return on scheme assets	(33.3)	(44.7)
Curtailment	-	(10.2)
Interest on scheme liabilities	32.1	33.4
<b>Total income statement credit in respect of the Scheme</b>	<b>(1.2)</b>	<b>(18.7)</b>
Income statement charges in respect of other defined benefit schemes	1.5	1.4
<b>Total defined benefit schemes income statement charge/(credit)</b>	<b>0.3</b>	<b>(17.3)</b>

The amounts recognised in the statement of comprehensive income are set out below:

	<b>2012</b>	2011
	<b>£m</b>	£m
<b>Other comprehensive (income)/loss consists of:</b>		
Actual return less expected return on Scheme assets	1.9	(42.6)
Experience gains and losses arising on Scheme liabilities	1.5	4.1
Changes in assumptions underlying the present value of the Scheme liabilities	(13.7)	39.0
<b>Total other comprehensive (income)/loss in respect of the Scheme</b>	<b>(10.3)</b>	0.5
Other comprehensive income in respect of other defined benefit schemes	(0.1)	-
<b>Total other comprehensive (income)/loss in respect of defined benefit schemes</b>	<b>(10.4)</b>	0.5

The Scheme is administered by the Trustee. The Scheme was closed to new entrants and future accrual on 30 April 2011. As a result, no contributions were made to the Scheme in the year (2011: contributions of £3.1 million). At 31 December 2011 and 2012, there were no active members in the DB section and 1,182 active members in the DC section (2011: 1,238). The last completed triennial valuation of the Scheme was carried out as at 31 December 2011. It disclosed that the market value of the assets of the Scheme represented 101 per cent. of the liabilities at that date, calculated on the funding basis applicable to the Scheme, for the benefits that had accrued to members at that date.

The income statement credit for the Scheme has been determined by independent qualified actuaries, Aon Hewitt Limited, and is based on an assessment of the Scheme as at 31 December 2012.

The amounts recognised in the statement of financial position in respect of the Scheme are:

	<b>2012</b>	2011
	<b>£m</b>	£m
<b>Fair value of plan assets</b>		
At 1 January	763.8	692.9
Expected return	33.3	44.7
Actuarial (losses)/gains	(1.9)	42.6
Contributions by employer	-	3.1
Benefits paid	(18.3)	(19.5)
<b>At 31 December</b>	<b>776.9</b>	763.8
<b>Present value of funded obligations</b>		
At 1 January	(708.1)	(658.5)
Current service cost	-	(2.8)
Interest cost	(32.1)	(33.4)
Curtailment	-	10.2
Actuarial gains/(losses)	12.2	(43.1)
Benefits paid	18.3	19.5
<b>At 31 December</b>	<b>(709.7)</b>	(708.1)
<b>Net asset in respect of the Scheme</b>	<b>67.2</b>	55.7

The history of the Group's defined benefit schemes, including the Scheme, is as follows:

	<b>2012</b>	2011	2010	2009	2008
	<b>£m</b>	£m	£m	£m	£m
Fair value of Scheme assets	776.9	763.8	692.9	573.0	547.6
Present value of defined benefit obligation of the Scheme	(709.7)	(708.1)	(658.5)	(614.1)	(525.2)
Surplus/(deficit) in the Scheme	67.2	55.7	34.4	(41.1)	22.4
Deficit of other defined benefit schemes	(7.8)	(7.9)	(7.2)	(5.4)	(7.4)
Total surplus/(deficit) of defined benefit schemes	59.4	47.8	27.2	(46.5)	15.0
Experience adjustments on Scheme liabilities	(1.5)	(4.1)	(1.4)	16.6	2.0
Experience adjustments on Scheme assets	(1.9)	42.6	37.1	0.1	(40.0)
Net experience adjustments	(3.4)	38.5	35.7	16.7	(38.0)

The sensitivity of the Scheme pension liabilities to changes in assumptions is as follows:

		2012		2011	
<b>Assumption</b>	<b>Assumption change</b>	<b>Estimated reduction in pension liabilities £m</b>	<b>Estimated reduction in pension liabilities %</b>	<b>Estimated reduction in pension liabilities £m</b>	<b>Estimated reduction in pension liabilities %</b>
Discount rate	Increase by 0.5% per annum	66.3	9.4	68.1	9.6
Expected rate of pension increases in payment	Reduce by 0.5% per annum	45.8	6.5	45.4	6.4
Life expectancy	Reduce by one year	19.7	2.8	18.9	2.7

## 11. Provisions

The Group holds provisions in respect of dilapidations and onerous leases, regulatory and potential legal claims which, at 31 December 2012, total £64.0 million (2011: £52.7 million).

During the year the Group made net provisions of £28.9 million in respect of actual or potential claims against the Group. The provisions mainly represent losses arising from the application of legal terms in respect of client mandates and other potential obligations. These are subject to ongoing discussions. The Group has also recorded an external insurance asset of £19.6 million which is an estimate of the recognisable recovery and is recorded in trade and other receivables. The insurance recovery is considered to be virtually certain.

## Key risks and mitigations

This section summarises how we control risk. It sets out how we manage the risks in our business and how we have developed risk management. It summarises the role of the Group Risk Committee (GRC) and outlines key risks, how we mitigate them and our assessment of their potential impact on our business in the context of the current economic and political environment. Finally, it provides an overview of the impact of emerging risks.

### Managing risk

It is the responsibility of all employees to uphold the control culture of Schroders and we embed risk management within the business.

The Board also has accountability for risk management. It regularly considers the most significant risks facing the Group and uses quantitative exposure measures, such as stress tests, where appropriate. Non-executive oversight of the risk management process is exercised through the Audit and Risk Committee.

The Chief Executive and Group Management Committee (GMC) regularly review the key risks facing the Group. Individual risks are managed in accordance with the risks and their potential impacts, so as to mitigate adverse consequences. We group the risks we face into market risks, investment performance and liquidity risks, credit risks, operational risks, and emerging risks.

We continually upgrade our risk control processes and technological support tools to increase their effectiveness. The Chief Executive has delegated the executive oversight of risk to the Chief Financial Officer. The Chief Financial Officer has responsibility for the risk and control framework of the Group and the independent monitoring and reporting of risks and controls.

The Chief Financial Officer is supported by the Group Head of Risk and chairs the GRC. The Committee meets ten times a year. Meetings are attended by the executive Directors, the heads of the control functions, the Chief Operating Officer and by GMC members consistent with the quarterly cycle of reviewing their areas of responsibility. As the principal executive committee for the monitoring and reporting of risks and controls, the GRC reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits. It also reviews trends and exceptions in the most significant risk exposures.

### Three lines of defence

The first line of defence against unexpected outcomes lies with line managers, whether they are in Investment, Distribution, Private Banking or Infrastructure. Members of the GMC have risk management responsibility for their respective business areas. The senior management team takes the lead role with respect to implementing controls across the business to maintain the quality standards expected by clients and regulators.

Line management is supplemented by oversight functions (i.e. Group Risk, Financial Control, Compliance and Legal) that provide a second line of defence.

Group Internal Audit provides retrospective independent assurance over the operation of controls and is the third line of defence against unexpected outcomes. The internal audit programme includes reviews of the risk management process and advice and recommendations to improve the control environment. Schroders also carries a comprehensive insurance programme, providing further assurance.

### 2012 developments

The membership of the GRC was expanded during the year to include all GMC members. Agendas are tailored to Investment, Distribution and Infrastructure on a sequential quarterly cycle and GMC members attend the meetings relevant to their responsibilities. In order to simplify agendas, sub-committees comprising Group policy reviews, credit reviews, financial crime and Private Banking have been established. They report to the GRC.

During 2012, we continued to devote resources to the management of risks associated with potential Eurozone instability and the weak economic environment. A crisis management exercise was held during the year to consider our response to Eurozone risks, which led to the delivery of a Eurozone crisis management plan to the GMC.

We revised our assessment of operational risk controls during the year, piloting the approach successfully in seven business areas and across a variety of supporting systems. A number of new operational 'key risk indicators' were introduced to monitor potential risks such as unauthorised trading.

In addition, we reviewed the operation of the Investment Risk team, changing the reporting line to make it fully independent of Investment.

The GRC's work in 2012 also included emerging risk identification; hard to value and illiquid instruments; mandate breaches; taxation; Private Banking specific risks; preparations for regulatory developments including Client Asset Sourcebook (CASS) revision; Recovery and Resolution Plans; Anti-Money Laundering and market abuse developments; and policy reviews such as Group pricing, personal account dealing and Group order management and execution.

## Key risks

The following tables summarise key business risks. These are not exhaustive but aim to provide information on the risks that are currently considered to be most relevant to our business.

### Market, investment performance and liquidity risks

**We face risks from movements in the financial markets in which we operate, arising from holding investments both as principal and agent. We have principal exposure in the Life Company in Asset Management which holds investments in funds; in our Private Banking business, where we hold bank paper and government securities; and through the Group's investment capital, where we hold bank paper, government and corporate bonds, equities, funds of 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.**

Description of key risk	How we manage risk
<p><b>Market risk</b> Market risk arises from market movements, which can cause a fall in the value of principal investments and a decline in the value of assets under management.</p> <p>Equity, net fee income and expenses of the Group's overseas subsidiaries are denominated in local currencies and are therefore subject to exchange rate risk.</p>	<p>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.</p> <p>The Group Capital Committee regularly reviews all holdings within Group capital. All principal investments are managed within approved limits. The Group's seed capital investments may be hedged in respect of market risk and currency risk. These decisions are taken by the Group Capital Committee, chaired by the Chief Financial Officer.</p> <p>Income and expenses are, where possible, matched in the currency of individual subsidiaries. We also use forward foreign exchange contracts to mitigate transactional and investment exposure to currency movements. In Private Banking, market risk is monitored and managed at a local level and by the Private Banking Risk Committee.</p>

Description of key risk	How we manage risk
<p><b>Investment performance risk</b>            The management of investment risk is a core skill of the Group. This is the risk that portfolios will not meet their investment objectives. This can adversely affect levels of net new business.</p>	<p>The Schroder Investment Risk Framework provides review and challenge of investment risks across each of the asset classes managed by the Group. The Investment Risk team is independent of the Investment function.</p> <p>We adhere to clearly-defined investment processes which seek 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, as well as Pricing and Valuation Committees, allowing issues to be identified and mitigated.</p> <p>Recognising that products will not outperform all of the time, we offer a diversified product set which reduces the concentration of risk on the performance of any one fund or asset class. Investment performance is monitored as part of our investment risk management process.</p>
<p><b>Liquidity risk</b>            Liquidity risk in relation to client portfolios is the risk that funds 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. Liquidity risk also applies to the Group's own capital position.</p>	<p>To mitigate this risk within client portfolios, we seek to match, where possible, the liquidity of a portfolio's underlying investments with the anticipated liquidity requirements. We actively monitor markets for indicators of declines in liquidity. We also review products and portfolios to identify capacity constraints.</p> <p>Each of our regulated subsidiaries, and the Group as a whole, meet regulatory capital requirements. In addition, we maintain sufficient liquidity for our anticipated needs, taking account of the risks we face.</p> <p>We have developed a new Individual Liquidity Analysis Assessment (ILAA) and implemented improved liquidity analysis and reporting in Private Banking in London.</p>



## Credit risk

We face risks from the default of counterparties to our principal financial transactions. Our clients also face counterparty risk in relation to the financial transactions in their portfolios and funds. Private Banking additionally faces principal credit risk on its lending activities.

Description of key risk	How we manage risk
<p><b>Credit risk</b> We face credit risk as a result of counterparty exposure.</p> <p>We face credit risk through Private Banking lending activities.</p>	<p>In order to manage this risk we actively monitor counterparty creditworthiness with limits expressed in terms of value and term to maturity. The Group sets overall limits in respect of both principal and agency counterparty risk.</p> <p>Where possible, we seek to diversify our exposure across different counterparties.</p> <p>All counterparties are reviewed on a regular basis and limits are amended following changes to their financials. We actively monitor market data and rating agency outputs in assessing counterparties. Collateral is taken in most cases.</p> <p>In Private Banking, we mitigate credit risk where possible through collateralisation in the form of cash, portfolio investments or property. Credit risk is monitored and managed against the performance of the collateral.</p>

## Operational risk

**Operational risk arises in our investment management activities, distribution activities, product development and the operation of our IT and operations infrastructure. Local management is responsible for operational risk controls.**

Description of key risk	How we manage risk
<p><b>Operational risk</b> Operational risk could arise from the failure of significant business processes undertaken by Schroders, including mandate compliance and suitability.</p> <p>We have a number of outsourced supplier relationships that are an important part of our business model, particularly in respect of fund administration services.</p>	<p>All business processes are subject to review in order to identify suitable operational controls to mitigate potential risks.</p> <p>Before entering outsourcing arrangements, we undertake due diligence on third-party suppliers. We then maintain a programme of regular assessment against agreed service levels.</p>
<p><b>Distribution risk</b> Distribution risk arises from relationship management and concentration across different distribution channels and products. We have three broad client groups: institutional clients, often advised by consultants; retail clients, intermediated through banks, brokers and independent advisers; and private clients.</p>	<p>The broad range of distribution channels mitigates against a key dependency on any sales channel.</p> <p>No single client accounts for more than two per cent. of total revenue.</p>
<p><b>Product risk</b> Product risk arises from product complexity and the risk these products do not meet their performance objectives or are unsuitable for certain clients.</p> <p>Product risk can also arise from capacity constraints where the size of assets under management in a particular asset class makes it more difficult to trade efficiently in the market.</p>	<p>We have a dedicated Product Development team and a product approval and review procedure. We consider carefully the suitability of products for clients and where possible, monitor the way products are sold.</p> <p>We actively monitor potential capacity constraints and may mitigate them by closing products to new investment in certain circumstances.</p>

Description of key risk	How we manage risk
<p><b>Technology risk</b> We rely on technology and qualified professionals to maintain our infrastructure, and we invest in information technology projects with long lead times.</p>	<p>We regularly review the progress of major information technology projects and new projects are subject to rigorous testing before approval. Our technology is partly outsourced and our platform uses well-established, tested technology from outsource partners which we assess to be financially stable and able to provide the required level of service.</p> <p>Outsource partners are an important part of our business model and we work with them to maintain the quality and continuity of service. 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 globally.</p>
<p><b>People risk</b> Our business depends on people. We ensure we employ people with skill sets appropriate to our changing business needs.</p> <p>We expect our employees to behave with integrity, which is one of our core values.</p>	<p>We recruit and develop specialist skills as the range of our product offerings deepens and our investment and distribution strategies develop into new areas.</p> <p>To mitigate people risks, we have competitive remuneration plans, with appropriate deferred benefits, targeted at key employees, and we seek to build strength in depth and put in place sustainable succession plans. We also operate from many international centres, which reduces reliance on single pools of talent and individual country stability.</p> <p>Clear objectives are set for employees and we measure individual success in the annual review process. This allows us to identify motivational employee development initiatives, which helps to retain talented people.</p> <p>We demand high ethical standards and train our employees accordingly.</p>
<p><b>Geographical diversity risk</b> Our business is broadly diversified by region which, whilst mitigating aggregate risk, introduces risks as a result of complexity, local laws, regulations, business customs and traditions.</p>	<p>We employ local people with local expertise and also second employees internationally within the Group.</p> <p>The Group Risk Committee receives reports from line management regarding matters giving cause for concern and recommendations for appropriate remedial action.</p> <p>We keep our employees up-to-date on relevant international regulation.</p> <p>An independent team, reporting to the Group Head of Risk, is responsible for assessing the impact of material issues and implementing appropriate and timely risk mitigation.</p> <p>All our overseas operations are regularly reviewed by Internal Audit.</p>

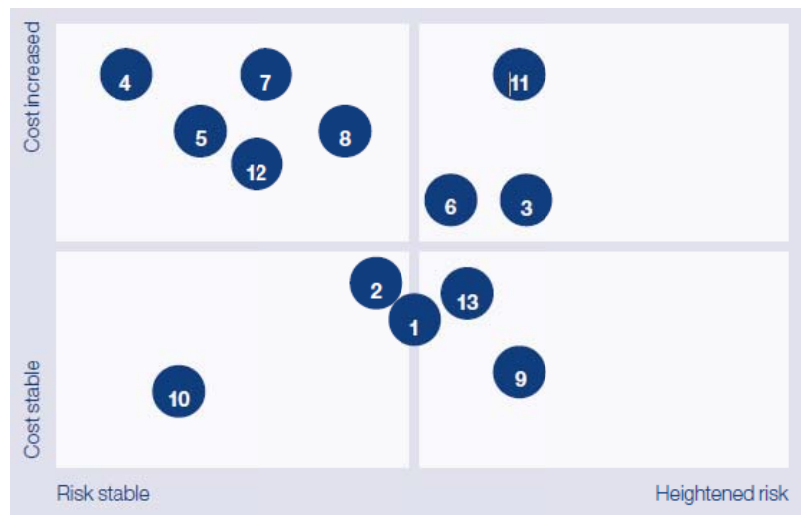
Description of key risk	How we manage risk
<p><b>Legal risk</b> The risk that Schroders or its counterparties fail to meet their legal obligations and the risk of legal proceedings.</p>	<p>We rely on our employees, with support from our Legal function, to consider carefully the obligations we assume and our compliance with them.</p> <p>Confirmations are obtained from representatives around the Group that any actual or potential dispute or claim has been brought promptly to the attention of the General Counsel.</p>
<p><b>Regulatory and compliance risk</b> The risk of loss arising from failure to meet regulatory requirements in those jurisdictions in which the Group operates.</p>	<p>We maintain compliance procedures across our global offices, and our Global Compliance function supports business management in meeting its obligations. Compliance with relevant regulatory requirements is monitored continuously.</p>

### Key continuing risks

The key continuing risks outlined above have been assessed in the light of the current economic and geopolitical environment as summarised in the diagram below.

The horizontal axis shows whether risk is stable or heightened in current market conditions. The vertical axis shows whether the potential cost of the key risk is stable or has increased due to current market conditions. The Group undertakes additional work to address those risks that it considers to be potentially heightened and/or more costly.

1. People risk: Employment practices and workplace safety
2. Geographical diversity: Disasters and public safety
3. Regulatory and compliance risk
4. Operational risk: Distribution risk
5. Operational risk: Clients, products and business practices
6. Legal risk
7. Operational risk: Technology and infrastructure failures
8. Operational risk: Execution, delivery and process management
9. Counterparty credit risk
10. Credit lending risk
11. Liquidity risk
12. Investment performance risk
13. Market risk



## Emerging risks

Emerging risks are those with uncertain impact, probability and timeframe that could cause risk to the Group. These are the hardest to define and may change in nature. We analyse each risk and, if needed, develop and apply mitigation and management plans. The external emerging risks that are currently our focus of attention are set out below. The diagram indicates our assessment of the likelihood, timeframe and impact on our business. The estimated impact and likelihood may change as circumstances change and mitigation plans are developed. Regulatory risks are reported on the following page.

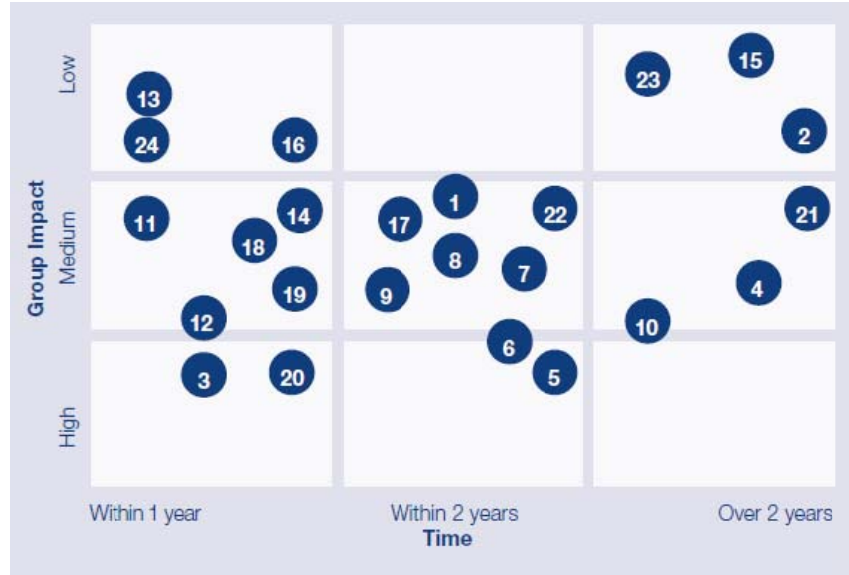
1. Eurozone crisis
2. Major bank failure
3. Market liquidity crisis
4. Margin pressure
5. Investment performance
6. Negative real interest rates
7. LIBOR
8. Oil price shock
9. Argentina
10. Financial transaction tax
11. Corporate bond fund liquidity
12. Terrorism



## Key regulatory change risks

The extent of regulatory change facing the asset management and private banking industries has increased significantly in recent years. As part of our risk reporting, we have introduced the following diagram that combines both known and emerging regulatory change risks, to identify both the likely timing and estimated impact of regulatory change on our business.

1. Financial Services Compensation Scheme levy
2. Vickers report impact
3. AIFMD impact
4. Basel III/Capital Requirements Directive (CRD) IV
5. MiFID II
6. UCITS V
7. Anti-Money Laundering (AML)
8. Client Asset Sourcebook (CASS) revision
9. Solvency II client reporting
10. Market Abuse Directive (MAD) II
11. Remuneration policies
12. Dodd-Frank OTC
13. European Banking Authority's common regulatory reporting framework (COREP)
14. RDR for platforms
15. EU Securities Law
16. Private Banking Recovery and Resolution Plans
17. Group Recovery and Resolution Plans
18. European market Infrastructure Regulation (EMIR – OTC market reform)
19. Asia OTC
20. Dodd-Frank commodities
21. Data protection
22. UCITS VI
23. Solvency II
24. FSA change to FCA/PRA



## Directors' responsibility statement

To the best of their knowledge and belief, each of the Directors listed below confirms that:

- The consolidated financial statements of Schroders plc, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of Schroders plc and the undertakings included in the consolidation taken as a whole;
- The announcement includes a fair summary 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 and a description of the principal risks and uncertainties that they face;
- So far as each 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:

Andrew Beeson	Chairman
Michael Dobson	Chief Executive
Philip Mallinckrodt	Group Head of Private Banking
Kevin Parry	Chief Financial Officer
Massimo Tosato	Executive Vice Chairman and Global Head of Distribution
Luc Bertrand	Senior Independent Director
Ashley Almanza	Independent non-executive Director
Robin Buchanan	Independent non-executive Director
Lord Howard of Penrith	Independent non-executive Director
Merlyn Lowther	Independent non-executive Director
Nichola Pease	Independent non-executive Director
Bruno Schroder	Non-executive Director

6 March 2013

## Five-year consolidated financial summary

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Profit before tax	<b>360.0</b>	407.3	406.9	137.5	123.1
Tax	<b>(76.8)</b>	(91.5)	(95.7)	(41.8)	(51.8)
<b>Profit after tax</b>	<b>283.2</b>	315.8	311.2	95.7	71.3
<b>Earnings per share:</b>	<b>2012 Pence</b>	2011 Pence	2010 Pence	2009 Pence	2008 Pence
Basic earnings per share	<b>104.7</b>	115.9	111.8	34.3	27.5
Diluted earnings per share	<b>101.3</b>	111.9	108.3	34.2	27.3
<b>Dividends</b>	<b>2012</b>	2011	2010	2009	2008
Cost (£m)	<b>104.1</b>	104.8	87.6	84.9	86.7
Pence per share*	<b>39.0</b>	39.0	32.0	31.0	31.0
<b>Total equity (£m)</b>	<b>2,069.9</b>	1,901.6	1,799.7	1,649.0	1,632.2
<b>Net assets per share (pence)**</b>	<b>733</b>	673	620	571	569

\*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 year-end date.

## Assets under management – 2012 flows

	Total £bn	Institutional £bn	Intermediary £bn	Private Banking £bn
<b>1 January 2012</b>	<b>187.3</b>	<b>108.4</b>	<b>62.9</b>	<b>16.0</b>
Gross inflows	57.6	21.8	31.8	4.0
Gross outflows	(48.2)	(15.4)	(28.5)	(4.3)
<b>Net flows</b>	<b>9.4</b>	<b>6.4</b>	<b>3.3</b>	<b>(0.3)</b>
Investment returns	15.3	8.9	5.8	0.6
<b>31 December 2012</b>	<b>212.0</b>	<b>123.7</b>	<b>72.0</b>	<b>16.3</b>



## Income and cost metrics for the Group

	<b>2012</b>	2011
Cost: net revenue ratio	<b>70%</b>	66%
Compensation cost: operating revenue ratio	<b>49%</b>	44%
Bonus: pre-bonus operating profit	<b>42%</b>	39%
Return on average capital (pre-tax)	<b>18%</b>	22%
Return on average capital (post-tax)	<b>14%</b>	17%

## Exchange rates – closing

<b>31 December</b>	<b>2012</b>	2011	2010	2009	2008
<b>Sterling:</b>					
Euro	<b>1.23</b>	1.20	1.17	1.13	1.03
US dollar	<b>1.63</b>	1.55	1.57	1.61	1.44
Swiss franc	<b>1.49</b>	1.45	1.46	1.67	1.53
Australian dollar	<b>1.57</b>	1.52	1.53	1.80	2.06
Hong Kong dollar	<b>12.60</b>	12.07	12.17	12.52	11.14
Japanese yen	<b>140.55</b>	119.57	126.98	150.33	130.33
Singaporean dollar	<b>1.99</b>	2.02	2.01	2.27	2.07