Press Release
Schroders plc
Half-year results to 30 June 2019 (unaudited) 1 August 2019

- Net income before exceptional items down 5% to £1,032.6 million (H1 2018: £1,086.1 million)
- Profit before tax and exceptional items down 14% to £340.4 million (H1 2018: £397.1 million)
- Profit before tax down 14% to £319.3 million (H1 2018: £371.1 million)
- Assets under management up 9% to £444.4 billion (31 December 2018: £407.2 billion)
- Net outflows of £1.2 billion (H1 2018: net inflows of £1.2 billion)
- Around £45 billion of assets from the Lloyds Banking Group mandate due to fund in the second half of the year
- Interim dividend unchanged at 35 pence per share (H1 2018: 35 pence per share)

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Net income	1,032.6	1,086.1	2,123.9
Operating expenses	(692.2)	(689.0)	(1,362.7)
Profit before tax and exceptional items	**340.4**	**397.1**	**761.2**
Profit before tax	**319.3**	**371.1**	**649.9**
Basic earnings per share before exceptional items (pence)	**98.6**	**114.0**	**215.8**
Basic earnings per share (pence)	**92.4**	**106.0**	**183.1**
Dividend per share (pence)	**35.0**	**35.0**	**114.0**

Peter Harrison, Group Chief Executive, commented: *"We have continued to follow our strategy of selectively investing in key areas to drive the long-term growth of the business through a combination of inorganic investments and organic hiring. Assets under management finished the period at a new high of £444.4 billion. The overall pipeline of notified net new inflows is strong. The first part of the Lloyds mandate, around £45 billion of assets, will fund in the second half of the year.*

We have made further progress in Wealth Management and expanded our proposition in Asia Pacific with the acquisition of Thirdrock Group's wealth management business. We look forward to the launch of Schroders Personal Wealth to the wider market, later this year. We have further strengthened our private assets business, including agreeing to acquire a majority stake in BlueOrchard Finance, pioneers in microfinance and impact investing. We have also continued to develop our geographic capabilities, such as our investment in China.

In a challenging market, we continue to broaden and enhance our range of investment capabilities to help meet our clients' needs. We remain on track with our plans, giving us confidence that our diversified business model and global presence position us well to generate positive outcomes for both our clients and shareholders over the long term."

Management statement

Throughout the first half of 2019, we have continued to focus on our strategy of growing our core business, moving closer to our end client and expanding our capabilities in Private Assets and Alternatives. We have seen good progress with the on-boarding of the Lloyds mandate and we will transition around £45 billion of assets by the end of the year. Driven by strong markets towards the end of the period, assets under management at 30 June 2019 were at a new high of £444.4 billion (31 December 2018: £407.2 billion).

Consistent with our stated strategy, we continued to invest in the future growth of the business. During the period, we broadened our global footprint within Wealth Management, including with the acquisition of Thirdrock Group's wealth management business based in Singapore with around £1.7 billion of assets under management. Thirdrock complements our existing capabilities, accelerates the growth of our wealth management business in Asia and strengthens the regional investment expertise we offer to private clients.

In July, we announced that we had reached agreement to acquire a majority stake in BlueOrchard Finance, pioneers in impact investing and microfinance in emerging and frontier markets. One of the world's most successful impact investment firms, BlueOrchard expands our expertise in Private Assets and Alternatives and reaffirms our commitment to sustainability. It also helps us to serve clients better who are increasingly seeking investments that have a clear beneficial impact on society and the environment, as well as generating positive financial returns. We expect this to complete in the second half of the year.

Our capabilities in Private Assets and Alternatives were also reinforced in the first half by the acquisition of Blue Asset Management, a Germany-based real estate business. This acquisition provides additional resource and expertise in the German, Swiss and Austrian real estate markets and brings total Private Assets and Alternatives assets under management to £39.3 billion.

Although we saw assets under management reach an all time high at the end of the period, markets were relatively weak earlier in the year meaning that average assets under management were more than 2% lower than the first half of 2018. As a result, and together with business mix changes reducing net operating revenue margins, net income declined 5% to £1,032.6 million (H1 2018: £1,086.1 million). As operating costs remained broadly unchanged relative to H1 2018, profit before tax and exceptional items was down 14% to £340.4 million (H1 2018: £397.1 million) and profit before tax also declined 14% to £319.3 million (H1 2018: £371.1 million).

The negative investor sentiment experienced at the end of last year continued and we saw total net outflows from clients of £1.2 billion (H1 2018: net inflows of £1.2 billion). The "risk off" environment was particularly evident in the Intermediary channel, where there were net outflows of £2.4 billion, principally from Equity products. The Institutional channel proved more resilient and clients awarded us net new business of £0.3 billion. Wealth Management continued to perform strongly, generating net new business of £0.9 billion across Cazenove Capital and Benchmark Capital.

Asset Management

Asset Management net income before exceptional items was down 6% to £864.6 million (H1 2018: £921.5 million) as it was impacted by lower average assets under management. We generated performance fees and net carried interest of £27.3 million (H1 2018: £35.4 million). Profit before tax and exceptional items declined 16% to £292.4 million (H1 2018: £347.4 million) and profit before tax was down 14% to £284.4 million (H1 2018: £332.2 million).

Assets under management at the end of the period were £393.7 billion (31 December 2018: £363.5 billion). Investor sentiment remained subdued and we saw net outflows from clients of £2.1 billion (H1 2018: no net new business). The net operating revenue margin before performance fees and net carried interest declined by one basis point to 44 basis points.

The Institutional channel generated net new business from clients of £0.3 billion, driven by demand for Fixed Income and Multi-asset strategies, primarily from UK clients. Assets under management in the Institutional channel at 30 June 2019 were £264.0 billion.

In the Intermediary channel, the negative investor sentiment experienced towards the end of 2018 continued through the first half of this year. In this "risk off" environment, we saw net outflows from clients of £2.4 billion, predominantly driven by a lack of demand for Equity products. These redemptions were partially offset by net inflows into Emerging Market and European Fixed Income products. Assets under management in the Intermediary channel at 30 June 2019 were £129.7 billion.

Wealth Management

The Wealth Management segment generated net income of £144.0 million (H1 2018: £143.8 million). Profit before tax and exceptional items decreased 11% to £43.2 million (H1 2018: £48.7 million) and profit before tax was down 21% to £30.1 million (H1 2018: £37.9 million). The net operating revenue margin, excluding performance fees, declined one basis point to 60 basis points.

We continued to generate good organic growth, with clients introducing £0.9 billion of net new business (H1 2018: £1.2 billion), across both Cazenove Capital and Benchmark Capital. Assets under management in Wealth Management at 30 June 2019 were £50.7 billion (31 December 2018: £43.7 billion).

Group

The Group segment principally comprises returns on investment capital and treasury management activities and central costs.

In the first half of the year, the Group segment generated profit before tax and exceptional items of £4.8 million (H1 2018: £1.0 million), driven by gains in our investment portfolio.

Total equity at 30 June 2019 was £3.6 billion (31 December 2018: £3.6 billion).

Dividend

The Board has declared an interim dividend of 35.0 pence per share, which is unchanged from the interim dividend in 2018. The dividend will be payable on 26 September 2019 to shareholders on the register at 23 August 2019.

Outlook

We continued to see headwinds across the industry throughout the first half of 2019. However, our diversified business model and global footprint mean we are well positioned for the long term.

In a challenging market, we continue to broaden and enhance our range of investment capabilities to help meet our clients' needs. We remain on track with our plans, giving us confidence that our diversified business model and global presence position us well to generate positive outcomes for both our clients and shareholders over the long term.

Our key priority remains achieving positive investment outcomes for our clients and building their future prosperity.

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Additional information

Assets under management (AUM)

Six months to 30 June 2019

	Assets under management (AUM)				
£bn	Institutional	Intermediary	**Asset Management**	**Wealth Management**	**Total**
1 January 2019	**242.3**	**121.2**	**363.5**	**43.7**	**407.2**
Gross inflows	16.5	22.2	38.7	3.4	42.1
Gross outflows	(16.2)	(24.6)	(40.8)	(2.5)	(43.3)
Net flows	**0.3**	**(2.4)**	**(2.1)**	**0.9**	**(1.2)**
Acquisitions	1.0	–	1.0	2.3	3.3
Investment returns	20.4	10.9	31.3	3.8	35.1
30 June 2019	**264.0**	**129.7**	**393.7**	**50.7**	**444.4**

Client investment performance

Client investment performance is calculated internally by Schroders to give shareholders and financial analysts general guidance on how our AUM is performing. The data is aggregated and is intended to provide information for comparison to prior reporting periods only. It is not intended for clients or potential clients investing in our products.

	Percentage of assets outperforming		
	One year	**Three years**	**Five years**
To 30 June 2019	**56%**	**72%**	**72%**
To 31 December 2018	43%	74%	76%

Investment performance over three years (our key performance indicator) remained strong to 30 June 2019, with 72% of Asset Management assets outperforming. Over five years, 72% of assets were outperforming and over one year 56% of assets were outperforming.

All calculations of investment performance in this statement are made gross of fees with the exception of those for which the relevant stated comparator is a net of fees competitor ranking. When a product's investment performance is disclosed in product or client documentation it is specific to the strategy or product: for Intermediary clients, performance will be shown net of fees at the relevant fund share-class level; for Institutional clients, it will typically be shown gross of fees with a fee schedule for the strategy supplied.

The calculation includes 100% of internally-managed Asset Management assets, excluding Liability-Driven Investment (LDI) strategies and certain real estate assets, that have a complete track record over the respective reporting period. Assets held in LDI strategies, which currently amount to £29.5 billion, are excluded as these are not seeking to outperform a stated objective but to match the liability profile of pension funds. Assets managed by third parties are excluded and primarily comprise the Luxembourg-domiciled GAIA fund range of £3.3 billion and legacy private equity assets of £1.7 billion. We do not routinely revalue the real estate assets of Algonquin or Blue Asset Management and therefore no performance calculation is included.

Performance is calculated relative to the relevant stated comparator for each strategy as below. It falls into one of four categories, the percentages for each of which refer to the three year calculation:

- For 78% of assets included in the calculation, the relevant stated comparator is a benchmark.
- If the stated comparator is to competitor rankings, the relative position of the fund to its peer group on a like-for-like basis is used to calculate performance. This applies to 5% of assets in the calculation.
- Assets for which the stated comparator is an absolute return target are measured against that absolute target. This applies to 10% of assets in the calculation.
- Assets with no stated comparator are measured against a cash return, if applicable. This applies to 7% of assets in the calculation.

Metrics for the Group*

	Six months ended 30 June 2019	Six months ended 30 June 2018
Ratio of total costs to net income*†	**67%**	63%
Total compensation ratio*†	**44.0%**	43.5%

*Before exceptional items.
†Defined and explained within the 2018 Annual Report and Accounts, available on the Schroders investor relations website www.schroders.com/ir. The calculation basis of the ratios is unchanged from the year end.

Peter Harrison, Group Chief Executive, and Richard Keers, Chief Financial Officer, will host a presentation and webcast for the investment community to discuss the Group's Half-year results at 9.00 a.m. BST on Thursday, 1 August 2019 at 1 London Wall Place, London, EC2Y 5AU. The webcast can be viewed live at www.schroders.com/ir and www.cantos.com. For individuals unable to participate in the live webcast, a replay will be available from 1.00pm BST on Thursday 1 August on www.schroders.com/ir.

Please visit www.schroders.com/shareholders-privacy-policy to learn how we handle personal data.

Forward-looking statements

This announcement and the Schroders website may contain forward-looking statements with respect to the financial condition, performance and position, strategy, results of operations and businesses of the Schroders Group. Such statements and forecasts involve risk and uncertainty because they are based on current expectations and assumptions but relate to events and depend upon circumstances in the future and you should not place reliance on them. Without limitation, any statements preceded or followed by or that include the words 'targets', 'plans', 'sees', 'believes', 'expects', 'aims', 'confident', 'will have', 'will be', 'will ensure', 'likely', 'estimates' 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 statement. 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 on the Schroders website should be construed as a forecast, estimate or projection of future financial performance.

Consolidated income statement

Six months ended	Notes	30 June 2019 (unaudited) Before exceptional items £m	Exceptional items[2] £m	Total £m	30 June 2018 (unaudited) Before exceptional items £m	Exceptional items[2] £m	Total £m
Revenue	3	1,224.8	–	1,224.8	1,336.2	–	1,336.2
Cost of sales	3	(231.5)	–	(231.5)	(285.2)	–	(285.2)
Net operating revenue		**993.3**	**–**	**993.3**	**1,051.0**	**–**	**1,051.0**
Net gain on financial instruments and other income	4	25.2	(1.6)	23.6	24.0	(8.0)	16.0
Share of profit of associates and joint ventures		14.1	(0.4)	13.7	11.1	(0.4)	10.7
Net income		**1,032.6**	**(2.0)**	**1,030.6**	**1,086.1**	**(8.4)**	**1,077.7**
Operating expenses	5	(692.2)	(19.1)	(711.3)	(689.0)	(17.6)	(706.6)
Profit before tax		**340.4**	**(21.1)**	**319.3**	**397.1**	**(26.0)**	**371.1**
Tax	6	(67.3)	3.0	(64.3)	(81.4)	2.9	(78.5)
Profit after tax[1]		**273.1**	**(18.1)**	**255.0**	**315.7**	**(23.1)**	**292.6**
Earnings per share							
Basic	7	98.6p	(6.2)p	92.4p	114.0p	(8.0)p	106.0p
Diluted	7	97.0p	(6.1)p	90.9p	112.0p	(7.8)p	104.2p

[1] Non-controlling interest is presented in the Consolidated statement of changes in equity.
[2] Please refer to notes 2 and 3 for a definition and further details of exceptional items.

Consolidated statement of comprehensive income

Six months ended	Notes	30 June 2019 (unaudited) £m	30 June 2018 (unaudited) £m
Profit after tax		**255.0**	**292.6**
Items that may or have been reclassified to the income statement:			
Net exchange differences on translation of foreign operations after hedging		4.5	0.6
Net gain/(loss) on financial assets at fair value through other comprehensive income	4	6.1	(4.6)
Tax on items taken directly to other comprehensive income	6	(0.5)	0.8
		10.1	**(3.2)**
Items that will not be reclassified to the income statement:			
Net actuarial (loss)/gain on defined benefit pension schemes	13	(32.1)	38.1
Tax on items taken directly to other comprehensive income	6	5.5	(6.3)
		(26.6)	**31.8**
Other comprehensive income for the period, net of tax[1]		**(16.5)**	**28.6**
Total comprehensive income for the period[1]		**238.5**	**321.2**

[1] Non-controlling interest is presented in the Consolidated statement of changes in equity.

Consolidated statement of financial position

	Notes	30 June 2019 (unaudited) £m	31 December 2018 (audited) £m
Assets			
Cash and cash equivalents		2,652.5	2,683.4
Trade and other receivables	9	1,081.8	748.9
Financial assets	9	3,021.4	3,354.9
Associates and joint ventures		199.3	175.2
Property, plant and equipment	10,11	684.3	249.4
Goodwill and intangible assets	12	1,023.2	968.2
Deferred tax		42.0	42.8
Retirement benefit scheme surplus	13	125.4	155.6
		8,829.9	**8,378.4**
Assets backing unit-linked liabilities			
Cash and cash equivalents		1,020.9	598.2
Financial assets		11,597.2	10,657.7
	9	**12,618.1**	**11,255.9**
Total assets		**21,448.0**	**19,634.3**
Liabilities			
Trade and other payables	9	1,129.3	988.6
Financial liabilities	9	3,545.4	3,660.6
Lease liabilities	11	438.0	–
Current tax		78.4	44.2
Provisions		42.4	31.4
Deferred tax		7.7	15.1
Retirement benefit scheme deficits		12.5	17.3
		5,253.7	**4,757.2**
Unit-linked liabilities	9	**12,618.1**	**11,255.9**
Total liabilities		**17,871.8**	**16,013.1**
Net assets		**3,576.2**	**3,621.2**
Total equity[1]		**3,576.2**	**3,621.2**

[1] Non-controlling interest is presented in the Consolidated statement of changes in equity.

Consolidated statement of changes in equity

Six months ended 30 June 2019 (unaudited)	Notes	Attributable to owners of the parent								
		Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Profit and loss reserve £m	Total £m	Non-controlling interest £m	Total equity £m
At 1 January 2019		**282.5**	**124.2**	**(163.9)**	**184.4**	**83.1**	**3,108.2**	**3,618.5**	**2.7**	**3,621.2**
Restatement on adoption of IFRS 16	1	–	–	–	–	–	(6.9)	(6.9)	–	(6.9)
At 1 January 2019 (restated)		**282.5**	**124.2**	**(163.9)**	**184.4**	**83.1**	**3,101.3**	**3,611.6**	**2.7**	**3,614.3**
Profit for the period		–	–	–	–	13.7	241.7	255.4	(0.4)	255.0
Other comprehensive income[1]		–	–	–	4.5	–	(21.0)	(16.5)	–	(16.5)
Total comprehensive income for the period		**–**	**–**	**–**	**4.5**	**13.7**	**220.7**	**238.9**	**(0.4)**	**238.5**
Own shares purchased	15	–	–	(65.6)	–	–	–	(65.6)	–	(65.6)
Share-based payments		–	–	–	–	–	29.6	29.6	–	29.6
Tax in respect of share schemes	6	–	–	–	–	–	1.3	1.3	–	1.3
Other movements[2]		–	–	–	–	0.1	(21.7)	(21.6)	(2.2)	(23.8)
Dividends	8	–	–	–	–	–	(216.5)	(216.5)	(1.6)	(218.1)
Transactions with shareholders		**–**	**–**	**(65.6)**	**–**	**0.1**	**(207.3)**	**(272.8)**	**(3.8)**	**(276.6)**
Transfers		**–**	**–**	**54.6**	**–**	**(2.7)**	**(51.9)**	**–**	**–**	**–**
At 30 June 2019		**282.5**	**124.2**	**(174.9)**	**188.9**	**94.2**	**3,062.8**	**3,577.7**	**(1.5)**	**3,576.2**

[1] Other comprehensive income reported in the net exchange differences reserve comprises the net foreign exchange gain on the translation of foreign operations net of hedging. Other comprehensive income reported in the profit and loss reserve comprises the post-tax actuarial loss on the Group's retirement benefit scheme surplus and post-tax fair value movements on financial assets at fair value through other comprehensive income.
[2] Other movements include amounts relating to the purchase of an additional interest in a subsidiary.

Consolidated statement of changes in equity

		Attributable to owners of the parent								
Six months ended 30 June 2018 (unaudited)	Notes	Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Profit and loss reserve £m	Total £m	Non-controlling interest £m	Total equity £m
At 1 January 2018		282.5	124.2	(162.3)	153.4	65.8	2,995.1	3,458.7	12.3	3,471.0
Restatement on adoption of IFRS 9 and IFRS 15[1]		–	–	–	–	–	(18.5)	(18.5)	–	(18.5)
At 1 January 2018 (restated)		**282.5**	**124.2**	**(162.3)**	**153.4**	**65.8**	**2,976.6**	**3,440.2**	**12.3**	**3,452.5**
Profit for the period		–	–	–	–	10.7	281.6	292.3	0.3	292.6
Other comprehensive income[2]		–	–	–	0.6	–	28.0	28.6	–	28.6
Total comprehensive income for the period		**–**	**–**	**–**	**0.6**	**10.7**	**309.6**	**320.9**	**0.3**	**321.2**
Own shares purchased	15	–	–	(67.7)	–	–	–	(67.7)	–	(67.7)
Share-based payments		–	–	–	–	–	35.8	35.8	–	35.8
Tax in respect of share schemes	6	–	–	–	–	–	(0.5)	(0.5)	–	(0.5)
Other movements[3]		–	–	–	–	1.0	(17.0)	(16.0)	(3.8)	(19.8)
Dividends	8	–	–	–	–	–	(216.0)	(216.0)	(1.3)	(217.3)
Transactions with shareholders		**–**	**–**	**(67.7)**	**–**	**1.0**	**(197.7)**	**(264.4)**	**(5.1)**	**(269.5)**
Transfers		**–**	**–**	**59.5**	**–**	**(1.9)**	**(57.6)**	**–**	**–**	**–**
At 30 June 2018		**282.5**	**124.2**	**(170.5)**	**154.0**	**75.6**	**3,030.9**	**3,496.7**	**7.5**	**3,504.2**

[1] The adoption of IFRS 9 and IFRS 15 on 1 January 2018 reduced the Group's equity by £18.5 million. See page 149 of the 2018 Annual Report and Accounts.

[2] Other comprehensive income reported in the net exchange differences reserve comprises the net foreign exchange gain on the translation of foreign operations net of hedging. Other comprehensive income reported in the profit and loss reserve comprises the post-tax actuarial gain on the Group's retirement benefit scheme surplus and post-tax fair value movements on financial assets at fair value through other comprehensive income.

[3] Other movements include amounts relating to the purchase of an additional interest in a subsidiary.

Consolidated cash flow statement

	Notes	Six months ended 30 June 2019 (unaudited) £m	Six months ended 30 June 2018 (unaudited) £m
Net cash from operating activities	16	**590.5**	**386.0**
Cash flows from investing activities			
Net acquisition of businesses and associates		(40.5)	(139.8)
Net acquisition of property, plant and equipment and intangible assets		(65.1)	(88.7)
Acquisition of financial assets		(682.9)	(1,152.2)
Disposal of financial assets		890.3	1,124.7
Non-banking interest received		12.1	12.1
Distributions received from associates and joint ventures		2.7	2.5
Net cash from/(used in) investing activities		**116.6**	**(241.4)**
Cash flows from financing activities			
Purchase of subsidiary shares		(23.9)	–
Lease payments	11	(13.7)	–
Acquisition of own shares	15	(65.6)	(67.7)
Dividends paid	8	(218.1)	(217.3)
Net cash used in financing activities		**(321.3)**	**(285.0)**
Net increase/(decrease) in cash and cash equivalents		**385.8**	**(140.4)**
Opening cash and cash equivalents		3,281.6	3,519.5
Net increase/(decrease) in cash and cash equivalents		385.8	(140.4)
Effect of exchange rate changes		6.0	2.3
Closing cash and cash equivalents		**3,673.4**	**3,381.4**
Closing cash and cash equivalents consists of:			
Cash and cash equivalents available for use by the Group		2,610.7	2,673.5
Cash held in consolidated pooled investment vehicles		41.8	51.5
Cash and cash equivalents presented within assets		**2,652.5**	**2,725.0**
Cash and cash equivalents presented within assets backing unit-linked liabilities		1,020.9	656.4
Closing cash and cash equivalents		**3,673.4**	**3,381.4**

Explanatory notes to the Half-year financial statements

1. Presentation of the financial statements

(a) Basis of preparation

The condensed consolidated financial statements for the half-year ended 30 June 2019 (the Half-year financial statements) have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority. The Half-year financial statements should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2018. The accounting policies adopted in the preparation of the Half-year financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of a new accounting standard, further details of which are outlined below.

The Half-year financial statements are unaudited and do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 (the Act). Within the notes to the Half-year financial statements, all current and comparative data covering periods to (or as at) 30 June is unaudited. Data given in respect of the year ended 31 December 2018 is audited. The statutory accounts for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards (IFRS), comprising Standards and Interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee (IFRIC) or their predecessors, as adopted by the European Union (EU), and with those parts of the Act applicable to companies reporting under IFRS, have been delivered to the Registrar of Companies. The auditors' opinion on those accounts was unqualified and did not contain a statement made under Section 498 of the Act.

(b) New accounting standards and interpretations

IFRS 16 Leases

IFRS 16 Leases (IFRS 16) replaces IAS 17 Leases and is effective for reporting periods beginning on or after 1 January 2019. Where the Group is a lessee, IFRS 16 requires operating leases to be recorded in the Group's statement of financial position. A lease liability is recorded, reflecting the present value of the future contractual cash flows remaining under the lease term, discounted using the Group's incremental borrowing rate, as well as a right-of-use (ROU) asset. The ROU asset is initially recorded at the value of the lease liability plus any directly related costs and estimated dilapidation expenses and is presented within property, plant and equipment. Interest is accrued on the lease liability under the effective interest method to give a constant rate of return over the life of the lease whilst the balance is reduced as lease payments are made. The ROU asset is depreciated over the life of the lease as the benefit of the lease is consumed.

The Group applies judgement in evaluating whether the lease term should include options to extend or cancel the lease. All relevant factors that could create an economic incentive to exercise the option are considered and the option is included if it is reasonably certain to be exercised. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects the likelihood that it will exercise (or not exercise) the option.

The Group has calculated the ROU asset as if the standard had always been applied but based on an incremental borrowing rate at the date of initial adoption. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the appropriate discount rate at 1 January 2019. Comparative information has not been restated as the Group has applied IFRS 16 retrospectively with the cumulative effect of initially applying the standard recorded as an adjustment to the opening profit and loss reserve at 1 January 2019.

1. Presentation of the financial statements (continued)

(b) New accounting standards and interpretations (continued)

IFRS 16 Leases (continued)

The Group has applied the optional exemption contained within IFRS 16, which permits the cost of short-term (less than 12 months) leases to be expensed on a straight-line basis over the lease term. These lease arrangements are not material to the Group.

At 31 December 2018, the Group had non-cancellable operating lease commitments of £500.1 million. As a result of applying IFRS 16, the Group has recognised a lease liability and ROU asset at 1 January 2019 of £418.3 million and £411.9 million respectively. This change reduced the Group's net assets by £6.9 million, net of tax. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.95%. The opening lease commitments as at 1 January 2019 are reconciled to the opening lease liability as follows:

	£m
Lease commitments as at 1 January 2019	500.1
Interest to be unwound over the lease term	(81.8)
Opening lease liability at 1 January 2019	**418.3**

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23) became effective on 1 January 2019 and provides clarification as to how the recognition and measurement requirements of IAS 12 Income Tax should be applied. IFRIC 23 does not have a material impact on the Group.

(c) Future accounting developments

The Group did not implement the requirements of any other Standards or Interpretations that were in issue but were not required to be adopted by the Group at the half year. No other Standards or Interpretations have been issued that are expected to have an impact on the Group's financial statements.

(d) Going concern

The Group has considerable financial resources, a broad range of products and a geographically diversified business. As a consequence, the Directors believe that the Group is well placed to manage its business risks in the context of the current economic outlook. Accordingly, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and has continued to adopt the going concern basis in preparing these Half-year financial statements.

2. Exceptional items

Exceptional items are significant items of income and expenditure that have been separately presented by virtue of their nature to enable a better understanding of the Group's financial performance. Exceptional items principally relate to items arising from acquisitions undertaken by the Group, including amortisation of acquired intangible assets.

3. Segmental reporting

(a) Operating segments

The Group has three business segments: Asset Management, Wealth Management and the Group segment. The Asset Management segment principally comprises investment management including advisory services in respect of equity, fixed income, multi-asset solutions and private assets and alternatives products. The Wealth Management segment principally comprises investment management, wealth planning and banking services. The Group segment principally comprises the Group's investment capital and treasury management activities, corporate development and strategy activities and the management costs associated with governance and corporate management.

Segment information is presented on the same basis as that provided for internal reporting purposes to the Group's chief operating decision maker, the Group Chief Executive.

Operating expenses include an allocation of costs between the individual business segments on a basis that aligns the charge with the resources employed by the Group in particular business areas. This allocation provides management information on the business performance to manage and control expenditure.

3. Segmental reporting (continued)

	30 June 2019				30 June 2018			
Six months ended	**Asset Management £m**	**Wealth Management £m**	**Group £m**	**Total £m**	Asset Management £m	Wealth Management £m	Group £m	Total £m
Revenue	1,069.4	155.4	–	1,224.8	1,184.7	151.5	–	1,336.2
Cost of sales	(216.5)	(15.0)	–	(231.5)	(273.6)	(11.6)	–	(285.2)
Net operating revenue	**852.9**	**140.4**	**–**	**993.3**	**911.1**	**139.9**	**–**	**1,051.0**
Net gain on financial instruments and other income	0.5	3.2	21.5	25.2	1.5	3.7	18.8	24.0
Share of profit of associates and joint ventures	11.2	0.4	2.5	14.1	8.9	0.2	2.0	11.1
Net income	**864.6**	**144.0**	**24.0**	**1,032.6**	**921.5**	**143.8**	**20.8**	**1,086.1**
Operating expenses	(572.2)	(100.8)	(19.2)	(692.2)	(574.1)	(95.1)	(19.8)	(689.0)
Profit before tax and exceptional items	**292.4**	**43.2**	**4.8**	**340.4**	**347.4**	**48.7**	**1.0**	**397.1**
Exceptional items presented within net income:								
Net gain on financial instruments and other income	(1.6)	–	–	(1.6)	(8.0)	–	–	(8.0)
Amortisation of acquired intangible assets relating to associates and joint ventures	–	(0.4)	–	(0.4)	–	(0.4)	–	(0.4)
	(1.6)	**(0.4)**	**–**	**(2.0)**	**(8.0)**	**(0.4)**	**–**	**(8.4)**
Exceptional items presented within operating expenses:								
Amortisation of acquired intangible assets	(4.3)	(10.1)	–	(14.4)	(3.7)	(9.7)	–	(13.4)
Other expenses	(2.1)	(2.6)	–	(4.7)	(3.5)	(0.7)	–	(4.2)
	(6.4)	**(12.7)**	**–**	**(19.1)**	**(7.2)**	**(10.4)**	**–**	**(17.6)**
Profit before tax and after exceptional items	**284.4**	**30.1**	**4.8**	**319.3**	**332.2**	**37.9**	**1.0**	**371.1**

3. Segmental reporting (continued)

(b) Net operating revenue by fee type is presented below:

Six months ended 30 June 2019	**Asset Management £m**	**Wealth Management £m**	**Group £m**	**Total £m**
Management fees	1,049.8	114.9	–	1,164.7
Performance fees	1.9	0.1	–	2.0
Carried interest	12.8	–	–	12.8
Other fees	4.9	18.3	–	23.2
Wealth Management interest income earned	–	22.1	–	22.1
Revenue	**1,069.4**	**155.4**	**–**	**1,224.8**
Cost of sales	**(216.5)**	**(15.0)**	**–**	**(231.5)**
Net operating revenue[1]	**852.9**	**140.4**	**–**	**993.3**

[1] Asset Management net operating revenue comprises £419.6 million from the Group's Institutional channel and £433.3 million from the Group's Intermediary channel.

Six months ended 30 June 2018	Asset Management £m	Wealth Management £m	Group £m	Total £m
Management fees	1,123.2	111.8	–	1,235.0
Performance fees	15.8	0.3	–	16.1
Carried interest	40.1	–	–	40.1
Other fees	5.6	20.6	–	26.2
Wealth Management interest income earned	–	18.8	–	18.8
Revenue	**1,184.7**	**151.5**	**–**	**1,336.2**
Cost of sales	**(273.6)**	**(11.6)**	**–**	**(285.2)**
Net operating revenue[1]	**911.1**	**139.9**	**–**	**1,051.0**

[1] Asset Management net operating revenue comprises £432.5 million from the Group's Institutional channel and £478.6 million from the Group's Intermediary channel.

3. Segmental reporting (continued)

(c) Net operating revenue by region is presented below based on the location of clients:

Six months ended 30 June 2019	**UK £m**	**Continental Europe & Middle East £m**	**Asia Pacific £m**	**Americas £m**	**Total £m**
Management fees	350.8	365.2	303.1	145.6	1,164.7
Performance fees	0.3	0.2	0.7	0.8	2.0
Carried interest	–	12.8	–	–	12.8
Other fees	15.5	4.6	3.0	0.1	23.2
Wealth Management interest income earned	17.7	3.7	0.7	–	22.1
Revenue	**384.3**	**386.5**	**307.5**	**146.5**	**1,224.8**
Cost of sales	**(35.5)**	**(89.2)**	**(86.2)**	**(20.6)**	**(231.5)**
Net operating revenue	**348.8**	**297.3**	**221.3**	**125.9**	**993.3**

Six months ended 30 June 2018	UK £m	Continental Europe & Middle East £m	Asia Pacific £m	Americas £m	Total £m
Management fees	361.7	415.7	316.1	141.5	1,235.0
Performance fees	0.2	3.5	6.9	5.5	16.1
Carried interest	–	40.1	–	–	40.1
Other fees	16.5	5.9	3.7	0.1	26.2
Wealth Management interest income earned	12.8	5.3	0.7	–	18.8
Revenue	**391.2**	**470.5**	**327.4**	**147.1**	**1,336.2**
Cost of sales	**(35.5)**	**(141.3)**	**(90.7)**	**(17.7)**	**(285.2)**
Net operating revenue	**355.7**	**329.2**	**236.7**	**129.4**	**1,051.0**

4. Net gain on financial instruments and other income

Six months ended	30 June 2019 Income statement £m	30 June 2019 Other comprehensive income £m	30 June 2019 Total £m	30 June 2018 Income statement £m	30 June 2018 Other comprehensive income £m	30 June 2018 Total £m
Net gain/(loss) on financial instruments at fair value through profit and loss[1]	**7.6**	**–**	**7.6**	**(11.1)**	**–**	**(11.1)**
Net gain/(loss) arising from fair value movements	–	6.1	6.1	–	(5.0)	(5.0)
Net transfers on disposal	–	–	–	(0.4)	0.4	–
Net gain/(loss) on financial assets at fair value through other comprehensive income	**–**	**6.1**	**6.1**	**(0.4)**	**(4.6)**	**(5.0)**
Net finance income	**3.9**	**–**	**3.9**	**4.8**	**–**	**4.8**
Other income	**12.1**	**–**	**12.1**	**22.7**	**–**	**22.7**
Net gain/(loss) on financial instruments and other income	**23.6**	**6.1**	**29.7**	**16.0**	**(4.6)**	**11.4**

[1] Excludes gains/(losses) relating to financial instruments held to hedge employee deferred cash awards and financial obligations in respect of carried interest which was a total gain of £29.9 million (H1 2018: loss of £21.0 million) and are presented within operating expenses and cost of sales respectively.

5. Operating expenses

Operating expenses include:

Six months ended	30 June 2019 £m	30 June 2018 £m
Salaries, wages and other remuneration	417.6	411.2
Social security costs	36.3	38.7
Pension costs	19.1	22.0
Employee benefits expense	**473.0**	**471.9**
Net (gain)/loss on financial instruments held to hedge deferred cash awards	(17.4)	0.5
Employee benefits expense net of hedging	**455.6**	**472.4**

The employee benefits expense includes a charge of £2.2 million (H1 2018: £0.4 million) that is presented within exceptional items mainly in relation to deferred compensation costs arising from prior acquisitions completed by the Group.

6. Tax expense

Analysis of tax charge reported in the income statement:

Six months ended	**30 June 2019 £m**	30 June 2018 £m
UK current period charge	37.3	33.0
Rest of the world current period charge	28.3	43.4
Adjustments in respect of prior period estimates	0.3	–
Total current tax	**65.9**	**76.4**
Origination and reversal of temporary differences	(1.7)	1.7
Adjustments in respect of prior period estimates	0.1	0.4
Total deferred tax	**(1.6)**	**2.1**
Tax charge reported in the income statement	**64.3**	**78.5**

Analysis of tax (credit)/charge reported in other comprehensive income:

Six months ended	**30 June 2019 £m**	30 June 2018 £m
Current tax on movements in financial assets at fair value through other comprehensive income	0.1	–
Deferred tax (credit)/charge on actuarial gains and losses on defined benefit pension schemes	(5.5)	6.3
Deferred tax charge/(credit) on other movements through other comprehensive income	0.4	(0.8)
Tax (credit)/charge reported in other comprehensive income	**(5.0)**	**5.5**

Analysis of tax (credit)/charge reported in equity:

Six months ended	**30 June 2019 £m**	30 June 2018 £m
Current tax credit on Equity Compensation Plan and other share-based remuneration	(0.4)	(1.0)
Deferred tax (credit)/charge on Equity Compensation Plan and other share-based remuneration	(0.9)	1.5
Total (credit)/charge reported in equity	**(1.3)**	**0.5**

7. Earnings per share

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

Six months ended	30 June 2019 Number Millions	30 June 2018 Number Millions
Weighted average number of shares used in the calculation of basic earnings per share	276.4	275.8
Effect of dilutive potential shares – share options	4.5	4.8
Effect of dilutive potential shares – contingently issuable shares	–	0.1
Weighted average number of shares used in the calculation of diluted earnings per share	**280.9**	**280.7**

The pre-exceptional earnings per share calculations are based on profit after tax excluding non-controlling interest of £0.6 million (H1 2018: £1.4 million). After exceptional items, the loss after tax attributable to non-controlling interest was £0.4 million (H1 2018: profit of £0.3 million).

8. Dividends

	30 June 2019		30 June 2018	
Six months ended	**£m**	**Pence per share**	£m	Pence per share
Prior year final dividend paid	**216.5**	**79.0**	216.0	79.0

The Board has declared an interim dividend of 35.0 pence per share (interim dividend 2018: 35.0 pence), amounting to £95.8 million (H1 2018: £95.7 million) in total. The dividend will be paid on 26 September 2019 to shareholders on the register at 23 August 2019.

The Group paid £1.6 million of dividends to holders of non-controlling interests in subsidiaries of the Group during the six months ended 30 June 2019 (H1 2018: £1.3 million), resulting in total dividends paid in the period of £218.1 million (H1 2018: £217.3 million).

Schroders plc offers a dividend reinvestment plan (DRIP). The last date for shareholders to elect to participate in the DRIP for the purposes of the 2019 interim dividend is 5 September 2019. Further details are available on the Group's website.

9. Fair value measurement disclosures

Estimates and judgements

The Group holds financial instruments that are measured at fair value. The fair value of financial instruments may require some estimation or may be derived from readily available sources. The degree of estimation involved depends on the individual financial instrument and is reflected in the fair value hierarchy below. The hierarchy also reflects the extent of judgements used in the valuation but this does not necessarily indicate that the fair value is more or less likely to be realised. Judgements may include determining which valuation approach to apply as well as determining appropriate assumptions. For level 2 and 3 investments, the judgement applied by the Group gives rise to an estimate of fair value. The approach to determining the fair value estimate of level 2 and 3 investments is set out below, with no individual input giving rise to a material component of the carrying value for the Group. The fair value levels are based on the degree to which the fair value is observable and are defined as follows:

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities and principally comprise investments in pooled investment vehicles, quoted equities and government debt, daily-priced funds and exchange-traded derivatives;

– Level 2 fair value measurements are those derived from prices that are not traded in an active market but are determined using valuation techniques, which make maximum use of observable market data. The Group's level 2 financial instruments principally comprise foreign exchange contracts, certain debt securities, asset and mortgage backed securities and loans held at fair value. Valuation techniques may include using a broker quote in an inactive market or an evaluated price based on a compilation of primarily observable market information utilising information readily available via external sources. For funds not priced on a daily basis, the net asset value which is issued monthly or quarterly is used; and

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data. The Group's level 3 financial assets principally comprise investments in private equity funds that are measured by applying appropriate valuation techniques in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and investments in property investment vehicles that operate hotel businesses, valued based on the expected future cash flows that could be generated from the hotel business. The Group's financial liabilities categorised as level 3 principally consist of contingent consideration arising from acquisitions completed by the Group and financial obligations arising from carried interest arrangements. The carrying values of level 3 financial liabilities are typically derived from an estimate of the expected future cash flows required to settle the liability. These estimates reflect the projected performance of the acquired businesses for a number of years into the future.

9. Fair value measurement disclosures (continued)

The Group holds certain assets and liabilities at fair value. Their categorisation within the fair value hierarchy is shown below:

	30 June 2019				
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	Total £m
Financial assets at amortised cost:					
Loans and advances to banks	–	–	–	443.8	443.8
Loans and advances to clients	–	–	–	477.9	477.9
Debt securities	–	–	–	104.1	104.1
	–	**–**	**–**	**1,025.8**	**1,025.8**
Financial assets at fair value through other comprehensive income:					
Debt securities	470.2	381.7	–	–	851.9
	470.2	**381.7**	**–**	**–**	**851.9**
Financial assets at fair value through profit or loss:					
Pooled investment vehicles	548.9	4.8	83.5	–	637.2
Debt securities	115.7	108.2	7.3	–	231.2
Equities	182.2	1.7	45.3	–	229.2
Derivative contracts	23.6	11.4	6.5	–	41.5
Loans and advances to clients	–	4.6	–	–	4.6
	870.4	**130.7**	**142.6**	**–**	**1,143.7**
Financial assets	**1,340.6**	**512.4**	**142.6**	**1,025.8**	**3,021.4**
Trade and other receivables	**6.8**	–	–	**1,075.0**	**1,081.8**
Assets backing unit-linked liabilities	**7,801.3**	**2,795.0**	**36.4**	**1,985.4**	**12,618.1**
	9,148.7	**3,307.4**	**179.0**	**4,086.2**	**16,721.3**
Financial liabilities at amortised cost:					
Client accounts	–	–	–	3,218.1	3,218.1
Deposits by banks	–	–	–	49.6	49.6
Other financial liabilities	–	–	–	25.3	25.3
	–	**–**	**–**	**3,293.0**	**3,293.0**
Financial liabilities at fair value through profit or loss:					
Derivative contracts	3.1	18.5	–	–	21.6
Other financial liabilities	87.4	–	143.4	–	230.8
	90.5	**18.5**	**143.4**	**–**	**252.4**
Financial liabilities	**90.5**	**18.5**	**143.4**	**3,293.0**	**3,545.4**
Trade and other payables	**165.3**	**–**	**–**	**964.0**	**1,129.3**
Unit-linked liabilities	**11,807.2**	**102.0**	**–**	**708.9**	**12,618.1**
	12,063.0	**120.5**	**143.4**	**4,965.9**	**17,292.8**

9. Fair value measurement disclosures (continued)

	31 December 2018				
	Level 1 £m	Level 2 £m	Level 3 £m	Not at fair value £m	Total £m
Financial assets at amortised cost:					
Loans and advances to banks	–	–	–	384.2	384.2
Loans and advances to clients	–	–	–	572.6	572.6
Debt securities	–	–	–	139.1	139.1
	–	**–**	**–**	**1,095.9**	**1,095.9**
Financial assets at fair value through other comprehensive income:					
Debt securities	487.3	442.0	–	–	929.3
	487.3	**442.0**	**–**	**–**	**929.3**
Financial assets at fair value through profit or loss:					
Pooled investment vehicles	614.5	5.0	80.9	–	700.4
Debt securities	260.7	103.3	5.0	–	369.0
Equities	197.4	0.7	21.5	–	219.6
Derivative contracts	5.2	24.1	9.0	–	38.3
Loans and advances to clients	–	2.4	–	–	2.4
	1,077.8	**135.5**	**116.4**	**–**	**1,329.7**
Financial assets	**1,565.1**	**577.5**	**116.4**	**1,095.9**	**3,354.9**
Trade and other receivables	**9.1**	–	–	**739.8**	**748.9**
Assets backing unit-linked liabilities	**6,832.0**	**3,573.4**	**37.3**	**813.2**	**11,255.9**
	8,406.2	**4,150.9**	**153.7**	**2,648.9**	**15,359.7**
Financial liabilities at amortised cost:					
Client accounts	–	–	–	3,235.5	3,235.5
Deposits by banks	–	–	–	19.8	19.8
Other financial liabilities	–	–	–	6.2	6.2
	–	**–**	**–**	**3,261.5**	**3,261.5**
Financial liabilities at fair value through profit or loss:					
Derivative contracts	3.2	18.9	–	–	22.1
Other financial liabilities	222.6	–	154.4	–	377.0
	225.8	**18.9**	**154.4**	**–**	**399.1**
Financial liabilities	**225.8**	**18.9**	**154.4**	**3,261.5**	**3,660.6**
Trade and other payables	**144.6**	**–**	**–**	**844.0**	**988.6**
Unit-linked liabilities	**10,992.4**	**64.4**	**–**	**199.1**	**11,255.9**
	11,362.8	**83.3**	**154.4**	**4,304.6**	**15,905.1**

The fair value of financial assets at amortised cost approximates to their carrying value. No financial assets were transferred between levels during the six month period to 30 June 2019 (H1 2018: none).

9. Fair value measurement disclosures (continued)

Movements in assets and liabilities categorised as level 3 during the period were:

	30 June 2019			31 December 2018		
	Financial assets £m	**Assets backing unit-linked liabilities £m**	**Financial liabilities £m**	Financial assets £m	Assets backing unit-linked liabilities £m	Financial liabilities £m
At 1 January	116.4	37.3	154.4	71.9	54.6	72.4
Exchange translation adjustments	(2.0)	0.9	1.2	1.9	0.3	4.4
Net gain or loss recognised in the income statement	0.3	(0.9)	(11.7)	6.3	10.7	38.1
Additions	33.3	3.7	3.9	48.4	–	47.4
Disposals and settlements	(5.4)	(4.6)	(4.4)	(12.1)	(28.3)	(7.9)
At 30 June/31 December	**142.6**	**36.4**	**143.4**	**116.4**	**37.3**	**154.4**

10. Property, plant and equipment

	Leasehold improvements £m	**Land and buildings £m**	**Other assets £m**	**Total £m**
Cost				
At 1 January 2019	207.2	19.7	92.7	319.6
Exchange translation adjustments	0.1	–	0.1	0.2
Additions	5.9	0.6	23.3	29.8
Disposals	(0.5)	–	(0.6)	(1.1)
At 30 June 2019	**212.7**	**20.3**	**115.5**	**348.5**
Accumulated depreciation				
At 1 January 2019	(22.3)	(0.6)	(47.3)	(70.2)
Exchange translation adjustments	0.1	–	(0.3)	(0.2)
Depreciation charge for the period	(7.7)	(0.2)	(7.0)	(14.9)
Disposals	0.3	–	0.5	0.8
At 30 June 2019	**(29.6)**	**(0.8)**	**(54.1)**	**(84.5)**
Net book value at 30 June 2019	**183.1**	**19.5**	**61.4**	**264.0**
Right-of-use assets (see note 11)				**420.3**
Property, plant and equipment net book value at 30 June 2019				**684.3**

10. Property, plant and equipment (continued)

	Leasehold improvements £m	Land and buildings £m	Other assets £m	Total £m
Cost				
At 1 January 2018	166.0	23.1	72.4	261.5
Exchange translation adjustments	2.0	–	1.9	3.9
Additions	76.8	0.6	33.7	111.1
Disposals	(37.6)	(4.0)	(15.3)	(56.9)
At 31 December 2018	**207.2**	**19.7**	**92.7**	**319.6**
Accumulated depreciation				
At 1 January 2018	(50.5)	(0.1)	(48.1)	(98.7)
Exchange translation adjustments	(1.3)	–	(1.1)	(2.4)
Depreciation charge for the year	(8.1)	(0.5)	(13.2)	(21.8)
Disposals	37.6	–	15.1	52.7
At 31 December 2018	**(22.3)**	**(0.6)**	**(47.3)**	**(70.2)**
Net book value at 31 December 2018	**184.9**	**19.1**	**45.4**	**249.4**

11. Leases

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets £m	**Lease liabilities £m**
At 1 January 2019[1]	411.9	418.3
Exchange translation adjustments	–	0.3
Additions	21.9	21.4
Remeasurements of lease obligations	5.8	5.8
Lease payments	–	(13.7)
Depreciation charge for the period	(19.3)	–
Interest expense for the period	–	5.9
At 30 June 2019	**420.3**	**438.0**

[1] The right-of-use assets recognised on the adoption of IFRS 16 on 1 January 2019 includes £14.4 million with respect to estimated dilapidation expenses, with a corresponding provision recorded in the Group's statement of financial position.

The depreciation charge and interest expense relating to leases are recorded within operating expenses.

12. Goodwill and intangible assets

	Goodwill £m	Acquired intangible assets £m	Software £m	Total £m
Cost				
At 1 January 2019	676.5	278.4	251.4	1,206.3
Exchange translation adjustments	1.9	0.8	0.3	3.0
Additions	38.0	12.3	35.3	85.6
Disposals	–	–	(1.0)	(1.0)
At 30 June 2019	**716.4**	**291.5**	**286.0**	**1,293.9**
Accumulated amortisation				
At 1 January 2019	–	(154.1)	(84.0)	(238.1)
Exchange translation adjustments	–	(0.4)	(0.3)	(0.7)
Amortisation charge for the period	–	(14.4)	(18.5)	(32.9)
Disposals	–	–	1.0	1.0
At 30 June 2019	**–**	**(168.9)**	**(101.8)**	**(270.7)**
Carrying amount at 30 June 2019	**716.4**	**122.6**	**184.2**	**1,023.2**

	Goodwill £m	Acquired intangible assets £m	Software £m	Total £m
Cost				
At 1 January 2018	595.1	247.3	177.4	1,019.8
Exchange translation adjustments	10.6	4.0	1.6	16.2
Additions	70.8	27.1	90.8	188.7
Disposals	–	–	(18.4)	(18.4)
At 31 December 2018	**676.5**	**278.4**	**251.4**	**1,206.3**
Accumulated amortisation				
At 1 January 2018	–	(123.3)	(70.7)	(194.0)
Exchange translation adjustments	–	(2.0)	(1.5)	(3.5)
Amortisation charge for the year	–	(28.8)	(30.2)	(59.0)
Disposals	–	–	18.4	18.4
At 31 December 2018	**–**	**(154.1)**	**(84.0)**	**(238.1)**
Carrying amount at 31 December 2018	**676.5**	**124.3**	**167.4**	**968.2**

13. Retirement benefit obligations

Movements in respect of the assets and liabilities of the UK defined benefit scheme are:

	Six months ended 30 June 2019 (unaudited) £m	Year ended 31 December 2018 £m
At 1 January	951.2	1,029.2
Interest on assets	13.4	26.1
Remeasurement of assets	59.6	(56.8)
Benefits paid	(15.8)	(47.3)
Fair value of plan assets	**1,008.4**	**951.2**
At 1 January	(795.6)	(866.3)
Interest cost	(11.2)	(21.9)
Actuarial gain due to change in demographic assumptions	–	18.3
Actuarial (loss)/gain due to change in financial assumptions	(93.0)	36.3
Actuarial gain/(loss) due to experience	1.0	(9.3)
Benefits paid	15.8	47.3
Present value of funded obligations	**(883.0)**	**(795.6)**
Net assets	**125.4**	**155.6**

There was a £0.3 million credit recognised in the Group's consolidated statement of comprehensive income relating to the Group's other defined benefit schemes.

The principal assumptions used for the UK defined benefit scheme are:

	Six months ended 30 June 2019 (unaudited) %	Year ended 31 December 2018 %
Discount rate	2.3	2.9
RPI inflation rate	3.3	3.3
CPI inflation rate	2.3	2.2
Future pension increases (for benefits earned before 13 August 2007)	3.2	3.2
Future pension increases (for benefits earned after 13 August 2007)	2.3	2.2

Average number of years a current pensioner is expected to live beyond age 60:	**Years**	Years
Men	28	28
Women	29	29

Average number of years future pensioners currently aged 45 are expected to live beyond age 60:	**Years**	Years
Men	29	29
Women	30	30

The last completed triennial valuation of the Scheme was carried out as at 31 December 2017. The funding level at that date was 115% on the technical provisions basis and no contribution to the Scheme was required (2017: nil). The next triennial valuation is due as at 31 December 2020 and will be performed in 2021.

14. 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 2019	282.5	226.0	56.5	282.5	124.2
At 30 June 2019	**282.5**	**226.0**	**56.5**	**282.5**	**124.2**

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2018	282.5	226.0	56.5	282.5	124.2
At 30 June 2018	**282.5**	**226.0**	**56.5**	**282.5**	**124.2**

15. Own shares

Own shares include the Group’s shares (both ordinary and non-voting ordinary) that are held by employee benefit trusts.

Movements in own shares during the period were as follows:

Six months ended	**30 June 2019 £m**	30 June 2018 £m
At 1 January	(163.9)	(162.3)
Own shares purchased	(65.6)	(67.7)
Awards vested	54.6	59.5
At 30 June	**(174.9)**	**(170.5)**

During the period 2.3 million own shares (H1 2018: 2.0 million own shares) were purchased and held for hedging share-based awards. 2.0 million shares (H1 2018: 2.3 million shares) awarded to employees vested in the period and were transferred out of own shares.

16. Reconciliation of net cash from operating activities

Six months ended	**30 June 2019 £m**	30 June 2018 £m
Profit before tax	**319.3**	**371.1**
Adjustments for income statement non-cash movements:		
Depreciation of property, plant and equipment and amortisation of intangible assets	67.1	33.7
Net (gain)/loss on financial instruments	(37.5)	12.0
Share-based payments	29.6	35.8
Net charge/(release) for provisions	0.1	(2.4)
Other non-cash movements	(10.9)	(8.8)
	48.4	**70.3**
Adjustments for which the cash effects are investing or financing activities:		
Net finance income	(3.9)	(4.8)
Interest expense on lease liabilities	5.9	–
Share of profit of associates and joint ventures	(13.7)	(10.7)
	(11.7)	**(15.5)**
Adjustments for statement of financial position movements:		
Decrease/(increase) in loans and advances within Wealth Management	46.7	(34.1)
Increase in trade and other receivables	(339.9)	(274.0)
(Decrease)/increase in deposits and client accounts within Wealth Management	(5.1)	13.4
Increase in trade and other payables, other financial liabilities and provisions	161.1	237.1
	(137.2)	**(57.6)**
Adjustments for Life Company movements:		
Net (increase)/decrease in financial assets backing unit-linked liabilities	(939.5)	1,783.8
Net increase/(decrease) in unit-linked liabilities	1,362.2	(1,699.9)
	422.7	**83.9**
Tax paid	**(51.0)**	**(66.2)**
Net cash from operating activities	**590.5**	**386.0**

17. Business combinations

The Group completed four business combinations during the period.

The most significant of these transactions completed on 24 May 2019 when the Group acquired 100% of the issued share capital of Blue Asset Management GmbH, a real estate asset management business, for a total consideration of £22.8 million. The acquisition contributed £1.0 billion of Asset Management AUM and strengthens the Group's private asset capabilities.

On 31 May 2019, the Group acquired a portion of the wealth management business of Lloyds Banking Group plc for a total consideration of £16.2 million. The acquisition contributed £0.5 billion of Wealth Management AUM and increases the scale and capability of the Group's UK wealth management business.

The Group completed two further acquisitions during the period for a combined consideration of £9.8 million. These acquisitions contributed around £1.8 billion of Wealth Management AUM and increase the scale and capability of the Group's wealth management business.

Net assets acquired

The fair value of the net assets acquired in the transactions described above together with the goodwill and intangible assets arising are as follows:

Net assets acquired:	**Total £m**
Cash	0.5
Property, plant and equipment	0.4
Trade and other receivables	1.5
Trade and other payables	(1.5)
Lease liabilities	(0.4)
Tangible net assets	**0.5**
Goodwill	38.0
Intangible assets arising on acquisition	12.3
Deferred tax arising on acquisition	(2.0)
Total	**48.8**

Satisfied by:	**Total £m**
Cash	28.4
Contingent consideration	3.9
Deferred consideration	16.5
Total	**48.8**

The amounts reported in respect of the acquisitions are provisional and subject to final review.

17. Business combinations (continued)

The goodwill arising on the acquisitions is attributable to the value arising from:

- Additional investment capabilities;
- A broader platform for business growth;
- Talented management and employees; and
- Opportunities for synergies from combining certain activities.

Goodwill will not be deductible for tax purposes.

In the period between the acquisition dates and 30 June 2019, the four acquired businesses contributed £1.6 million to the Group's net income. The contribution to profit before tax and exceptional items was £0.9 million and exceptional costs of £0.4 million were incurred in respect of amortisation of the acquired intangible assets and deferred compensation costs. Additionally, acquisition costs of £1.3 million were recorded within 'Operating expenses' and classified as exceptional in the Consolidated income statement.

If the acquisitions had been completed on 1 January 2019, the Group's pre-exceptional net income for the period would have been £1,038.7 million, and the profit before tax and exceptional items for the period on the same basis would have been £343.3 million.

Estimates and judgements

The fair value of certain items of consideration, assets acquired and liabilities assumed requires some estimation. For contingent consideration payable, this estimation required assumptions regarding the level of management fees that will be earned over the relevant period. The reasonable range of potential outcomes of contingent consideration (undiscounted) is between £3.5 million and £3.9 million, compared with the Group's estimate of the amount payable of £3.9 million.

Certain assets acquired, including intangible assets arising on acquisition, as well as liabilities assumed also required some estimation. The key assumptions included those in respect of management fees earned over the relevant period.

The net impact of changes to these assumptions would be to change the carrying value of individual assets and liabilities with a corresponding change to goodwill.

BlueOrchard Finance Limited

On 26 July 2019, the Group announced an agreement to acquire a majority stake in BlueOrchard Finance Limited (BlueOrchard). The Group expects the transaction to complete in the second half of the year. BlueOrchard's results for the six months ended 30 June 2019 have not been included in these financial statements.

Key risks

Consistent with other asset management and wealth management businesses, 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 and may lead to losses. Other risks, such as those inherent in taking active investment decisions on behalf of clients, are the risks we are in business to take.

The key risks to which the Group will be exposed in the second half of 2019 are expected to be substantially the same as those described on pages 40 to 47 in the 2018 Annual Report and Accounts, and comprise strategic risks, business risks, operational risks, financial instrument risks and Brexit.

Directors' responsibility statement

On behalf of the Directors, I confirm to the best of my knowledge that the Half-year results:

- Have been prepared in accordance with International Accounting Standard 34 as adopted by the European Union;
- Include a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7, namely important events that have occurred during the first six months of the financial period and their impact on the Half-year financial statements, as well as a description of the principal risks and uncertainties faced by the Group and the undertakings included in the consolidation taken as a whole for the remaining six months of the financial year; and
- Include, as required by Disclosure Guidance and Transparency Rule 4.2.8, a fair review of material related party transactions that have taken place in the first six months of the financial period and any material changes to the related party transactions described in the last Annual Report and Accounts.

A list of current Directors is maintained on the Schroders plc website: www.schroders.com.

On behalf of the Board

Richard Keers
Chief Financial Officer
31 July 2019

Independent review report to Schroders plc

Introduction

We have been engaged by Schroders plc (the 'Company') to review the condensed consolidated financial statements for the half year ended 30 June 2019 (the 'Half-year financial statements'), which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated cash flow statement and Explanatory notes to the Half-year financial statements. We have read the other information contained in the Half-year results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Half-year financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The Half-year results, including the Half-year financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half-year results in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The Half-year financial statements included in the Half-year results have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the Half-year financial statements in the Half-year results based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland), "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Half-year financial statements in the Half-year results for the six months ended 30 June 2019 are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
31 July 2019

Notes:

1. The maintenance and integrity of the Schroders plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Half-year financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.