Schroders

Press Release
Schroders plc

Annual Results to 31 December 2013 (audited) 6 March 2014

- Profit before tax and exceptional items up 41 per cent. to £507.8 million* (2012: £360.0 million)
- Profit before tax up 24 per cent. to £447.5 million (2012: £360.0 million)
- Full-year dividend up 35 per cent. to 58.0 pence per share (2012: 43.0 pence)
- Net inflows £7.9 billion (2012: £9.4 billion)
- Assets under management £262.9 billion (2012: £212.0 billion)

	2013 £m	2012 £m
Profit before tax and exceptional items		
Asset Management	468.6	348.5
Wealth Management	34.3	11.8
	502.9	**360.3**
Group segment	4.9	(0.3)
Total profit before tax and exceptional items	**507.8**	**360.0**
Total profit before tax	**447.5**	**360.0**
Earnings per share before exceptional items (pence)	**149.9**	**104.7**
Earnings per share (pence)	**130.6**	**104.7**
Total dividend (pence per share)	**58.0**	**43.0**

Michael Dobson, Chief Executive, commented: *"2013 was a record year for Schroders, with profit before tax and exceptional items up 41 per cent. to £507.8 million and assets under management up 24 per cent. to £262.9 billion. The momentum across our business continued through the year with £2.4 billion of net inflows in the fourth quarter. This strong performance was the result of our highly diversified business and focus on growth over the long term.*

Reflecting these results, the Company's strong financial position and our confidence in the opportunities for continued growth in the long term, the Board is recommending an increase in the final dividend of 40 per cent. to 42.0 pence per share bringing the total dividend for the year to 58.0 pence per share (2012: 43.0 pence) an increase of 35 per cent."

Contacts:

Emma Holden	Head of Corporate Communications	+44 (0) 207 658 2329	emma.holden@schroders.com
Anita Scott		+44 (0) 207 404 5959	schroders@brunswickgroup.com

* Please refer to note 1 and note 2 on pages 13 and 14 for further details and a definition of exceptional items.

Schroders

Management Statement

In 2013 we achieved record levels of revenue, profit and assets under management and we completed two acquisitions in wealth management and fixed income, which bring new talent, client relationships and growth opportunities to the firm.

Net revenue in 2013 increased by 24 per cent. to £1,407.6 million (2012: £1,134.9 million) and profit before tax and exceptional items increased by 41 per cent. to £507.8 million (2012: £360.0 million). We won net new business of £7.9 billion and assets under management ended the year up 24 per cent. at £262.9 billion (2012: £212.0 billion).

In July we acquired Cazenove Capital which transforms our position in wealth management and strengthens our UK retail funds business. Assets under management of £17.2 billion at the time the transaction was announced in March had increased to £23.8 billion by year end.

In April we acquired STW Fixed Income, a specialist US fixed income manager. STW brings 100 new institutional client relationships and £5.7 billion of assets under management at the end of 2013, and builds out our investment capabilities in the US with an excellent investment record in long duration bonds.

Asset Management

Asset Management net revenue increased 23 per cent. to £1,247.2 million (2012: £1,014.8 million) including performance fees which were sharply higher at £80.2 million (2012: £28.4 million) reflecting strong investment performance. Net revenue margins excluding performance fees were little changed on the year at 53 basis points (2012: 54 basis points). Profit before tax and exceptional items was up 34 per cent. at £468.6 million (2012: £348.5 million). Exceptional items of £13.5 million (2012: nil) related principally to the amortisation of the value of client relationships acquired with STW and Cazenove Capital, and integration costs arising from the two acquisitions.

A depth of investment talent across portfolio management and research, disciplined investment processes and active engagement with the companies in which we invest, has led to strong investment performance overall with 68 per cent. of funds outperforming benchmark or peer group over three years to the end of 2013 and 70 per cent. outperforming over one year.

Net new business in Asset Management was £9.4 billion (2012: £9.7 billion), generated equally across Institutional and Intermediary, well diversified by region with net inflows in the UK, continental Europe, Asia Pacific and the Americas, and also diversified across a broad range of investment strategies. By asset class, we had another very strong year in Multi-asset with net inflows of £6.9 billion and in Equities with net inflows of £2.8 billion.

In Institutional we had net inflows of £4.6 billion (2012: £6.4 billion) with positive flows across multi-asset, equities, fixed income and alternative strategies. Assets under management in Institutional ended the year at £144.3 billion (2012: £123.7 billion).

In Intermediary we generated net sales of £4.8 billion (2012: £3.3 billion) with net inflows across all regions. By asset class, new business was concentrated in multi-asset income strategies and equities. The addition of the Cazenove Capital investment funds business has broadened our offering in the UK with a complementary range of UK and European equity, multi-manager and fixed income funds. Assets under management in Intermediary ended the year at £88.5 billion (2012: £72.0 billion).

In June we acquired a 30 per cent. shareholding in Secquaero Advisors, a manager of insurance-linked securities which is a specialist fixed income asset class where we see growing demand from clients. In December, we established a convertible bond capability complementing our capabilities in equities and fixed income and we now manage approximately £1.4 billion in this asset class.

Wealth Management

As expected we saw a rebound in the performance of our Wealth Management business in 2013, reinforced by the acquisition of Cazenove Capital. Net revenue increased 59 per cent. to £150.0 million (2012: £94.4 million) and profit before tax and exceptional items was £34.3 million (2012: £11.8 million). Exceptional items of £30.9 million (2012: nil) included integration costs and the amortisation of client relationships acquired in relation to Cazenove Capital, and a provision of £15.0 million relating to a possible liability arising from an industry wide review by the US Department of Justice with regard to accounts held in Swiss banks that may not have been US-tax compliant. This provision relates principally to closed accounts.

Net outflows during the year amounted to £1.5 billion (2012: £0.3 billion) as a result of the expected loss of two large mandates in the second half. Assets under management ended the year at £30.1 billion (2012: £16.3 billion).

The acquisition of Cazenove Capital has significantly strengthened our position in Wealth Management bringing talent, scale, a complementary client base and a capability in financial planning. The response from clients has been very encouraging as we have brought together two businesses with a similar culture and client proposition. In the UK and the Channel Islands we will use the Cazenove Capital name in our Wealth Management business, while retaining the Schroders name in Switzerland and other international locations.

Group

The Group segment comprises returns on investment capital, including seed capital deployed in building a track record in new investment strategies, and various central costs. Profit before tax and exceptional items was £4.9 million (2012 loss: £0.3 million). Exceptional items of £15.9 million (2012: nil) comprise certain acquisition costs relating to Cazenove Capital and STW.

Shareholders' equity at the end of 2013 was £2.3 billion (2012: £2.1 billion).

Dividend

Our policy is to increase dividends progressively in line with the trend in profitability. Reflecting these record results, the Board will recommend to shareholders at the Annual General Meeting an increase in the final dividend of 40 per cent. taking the final dividend to 42.0 pence (2012: 30.0 pence). This will bring the total dividend for the year to 58.0 pence (2012: 43.0 pence), an increase of 35 per cent. The final dividend will be paid on 7 May 2014 to shareholders on the register at 28 March 2014.

Outlook

After a year of strong returns in developed equity markets, 2014 is likely to be more challenging for investors. However Schroders is well placed for further growth in the long term. We have a highly diversified international business serving institutional, intermediary and high net worth clients with the investment strategies and solutions that they need, competitive investment performance and a proven, global distribution capability.

Schroders

Additional information

Assets under management

Twelve months to 31 December 2013	Institutional £bn	Intermediary £bn	Asset Management £bn	Wealth Management £bn	Total AUM £bn
1 January 2013	**123.7**	**72.0**	**195.7**	**16.3**	**212.0**
Acquisitions	7.1	6.9	14.0	13.2	27.2
Gross inflows	28.2	42.0	70.2	5.4	75.6
Gross outflows	(23.6)	(37.2)	(60.8)	(6.9)	(67.7)
Net flows	**4.6**	**4.8**	**9.4**	**(1.5)**	**7.9**
Investment returns	8.9	4.8	13.7	2.1	15.8
31 December 2013	**144.3**	**88.5**	**232.8**	**30.1**	**262.9**

Three months to 31 December 2013	Institutional £bn	Intermediary £bn	Asset Management £bn	Wealth Management £bn	Total AUM £bn
30 September 2013	**141.6**	**85.2**	**226.8**	**29.9**	**256.7**
Net flows	0.9	2.0	2.9	(0.5)	2.4
Investment returns	1.8	1.3	3.1	0.7	3.8
31 December 2013	**144.3**	**88.5**	**232.8**	**30.1**	**262.9**

Income and cost metrics for the Group

	2013	2012
Cost: net revenue ratio	**65%**	70%
Compensation cost: operating revenue ratio	**46%**	49%
Bonus: pre-bonus operating profit	**39%**	42%
Return on average capital before exceptional items (pre-tax)	**23%**	18%
Return on average capital before exceptional items (post-tax)	**19%**	14%

Copies of this announcement are available on the Schroders website: www.schroders.com. Michael Dobson, Chief Executive, and Richard Keers, 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, 6 March 2014 at 31 Gresham Street, London, EC2V 7QA. The webcast can be viewed live at www.schroders.com/ir and 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, 6 March 2014 at www.schroders.com/ir. The Annual Report and Accounts will be available on the Schroders website: www.schroders.com on 21 March 2014.

Forward-looking statements

This announcement, the Annual Report and Accounts for 2013 from which it is extracted 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 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. 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 2013

		2013			2012
	Notes	**Before exceptional items £m**	**Exceptional Items*** £m**	**Total £m**	£m
Revenue	3	1,809.1	-	1,809.1	1,425.4
Cost of sales		(431.1)	-	(431.1)	(329.7)
Net gains on financial instruments and other income		29.6	-	29.6	39.2
Net revenue*		**1,407.6**	-	**1,407.6**	**1,134.9**
Operating expenses	4	(919.7)	(58.1)	(977.8)	(791.2)
Operating profit		**487.9**	**(58.1)**	**429.8**	**343.7**
Net finance income		11.7	-	11.7	11.8
Share of profit of associates and joint ventures		8.2	(2.2)	6.0	4.5
Profit before tax		**507.8**	**(60.3)**	**447.5**	**360.0**
Tax	5	(103.0)	8.2	(94.8)	(76.8)
Profit after tax		**404.8**	**(52.1)**	**352.7**	**283.2**
Earnings per share					
Basic	6	**149.9p**	**(19.3)p**	**130.6p**	104.7p
Diluted	6	**144.6p**	**(18.6)p**	**126.0p**	101.3p
Dividends per share**	7			**46.0p**	**39.0p**

* Non-GAAP measure of performance.
** Interim and final dividends declared during the year.
*** Please refer to notes 1 and 2 for a definition and further details of exceptional items.

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	2013 £m	2012 £m
Profit for the year	352.7	283.2
Items to be reclassified to the income statement on fulfilment of specific conditions:		
Net exchange differences on translation of foreign operations after hedging	(18.6)	(21.8)
Net fair value movement arising from available-for-sale financial assets	6.0	16.0
Net fair value movement arising from available-for-sale financial assets held by associates	(0.9)	1.5
	(13.5)	**(4.3)**
Reclassification to the income statement:		
Transfer to income statement on derecognition or impairment of available-for-sale financial assets	(7.3)	(25.5)
	(7.3)	**(25.5)**
Items not to be reclassified to the income statement:		
Actuarial (losses)/gains on defined benefit pension schemes	(9.8)	10.4
Tax on items taken directly to other comprehensive income	(0.2)	(4.1)
	(10.0)	**6.3**
Other comprehensive losses for the year net of tax	**(30.8)**	**(23.5)**
Total comprehensive income for the year net of tax	**321.9**	**259.7**

Consolidated statement of financial position

31 December 2013

	Notes	**2013 £m**	2012 £m
Assets			
Cash and cash equivalents		2,522.5	2,542.8
Trade and other receivables		594.2	414.7
Financial assets		1,665.8	2,019.8
Associates and joint ventures		83.1	79.4
Property, plant and equipment		22.5	15.0
Goodwill and intangible assets	8	489.0	142.1
Deferred tax		48.5	47.8
Retirement benefit scheme surpluses	12	63.7	67.2
		5,489.3	**5,328.8**
Assets backing unit-linked liabilities			
Cash and cash equivalents		777.2	820.5
Financial assets		10,354.5	8,525.8
		11,131.7	**9,346.3**
Total assets		**16,621.0**	**14,675.1**
Liabilities			
Trade and other payables		764.1	559.3
Financial liabilities		2,351.2	2,585.1
Current tax		46.6	40.8
Provisions	13	51.2	64.0
Deferred tax		1.7	1.9
Retirement benefit scheme deficits		5.9	7.8
		3,220.7	**3,258.9**
Unit-linked liabilities		**11,131.7**	**9,346.3**
Total liabilities		**14,352.4**	**12,605.2**
Net assets		**2,268.6**	**2,069.9**
Equity		**2,268.6**	**2,069.9**

Consolidated statement of changes in equity

for the year ended 31 December 2013

	Notes	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 2013		282.5	90.1	(165.1)	101.8	25.5	25.6	1,709.5	2,069.9
Profit for the year		**-**	**-**	**-**	**-**	**6.0**	**-**	**346.7**	**352.7**
Other comprehensive losses*		**-**	**-**	**-**	**(18.6)**	**(0.9)**	**(1.3)**	**(10.0)**	**(30.8)**
Total comprehensive (losses)/income for the year		**-**	**-**	**-**	**(18.6)**	**5.1**	**(1.3)**	**336.7**	**321.9**
Shares issued	9	1.8	29.3	-	-	-	-	-	31.1
Shares cancelled	9	(1.6)	-	-	-	-	-	1.6	-
Share-based payments		-	-	-	-	-	-	56.6	56.6
Share-based payment obligations acquired in business combination		-	-	-	-	-	-	39.0	39.0
Tax in respect of share schemes		-	-	-	-	-	-	17.6	17.6
Other movements in associates and joint venture reserve		-	-	-	-	(0.9)	-	-	(0.9)
Dividends attributable to shareholders		-	-	-	-	-	-	(123.5)	(123.5)
Dividends attributable to non-controlling interests		-	-	-	-	-	-	(0.4)	(0.4)
Own shares purchased	10	-	-	(142.3)	-	-	-	(0.4)	(142.7)
Transactions with shareholders		**0.2**	**29.3**	**(142.3)**	**-**	**(0.9)**	**-**	**(9.5)**	**(123.2)**
Transfers		**-**	**-**	**77.5**	**-**	**(6.2)**	**-**	**(71.3)**	**-**
At 31 December 2013		**282.7**	**119.4**	**(229.9)**	**83.2**	**23.5**	**24.3**	**1,965.4**	**2,268.6**

Schroders

for the year ended 31 December 2012

	Notes	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
Profit for the year		**-**	**-**	**-**	**-**	**4.5**	**-**	**278.7**	**283.2**
Other comprehensive (losses)/income*		**-**	**-**	**-**	**(22.0)**	**1.5**	**(9.3)**	**6.3**	**(23.5)**
Total comprehensive income for the year		**-**	**-**	**-**	**(22.0)**	**6.0**	**(9.3)**	**285.0**	**259.7**
Shares issued	9	0.5	2.3	-	-	-	-	-	2.8
Shares cancelled	9	(0.5)	-	-	-	-	-	0.5	-
Share-based payments		-	-	-	-	-	-	45.3	45.3
Tax in respect of share schemes		-	-	-	-	-	-	6.3	6.3
Dividends attributable to shareholders		-	-	-	-	-	-	(104.1)	(104.1)
Own shares purchased	10	-	-	(41.7)	-	-	-	-	(41.7)
Transactions with shareholders		**-**	**2.3**	**(41.7)**	**-**	**-**	**-**	**(52.0)**	**(91.4)**
Transfers		**-**	**-**	**49.1**	**-**	**(6.3)**	**-**	**(42.8)**	**-**
At 31 December 2012		**282.5**	**90.1**	**(165.1)**	**101.8**	**25.5**	**25.6**	**1,709.5**	**2,069.9**

* Other comprehensive losses in the net exchange differences reserve represent foreign exchange gains and losses on the translation of foreign operations net of hedging. Other comprehensive (losses)/income in the associates and joint ventures reserve and the fair value reserve represent fair value movements on available-for-sale assets held. Other comprehensive (losses)/income in the profit and loss reserve represent post-tax actuarial gains and losses.

Consolidated cash flow statement

for the year ended 31 December 2013

	Note	**2013 £m**	2012 £m
Net cash from operating activities	11	**204.1**	**489.2**
Cash flows from investing activities			
Net cash consideration for the acquisition of subsidiaries, including loan redemptions		(273.2)	-
Acquisition of associates and joint ventures		(7.8)	(23.3)
Net acquisition of property, plant and equipment and intangible assets		(25.8)	(12.8)
Net disposal of financial assets		265.2	54.1
Non-banking interest received		15.7	12.0
Distributions received from associates and joint ventures		6.5	6.5
Net cash (used in)/from investing activities		**(19.4)**	**36.5**
Cash flows from financing activities			
Proceeds from issue of non-voting ordinary shares		0.6	2.8
Acquisition of own shares		(112.2)	(41.7)
Dividends paid		(123.5)	(104.1)
Other flows		(1.2)	(1.9)
Net cash used in financing activities		**(236.3)**	**(144.9)**
Net (decrease)/increase in cash and cash equivalents		**(51.6)**	**380.8**
Opening cash and cash equivalents		3,363.3	3,012.3
Net (decrease)/increase in cash and cash equivalents		(51.6)	380.8
Effect of exchange rate changes		(12.0)	(29.8)
Closing cash and cash equivalents		**3,299.7**	**3,363.3**
Closing cash and cash equivalents consists of:			
Cash backing unit-linked liabilities		**777.2**	**820.5**
Other cash and cash equivalents held by the Group:			
Cash		1,771.5	1,718.7
Cash equivalents		751.0	824.1
		2,522.5	**2,542.8**
		3,299.7	**3,363.3**

The cash held in the Life Company's long-term fund cannot be used by the Group 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 2012 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 2013 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, Wealth Management (formerly Private Banking) and Group. Asset Management principally comprises investment management including advisory services, equity products, fixed income securities, multi-asset investments, property and alternative asset classes such as commodities, private equity and funds of hedge funds. Wealth Management principally comprises investment management, financial planning 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 costs associated with governance and corporate management. Insurance activities comprise acting as an 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. If it is concluded that there is no insurance cover available or the insurance cover will not cover the charge in full, the actual or estimated cost in excess of the insurance recovery is transferred to the relevant operating segment. 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 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.

Schroders

1. Segmental reporting continued

Year ended 31 December 2013	Asset Management £m	Wealth Management £m	Group £m	Total £m
Fee income	1,639.7	140.9	0.2	1,780.8
Banking interest receivable	-	28.3	-	28.3
Revenue	**1,639.7**	**169.2**	**0.2**	**1,809.1**
Fee expense	(411.4)	(4.9)	(0.1)	(416.4)
Banking interest payable	-	(14.7)	-	(14.7)
Cost of sales	**(411.4)**	**(19.6)**	**(0.1)**	**(431.1)**
Net gains on financial instruments and other income	18.9	0.4	10.3	29.6
Net revenue	**1,247.2**	**150.0**	**10.4**	**1,407.6**
Operating expenses	(784.9)	(115.7)	(19.1)	(919.7)
Operating profit/(loss)	**462.3**	**34.3**	**(8.7)**	**487.9**
Net finance (charge)/income	(0.4)	-	12.1	11.7
Share of profit of associates and joint ventures	6.7	-	1.5	8.2
Profit before tax and exceptional items	**468.6**	**34.3**	**4.9**	**507.8**
Exceptional items:				
Acquisition costs	-	-	(4.2)	(4.2)
Integration costs	(4.0)	(7.2)	-	(11.2)
Amortisation of acquired intangible assets	(7.3)	(6.0)	-	(13.3)
Deferred compensation arising from acquisitions	-	-	(11.7)	(11.7)
Provisions and related costs	-	(17.7)	-	(17.7)
	(11.3)	**(30.9)**	**(15.9)**	**(58.1)**
Exceptional items within share of profit of associates and joint ventures:				
Amortisation of acquired intangible assets	(2.2)	-	-	(2.2)
Profit/(loss) before tax and after exceptional items	**455.1**	**3.4**	**(11.0)**	**447.5**

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

2. Exceptional items

Exceptional items are significant items of income and expenditure that have been presented separately by virtue of their nature to enable a better understanding of the Group's financial performance. In 2013, exceptional items relate principally to acquisitions made by the Group, including costs of acquisition and integration, amortisation of acquired intangible assets and deferred compensation, together with a provision in the Swiss bank related to the US Department of Justice programme (see note 13).

3. Revenue

	2013 £m	2012 £m
Management fees	1,533.9	1,223.9
Performance fees	80.6	28.5
Other fees	166.3	139.9
Interest income earned by Wealth Management	28.3	33.1
	1,809.1	**1,425.4**

4. Operating expenses

Operating expenses include:	2013 £m	2012 £m
Salaries, wages and other remuneration	573.6	472.4
Social security costs	63.8	45.7
Pension costs	28.2	27.6
Employee benefits expense	**665.6**	**545.7**

£13.1 million of the total compensation costs of £665.6 million are included within exceptional items, being £11.7 million of deferred compensation arising from acquisitions and £1.4 million of integration costs (see note 1).

5. Tax expense

Analysis of tax charge reported in the income statement:

	2013 £m	2012 £m
UK Corporation Tax on profits for the year	47.5	29.6
Adjustments in respect of prior year estimates	(0.1)	1.7
Foreign tax – current	58.1	54.6
Foreign tax – adjustments in respect of prior years	(1.3)	(8.6)
Current tax	**104.2**	**77.3**
Origination and reversal of temporary differences	(8.1)	(6.5)
Adjustments in respect of prior year estimates	0.5	4.6
Effect of changes in Corporation Tax rates	(1.8)	1.4
Deferred tax	**(9.4)**	**(0.5)**
Tax charge reported in the income statement	**94.8**	**76.8**

The UK standard rate of Corporation Tax reduced from 24 per cent. to 23 per cent. on 1 April 2013 resulting in a UK effective tax rate for the year of 23.25 per cent. (2012: effective rate of 24.50 per cent.). The tax charge for the year is lower (2012: lower) than a charge based on the UK effective rate. The reconcilliation 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 on the next page:

	2013 £m	2012 £m
Profit before tax	447.5	360.0
Less post-tax profits of associates and joint ventures	(6.0)	(4.5)
Profit before tax of consolidated Group entities	441.5	355.5
Profit before tax of consolidated Group entities multiplied by Corporation Tax at the UK rate of 23.25 per cent. (2012: 24.50 per cent.)	102.6	87.1
Effects of:		
Different statutory tax rates of overseas jurisdictions	5.5	(1.2)
Permanent differences including non-taxable income and non-deductible expenses	(11.4)	(9.0)
Net creation of tax losses for which no deferred tax asset was recognised	0.8	1.1
Deferred tax adjustments in respect of changes in Corporation Tax rates	(1.8)	1.1
Adjustments to prior year estimates	(0.9)	(2.3)
Tax charge reported in the income statement	**94.8**	**76.8**

6. Earnings per share

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

	2013 Number Millions	2012 Number Millions
Weighted average number of shares used in calculation of basic earnings per share	270.0	270.3
Effect of dilutive potential shares – share options	8.9	8.4
Effect of dilutive potential shares – contingently issuable shares	0.9	0.5
Weighted average number of shares used in calculation of diluted earnings per share	**279.8**	**279.2**

7. Dividends

	2014		2013		2012	
	£m	Pence per share	£m	Pence per share	£m	Pence per share
Recommended or paid in year:						
Final dividend recommended/paid	112.8	42.0	80.4	30.0	69.4	26.0
Interim dividend paid			43.1	16.0	34.7	13.0
			123.5	**46.0**	**104.1**	**39.0**

Dividends of £6.7 million (2012: £6.0 million) on shares held by the employee trusts have been waived; dividends may not be paid on treasury shares. The recommended 2013 final dividend is payable on 7 May 2014 and will be accounted for in 2014.

8. Goodwill and intangible assets

	Goodwill £m	Acquired intangible assets £m	Software £m	Total £m
Cost				
At 1 January 2013	117.2	23.9	64.0	205.1
Exchange translation adjustments	(2.3)	(1.4)	(0.1)	(3.8)
Additions	242.1	112.5	14.7	369.3
At 31 December 2013	**357.0**	**135.0**	**78.6**	**570.6**
Accumulated amortisation				
At 1 January 2013	-	(21.3)	(41.7)	(63.0)
Exchange translation adjustments	-	0.3	0.1	0.4
Amortisation charge for the year	-	(13.3)	(5.7)	(19.0)
At 31 December 2013	**-**	**(34.3)**	**(47.3)**	**(81.6)**
Carrying amount at 31 December 2013	**357.0**	**100.7**	**31.3**	**489.0**

	Goodwill £m	Acquired intangible assets £m	Software £m	Total £m
Cost				
At 1 January 2012	120.4	24.5	57.9	202.8
Exchange translation adjustments	(3.2)	(0.6)	(0.5)	(4.3)
Additions	-	-	6.7	6.7
Disposals	-	-	(0.1)	(0.1)
At 31 December 2012	**117.2**	**23.9**	**64.0**	**205.1**
Accumulated amortisation				
At 1 January 2012	-	(19.7)	(39.0)	(58.7)
Exchange translation adjustments	-	0.6	0.3	0.9
Amortisation charge for the year	-	(2.2)	(3.1)	(5.3)
Disposals	-	-	0.1	0.1
At 31 December 2012	**-**	**(21.3)**	**(41.7)**	**(63.0)**
Carrying amount at 31 December 2012	**117.2**	**2.6**	**22.3**	**142.1**

Of the total goodwill of £357.0 million (2012: £117.2 million), £288.1 million (2012: £108.1 million) is allocated to Asset Management and £68.9 million (2012: £9.1 million) to Wealth Management. Of the goodwill relating to the acquisition of Cazenove Capital of £222.3 million, £162.3 million has been allocated to Asset Management and £60.0 million to Wealth Management. All of the £19.8 million of goodwill relating to the acquisition of STW has been allocated to Asset Management.

The majority of the Group's intangible assets from business combinations relate to the Cazenove Capital acquisition; the proportion of assets allocated to Asset Management (£34.1 million at the acquisition date) will be charged to the income statement over four years, and the proportion allocated to Wealth Management (£66.7 million at the acquisition date) over eight years.

More information regarding these acquisitions is set out in note 14.

9. 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 2013	282.5	226.0	56.5	282.5	90.1
Shares issued	1.8	-	1.8	1.8	29.3
Shares cancelled	(1.6)	-	(1.6)	(1.6)	-
At 31 December 2013	**282.7**	**226.0**	**56.7**	**282.7**	**119.4**

	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)	-
At 31 December 2012	**282.5**	**226.0**	**56.5**	**282.5**	**90.1**

	2013 Millions	2012 Millions
Issued and fully paid:		
Ordinary shares of £1 each	226.0	226.0
Non-voting ordinary shares of £1 each	56.7	56.5
	282.7	282.5

In July 2013, 1.7 million non-voting ordinary shares were issued to one of the Group's Employee Benefit Trusts in respect of awards under the Restricted and Growth Share Plan for Cazenove Capital employees that were required to be settled through a new issue of non-voting ordinary shares. A further 0.1 million non-voting ordinary shares were issued to satisfy share option exercises. By the year end, 1.6 million non-voting ordinary shares that had principally been bought back in the year were cancelled.

The non-voting ordinary shares carry the same rights as ordinary shares except 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.

10. Own shares

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

Movements during the year were as follows:

	2013 £m	2012 £m
At 1 January	(165.1)	(172.5)
Own shares acquired	(142.3)	(41.7)
Cancellation of own shares held in treasury*	30.8	5.6
Awards vested*	46.7	43.5
At 31 December	**(229.9)**	**(165.1)**

*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.

	2013			2012		
	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	2.8	12.2	15.0	3.0	11.6	14.6
Non-voting ordinary shares held within trusts	0.4	1.7	2.1	0.6	0.2	0.8
Non-voting ordinary shares held as treasury shares*	-	-	-	-	0.1	0.1
	3.2	**13.9**	**17.1**	**3.6**	**11.9**	**15.5**

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

During the year 6.8 million own shares were purchased. 5.3 million were held for hedging share-based awards and 1.5 million were placed in treasury and subsequently cancelled, along with 0.1 million treasury shares which had been purchased in prior periods. 3.2 million shares were awarded to employees in the period and were transferred out of own shares.

11. Reconciliation of net cash from operating activities

	2013 £m	2012 £m
Operating profit	**429.8**	**343.7**
Adjustments for income statement non-cash movements:		
Depreciation of property, plant and equipment and amortisation of intangible assets	25.8	12.0
Net gains and impairments taken through the income statement on financial instruments	(16.7)	(22.0)
Share-based payments	56.6	45.3
Charge for provisions net of releases	16.3	17.2
Other non-cash movements	3.9	4.0
	85.9	**56.5**
Adjustments for statement of financial position movements:		
Decrease in trade and other receivables	44.7	82.5
Decrease in trade and other payables, financial liabilities and provisions	(218.9)	(58.5)
	(174.2)	**24.0**
Adjustments for Life Company movements:		
Net increase in assets backing unit-linked liabilities	(1,828.7)	(554.2)
Net increase in unit-linked liabilities	1,785.4	701.1
	(43.3)	**146.9**
Tax paid	**(93.9)**	**(81.6)**
Interest paid	**(0.2)**	**(0.3)**
Net cash from operating activities	**204.1**	**489.2**

Net cash from operating activities includes cash outflows of £14.6 million in respect of exceptional items.

12. Retirement benefit obligations

The disclosures within this note 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). Certain disclosures are also provided in respect of the Cazenove Capital Management Limited Pension Scheme (the Cazenove Capital Scheme), a funded defined benefit scheme that is closed to future accrual and which provides post-employment benefits to certain current and former employees of Cazenove Capital, and the defined contribution (DC) section of the Schroders Retirement Benefits Scheme (the DC section).

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

	2013 **£m**	2012 £m
Pension costs – defined contribution plans	30.0	27.2
Pension (credit)/charge – defined benefit plans	(1.8)	0.3
Other post-employment benefits	-	0.1
	28.2	**27.6**

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

Other comprehensive loss/(income) consists of:	**2013** **£m**	2012 £m
Return on Scheme assets (in excess of)/below that recognised in interest income	(22.3)	1.9
Actuarial gains due to change in demographic assumptions	(8.6)	(9.0)
Actuarial losses/(gains) due to change in financial assumptions	41.1	(4.7)
Actuarial (gains)/losses due to experience	(1.3)	1.5
Total other comprehensive loss/(income) in respect of the Scheme	**8.9**	**(10.3)**
Other comprehensive loss/(income) in respect of other defined benefit schemes	0.9	(0.1)
Total other comprehensive loss/(income) in respect of defined benefit schemes	**9.8**	**(10.4)**

The Scheme is administered by a Trustee company, Schroder Pension Trustee Limited. At 31 December 2012 and 2013, there were no active members in the DB section and 1,598 active members in the DC section (2012: 1,182). The Scheme was closed to future accrual on 30 April 2011.

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. No additional funding was required. No contributions were made to the Scheme in the year (2012: nil) and the Group does not expect to make any contributions in 2014.

The financial impact of 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 2013.

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

	2013			2012
	The Scheme	**Cazenove Capital Scheme**	**Total**	
	£m	**£m**	**£m**	£m
At 1 January	776.9	-	776.9	763.8
Acquired*	-	37.6	37.6	-
Interest on assets	35.2	0.8	36.0	33.3
Remeasurement of assets	22.3	(0.2)	22.1	(1.9)
Benefits paid	(22.3)	(0.9)	(23.2)	(18.3)
Fair value of plan assets	**812.1**	**37.3**	**849.4**	**776.9**
At 1 January	(709.7)	-	(709.7)	(708.1)
Acquired*	-	(34.2)	(34.2)	-
Interest cost	(32.1)	(0.7)	(32.8)	(32.1)
Actuarial gains/(losses) due to change in demographic assumptions	8.6	(1.1)	7.5	9.0
Actuarial (losses)/gains due to change in financial assumptions	(41.1)	0.3	(40.8)	4.7
Actuarial gains/(losses) due to experience	1.3	(0.2)	1.1	(1.5)
Benefits paid	22.3	0.9	23.2	18.3
Present value of funded obligations	**(750.7)**	**(35.0)**	**(785.7)**	**(709.7)**
Net asset	**61.4**	**2.3**	**63.7**	**67.2**

*The Group acquired Cazenove Capital on 2 July 2013; comparative amounts represent balances and movements in respect of the Scheme only.

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

		2013		2012	
Assumption	**Assumption change**	**Estimated reduction in pension liabilities £m**	**Estimated reduction in pension liabilities %**	Estimated reduction in pension liabilities £m	Estimated reduction in pension liabilities %
Discount rate	Increase by 0.5% per annum	67.6	9.0	66.3	9.4
Expected rate of pension increases in payment	Reduce by 0.5% per annum	48.0	6.4	45.8	6.5
Life expectancy	Reduce by one year	21.7	2.9	19.7	2.8

13. Provisions

The Group holds provisions in respect of dilapidations and onerous leases, regulatory and legal matters which, at 31 December 2013, total £51.2 million (2012: £64.0 million).

The Group has recorded a £15.0 million provision for a possible penalty payable in connection with the US Department of Justice ('DOJ') programme announced on 29 August 2013 that applies industry wide to Swiss banks in order to identify accounts related to clients who may not have been US-tax compliant. The Group's Swiss bank is participating voluntarily in the programme. Where a Swiss bank is unable to provide fully sufficient evidence that a client is compliant, a penalty may be payable. This programme is expected to complete in 2014 or 2015 and there is uncertainty as to the extent of any payment required by Schroders. Details of the programme can be found at the DOJ website.

The Group has established a provision based on a review of relevant accounts which existed on or after 1 August 2008. This review is ongoing. The provision relates principally to closed accounts. There is uncertainty mainly in respect of the range of probabilities applied to relevant accounts which will only become certain following the conclusion of the DOJ's analysis of the Swiss bank's submission of its evidence. As a result, the actual payment is expected to vary from the amount provided.

During the year, the Group has also recorded external insurance recoveries of £7.7 million (2012: £19.6 million), including an estimate of insurance cover that has not yet been settled, in respect of a provision booked in the prior year. At 31 December 2013, £0.4 million (2012:£19.6 million) was recorded in trade and other receivables. The insurance recovery is considered to be virtually certain.

14. Acquisitions

Cazenove Capital Holdings Limited

On 2 July 2013, the Group acquired 100 per cent. of the issued share capital of Cazenove Capital Holdings Limited, a Jersey-registered holding company of an asset and wealth management group ('Cazenove Capital'), for £385.2 million. The recommended acquisition was announced on 25 March 2013 and was completed by means of a scheme of arrangement under article 125 of the Companies (Jersey) Law 1991.

The acquisition added complementary asset classes in UK and European equities, fixed income and multi-manager. It also materially expanded the Group's scale and capabilities for private clients and charities in the UK. The acquisition contributed £6.9 billion of Asset Management and £13.2 billion of Wealth Management AUM.

STW Fixed Income Management LLC ('STW')

On 2 April 2013, the Group acquired 100 per cent. of the net assets of STW, a fixed income fund manager based in the US, for consideration of £34.7 million. The acquisition contributed £7.1 billion of Asset Management AUM and broadened the Group's product and service platform in fixed income and extended our institutional client base in the US.

Net assets acquired

The fair values of the net assets acquired in the transaction, together with the goodwill and intangible assets arising, are as follows:

	Cazenove Capital £m	STW £m	Total £m
Net assets acquired:			
Non-current financial assets	10.3	0.1	10.4
Cash	95.4	0.3	95.7
Trade and other receivables	119.4	3.6	123.0
Other assets	5.3	-	5.3
Trade and other payables	(145.2)	(0.8)	(146.0)
Other liabilities	(1.9)	-	(1.9)
	83.3	**3.2**	**86.5**
Goodwill	222.3	19.8	242.1
Intangible assets	100.8	11.7	112.5
Deferred tax arising on intangible assets	(21.2)	-	(21.2)
	385.2	**34.7**	**419.9**
Satisfied by:			
Cash	129.1	31.1	160.2
Loan notes issued*	217.1	-	217.1
Pre-acquisition share of share-based payment obligations	39.0	-	39.0
Contingent consideration liability**	-	3.6	3.6
Total consideration	**385.2**	**34.7**	**419.9**

* Following the completion of the Unit Trust rollover set out in the Cazenove Capital recommended offer, £208.7 million of the loan notes issued were redeemed for cash.

** At the acquisition date, £3.6 million was recognised as contingent consideration. Payment of this amount is contingent upon certain levels of revenue in the two years after the acquisition date. The amount accrued is the maximum payable under the purchase agreement. An estimate of the range of outcomes is that a payment of between £nil and £3.6 million will be payable in 2015.

Cazenove Capital

The goodwill recognised on the Cazenove Capital acquisition represents the value of the acquired business arising from:

- Talented management and employees;
- Opportunities for synergies from combining operations and Asset Management distribution; and
- A broader platform for business growth.

Intangible assets recognised on the Cazenove Capital acquisition include the value of contractual customer relationships that existed at the acquisition date and the use of the Cazenove name.

In the period between the date of acquisition (2 July 2013) and 31 December 2013, Cazenove Capital generated net revenue of £99.6 million. The contribution to profit before tax and exceptional items was £58.1 million and exceptional costs of £28.8 million were incurred, including charges in respect of amortisation of acquired intangible assets, integration costs and the Restricted and Growth Share Plan. In addition, acquisition costs of £3.9 million were recorded within 'Operating expenses' and classified as exceptional items in the income statement.

If the acquisition had been completed on 1 January 2013, the Group's net revenue for the period combined with that of the acquiree would have been £1,469.6 million, and the profit before tax and exceptional items for the period on the same basis would have been £521.0 million (profit before tax and after exceptional items: £446.3 million). The post-exceptional figures include deductions for the additional amortisation charges and legacy share-based payments that would have arisen had the acquisition taken place at that date.

STW

The goodwill arising on the STW acquisition is attributable to the anticipated profitability of the business acquired and synergies arising from merging the business with the Group. The intangible asset represents the value attributed to existing contractual arrangements between STW and its clients. The full amount of goodwill is expected to be deductible for tax purposes over a period of fifteen years.

In the period between the date of acquisition (2 April 2013) and 31 December 2013, STW generated net revenue of £10.1 million. The contribution to profit before tax and exceptional items was a loss of £0.1 million and exceptional costs of £5.6 million were incurred, including charges in respect of amortisation of acquired intangible assets, integration costs and deferred cash compensation awards. Costs of acquisition in 2013, recorded within 'Operating expenses' and classified as exceptional items in the income statement, were £0.3 million. A further £1.5 million of acquisition costs were incurred in 2012.

If the acquisition had been completed on 1 January 2013, an aggregation of the Group's net revenue for the period and those of the acquiree would have been £1,411.4 million, and the profit before tax and exceptional items for the period on the same basis would have been £508.8 million (profit before tax and after exceptional items: £448.2 million).

Key risks and mitigations

This section explains how we control and manage the risks in our business. It 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.

Managing risk

The Board is accountable for risk and the oversight of the risk management process. It 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 with respect to standards of integrity, financial reporting, risk management and internal control.

It is the responsibility of all employees to uphold the control culture of Schroders and we embed risk management within the business. Members of the Group Management Committee (GMC) have risk management responsibility for their respective business areas and we expect individual behaviours to mirror the culture and core values of the firm.

The Chief Executive and the GMC review the key risks facing the Group regularly as the principal executive committee with responsibility for the monitoring and reporting of risk and controls. These include reputational, market, investment performance and liquidity risks, credit risks, operational risks including legal, regulatory and compliance, people and conduct risk, and emerging risks.

The executive oversight of risk is delegated by the Chief Executive 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 Group Risk Committee, which meets 10 times a year, and more frequently if required, and is attended by the heads of the control functions, the Chief Operating Officer, the Global Head of Equities and senior managers from Distribution. The Group Risk Committee supports the Chief Financial Officer and the GMC in discharging these risk responsibilities. It 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. There is also a dedicated Wealth Management Risk Committee, which reports into the Group Risk Committee.

Lines of defence

The first line of defence against unexpected outcomes lies with line managers, whether they are in Investment, Distribution, Wealth Management or Infrastructure. The senior management team takes the lead role with respect to implementing and maintaining appropriate controls across the business to ensure the quality standards expected by clients and regulators. Line management is supplemented by oversight functions, such as Group Risk, Finance, Compliance and Legal, which provide the second line of defence. The Compliance monitoring programme reviews the effective operation of our processes to meet regulatory requirements.

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. External assurance can provide a fourth line of defence.

Schroders also has a comprehensive insurance programme, providing substantial financial assurance.

2013 developments

During the year, we reviewed and re-emphasised the role of the GMC as the principal executive committee with responsibility for risk as well as the responsibility of line management in embedding appropriate risk management throughout the firm. We continued to devote resources to the management of risks associated with the external market environment, including instability in the Eurozone although this risk decreased as the year progressed.

Schroders

Investment risk was another area of focus, reflecting the growth in funds and assets under management. We introduced a new operational risk system, 'Archer', to support a revised, firm-wide 'Risk and Control Assessment' approach.

The focus on Wealth Management-specific risks continued in 2013, particularly investment risk and the risks associated with the integration of the acquisition of Cazenove Capital. The risks associated with the integration of STW and our relationship with Secquaero were also reviewed regularly. The implications of business integration on our IT and Operations functions was considered, with regular assessments of project prioritisation and resource allocation.

Updates were made to a number of Group policies, including conflicts of interest and anti-bribery and corruption to reflect new regulatory guidance in these areas; institutional client take-on procedures; investment model governance; and the acceptance of contingent liabilities and other non-standard commitments. We reviewed our approach to conduct risk recognising its importance to our clients and regulators.

Key risks

The following tables summarise key business risks currently considered most relevant to our business.

Reputational risk

In the asset management industry, reputational risk can arise from any of the key risks outlined below. Reputation risk relates to the Schroders brand, as well as ethics, trust, relationships with stakeholders, conduct and the overall culture and values of our firm.

Description of key risk	How we manage risk
Reputational risk This can arise from financial or operational events or failing to meet stakeholders' expectations.	Integrity, appropriate conduct and a principled approach to regulatory compliance, including treating customers fairly, are integral to Schroders' culture. We engage in proactive communications with all stakeholders and monitor media coverage to understand how our reputation is perceived.

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 our Wealth Management business, where we hold bank paper and government securities; and through the Group's investment capital, where we hold cash and certificates of deposits, government and corporate bonds, equities, funds of hedge funds, property, private equity and catastrophe bonds. We also have principal exposure in the Life Company in Asset Management which holds investments in funds but this exposure is transferred to third-party investors in the Life Company's product and therefore is comparable to the agency exposure in both segments in respect of the assets we manage on behalf of our clients.

Description of key risk	How we manage risk
Market risk Market risk arises from market movements, which can cause a fall in the value of principal investments and a decline in the value of assets under management. Operational capital, net fee income and expenses related to the Group's overseas subsidiaries are denominated in	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. The Group Capital Committee, chaired by the Chief Financial Officer, regularly reviews all holdings within Group capital. All principal investments are managed within approved limits. The Group's seed capital investments are usually hedged in respect of market risk and currency risk. Income and expenses are, where possible, matched in the currency of individual subsidiaries. We also use forward foreign exchange contracts to mitigate

local currencies and are therefore subject to exchange rate risk.	transactional and investment exposure to currency movements. In Wealth Management, a Wealth Management Risk Committee has been established to monitor and manage market risk at a local level.
Investment performance risk The management of investment performance 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. In Wealth Management, this also includes the risk of inappropriate advice and unsuitable investment portfolios in relation to clients' investment objectives.	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. 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 by Pricing and Valuation Committees, Asset Class Risk Committees and the GMC, allowing issues to be identified and mitigated. 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. A dedicated Investment Risk Committee for Wealth Management was established in 2013, following the acquisition of Cazenove Capital and the growth of our Wealth Management business.
Liquidity risk 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 holdings of inherently illiquid investments. Liquidity risk also applies to the Group's own financial obligations.	To mitigate this risk within client portfolios, we seek to match, where possible, the liquidity of a portfolio's underlying investments with the anticipated redemption requirements. We actively monitor markets for indicators of a decline in liquidity. We also review products and portfolios to identify capacity constraints. Each of our regulated subsidiaries, and the Group as a whole, meet regulatory capital requirements. In addition, we maintain sufficient liquidity for our anticipated needs, taking account of the risks we face. In Wealth Management in London, we operate an Individual Liquidity Analysis Adequacy (ILAA) process.

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. Wealth Management additionally faces principal credit risk on its lending activities.

Description of key risk	How we manage risk
Credit risk We face credit risk as a result of counterparty exposure.	In order to manage this risk we 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. Where possible, we seek to diversify our exposure across different counterparties. Counterparties are reviewed on a regular basis and limits are amended following changes to their financial condition. We monitor market data and rating agency outputs in assessing counterparties.
We face credit risk through Wealth	In Wealth Management, we mitigate credit risk, where possible, through

Management lending activities.	collateralisation in the form of cash, portfolio investments or property. Credit risk is monitored and managed against the performance of the collateral.

Operational risk

Operational risk arises in our investment management activities, distribution activities, product development and the operation of our IT and operations infrastructure. Line management is responsible for operational risk controls. We also face integration risk when consolidating acquired businesses into the Group.

Description of key risk	How we manage risk
Process risk Operational risk could arise from the failure of significant business processes undertaken by Schroders, including for example mandate compliance, client suitability checks and asset pricing.	Business processes are reviewed to identify suitable operational controls to mitigate potential risks.
Third-party service provider risk We have a number of outsourced supplier relationships as part of our business model, particularly in respect of fund administration and transfer agency services.	Before entering into outsourcing arrangements, we undertake due diligence on third-party suppliers. We then maintain a programme of regular assessment against agreed service levels.
Integration risk Integration risk arises on the acquisition of a business that may have a significant impact on the risk exposure and risk management strategies of the combined business. It also includes transaction-specific risks, such as the impact of competing demands on IT and Operations from system integration, loss of clients or key employees.	Risk management considerations are evaluated prior to any acquisition and an integration plan, including risk management, as well as steps to address transaction specific risks, is developed and implemented post-acquisition. The GMC, supported by the Group Risk Committee, monitors integration progress against planned targets. Group Risk considers the risk resources available to support newly acquired businesses and appropriate risk resource with experience of the relevant business area is identified and developed.
Distribution risk Distribution risk arises from 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 and	The broad range of distribution channels mitigates against a key dependency on any sales channel. No single client accounts for more than two per cent. of total revenue.

charities.	
Product risk Product risk arises from product complexity and the risk that these products either do not meet their performance objectives or are unsuitable for certain clients. Product risk can also arise from capacity constraints where the size of assets under management in a particular asset class or strategy makes it more difficult to trade efficiently in the market.	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. We monitor potential capacity constraints and may mitigate them by hard or soft closing products to new investment in certain circumstances.
Technology and security risk The risks that our technology systems and support are inadequate or fail to adapt to changing requirements; that our systems are vulnerable to third-party penetration; and that data is held insecurely. We rely on technology and qualified professionals to maintain our infrastructure, and we invest in information technology projects with long lead times.	The UK Government and Bank of England have highlighted cybercrime as an issue across the financial and broader commercial sectors and we are engaging in a Bank of England exercise to address our response to potential threats. A Head of Information Security has joined the Group and we have updated the Group's insurance cover for cybercrime to include more explicit coverage in the terms and conditions. We regularly review the progress of major information technology projects and new systems 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. 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.
People risk Talented people may be targeted by competitors seeking to build their businesses.	To mitigate people risks, we have competitive remuneration and retention plans, with appropriate deferred benefits targeted at key employees, and we seek to build strength in depth and to put in place sustainable succession and development plans. We also operate from many international centres, which reduces reliance on single pools of talent and individual country stability. Clear objectives are set and success is measured in the annual review process, allowing us to identify motivational development initiatives.
Conduct risk The risks of client detriment, particularly with respect to retail fund distribution and Wealth Management, and market integrity, money laundering and bribery and corruption.	This is managed through a conduct risk framework focusing on enhancements to risk identification, mitigation, management information and reporting in conjunction with line management and Human Resources. Our client take-on programmes are designed to confirm clients' status, risk appetite and requirements.

We face the possible risk of inappropriate conduct or actions by individuals or a group of employees.	We expect our employees to behave with integrity, which is one of our core values. We promote our cultural values throughout the firm and demand high ethical standards and train our employees accordingly.
Legal, regulatory and compliance risk The risk that Schroders or its counterparties or clients fail to meet their legal obligations and the risk of legal proceedings and loss. The risk that client expectations and obligations with respect to our own and third-party responsibilities under their investment management and other agreements will not be met with a revenue or contingent liability impact. The risk of legal or regulatory action resulting in fines, penalties, censure or other sanction or legal action arising from failure to identify or meet regulatory and legislative requirements in those jurisdictions in which the Group operates. The risk that new regulation or changes to the interpretation or implementation of existing regulation affects the Group's operations and cost base.	We rely on our employees, with support from our Compliance and Legal functions, to consider carefully the obligations we assume and our compliance with them. 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. We maintain compliance procedures across the Group, and our Compliance and Legal functions support business management in meeting its obligations. Compliance with relevant regulatory requirements is monitored in accordance with a risk-based programme. Regulatory and legal change is monitored by the Compliance and Legal functions. Key regulatory change risks are identified on page 34. We maintain good working relationships with our regulators and participate in industry representative organisations globally to ensure we are informed of potential changes in regulations. With the introduction of central clearing for derivatives we are revising our credit and operational due diligence processes.
Geographical diversity risk 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.	We employ local people with local expertise and also second employees internationally within the Group. The Group Risk Committee receives reports from line management regarding matters giving cause for concern and recommendations for appropriate remedial action. We keep our employees up-to-date on relevant international regulation. An independent team, reporting to the Group Head of Risk, is responsible for assessing the impact of material risk issues and events across the offices of the Group and implementing appropriate and timely risk mitigation. Our overseas operations are regularly reviewed by Internal Audit.

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.

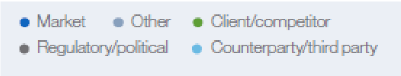
The horizontal axis shows whether risk is stable or heightened reflecting current market conditions, where relevant. The vertical axis shows whether the potential cost of the key risk is stable or has increased. The Group undertakes additional work to address those risks that it considers to be potentially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

1. Reputational risk
2. Market risk
3. Investment performance risk
4. Liquidity risk
5. Credit risk
6. Process risk
7. Third-party service provider risk
8. Integration risk
9. Distribution risk
10. Product risk
11. Technology and security risk
12. People risk
13. Conduct risk
14. Legal, regulatory and compliance risk
15. Geographical diversity risk

Key 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, and potential timing of those risks. The estimated 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. US debt crisis
6. Clearing house failure
7. Cyber-crime
8. Fund liquidity
9. Terrorism
10. UK exit from the European Union



Key regulatory change risks

The extent of regulatory change facing our industry has increased significantly in recent years. The following diagram combines known and emerging key regulatory change risks, to identify both the likely timing and estimated impact of regulatory change on our business. New risks in 2013 are highlighted in grey.

1. Consumer rights bill
2. Banking reform Act
3. AIFMD
4. Capital Requirements Directive IV
5. MiFID II
6. UCITS V
7. Anti-Money Laundering Directive IV
8. Client asset reform
9. Market Abuse Directive II
10. Remuneration regulation
11. EU common regulatory reporting framework
12. Retail Distribution Review
13. EU securities law reform
14. Shadow banking/money market funds reform
15. Non-bank Recovery and Resolution requirements
16. Derivative regulation – US, Europe, Asia
17. Data protection regulation
18. Solvency II
19. Packaged Retail Investment Products Directive
20. Dealing commission reform

In 2012 Annual Report
New addition

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
Richard Keers	Chief Financial Officer
Philip Mallinckrodt	Group Head of Wealth Management
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
Nichola Pease	Independent non-executive Director
Bruno Schroder	Non-executive Director

5 March 2014

Schroders

Five-year consolidated financial summary

Before exceptional items	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Profit before tax	**507.8**	360.0	407.3	406.9	200.2
Tax	**(103.0)**	(76.8)	(91.5)	(95.7)	(49.6)
Profit after tax	**404.8**	283.2	315.8	311.2	150.6

After exceptional items	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Profit before tax	**447.5**	360.0	407.3	406.9	137.5
Tax	**(94.8)**	(76.8)	(91.5)	(95.7)	(41.8)
Profit after tax	**352.7**	283.2	315.8	311.2	95.7

Pre-exceptionals earnings per share:	2013 Pence	2012 Pence	2011 Pence	2010 Pence	2009 Pence
Basic earnings per share	**149.9**	104.7	115.9	111.8	54.0
Diluted earnings per share	**144.6**	101.3	111.9	108.3	53.8

Post exceptional earnings per share:	2013 Pence	2012 Pence	2011 Pence	2010 Pence	2009 Pence
Basic earnings per share	**130.6**	104.7	115.9	111.8	34.3
Diluted earnings per share	**126.0**	101.3	111.9	108.3	34.2

Dividends	2013	2012	2011	2010	2009
Cost (£m)	**123.5**	104.1	104.8	87.6	84.9
Pence per share*	**46.0**	39.0	39.0	32.0	31.0
Total equity (£m)	**2,268.6**	2,069.9	1,901.6	1,799.7	1,649.0
Net assets per share (pence)**	**802**	733	673	620	571

*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.

Exchange rates – closing

31 December	2013	2012	2011	2010	2009
Sterling:					
Euro	**1.20**	1.23	1.20	1.17	1.13
US dollar	**1.66**	1.63	1.55	1.57	1.61
Swiss franc	**1.47**	1.49	1.45	1.46	1.67
Australian dollar	**1.85**	1.57	1.52	1.53	1.80
Hong Kong dollar	**12.84**	12.60	12.07	12.17	12.52
Japanese yen	**174.08**	140.55	119.57	126.98	150.33
Singaporean dollar	**2.09**	1.99	2.02	2.01	2.27