

# Press Release

## Schroders plc

**Annual Results to 31 December 2015**

**3 March 2016**

- Profit before tax and exceptional items up 8 per cent. to £609.7 million (2014: £565.2 million)
- Profit before tax up 14 per cent. to £589.0 million (2014: £517.1 million)
- Earnings per share up 12 per cent. to 171.1 pence (2014: 152.7 pence)
- Net inflows £13.0 billion (2014: £24.8 billion)
- Assets under management £313.5 billion (2014: £300.0 billion)
- Full-year dividend up 12 per cent. to 87.0 pence per share (2014: 78.0 pence)
- See separate press release for details on Board succession

	2015 £m	2014 £m
<b>Profit before tax and exceptional items</b>		
Asset Management	540.5	499.3
Wealth Management	61.3	61.7
	<b>601.8</b>	<b>561.0</b>
Group segment	7.9	4.2
<b>Total profit before tax and exceptional items</b>	<b>609.7</b>	<b>565.2</b>
<b>Total profit before tax</b>	<b>589.0</b>	<b>517.1</b>
<b>Earnings per share before exceptional items (pence)</b>	<b>176.9</b>	<b>166.8</b>
<b>Earnings per share (pence)</b>	<b>171.1</b>	<b>152.7</b>
<b>Total dividend (pence per share)</b>	<b>87.0</b>	<b>78.0</b>

Michael Dobson, Chief Executive, commented: “2015 was another good year for Schroders with profit before tax and exceptional items reaching a record £609.7 million. Competitive investment performance and strong distribution led to £13.0 billion of net new business and assets under management at the end of the year were £313.5 billion.

Reflecting these strong results, the Board is recommending a final dividend of 58.0 pence per share, bringing the dividend for the year to 87.0 pence per share, an increase of 12 per cent.

Schroders is well placed for a more challenging environment with a highly diversified business and a strong financial position. We see many interesting long-term growth opportunities and we will again be taking advantage of a period of dislocation to invest behind them.”

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## Management Statement

2015 was another good year for Schroders despite a more challenging environment in financial markets, particularly in the second half. Revenues, profit and assets under management reached record levels and we made further moves to diversify our business and build growth opportunities for the future.

Net revenue before exceptional items increased by 7 per cent. to £1,658.5 million (2014: £1,549.5 million), profit before tax and exceptional items increased by 8 per cent. to £609.7 million (2014: £565.2 million) and profit before tax increased by 14 per cent. to £589.0 million (2014: £517.1 million).

We won net new business of £13.0 billion (2014: £24.8 billion) and assets under management ended the year at £313.5 billion (2014: £300.0 billion).

### Asset Management

Asset Management net revenue increased 8 per cent. to £1,412.5 million (2014: £1,308.3 million), including performance fees of £35.7 million (2014: £34.2 million). Net operating revenue margins, excluding performance fees, were 49 basis points (2014: 51 basis points) as we generated significant inflows in Institutional and we had the full year effect of a very large mandate win in the UK at the end of 2014. Our net operating revenue margins have declined over recent years, reflecting both fee pressures across the industry and changes to our business mix. Growing our business in lower margin areas such as Institutional, Multi-asset and Fixed Income remains core to our strategy as we see good diversification benefits in these areas which often comprise large mandates with higher than average longevity.

Profit before tax and exceptional items was up 8 per cent. to £540.5 million (2014: £499.3 million). Exceptional items of £12.1 million (2014: £17.6 million) related principally to the amortisation of the value of client relationships arising from acquisitions. Profit before tax increased 10 per cent. to £528.4 million (2014: £481.7 million).

We generated £13.1 billion of net new business in 2015, as a result of competitive investment performance for clients with 72 per cent. of assets under management outperforming benchmark or peer group over the three years to the end of 2015, a broad product range and a global distribution capability.

Institutional had a very strong year with £8.8 billion of net new business, concentrated in Fixed Income and Multi-asset and, by region, Asia Pacific and the UK. Assets under management in Institutional at the end of the year were £181.0 billion (2014: £171.1 billion).

Intermediary generated £4.3 billion of net new business, diversified across Fixed Income, Multi-asset and Equities, with a strong performance in continental Europe and Asia Pacific, continuing the trend of 2014. After a very strong first half, we saw small net outflows in the second half as weak markets affected retail investor demand. Assets under management in Intermediary at the end of the year were £100.9 billion (2014: £97.8 billion).

Our associates and joint ventures made good progress in 2015. In China, Bank of Communications Schroders, where we have a 30 per cent. shareholding, serves Chinese investors and saw assets under management increase to £45.4 billion\* and our share of after tax profit increased to £11.1 million (2014: £4.5 million). Our partnership with Nippon Life in Japan continues to develop through demand from Japanese clients as well as through our two joint ventures in London and Singapore. Our more recent partnership in India with Axis Bank, serving Indian investors, is developing well. Investment performance is strong, the business is profitable and its growing market share now places Axis Asset Management, where we have a 25 per cent. shareholding, just outside the top ten with assets under management of £3.6 billion\*. Our joint venture with Secquaero in Switzerland in insurance linked securities has also performed well. Assets under management have reached £1.3 billion and we recently increased our shareholding to 50.1 per cent.

### Wealth Management

Wealth Management net revenue was £207.2 million (2014: £213.5 million). Underlying revenues increased in 2015, as revenue in 2014 included £9.0 million from performance fees and the release of a loan loss provision. Profit before tax and exceptional items was £61.3 million (2014: £61.7 million). Profit before tax increased 46 per cent. to £60.5 million (2014: £41.3 million).

New business was slower in 2015, particularly in the second half, reflecting weaker market conditions. We generated £0.2 billion of net inflows in the UK, comprising significant levels of new client wins offset by outflows from private clients and charities drawing down income returns to fund their outgoings. We had net outflows of £0.3 billion in Switzerland, as

we continue to reshape our business. We generated small net inflows in Asia Pacific. Total net outflows were £0.1 billion (2014: net inflows £0.5 billion) and assets under management ended the year at £31.6 billion (2014: £31.1 billion).

We see long-term opportunities in Wealth Management based on our leading client offering and market position in the UK and growth potential in continental Europe and Asia Pacific.

## **Group**

The Group segment comprises returns on investment capital, including seed capital deployed in building a track record in new investment strategies, and central costs. Investment returns also include our share of the after tax profit arising from our 45 per cent. shareholding in RWC which increased to £5.9 million (2014: £3.8 million) as assets under management reached £7.9 billion\* (2014: £5.8 billion\*). Profit before tax and exceptional items was £7.9 million (2014: £4.2 million) and exceptional items were £7.8 million (2014: £10.1 million), comprising costs relating to acquisitions completed in 2013. Shareholders' equity at the end of December was £2.8 billion (2014: £2.5 billion).

## **Dividend**

Our policy is to increase dividends progressively in line with the trend in profitability. Consistent with this, the Board will recommend to shareholders at the Annual General Meeting an increase in the final dividend of 7 per cent., taking the final dividend to 58.0 pence (2014: 54.0 pence). This will bring the total dividend for the year to 87.0 pence (2014: 78.0 pence), an increase of 12 per cent. The final dividend will be paid on 5 May 2016 to shareholders on the register at 29 March 2016.

## **Outlook**

A combination of an interest rate rise in the US, deteriorating economic indicators in China, a weak oil price and fears of slowing economic growth or even recession in the US and Europe, has led to sharp falls in equities and some fixed income markets. Markets will remain volatile in the face of these uncertainties with an inevitable impact on retail investor demand in the short term. To date in 2016 we have seen continuing good inflows in Institutional, partially offset by outflows in Intermediary.

Schroders is well placed for this more challenging environment with a highly diversified business and a strong financial position. We see many interesting long-term growth opportunities and we will again be taking advantage of a period of dislocation to invest behind them.

\* not included in total reported assets under management

## Additional information

### Assets under management

Twelve months to 31 December 2015	Institutional £bn	Intermediary £bn	Asset Management £bn	Wealth Management £bn	Total AUM £bn
<b>1 January 2015</b>	<b>171.1</b>	<b>97.8</b>	<b>268.9</b>	<b>31.1</b>	<b>300.0</b>
Gross inflows	32.0	46.6	78.6	5.5	84.1
Gross outflows	(23.2)	(42.3)	(65.5)	(5.6)	(71.1)
<b>Net flows</b>	<b>8.8</b>	<b>4.3</b>	<b>13.1</b>	<b>(0.1)</b>	<b>13.0</b>
Investment returns	1.1	(1.2)	(0.1)	0.6	0.5
<b>31 December 2015</b>	<b>181.0</b>	<b>100.9</b>	<b>281.9</b>	<b>31.6</b>	<b>313.5</b>

Three months to 31 December 2015	Institutional £bn	Intermediary £bn	Asset Management £bn	Wealth Management £bn	Total AUM £bn
<b>1 October 2015</b>	<b>167.3</b>	<b>96.6</b>	<b>263.9</b>	<b>30.9</b>	<b>294.8</b>
Net flows	5.3	(0.3)	5.0	(0.3)	4.7
Investment returns	8.4	4.6	13.0	1.0	14.0
<b>31 December 2015</b>	<b>181.0</b>	<b>100.9</b>	<b>281.9</b>	<b>31.6</b>	<b>313.5</b>

### Income and cost metrics for the Group

	2015	2014
Cost:net revenue ratio	<b>63%</b>	64%
Compensation cost:net revenue ratio	<b>44%</b>	44%
Bonus: pre-bonus profit before tax and exceptional items	<b>37%</b>	37%
Return on average capital before exceptional items (pre-tax)	<b>23%</b>	24%
Return on average capital before exceptional items (post-tax)	<b>18%</b>	19%

Copies of this announcement are available on the Schroders website: [www.schroders.com](http://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 09.00 a.m. GMT on Thursday, 3 March 2016 at 31 Gresham Street, London, EC2V 7QA. The webcast can be viewed live at [www.schroders.com/ir](http://www.schroders.com/ir) and [www.cantos.com](http://www.cantos.com). For individuals unable to attend the presentation or participate in the live webcast, a replay will be available from midday on Thursday, 3 March 2016 at [www.schroders.com/ir](http://www.schroders.com/ir). The Annual Report and Accounts will be available on the Schroders website: [www.schroders.com](http://www.schroders.com) on 18 March 2016.

Michael Dobson, Chief Executive, and Richard Keers, Chief Financial Officer, will host a conference call for the media to discuss the 2015 Annual Results at 7.30am GMT on Thursday 3 March 2016. The conference call telephone number is 0800 694 1515 (International: +44 (0) 1452 584 053), conference ID 63973635.

## **Forward-looking statements**

This announcement, the Annual Report and Accounts for 2015 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 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', '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 in the Annual Report and Accounts or on the Schroders website should be construed as a forecast, estimate or projection of future financial performance.

## **Investment performance**

Investment performance is calculated by Schroders, using published benchmarks for products, where available, for Asset Management only. It excludes private equity, LDI and externally managed GAIA funds, and funds which do not have the required track record. If no benchmark is published or agreed with the client but the fund is listed in competitor rankings, the relative position of the fund to its peer group is used to calculate any outperformance. Funds with no benchmark but an absolute return target over the one or three-year period are measured against that absolute target. Funds with no benchmark and no target may be measured against a cash return, if applicable. As at 31 December 2015, such comparator data existed for 74 per cent. of Asset Management AUM over three years and 83 per cent. over one year. Certain Schroders Group companies claim compliance with the Global Investment Performance Standards (GIPS). Further information is available upon request.

# Consolidated income statement

for the year ended 31 December 2015

	Notes	2015			2014 <sup>4</sup>		
		Before exceptional items £m	Exceptional Items <sup>3</sup> £m	Total £m	Before exceptional items £m	Exceptional Items <sup>3</sup> £m	Total £m
Revenue	3	2,043.2	-	2,043.2	1,924.3	-	1,924.3
Cost of sales		(442.5)	-	(442.5)	(429.1)	-	(429.1)
<b>Net operating revenue<sup>1</sup></b>		<b>1,600.7</b>	<b>-</b>	<b>1,600.7</b>	<b>1,495.2</b>	<b>-</b>	<b>1,495.2</b>
Net gains on financial instruments and other income		36.3	-	36.3	43.7	2.8	46.5
Share of profit of associates and joint ventures		21.5	(2.2)	19.3	10.6	(2.1)	8.5
<b>Net revenue<sup>1</sup></b>		<b>1,658.5</b>	<b>(2.2)</b>	<b>1,656.3</b>	<b>1,549.5</b>	<b>0.7</b>	<b>1,550.2</b>
Operating expenses	4	(1,048.8)	(18.5)	(1,067.3)	(984.3)	(48.8)	(1,033.1)
<b>Profit before tax</b>		<b>609.7</b>	<b>(20.7)</b>	<b>589.0</b>	<b>565.2</b>	<b>(48.1)</b>	<b>517.1</b>
Tax	5	(126.3)	4.7	(121.6)	(113.9)	10.0	(103.9)
<b>Profit after tax</b>		<b>483.4</b>	<b>(16.0)</b>	<b>467.4</b>	<b>451.3</b>	<b>(38.1)</b>	<b>413.2</b>
<b>Earnings per share</b>							
Basic	6	<b>176.9p</b>	<b>(5.8p)</b>	<b>171.1p</b>	<b>166.8p</b>	<b>(14.1p)</b>	<b>152.7p</b>
Diluted	6	<b>172.2p</b>	<b>(5.7p)</b>	<b>166.5p</b>	<b>161.5p</b>	<b>(13.7p)</b>	<b>147.8p</b>
<b>Dividends per share<sup>2</sup></b>	7			<b>83.0p</b>			<b>66.0p</b>

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

<sup>2</sup> Prior year final dividend and current year interim dividend paid during the year.

<sup>3</sup> Please refer to notes 1 and 2 for a definition and further details of exceptional items.

<sup>4</sup> 2014 has been reformatted for consistency with the 2015 presentation, see basis of preparation.

## Consolidated statement of comprehensive income

for the year ended 31 December 2015

	2015 £m	2014 £m
<b>Profit for the year</b>	<b>467.4</b>	<b>413.2</b>
<b>Items that may be reclassified to the income statement on fulfilment of specific conditions:</b>		
Net exchange differences on translation of foreign operations after hedging	5.4	(1.8)
Net fair value movement arising from available-for-sale financial assets	(5.9)	10.4
Net fair value movement arising from available-for-sale financial assets held by associates	5.2	3.9
Tax on items taken directly to other comprehensive income	3.8	0.6
	<b>8.5</b>	<b>13.1</b>
<b>Items reclassified to the income statement:</b>		
Net realised gains on disposal of available-for-sale financial assets	(16.8)	(8.3)
	<b>(16.8)</b>	<b>(8.3)</b>
<b>Items that will not be reclassified to the income statement:</b>		
Actuarial gains on defined benefit pension schemes	7.3	36.9
Tax on items taken directly to other comprehensive income	(2.3)	(7.4)
	<b>5.0</b>	<b>29.5</b>
<b>Other comprehensive (losses)/income for the year net of tax</b>	<b>(3.3)</b>	<b>34.3</b>
<b>Total comprehensive income for the year net of tax</b>	<b>464.1</b>	<b>447.5</b>

## Consolidated statement of financial position

31 December 2015

	2015 £m	2014 £m
<b>Assets</b>		
Cash and cash equivalents	3,019.0	3,535.3
Trade and other receivables	526.8	541.0
Financial assets	2,446.7	1,763.4
Associates and joint ventures	109.2	92.6
Property, plant and equipment	41.8	29.9
Goodwill and intangible assets	467.4	474.5
Deferred tax	53.7	47.8
Retirement benefit scheme surplus	115.4	103.7
	<b>6,780.0</b>	<b>6,588.2</b>
<b>Assets backing unit-linked liabilities</b>		
Cash and cash equivalents	603.1	696.3
Financial assets	10,716.8	12,962.1
	<b>11,319.9</b>	<b>13,658.4</b>
<b>Total assets</b>	<b>18,099.9</b>	<b>20,246.6</b>
<b>Liabilities</b>		
Trade and other payables	761.2	752.1
Financial liabilities	3,126.5	3,193.5
Current tax	61.8	44.1
Provisions	26.3	54.0
Deferred tax	0.4	0.4
Retirement benefit scheme deficits	8.2	6.3
	<b>3,984.4</b>	<b>4,050.4</b>
<b>Unit-linked liabilities</b>	<b>11,319.9</b>	<b>13,658.4</b>
<b>Total liabilities</b>	<b>15,304.3</b>	<b>17,708.8</b>
<b>Net assets</b>	<b>2,795.6</b>	<b>2,537.8</b>
<b>Equity</b>	<b>2,795.6</b>	<b>2,537.8</b>



## Consolidated statement of changes in equity

for the year ended 31 December 2015

	Note	Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2015		282.5	119.4	(200.1)	81.4	29.6	27.0	2,198.0	2,537.8
Profit for the year		-	-	-	-	19.3	-	448.1	467.4
Other comprehensive income/(losses) <sup>1</sup>		-	-	-	5.4	5.2	(18.9)	5.0	(3.3)
<b>Total comprehensive income/(losses) for the year</b>		-	-	-	<b>5.4</b>	<b>24.5</b>	<b>(18.9)</b>	<b>453.1</b>	<b>464.1</b>
Own shares purchased	10	-	-	(51.1)	-	-	-	-	(51.1)
Share-based payments		-	-	-	-	-	-	63.3	63.3
Tax in respect of share schemes		-	-	-	-	-	-	7.4	7.4
Other movements in associates and joint ventures reserve		-	-	-	-	0.5	-	-	0.5
Dividends attributable to shareholders		-	-	-	-	-	-	(226.3)	(226.3)
Dividends attributable to non-controlling interests		-	-	-	-	-	-	(0.1)	(0.1)
<b>Transactions with shareholders</b>		-	-	<b>(51.1)</b>	-	<b>0.5</b>	-	<b>(155.7)</b>	<b>(206.3)</b>
<b>Transfers</b>		-	-	<b>75.7</b>	-	<b>(8.9)</b>	-	<b>(66.8)</b>	-
<b>At 31 December 2015</b>		<b>282.5</b>	<b>119.4</b>	<b>(175.5)</b>	<b>86.8</b>	<b>45.7</b>	<b>8.1</b>	<b>2,428.6</b>	<b>2,795.6</b>

<sup>1</sup> Other comprehensive income reported in the net exchange differences reserve represent foreign exchange gains and losses on the translation of foreign operations net of hedging. Other comprehensive income/(losses) reported in the associates and joint ventures reserve and the fair value reserve represent post-tax fair value movements on available-for-sale assets held. Other comprehensive income reported in the profit and loss reserve represent post-tax actuarial gains.

## Consolidated statement of changes in equity

for the year ended 31 December 2014

	Notes	Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2014		<b>282.7</b>	<b>119.4</b>	<b>(229.9)</b>	<b>83.2</b>	<b>23.5</b>	<b>24.3</b>	<b>1,965.4</b>	<b>2,268.6</b>
Profit for the year		-	-	-	-	8.5	-	404.7	413.2
Other comprehensive (losses)/income <sup>1</sup>		-	-	-	(1.8)	3.9	2.7	29.5	34.3
<b>Total comprehensive (losses)/income for the year</b>		-	-	-	<b>(1.8)</b>	<b>12.4</b>	<b>2.7</b>	<b>434.2</b>	<b>447.5</b>
Shares cancelled	9	(0.2)	-	-	-	-	-	0.2	-
Own shares purchased	10	-	-	(64.9)	-	-	-	-	(64.9)
Share-based payments		-	-	-	-	-	-	60.6	60.6
Tax in respect of share schemes		-	-	-	-	-	-	4.2	4.2
Other movements in associates and joint ventures reserve		-	-	-	-	(0.4)	-	-	(0.4)
Dividends attributable to shareholders		-	-	-	-	-	-	(177.7)	(177.7)
Dividends attributable to non-controlling interests		-	-	-	-	-	-	(0.1)	(0.1)
<b>Transactions with shareholders</b>		<b>(0.2)</b>	-	<b>(64.9)</b>	-	<b>(0.4)</b>	-	<b>(112.8)</b>	<b>(178.3)</b>
<b>Transfers</b>		-	-	<b>94.7</b>	-	<b>(5.9)</b>	-	<b>(88.8)</b>	-
<b>At 31 December 2014</b>		<b>282.5</b>	<b>119.4</b>	<b>(200.1)</b>	<b>81.4</b>	<b>29.6</b>	<b>27.0</b>	<b>2,198.0</b>	<b>2,537.8</b>

<sup>1</sup> Other comprehensive losses reported in the net exchange differences reserve represent foreign exchange gains and losses on the translation of foreign operations net of hedging. Other comprehensive income reported in the associates and joint ventures reserve and the fair value reserve represent the post-tax fair value movements on available-for-sale assets held. Other comprehensive income reported in the profit and loss reserve represent post-tax actuarial gains.

## Consolidated cash flow statement

for the year ended 31 December 2015

	Note	2015 £m	2014 £m
<b>Net cash from operating activities</b>	11	<b>47.9</b>	<b>1,321.9</b>
<b>Cash flows from investing activities</b>			
Net acquisition of associates and joint ventures		-	(1.3)
Net acquisition of property, plant and equipment and intangible assets		(38.8)	(29.5)
Acquisition of financial assets		(1,556.3)	(997.9)
Disposal of financial assets		1,138.5	897.4
Non-banking interest received		16.9	11.1
Distributions and capital redemptions received from associates and joint ventures		9.1	5.9
<b>Net cash used in investing activities</b>		<b>(430.6)</b>	<b>(114.3)</b>
<b>Cash flows from financing activities</b>			
Acquisition of own shares		(51.1)	(64.9)
Dividends paid		(226.3)	(177.7)
Other flows		(0.7)	(0.1)
<b>Net cash used in financing activities</b>		<b>(278.1)</b>	<b>(242.7)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(660.8)</b>	<b>964.9</b>
Opening cash and cash equivalents		4,231.6	3,320.4
Net (decrease)/increase in cash and cash equivalents		(660.8)	964.9
Effect of exchange rate changes		51.3	(53.7)
<b>Closing cash and cash equivalents</b>		<b>3,622.1</b>	<b>4,231.6</b>
<b>Closing cash and cash equivalents consists of:</b>			
Cash backing unit-linked liabilities		603.1	696.3
Cash held in consolidated funds		46.0	8.3
<b>Cash that the Group cannot use for its own corporate purposes</b>		<b>649.1</b>	<b>704.6</b>
Cash		1,842.1	2,552.5
Cash equivalents		1,130.9	974.5
<b>Cash and cash equivalents available for use by the Group</b>		<b>2,973.0</b>	<b>3,527.0</b>
<b>Cash and cash equivalents</b>		<b>3,622.1</b>	<b>4,231.6</b>

## 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 2014 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 2015, 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.

The financial statements and related notes have been reformatted to reflect the way in which revenues and costs are managed internally. Net revenue has been reformatted to include the Group's share of profits from associates and joint ventures of £19.3 million (2014: £8.5 million) and now also includes net finance income of £12.7 million (2014: £10.5 million). A new net operating revenue sub-total has been introduced which represents revenues earned through our clients. The new presentation provides a more relevant basis on which to measure performance as it enhances comparability between revenues and related costs. Comparative information has been reformatted where relevant resulting in a £19.0 million increase in 2014 net revenues.

## 1. Segmental reporting

### Operating segments

The Group has three business segments: Asset Management, Wealth Management, and the Group segment. Asset Management principally comprises investment management including advisory services, equity products, fixed income securities, multi-asset investments, real estate and other alternative asset classes such as commodities. Wealth Management principally comprises investment management, wealth planning and banking services provided to high net worth individuals and charities. The Group segment principally comprises the Group's investment capital and treasury management 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 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.

Year ended 31 December 2015	Asset Management £m	Wealth Management £m	Group £m	Total £m
Fee income	1,817.7	198.2	-	2,015.9
Wealth Management interest receivable	-	27.3	-	27.3
<b>Revenue</b>	<b>1,817.7</b>	<b>225.5</b>	<b>-</b>	<b>2,043.2</b>
Fee expense	(424.3)	(6.4)	-	(430.7)
Wealth Management interest payable	-	(11.8)	-	(11.8)
<b>Cost of sales</b>	<b>(424.3)</b>	<b>(18.2)</b>	<b>-</b>	<b>(442.5)</b>
<b>Net operating revenue</b>	<b>1,393.4</b>	<b>207.3</b>	<b>-</b>	<b>1,600.7</b>
Net gains/(losses) on financial instruments and other income	6.3	(0.1)	30.1	36.3
Share of profit of associates and joint ventures	12.8	-	8.7	21.5
<b>Net revenue</b>	<b>1,412.5</b>	<b>207.2</b>	<b>38.8</b>	<b>1,658.5</b>
Operating expenses	(872.0)	(145.9)	(30.9)	(1,048.8)
<b>Profit before tax and exceptional items</b>	<b>540.5</b>	<b>61.3</b>	<b>7.9</b>	<b>609.7</b>
<b>Exceptional items within net revenue:</b>				
Amortisation of acquired intangible assets relating to associates and joint ventures	(2.2)	-	-	(2.2)
<b>Exceptional items within operating expenses:</b>				
Amortisation of acquired intangible assets	(9.9)	(8.0)	-	(17.9)
Deferred compensation arising directly from acquisitions	-	-	(7.8)	(7.8)
Provisions and related costs	-	7.2	-	7.2
	<b>(9.9)</b>	<b>(0.8)</b>	<b>(7.8)</b>	<b>(18.5)</b>
<b>Profit before tax and after exceptional items</b>	<b>528.4</b>	<b>60.5</b>	<b>0.1</b>	<b>589.0</b>

## 1. Segmental reporting continued

Year ended 31 December 2014 <sup>1</sup>	Asset Management £m	Wealth Management £m	Group £m	Total £m
Fee income	1,698.2	200.1	0.4	1,898.7
Wealth Management interest receivable	-	25.6	-	25.6
<b>Revenue</b>	<b>1,698.2</b>	<b>225.7</b>	<b>0.4</b>	<b>1,924.3</b>
Fee expense	(410.1)	(7.9)	(0.1)	(418.1)
Wealth Management interest payable	-	(11.0)	-	(11.0)
<b>Cost of sales</b>	<b>(410.1)</b>	<b>(18.9)</b>	<b>(0.1)</b>	<b>(429.1)</b>
<b>Net operating revenue</b>	<b>1,288.1</b>	<b>206.8</b>	<b>0.3</b>	<b>1,495.2</b>
Net gains on financial instruments and other income	14.3	6.7	22.7	43.7
Share of profit of associates and joint ventures	5.9	-	4.7	10.6
<b>Net revenue</b>	<b>1,308.3</b>	<b>213.5</b>	<b>27.7</b>	<b>1,549.5</b>
Operating expenses	(809.0)	(151.8)	(23.5)	(984.3)
<b>Profit before tax and exceptional items</b>	<b>499.3</b>	<b>61.7</b>	<b>4.2</b>	<b>565.2</b>
<b>Exceptional items within net revenue:</b>				
Reversal of contingent consideration payable	-	-	2.8	2.8
Amortisation of acquired intangible assets relating to associates and joint ventures	(2.1)	-	-	(2.1)
	<b>(2.1)</b>	<b>-</b>	<b>2.8</b>	<b>0.7</b>
<b>Exceptional items within operating expenses:</b>				
Restructuring and integration costs	(3.7)	(8.3)	-	(12.0)
Amortisation of acquired intangible assets	(11.8)	(9.2)	-	(21.0)
Deferred compensation arising directly from acquisitions	-	-	(12.9)	(12.9)
Provisions and related costs	-	(2.9)	-	(2.9)
	<b>(15.5)</b>	<b>(20.4)</b>	<b>(12.9)</b>	<b>(48.8)</b>
<b>Profit/(loss) before tax and after exceptional items</b>	<b>481.7</b>	<b>41.3</b>	<b>(5.9)</b>	<b>517.1</b>

<sup>1</sup> 2014 has been reformatted for consistency with the 2015 presentation, see basis of preparation.

## 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. Exceptional items relate principally to acquisitions made by the Group in 2013, including costs of acquisition and integration, amortisation of acquired intangible assets and deferred compensation. Exceptional items also include the partial release of a provision within the Swiss bank, recognised in 2013, in connection with the US Department of Justice programme.

### 3. Revenue

	2015 £m	2014 <sup>1</sup> £m
Management fees	1,763.0	1,663.8
Performance fees	36.3	37.1
Other income	216.6	197.8
Interest income earned by Wealth Management	27.3	25.6
	<b>2,043.2</b>	<b>1,924.3</b>

<sup>1</sup> 2014 has been reformatted for consistency with the 2015 presentation, see basis of preparation.

### 4. Operating expenses

	2015 £m	2014 £m
Operating expenses include:		
Salaries, wages and other remuneration	645.0	613.6
Social security costs	63.3	59.4
Pension costs	33.5	31.6
<b>Employee benefits expense</b>	<b>741.8</b>	<b>704.6</b>

£7.8 million (2014: £16.8 million) of the total compensation costs of £741.8 million (2014: £704.6 million) are included within exceptional items, being £7.8 million (2014: £12.9 million) of deferred compensation costs arising directly from acquisitions and nil (2014: £3.9 million) integration costs.

### 5. Tax expense

Analysis of tax charge reported in the income statement:

	2015 £m	2014 £m
UK Corporation Tax on profits for the year	45.7	51.1
Adjustments in respect of prior year estimates	(0.3)	(0.5)
Foreign tax – current	84.0	63.4
Foreign tax – adjustments in respect of prior year estimates	5.2	2.9
<b>Current tax</b>	<b>134.6</b>	<b>116.9</b>
Origination and reversal of temporary differences	(7.5)	(11.2)
Adjustments in respect of prior year estimates	(4.3)	(1.9)
Effect of changes in Corporation Tax rates	(1.2)	0.1
<b>Deferred tax</b>	<b>(13.0)</b>	<b>(13.0)</b>
<b>Tax charge reported in the income statement</b>	<b>121.6</b>	<b>103.9</b>

The UK standard rate of Corporation Tax reduced from 21 per cent. to 20 per cent. on 1 April 2015 resulting in a UK effective tax rate for the year of 20.25 per cent. (2014: effective rate of 21.5 per cent.). The tax charge for the year is higher (2014: lower) than a charge based on the UK effective rate.

## 5. Tax expense continued

	2015 £m	2014 £m
Profit before tax	589.0	517.1
Less post-tax profits of associates and joint ventures	(19.3)	(8.5)
Profit before tax of Group entities	569.7	508.6
Profit before tax of consolidated Group entities multiplied by Corporation Tax at the UK effective rate of 20.25 per cent. (2014: 21.5 per cent.)	115.4	109.3
<b>Effects of:</b>		
Different statutory tax rates of overseas jurisdictions	12.8	4.5
Permanent differences including non-taxable income and non-deductible expenses	(4.1)	(6.9)
Net movement in timing differences for which no deferred tax is recognised	(1.9)	(3.6)
Deferred tax adjustments in respect of changes in Corporation Tax rates	(1.2)	0.1
Prior year adjustments	0.6	0.5
<b>Tax charge reported in the income statement</b>	<b>121.6</b>	<b>103.9</b>

## 6. Earnings per share

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

	2015 Number Millions	2014 Number Millions
Weighted average number of shares used in calculation of basic earnings per share	273.1	270.4
Effect of dilutive potential shares – share options	7.0	8.3
Effect of dilutive potential shares – contingently issuable shares	0.6	0.7
<b>Weighted average number of shares used in calculation of diluted earnings per share</b>	<b>280.7</b>	<b>279.4</b>

## 7. Dividends

	2016		2015		2014	
	£m	Pence per share	£m	Pence per share	£m	Pence per share
Prior years final dividend paid			147.3	54.0	113.0	42.0
Interim dividend paid			79.0	29.0	64.7	24.0
<b>Total dividends paid</b>			<b>226.3</b>	<b>83.0</b>	<b>177.7</b>	<b>66.0</b>
Current year final dividend recommended	158.0	58.0				

Dividends of £8.2 million (2014: £8.8 million) on shares held by employee benefit trusts have been waived; dividends may not be paid on treasury shares. The Board has recommended a 2015 final dividend of 58.0 pence per share (2014 final dividend: 54.0 pence), amounting to £158.0 million (2014: £147.3 million). The dividend will be paid on 5 May 2016 to shareholders on the register at 29 March 2016 and will be accounted for in 2016.

The Company offers a dividend reinvestment plan (DRIP). The last date for shareholders to elect to participate in the DRIP for the purposes of the 2015 final dividend is 13 April 2016. Further details are contained on our website.



## 8. Fair value measurement disclosures

The Group holds financial instruments that are measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments may require some judgement or may be derived from readily available sources. The degree of judgement involved is reflected below, although this does not necessarily indicate that the fair value is more or less likely to be realised.

For investments that are actively traded in financial markets, fair value is determined by reference to official quoted market prices. For investments that are not actively traded, fair value is determined by using quoted prices from third parties such as brokers, market makers and pricing agencies.

Financial assets that have no quoted price principally consist of investments in private equity, derivatives and certain loans in Wealth Management. The determination of fair value for these instruments requires significant judgement, particularly in determining whether changes in fair value have occurred since the last formal valuation.

The Group's financial instruments have been categorised using a fair value hierarchy that reflects the extent of judgements used in the valuation. These 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 quoted equities and debt securities, 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 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 and principally comprise investments in private equity funds. These funds are managed by third parties and are measured at the values provided by the relevant fund managers, unadjusted by the Group except for known events, such as calls or distributions, that have occurred between the valuation and reporting date. The valuation review is a continual process throughout the year.

## 8. 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:

	2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets:</b>				
Equities	534.6	6.5	33.6	574.7
Debt securities <sup>1</sup>	677.5	21.0	-	698.5
Derivative contracts	15.5	22.7	-	38.2
Other instruments	-	11.0	-	11.0
	<b>1,227.6</b>	<b>61.2</b>	<b>33.6</b>	<b>1,322.4</b>
<b>Trade and other receivables<sup>1</sup></b>	<b>20.1</b>	<b>-</b>	<b>-</b>	<b>20.1</b>
<b>Assets backing unit-linked liabilities<sup>1</sup></b>	<b>9,007.6</b>	<b>1,605.5</b>	<b>43.4</b>	<b>10,656.5</b>
	<b>10,255.3</b>	<b>1,666.7</b>	<b>77.0</b>	<b>11,999.0</b>
<b>Financial liabilities:</b>				
Derivative contracts	30.6	16.7	-	47.3
Other financial liabilities held at fair value through profit or loss	51.0	5.4	-	56.4
	<b>81.6</b>	<b>22.1</b>	<b>-</b>	<b>103.7</b>
<b>Trade and other payables<sup>1</sup></b>	<b>99.3</b>	<b>-</b>	<b>-</b>	<b>99.3</b>
<b>Unit-linked liabilities<sup>1</sup></b>	<b>11,148.2</b>	<b>129.5</b>	<b>-</b>	<b>11,277.7</b>
	<b>11,329.1</b>	<b>151.6</b>	<b>-</b>	<b>11,480.7</b>

<sup>1</sup> For each of these categories, the Group holds instruments at fair value as well as at amortised cost. Instruments held at amortised cost are not included in the analysis above.

## 8. Fair value measurement disclosures continued

	2014			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets:</b>				
Equities	434.3	12.6	40.0	486.9
Debt securities <sup>1</sup>	450.7	7.6	-	458.3
Derivative contracts	0.6	25.8	-	26.4
Other instruments	-	31.2	-	31.2
	<b>885.6</b>	<b>77.2</b>	<b>40.0</b>	<b>1,002.8</b>
<b>Trade and other receivables<sup>1</sup></b>	<b>29.2</b>	<b>-</b>	<b>-</b>	<b>29.2</b>
<b>Assets backing unit-linked liabilities<sup>1</sup></b>	<b>10,830.7</b>	<b>1,950.4</b>	<b>49.6</b>	<b>12,830.7</b>
	<b>11,745.5</b>	<b>2,027.6</b>	<b>89.6</b>	<b>13,862.7</b>
<b>Financial liabilities:</b>				
Derivative contracts	1.8	13.6	-	15.4
Other financial liabilities held at fair value through profit or loss	43.2	7.6	0.8	51.6
	<b>45.0</b>	<b>21.2</b>	<b>0.8</b>	<b>67.0</b>
<b>Trade and other payables<sup>1</sup></b>	<b>102.0</b>	<b>-</b>	<b>-</b>	<b>102.0</b>
<b>Unit-linked liabilities<sup>1</sup></b>	<b>13,488.2</b>	<b>5.5</b>	<b>-</b>	<b>13,493.7</b>
	<b>13,635.2</b>	<b>26.7</b>	<b>0.8</b>	<b>13,662.7</b>

<sup>1</sup> For each of these categories, the Group holds instruments at fair value as well as at amortised cost. Instruments held at amortised cost are not included in the analysis above.

## 8. Fair value measurement disclosures continued

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

	2015		2014	
	Financial assets £m	Assets backing unit-linked liabilities £m	Financial assets £m	Assets backing unit-linked liabilities £m
At 1 January	40.0	49.6	38.8	158.2
Exchange translation adjustments	(0.9)	(3.4)	(1.8)	(6.5)
Total gains recognised in the income statement	-	12.1	-	13.2
Total gains recognised in other comprehensive income	13.5	-	7.7	-
Additions	-	-	8.0	1.8
Disposals	(19.0)	(14.9)	(11.7)	(117.1)
Transfers out of level 3	-	-	(1.0)	-
<b>At 31 December</b>	<b>33.6</b>	<b>43.4</b>	<b>40.0</b>	<b>49.6</b>

No financial assets were transferred from level 2 to level 1 during the period (2014: £36.1 million) or from level 1 to level 2 (2014: none).

## 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 2015	282.5	226.0	56.5	282.5	119.4
<b>At 31 December 2015</b>	<b>282.5</b>	<b>226.0</b>	<b>56.5</b>	<b>282.5</b>	<b>119.4</b>

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2014	282.7	226.0	56.7	282.7	119.4
Shares cancelled	(0.2)	-	(0.2)	(0.2)	-
<b>At 31 December 2014</b>	<b>282.5</b>	<b>226.0</b>	<b>56.5</b>	<b>282.5</b>	<b>119.4</b>

	2015 Number of shares Millions	2014 Number of shares Millions
<b>Issued and fully paid:</b>		
Ordinary shares of £1 each	226.0	226.0
Non-voting ordinary shares of £1 each	56.5	56.5
	<b>282.5</b>	<b>282.5</b>

## 10. 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 year were as follows:

	<b>2015</b>	2014
	<b>£m</b>	£m
At 1 January	(200.1)	(229.9)
Own shares purchased	(51.1)	(64.9)
Cancellation of own shares held in treasury	-	3.8
Awards vested	75.7	90.9
<b>At 31 December</b>	<b>(175.5)</b>	<b>(200.1)</b>

	<b>2015</b>			2014		
	<b>Number of vested shares Millions</b>	<b>Number of unvested shares Millions</b>	<b>Total Millions</b>	Number of vested shares Millions	Number of unvested shares Millions	Total Millions
Ordinary shares	2.2	8.1	10.3	2.8	9.9	12.7
Non-voting ordinary shares	0.2	0.6	0.8	0.2	1.1	1.3
	<b>2.4</b>	<b>8.7</b>	<b>11.1</b>	<b>3.0</b>	<b>11.0</b>	<b>14.0</b>

During the year 1.7 million own shares were purchased and held for hedging share-based awards. 4.0 million shares awarded to employees vested in the period and were transferred out of own shares.

## 11. Reconciliation of net cash from operating activities

	2015 £m	2014 <sup>1</sup> £m
<b>Profit before tax</b>	<b>589.0</b>	<b>517.1</b>
<b>Adjustments for income statement non-cash movements:</b>		
Depreciation of property, plant and equipment and amortisation of intangible assets	36.4	37.0
Net gains and impairments taken through the income statement on financial instruments	(12.6)	(18.5)
Share-based payments	63.3	60.6
Net (release)/charge for provisions	(14.8)	7.7
Other non-cash movements	(3.8)	8.3
	<b>68.5</b>	<b>95.1</b>
<b>Adjustments for which the cash effects are investing activities:</b>		
Net finance income	(12.7)	(10.5)
Share of profit of associates and joint ventures	(19.3)	(8.5)
	<b>(32.0)</b>	<b>(19.0)</b>
<b>Adjustments for statement of financial position movements:</b>		
(Increase)/decrease in trade and other receivables and other financial assets held for operating activities	(231.2)	44.3
(Decrease)/increase in trade and other payables, financial liabilities and provisions	(155.9)	881.2
	<b>(387.1)</b>	<b>925.5</b>
<b>Adjustments for Life Company movements:</b>		
Net decrease/(increase) in financial assets backing unit-linked liabilities	2,245.3	(2,062.6)
Net (decrease)/increase in unit-linked liabilities	(2,338.5)	1,972.0
	<b>(93.2)</b>	<b>(90.6)</b>
<b>Tax paid</b>	<b>(97.3)</b>	<b>(106.2)</b>
<b>Net cash from operating activities</b>	<b>47.9</b>	<b>1,321.9</b>

<sup>1</sup> 2014 has been reformatted for consistency with the 2015 presentation, see basis of preparation.

Net cash from operating activities includes cash outflows of £11.2 million (2014: £13.4 million) in respect of exceptional items.

## Key risks and mitigations

The Group is exposed to a variety of risks as a result of its business activities. As such, active and effective risk management is a core competence and we actively monitor the potential impact of current and emerging risks. The Group places significant focus on the integrity and good conduct of employees and the risk management framework is underpinned by a strong ethical culture. 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 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, risk management and internal control.

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

The Chief Executive and GMC, as the principal executive committee with responsibility for the monitoring and reporting of risks and controls, regularly review the key risks facing the Group. 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 is supported by the Group Head of Risk.

The Chief Financial Officer chairs the Group Risk Committee (GRC). This meets 10 times a year, and more frequently if required, and is attended by the heads of the control functions, being Group Risk, Compliance, Legal and Internal Audit, the Chief Operating Officer, the Head of Investment and senior managers from Distribution and Wealth Management. The GRC supports the Chief Financial Officer and the GMC in discharging their risk management responsibilities. The GRC reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits. It also reviews trends and exceptions in the most significant risk exposures. The GRC and the Wealth Management Audit and Risk Committee receive reports in respect of risk from the Wealth Management Executive Committee.

### Lines of defence

The first line of defence against undesirable outcomes is the business function and the respective line managers, across Investment, Distribution, Wealth Management and Infrastructure. Business heads take the lead role with respect to identifying potential risks and implementing and maintaining appropriate controls.

Line management is supplemented by oversight functions, such as Group risk, compliance, finance, human resources, compliance, legal and governance, which constitute the second line of defence. The compliance monitoring programme reviews the effective operation of our processes in meeting regulatory requirements.

Group Internal Audit provides retrospective, independent assurance over the operation of controls and is the third line of defence. The internal audit programme includes reviews of risk management processes and recommendations to improve the control environment, supplemented by external assurance from the Group's auditors.

Schroders also maintains insurance cover.

### 2015 developments

The Group Risk operating model has been reviewed and we have further strengthened our risk framework.

We have continued to implement and embed our UK Conduct framework through the identification, mitigation and reporting of risks of poor client outcomes and other Conduct risks across our UK businesses. We have enhanced the



communications of our expectations of the behaviour of employees. The Employee Opinion Survey showed a high degree of employee alignment with, and support for, our culture and values. We are continuing to strengthen our management information and reporting in this key area and developing a proportionate application of the framework to our overseas businesses.

The Group's operational risk capabilities were enhanced by adding a risk library to our risk system, which links instances of operational risk across the firm and highlights areas requiring additional focus. In addition, the risk and control assessment (RCA) process was strengthened.

Recognising the increased incidence of cyber-crime within the industry, we conducted a review of our information security framework and continue to invest in this area. An Information Security Risk Oversight Committee was established, chaired by the Group Head of Risk, and both the first and second lines of defence were enhanced through the recruitment of specialists.

## **Key risks**

### **Reputational risk**

The reputation of Schroders is of paramount importance. Our reputation can be impacted by an adverse risk event arising from any of our key risks.

Reputational risk impacts Schroders' brand, reliability and relationship with clients and shareholders. This may arise from poor conduct or judgements, or from negative financial or operational events as a result of weaknesses in systems and controls.

Reputational risk may also arise from engaging in inappropriate client relationships or mandates which may have adverse implications for the Group.

High standards of conduct and a principled approach to regulatory compliance are integral to our culture and values. We consider key reputational risks when initiating changes in strategy or operating model.

In addition, we have a number of controls and frameworks to address other risks that could affect our reputation including: financial crime, investment risk and client take-on and product development.

### **Assessment of key risks**

The key risks outlined below have been assessed in light of the current environment, and are summarised in the following diagram. This year we have made the following change to the presentation of our key risks:

- International business risk has been renamed global business risk.
- A new category for the risk of insufficient capital has been included under market, credit, liquidity and capital risks.
- A new category for tax risk has been included under operational risks.

The horizontal axis shows whether the likelihood of the risk is stable or heightened, reflecting current conditions. The vertical axis shows the potential financial impact to the firm if that risk materialised. The Group undertakes additional work to address those risks that it considers to be potentially heightened, more costly or in excess of our risk appetite. Reputational risk is not included in the chart because this could arise as a result of other risk events occurring. In some areas we have seen increased levels of risk, which we continue to actively manage and an increase in financial impact. In particular, the outlook for markets remains uncertain and regulatory scrutiny is increasing.



**Business risks**

- 1. Investment performance risk
- 2. Product risk
- 3. Business concentration risk
- 4. Global business risk

**Operational risks**

- 9. Conduct and regulatory risk
- 10. Legal risk
- 11. Tax risk
- 12. Process risk
- 13. Fraud risk
- 14. Technology and information security risk
- 15. People and employment practices risk
- 16. Third party service provider risk

**Market, credit, liquidity and capital risks**

- 5. Market risk
- 6. Credit risk
- 7. Liquidity risk
- 8. Risk of insufficient capital

**Business risks**

Business risk can be influenced by both internal and external factors. A risk can materialise due to poor business execution or a failure to respond appropriately to internal or external factors.

Description of key risk	How we manage risk
<p><b>Investment performance risk</b></p> <p>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 or that there is a failure to deliver consistent and above-average performance.</p>	<p>We have in place clearly defined investment processes designed to meet investment targets within stated risk parameters.</p> <p>The Group's Investment Risk Framework provides review and challenge of investment risks, independent of our fund managers, across all asset classes. Individual portfolio performance, valuations and risk profiles are monitored by fund managers and asset class heads on a regular basis, as well as by Pricing and Valuation Committees, Asset Class Risk Committees and the GMC.</p> <p>Recognising that products will not outperform all of the time, we offer clients a diversified product set.</p> <p>Key to investment performance is our ability to attract and retain talented people (see people and employment practices risk for further information).</p>

<p><b>Product risk</b> Product risk arises from product or service viability and the risk that products or services do not meet their objectives and product and service complexity.</p> <p>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.</p>	<p>To manage product risk we conduct quantitative analysis on a product by product basis to confirm that products are performing to the expectation of our clients in accordance with our mandate. If the results do not meet our standards, we assess the qualitative aspects and, if appropriate, the product strategy is reassessed.</p> <p>Commercial viability and distribution channels are assessed by the Product Development Committee when they consider new fund proposals. New investment propositions and strategies are reviewed by the Product Strategy Committee.</p> <p>We monitor potential capacity constraints in funds on a regular basis. Mitigation may include closing products to new investment. The Product Development Committee considers the interests and needs of potential investors in our funds.</p>
<p><b>Business concentration risk</b> Business concentration risk arises from concentration in a small number of distribution channels or products or when a small number of clients are concentrated in a specific product or market.</p> <p>Pressure on revenue margins continues to be a risk due to the rise of passive strategies, competition, transparency and regulatory change.</p>	<p>The broad range and scale of products and of distribution and investment channels that we have established mitigates our concentration risk and the dependency on any single sales channel.</p> <p>We aim to avoid client concentrations in any particular market or channel becoming excessive.</p> <p>We continue to offer competitive solutions for clients. We review the scalability of our business and continue to invest in infrastructure.</p>
<p><b>Global business risk</b> Our business is broadly diversified by region. Whilst this mitigates our aggregate risk profile it introduces additional risks in terms of operating cross-border and in multiple environments as a result of business practices, customs and traditions.</p>	<p>We employ people with relevant expertise to manage our business and operations in accordance with local requirements as well as Group standards.</p> <p>New global markets are not accessed without appropriate due diligence.</p> <p>Local risk committees are established where appropriate and Compliance, Group Risk and other second line functions provide local oversight in all regions in which we operate. The GRC receives reports from line management regarding matters that give cause for concern and recommendations for appropriate remedial action.</p> <p>Our global operations are regularly reviewed by Group Internal Audit.</p>

## Market, credit and liquidity and capital risks

We face market, credit, liquidity and capital risks from movements in the financial markets in which we operate, arising from holding investments both as principal and agent.

Description of key risk	How we manage risk
<p><b>Market risk</b></p> <p>Operating capital, net revenue and expenses related to the Group's overseas subsidiaries are denominated in local currencies and are therefore subject to exchange rate risk.</p> <p>Market risk arises from market movements, which can cause a fall in the value of principal investments and a decline in the value of assets under management.</p>	<p>The Group Capital Committee, chaired by the Chief Financial Officer, regularly reviews all principal assets held for investment or seed capital purposes. The Group's seed capital investments are hedged in respect of market risk and currency risk where practical.</p> <p>We use forward foreign exchange contracts to mitigate transactional and investment exposure to currency movements.</p> <p>The Wealth Management Executive Committee monitors and manages market risk in the Group's banking businesses, which is primarily interest rate risk in the banking book.</p> <p>Our geographically-diversified, broad product range helps to mitigate market risk in a variety of market conditions and serves to diversify individual market dependencies. In addition, the Group's Investment Risk Framework provides review and challenge of market risks.</p>
<p><b>Credit risk</b></p> <p>We face credit risk as a result of counterparty exposure with respect to client and principal investment holdings including derivative exposures. The assets we manage are also exposed to counterparty risk.</p> <p>We also face credit risk through Wealth Management lending activities, in addition to client transactional counterparty risk.</p>	<p>We assess counterparty creditworthiness and set limits for both our principal and agency counterparties.</p> <p>We seek to diversify our exposure across different counterparties. The creditworthiness of counterparties and borrowers are monitored, as is usage against the relevant credit limits.</p> <p>In Wealth Management, we seek to mitigate credit risk within the lending activities, as appropriate, through collateralisation in the form of cash, portfolio investments or real estate. Credit risk is monitored and managed against limits and collateral.</p>
<p><b>Liquidity risk</b></p> <p>Liquidity risk is the risk that the Group or any of its subsidiaries cannot meet its contractual or payment obligations in a timely manner.</p> <p>Liquidity risk in relation to client portfolios may arise in difficult market conditions from the inability to sell the portfolio's underlying investments for full value, or at all. This could affect performance and also prevent cash or other assets from being readily available to meet redemptions or other obligations.</p>	<p>We maintain liquidity for our anticipated needs and regulatory requirements, taking account of the risks we face. The Group Capital Committee regularly reviews the Group's liquidity needs considering the current liquidity position, future cash flows, regulatory requirements and potential stress scenarios.</p> <p>Liquidity is also considered at a legal entity level with consideration of specific circumstances and regulatory requirements of each company. The Wealth Management Executive Committee monitors and manages liquidity risk in the Group's banking businesses.</p> <p>To mitigate this risk, we seek to match the liquidity of the underlying investments with the anticipated redemption requirements when we construct portfolios.</p> <p>We have established a process to assess and monitor the liquidity risk profile of funds on an ongoing basis. The process relies on a set of quantitative indicators which provide information on the evolution of the</p>

	<p>liquidity of funds over time and under various scenarios. This helps us to identify and investigate possible issues, and implement an appropriate plan of action as necessary.</p> <p>We also review products and portfolios on a regular basis to identify and manage possible capacity constraints.</p>
<p><b>Risk of insufficient capital</b>  The risk of insufficient capital would materialise if the Group was unable to support its strategic business objectives beyond its minimum regulatory capital requirements.</p>	<p>Maintaining a strong capital base is important to our business and is a core part of our strategy. We ensure each of our regulated subsidiaries, and the Group as a whole, meet their minimum regulatory capital requirements. The Group sets and maintains a prudent level of capital, that includes a buffer over the minimum regulatory capital requirement that allows us to effectively conduct our business in the markets in which we operate and to invest in new business opportunities that may arise.</p> <p>The Group Capital Committee supports the Chief Financial Officer in exercising responsibility for the management of the Group's capital.</p> <p>The Group performs a thorough assessment of the adequacy of its capital through the Internal Capital Adequacy Assessment Process (ICAAP). In addition, Wealth Management in London and the Channel Islands also perform an ICAAP.</p>

## Operational risks

Operational risk is inherent globally in all activities and processes we perform within the Group. To manage and mitigate these risks, the second line of defence provides oversight and challenge to the business through an operational risk framework. Tools to manage this include risk and control assessments, risk event management processes and new product approval processes. We manage risk events through identification, reporting and resolution with the aim of preventing risk events from recurring.

Description of key risk	How we manage risk
<p><b>Conduct and regulatory risk</b>            Conduct and regulatory risks include the risks identified below.</p> <p>The risks of client detriment arising from inappropriate conduct, conflicts management, practice or behaviour or failing to meet client needs, interests or expected outcomes.</p> <p>The risks of money laundering, bribery or market abuse shortcomings on the part of fund investors, clients or our employees.</p> <p>The risk of fines, penalties, censure or other sanctions arising from failure to identify or meet regulatory requirements.</p> <p>The risk that new regulations or changes to existing interpretations have a material effect on the Group's operations, risk profile or cost base.</p>	<p>We promote a strong compliance culture and we value good relationships with our regulators. Our Compliance function supports management in identifying our regulatory obligations and enabling these to be met through relevant training and procedures. Compliance with relevant regulatory requirements is monitored in accordance with a risk-based programme.</p> <p>Our approach to encouraging appropriate conduct and minimising the risk of client detriment is set out in our conduct risk framework, and is built on our culture and values, supported by appropriate governance and reporting. This includes:</p> <ul style="list-style-type: none"> <li>- A culture in which all employees are encouraged and supported to 'do the right thing';</li> <li>- A long-term approach to creating value and good outcomes for our clients, fund investors and shareholders;</li> <li>- A focus on suitability of advice and of discretionary management and on products that meet the needs of our clients and investors; and</li> <li>- Strong controls, governance, training and risk management processes.</li> </ul> <p>Risk based client take-on and review processes are among our key controls to address the risks of money laundering. Trading is subject to clear policies and to transaction surveillance processes, which are being increasingly enhanced. Financial crime oversight is provided by the Financial Crime Committee.</p> <p>Regulatory and legal change is monitored by the Compliance, Legal and Public Policy teams. Key regulatory and tax risks are identified below. We engage with our regulators where appropriate in relation to potential and planned changes.</p>
<p><b>Legal risk</b>            The risk that Schroders or its counterparties, clients or suppliers with whom we contract fail to meet their legal obligations, that Schroders takes on obligations that it did not intend to assume and the risk of legal proceedings and loss.</p> <p>The risk that client expectations and obligations with respect to our own and third</p>	<p>We rely on our employees, with support from our Legal function, to consider the obligations we assume across the Group and our compliance with them. Our policies and procedures across the Group are developed having regard to recognised legal risks.</p> <p>Confirmations are obtained from representatives around the Group that actual or potential disputes and claims have been brought promptly to the attention of the General Counsel. We have an escalation process for</p>

<p>party responsibilities under investment management and other agreements will not be met, with a revenue or contingent liability impact.</p>	<p>areas of identified material risk.</p>
<p><b>Tax risk</b> The risk that the Group or its managed funds face additional liabilities or penalties arising through non-compliance or failures in the tax return process.</p> <p>Tax risk may also arise through a failure to understand how the law applies in specific circumstances or where there exists inherent uncertainty as to how the relevant law will apply.</p>	<p>Our approach to managing tax risk is set out in our tax governance framework. This identifies key tax activities across the Group and defines responsibilities in respect of those activities.</p> <p>We have a dedicated Tax function that works with management and our advisers to monitor the tax compliance obligations of the Group. Local management, with support from our Tax function, is generally responsible for identifying and managing compliance obligations arising in respect of managed funds, with the assistance of third party service providers.</p> <p>Developments in taxation are monitored by the Tax function and local management. We engage with representative industry organisations and advisors to ensure we are kept abreast of relevant changes, impacting the Group, our managed funds and our clients.</p>
<p><b>Process risk</b> The risk of failure of significant business processes, including, for example, mandate compliance, client suitability checks and asset pricing.</p>	<p>Our key business processes have been identified and the risks assessed by first line of defence owners. Associated controls are assessed with regard to their design and performance.</p> <p>Business owners perform RCAs to determine the adequacy and effectiveness of key controls.</p> <p>Second line oversight and challenge is provided on the outputs of the RCAs. Significant risks and gaps are reported to the GRC and remediation plans are developed and agreed.</p>
<p><b>Fraud risk</b> Fraud could arise from either internal or external parties who attempt to defraud the firm or our clients by circumventing our processes and controls.</p>	<p>Policies and procedures are in place to manage fraud risk. Tailored risk assessments for fraud risk are conducted to identify potential risks and to ensure appropriate controls are in place.</p> <p>There is a specialist team in the second line of defence that provides challenge and oversight of the fraud risk framework.</p> <p>The Financial Crime Committee reports to the GRC.</p>
<p><b>Technology and information security risk</b> Technology and information security risk relates to the risk that our technology systems and support are inadequate or fail to adapt to changing requirements; that our systems are penetrated by third parties; and that data is held insecurely.</p>	<p>Schroders actively engages with industry peers and government intelligence services to understand and take action against potential cyber threats.</p> <p>A technology and information security strategy has been approved by the Board.</p> <p>Formal governance over information risks has been established across the three lines of defence through the information security risk oversight committee. The Group holds insurance to cover cyber risks including electronic computer crime, professional indemnity for breach of confidentiality, and network interruption for unavailability of IT services</p>

	<p>due to unauthorised access.</p> <p>A suite of policies and technical standards, including security awareness training, has been deployed across the Group.</p>
<p><b>People and employment practices risk</b>  Talented employees may be targeted by competitors seeking to build their businesses.</p> <p>In addition, people and employment practices risk incorporates the risk that our employment practices do not comply with local legislation, such as equal opportunities, human rights or the safety and wellbeing of employees when at work.</p>	<p>We have competitive remuneration and retention plans, with appropriate deferred benefits targeted at key employees. We seek to build strength in depth through sustainable succession and development plans. We operate a global model, which reduces our reliance on single pools of talent. Clear objectives are set for employees and success is measured in an annual review process, allowing us to identify motivational development initiatives.</p> <p>We have policies and procedures in place to encourage diversity and to manage employment issues appropriately and handle them consistently, fairly and in compliance with local legislation.</p>
<p><b>Third party service provider risk</b>  We have a number of outsourced supplier relationships as part of our business model, particularly in respect of information technology, fund administration and transfer agency services.</p> <p>Third party service provider risk relates to the risk that suppliers may not be able to meet their agreed service level terms.</p>	<p>On an annual basis, the Audit and Risk Committee reviews all outsourced relationships covered by the Group policy, focusing on significant aspects such as service quality and risk management.</p> <p>Our outsourcing policy sets out key considerations when appointing and managing a third party service provider, including due diligence and regular reviews of providers' performance against agreed service levels. Exit plans are considered prior to appointment and provide a framework for transitioning business from one service provider to another should the quality fall below the agreed service level.</p>



The sections below show forward looking key external threats, regulatory risks and tax risks that may have an impact on our business. The Group's perceived time frames and potential impacts of these risks have been mapped on the charts.

### Mapping key threats to our risk profile

Threats with uncertain impact, probability and time frame could impact the Group. We continuously monitor internal and external environments to identify new and emerging risks. We then analyse each risk and, if needed, develop and apply mitigation and management plans. The external threats that are currently our focus of attention are set out below. The chart indicates our assessment of the likelihood and potential timing of these risks. The estimated likelihood may change as circumstances evolve and mitigation plans are developed.

1. Eurozone crisis
2. Emerging market economy collapse, notably China
3. Market liquidity crisis
4. Geopolitical events (e.g. continuing Middle East crisis, mass migration, Russia conflict)
5. Clearing house failure
6. Cyber attacks
7. Terrorism
8. UK exit from the European Union (Brexit)



### Mapping key regulatory and tax related risks

The extent of regulatory and tax change facing our industry has increased significantly. This poses both risks and opportunities for our business. The chart below combines known and emerging regulatory and tax change initiatives, to identify both the likely timing and estimated impact of regulatory change on our business. New initiatives which arose during 2015 are highlighted in orange.

#### Regulatory related risks/opportunities

1. Markets in Financial Instruments Directive II (MiFID II) and Regulation (MiFIR) implementation
2. Market Abuse Regulation (MAR) implementation
3. Remuneration and employee incentivisation reform
4. Derivatives clearing and reporting globally
5. EU Packaged Retail and Insurance based Investment Products (PRIIPS) Regulation
6. EU Capital Markets Union proposals
7. Asian mutual fund recognition initiatives
8. UK Fair and Effective Markets Review (FEMR)
9. Regulatory scrutiny of systemic risks in asset management
10. Local Authority Pension Fund reform
11. UK Financial Advice Market Review (FAMR)
12. Extension of the Senior Managers Regime to all regulated financial services firms in the UK
13. Fourth EU Money Laundering Directive (MLD IV)
14. EU General Data Protection Regulation (GDPR)



15. FCA asset management competition market study

**Tax related risk/opportunities**

- A. OECD common tax reporting standard (CRS)
- B. OECD and EU initiatives and related actions on base erosion and profit shifting (BEPS)
- C. EU VAT changes
- D. EU Financial Transaction Tax (FTT)

## 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
Peter Harrison	Head of Investment
Philip Mallinckrodt	Group Head of Wealth Management
Massimo Tosato	Executive Vice Chairman and Global Head of Distribution
Lord Howard of Penrith	Senior Independent Director
Ashley Almanza	Independent non-executive Director
Robin Buchanan	Independent non-executive Director
Rhian Davies	Independent non-executive Director
Nichola Pease	Independent non-executive Director
Bruno Schroder	Non-executive Director

2 March 2016

## Five-year consolidated financial summary

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
<b>Before exceptional items</b>					
Profit before tax	609.7	565.2	507.8	360.0	407.3
Tax	(126.3)	(113.9)	(103.0)	(76.8)	(91.5)
<b>Profit after tax</b>	<b>483.4</b>	<b>451.3</b>	<b>404.8</b>	<b>283.2</b>	<b>315.8</b>

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
<b>After exceptional items</b>					
Profit before tax	589.0	517.1	447.5	360.0	407.3
Tax	(121.6)	(103.9)	(94.8)	(76.8)	(91.5)
<b>Profit after tax</b>	<b>467.4</b>	<b>413.2</b>	<b>352.7</b>	<b>283.2</b>	<b>315.8</b>

	2015 Pence	2014 Pence	2013 Pence	2012 Pence	2011 Pence
<b>Pre-exceptional earnings per share:</b>					
Basic earnings per share	176.9	166.8	149.9	104.7	115.9
Diluted earnings per share	172.2	161.5	144.6	101.3	111.9

	2015 Pence	2014 Pence	2013 Pence	2012 Pence	2011 Pence
<b>Post-exceptional earnings per share:</b>					
Basic earnings per share	171.1	152.7	130.6	104.7	115.9
Diluted earnings per share	166.5	147.8	126.0	101.3	111.9

	2015	2014	2013	2012	2011
<b>Dividends</b>					
Cost (£m)	226.3	177.7	123.5	104.1	104.8
Pence per share <sup>1</sup>	83.0	66.0	46.0	39.0	39.0
<b>Total equity (£m)</b>	<b>2,795.6</b>	<b>2,537.8</b>	<b>2,268.6</b>	<b>2,069.9</b>	<b>1,901.6</b>
<b>Net assets per share (pence)<sup>2</sup></b>	<b>990</b>	<b>898</b>	<b>802</b>	<b>733</b>	<b>673</b>

<sup>1</sup> 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.

<sup>2</sup> Net assets per share are calculated by using the actual number of shares in issue at the year-end date.

## Exchange rates – closing

31 December	2015	2014	2013	2012	2011
<b>Sterling:</b>					
Euro	1.36	1.29	1.20	1.23	1.20
US dollar	1.47	1.56	1.66	1.63	1.55
Swiss franc	1.48	1.55	1.47	1.49	1.45
Australian dollar	2.03	1.91	1.85	1.57	1.52
Hong Kong dollar	11.42	12.09	12.84	12.60	12.07
Japanese yen	177.30	186.95	174.08	140.55	119.57
Singaporean dollar	2.09	2.07	2.09	1.99	2.02