Schroders

Press Release
Schroders plc

11 August 2006

Interim Results to 30 June 2006

Schroders plc today announces its interim results to 30 June 2006.

Group profit before tax up 7 per cent., underlying† profit up 28 per cent.

- Group profit before tax **£132.3 million** (H1 2005: £123.5 million, £103.1 million underlying†)
- Asset Management profit before tax **£96.8 million** (H1 2005: £99.8 million, £79.7 million underlying†)
- Private Banking profit before tax **£11.2 million** (H1 2005: £2.2 million, £1.9 million underlying†)
- Private Equity profit before tax **£17.7 million** (H1 2005: £18.0 million)
- Funds under management **£122.3 billion** (31 December 2005: £122.5 billion)
- Interim dividend of **7.5 pence** per share (interim dividend 2005: 7.0 pence per share)

	Six months ended 30 June 2006 (unaudited) £mn	Six months ended 30 June 2005 (unaudited) £mn	Year ended 31 December 2005 £mn
Asset Management profit	96.8	99.8	193.9
Private Banking profit	11.2	2.2	6.3
Private Equity profit	17.7	18.0	40.3
Group Net Income/(Costs)	6.6	3.5	10.2
Profit before tax	132.3	123.5	250.7

† The term ‘underlying’ denotes that the relevant 2005 comparative has been adjusted to remove the impact of the one-off gain recorded in the first half of 2005 on the discontinuation of a project to outsource the UK custody and portfolio accounting services. The effect of this adjustment is to reduce profit before tax in the first half of 2005 by £20.4 million (split between £20.1 million in the Asset Management segment and £0.3 million in Private Banking).

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Management Statement

Group profit before tax increased to £132.3 million, compared with £123.5 million in the first half of 2005. Adjusting for the one-off gain in 2005 of £20.4 million arising from a discontinued outsourcing contract, underlying[†] profit increased by 28 per cent.

Asset Management

Asset Management revenue increased by 21 per cent. to £377.3 million (H1 2005: £311.9 million), driven by higher margins and overall market levels. Gross profit rose to £300.4 million (H1 2005: £250.3 million).

Asset Management expenses were £208.4 million (H1 2005: £174.0 million), reflecting higher variable staff costs linked to stronger revenues and increased investment in marketing and operating infrastructure. Asset Management profit before tax was £96.8 million, an increase in underlying[†] profit of 21 per cent.

Investment performance was competitive in the period across a broad range of strategies in equities, fixed income and property. Recent consultant upgrades included our core and global active value quantitative products and our new pooled balanced product, the Diversified Growth Fund.

Net inflows in Retail were £2.3 billion (H1 2005: £1.6 billion), reflecting a return to growth in comparison to the second half of 2005. A strong first quarter was followed by a positive, but slower second quarter, as investor flows were checked by market volatility. A combination of positive investment results and active marketing restored net inflows in European equities. Emerging markets, in particular the BRIC (Brazil, Russia, India, China) product, and the absolute return Strategic Bond Fund contributed significantly to retail inflows. Retail funds under management were £38.5 billion at the end of June (end 2005: £36.0 billion).

Institutional saw net outflows of £4.6 billion (H1 2005: £2.0 billion), principally as a result of performance issues in Japanese equities in earlier years and continued outflows in UK balanced mandates. We have strengthened our Japanese equities team and performance has improved. Institutional funds under management were £75.7 billion at the end of June (end 2005: £78.7 billion).

The acquisition of NewFinance Capital announced in February was completed on 3 May 2006 and its results from that date have been consolidated in this report. For the two months, revenue was £1.8 million with costs of £1.1 million, contributing £0.7 million to Asset Management profit before tax. Assets under management in funds of hedge funds at the end of June 2006 totalled £1.7 billion.

[†] refer to earlier footnote

Private Banking

Private Banking revenue increased by 31 per cent. to £46.2 million (H1 2005: £35.2 million) principally driven by increased activity in Switzerland and higher transactional revenues in the UK and Channel Islands banking businesses. Costs increased by 5 per cent. to £34.0 million (H1 2005: £32.4 million), resulting in a pre-tax profit of £11.2 million (H1 2005: £2.2 million).

Net new business inflows were £0.3 billion (H1 2005: £0.4 billion) and funds under management at the end of June were £8.1 billion (end 2005: £7.8 billion).

Investment in a project to centralise the Private Banking back-office operations in Zurich is underway. Operating on a single technology and operations platform should lead to significant improvements in client service and cost efficiencies from the second half of 2007.

Private Equity

Realised gains and carried interest participations in Private Equity resulted in a profit before tax of £17.7 million (H1 2005: £18.0 million). At the end of the period the Group's remaining interests in private equity were valued at £155.0 million (end June 2005: £171.0 million).

Group Net Income/(Costs)

Profit for the period was £6.6 million (H1 2005: £3.5 million). Higher earnings on seed and investment capital were partially offset by lower interest income.

Share Capital

During the first half of the year the Company repurchased for cancellation 5,508,960 non-voting ordinary shares. These repurchases neutralised the dilutive effect of issuing new shares following the exercise of options granted under the Company's share option plans. As set out in the notice of the meeting for the 2006 Annual General Meeting, it is the company's policy to use such repurchases to maintain the ratio of ordinary shares to non-voting ordinary shares over the medium term. The effect of these repurchases has been to return the ratio to its level in April 2000, when the Company was established in its present form following the sale of the investment banking business. The Company has no current intention to implement a general share repurchase programme.

Dividend

In the light of the growth in underlying[†] profit and the Group's strong financial position, the Board has declared an increased interim dividend of 7.5 pence per share (H1 2005: 7.0 pence per share). The dividend will be paid on 29 September 2006 to shareholders on the register at the close of business on 25 August 2006.

[†] refer to earlier footnote

Summary

Against a background of volatile markets the Group has produced continued growth in revenue and profit in the first half of 2006. Overall, as previously stated, 2006 is a year of consolidation for Schroders as equity market growth slows and we invest in talent, business development and operating infrastructure. We have a major product development programme underway to meet changing client needs in areas such as liability-driven investing, quantitative strategies and absolute return products. Combined with the strength of our existing business across regions, products and sales channels, this period of investment should position the Group well for 2007.

Michael Dobson
Chief Executive

11 August 2006

This interim announcement does not constitute the Interim Report for 2006. The Interim Report is expected to be posted to shareholders on 18 August 2006.

Forward-looking statements

This interim announcement contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of Schroders plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this announcement should be construed as a profit forecast.

Condensed consolidated income statement

	Six months ended 30 June 2006 (unaudited) £mn	Six months ended 30 June 2005 (unaudited) £mn	Year ended 31 December 2005 £mn
Revenue	451.3	367.6	808.0
Cost of sales	(77.9)	(62.5)	(131.0)
Gross profit	373.4	305.1	677.0
Gain on discontinued outsourcing contract	-	20.4	20.4
Administrative expenses	(255.1)	(218.4)	(473.4)
Depreciation and amortisation	(4.2)	(5.4)	(10.9)
Operating profit	114.1	101.7	213.1
Share of profit of associates	9.1	9.0	13.7
Share of profit/(loss) of joint ventures	0.1	-	(0.2)
	9.2	9.0	13.5
Interest receivable and similar income	9.8	13.2	25.3
Interest payable and similar charges	(0.8)	(0.4)	(1.2)
Profit before tax	132.3	123.5	250.7
UK tax	(11.6)	(14.4)	(16.2)
Foreign tax	(22.4)	(18.4)	(41.2)
Tax	(34.0)	(32.8)	(57.4)
Profit after tax	98.3	90.7	193.3
Attributable to:			
Minority interests	0.3	0.9	2.0
Equity holders of the parent	98.0	89.8	191.3
	98.3	90.7	193.3
Memo – dividends paid in period	(42.0)	(39.2)	(59.5)
Basic earnings per share	33.7p	30.8p	65.7p
Diluted earnings per share	33.2p	30.6p	65.1p

The interim dividend payable for 2006 is 7.5 pence per share, amounting to a distribution of £21.5 million

Condensed consolidated balance sheet

	30 June 2006 (unaudited) £mn	30 June 2005 (unaudited) £mn	31 December 2005 £mn
Non-current assets			
Intangible assets	81.4	32.1	30.2
Property, plant and equipment	9.9	7.3	9.4
Associates	30.2	33.7	31.6
Joint ventures	4.0	-	4.1
Other investments	144.7	113.9	123.9
Deferred tax	56.0	54.1	54.9
Trade and other receivables	352.2	205.5	303.0
Life company investments	82.4	-	-
	760.8	446.6	557.1
Current assets			
Investments	1,568.4	1,676.3	1,795.9
Current tax	13.8	13.6	17.7
Trade and other receivables	795.3	648.6	544.9
Cash and cash equivalents	504.8	367.1	402.4
	2,882.3	2,705.6	2,760.9
Non-current assets held for sale	31.8	15.8	23.4
Total assets	3,674.9	3,168.0	3,341.4
Equity			
Called up share capital	296.6	297.0	298.5
Share premium account	34.2	26.8	32.1
Other reserves	15.1	-	-
Capital reserves	143.4	136.1	187.0
Own shares	(90.6)	(34.6)	(45.7)
Retained profits	944.4	801.7	870.9
Equity attributable to equity holders of the parent	1,343.1	1,227.0	1,342.8
Minority interests	0.1	3.7	0.3
Total equity	1,343.2	1,230.7	1,343.1
Non-current liabilities			
Debt securities in issue	15.2	-	12.0
Deferred tax	2.8	2.0	2.8
Provisions	9.4	7.5	10.1
Trade and other payables	378.7	203.4	185.3
Life company technical provisions	82.4	-	-
	488.5	212.9	210.2
Current liabilities			
Debt securities in issue	0.4	4.2	4.2
Provisions	12.4	12.1	14.7
Current tax	43.7	37.4	32.9
Trade and other payables	1,786.7	1,670.7	1,736.3
	1,843.2	1,724.4	1,788.1
Total equity and liabilities	3,674.9	3,168.0	3,341.4

Condensed consolidated statement of recognised income and expense

	Six months ended 30 June 2006 (unaudited) £mn	Six months ended 30 June 2005 (unaudited) £mn	Year ended 31 December 2005 £mn
Exchange differences on translation of foreign operations	(30.1)	16.9	38.6
Net gains/(losses) on hedges recognised directly in equity	18.0	(13.0)	(26.9)
Actuarial (losses)/gains on defined benefit pension schemes	(1.2)	(14.5)	5.1
Net gains on available-for-sale investments	17.7	5.2	44.3
Tax on items taken directly to equity	6.4	4.5	6.8
Net income and expense recognised directly in equity	10.8	(0.9)	67.9
Profit for the period	98.3	90.7	193.3
Total recognised income and expense for the period	109.1	89.8	261.2
Attributable to:			
Minority interests	0.3	0.9	2.0
Equity holders of the parent	108.8	88.9	259.2
	109.1	89.8	261.2

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Condensed consolidated cash flow statement

	Six months ended 30 June 2006 (unaudited) £mn	Six months ended 30 June 2005 (unaudited) £mn	Year ended 31 December 2005 £mn
Net cash from/(used in) operating activities	169.3	(38.0)	92.2
Investing activities			
Proceeds from disposal of business	-	-	0.2
Acquisition of subsidiaries	(19.3)	-	(0.8)
Cash acquired with acquisition	6.8	-	0.8
Purchase of joint ventures	-	-	(4.2)
Purchase of intangible assets	(0.9)	-	(1.8)
Purchase of property, plant and equipment	(2.6)	(1.7)	(5.7)
Purchase of non-current asset investments	(13.8)	(29.1)	(62.4)
Purchase of non-current assets held for sale	(38.8)	-	(23.4)
Disposal of non-current assets held for sale	26.6	-	-
Proceeds from sale of intangible assets	-	-	0.1
Proceeds from sale of non-current asset investments	18.3	25.8	73.9
Proceeds from sale of property, plant and equipment	0.3	0.2	0.5
Proceeds from repayment of loans by associates	-	30.3	30.3
Net disposal/(purchase) of current asset investments	72.0	(4.6)	(68.9)
Interest received	6.6	7.8	15.7
Dividends/capital distributions received from associates and joint ventures	8.4	0.1	9.0
Net cash from/(used in) investing activities	63.6	28.8	(36.7)
Financing activities			
Proceeds from issue of share capital	24.7	0.1	21.8
Acquisition of own shares	(86.8)	(7.5)	(23.7)
Disposal of own shares	34.5	-	-
Redemption of ordinary share capital	(56.3)	(0.2)	(15.3)
Distributions made to minority interests	-	(8.3)	(11.9)
Dividends paid	(42.0)	(39.2)	(59.5)
Net cash used in financing	(125.9)	(55.1)	(88.6)
Net increase/(decrease) in cash and cash equivalents	107.0	(64.3)	(33.1)
Opening cash and cash equivalents	402.4	432.1	432.1
Net increase/(decrease) in cash and cash equivalents	107.0	(64.3)	(33.1)
Effect of exchange rate changes	(4.6)	(0.7)	3.4
Closing cash and cash equivalents	504.8	367.1	402.4

Basis of preparation

The interim report, expected to be forwarded to shareholders on 18 August, is unaudited and does not constitute statutory accounts within the meaning of s240 of the Companies Act 1985. The statutory accounts for 2005, which were prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union ('IFRS'), and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS, have been delivered to the Registrar of Companies. The auditors' opinion on these accounts was unqualified and did not contain a statement made under s237 (2) or s237 (3) of the Companies Act 1985.

The interim report has been prepared in accordance with IAS 34 'Interim Financial Reporting' and the Listing Rules of the Financial Services Authority ('FSA').

The accounting polices applied in these interim financial statements are consistent with those applied in the Group's most recent annual financial statements. As a result of the incorporation of a life assurance company within the Group during the period, an additional policy in respect of life assurance companies is presented below:

Life assurance company investments and technical provisions are recognised and measured under IAS 39 'Financial instruments: Recognition and Measurement' which applies to investment contracts that do not meet the insurance contract definition under IFRS 4 'Insurance contracts'. IAS 39 requires the investments in life funds to be carried at fair value as a non-current asset, with gains and losses recorded in the income statement in the period in which they arise. The technical provision to offset this asset is classified as non-current to reflect the long-term nature of the business. The liability is also recorded at fair value.

Segmental reporting

Primary reporting format - business segments
The Group has four continuing classes of business: Asset Management, Private Banking, Private Equity and Group Net Income/(Costs). Asset Management principally comprises investment management including advisory services, property and alternative assets; Private Banking principally comprises investment management and banking services provided to high net worth individuals and certain smaller institutions; Private Equity principally comprises the Group's investments in private equity, venture and buyout funds and related vehicles; Group Net Income/(Costs) consists of income on the Group's liquid and seed capital less Group costs and provisions, and the results of the leasing business and the residual assets.

The allocation of costs to individual business segments is undertaken in order to provide management information on the cost of providing services and to provide managers with a tool to manage and control expenditure. Costs are allocated on a basis that aligns the charge with the resources employed by the Group in a particular area of its business. Typical dynamic allocation bases are square footage occupied and number of staff employed by particular business segments.

Six months ended 30 June 2006	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group Net Income/ (Costs) £mn	Inter-segment elimination £mn	Total £mn
External revenue	377.3	37.7	10.2	14.3	-	439.5
External net interest	-	11.8	-	-	-	11.8
Inter-segment interest payable	-	(3.3)	-	-	3.3	-
Revenue	377.3	46.2	10.2	14.3	3.3	451.3
Cost of sales	(76.9)	(1.0)	-	-	-	(77.9)
Gross profit	300.4	45.2	10.2	14.3	3.3	373.4
Administrative expenses	(205.6)	(32.6)	(1.6)	(15.3)	-	(255.1)
Depreciation and amortisation	(2.8)	(1.4)	-	-	-	(4.2)
Operating profit	92.0	11.2	8.6	(1.0)	3.3	114.1
Share of profit of associates	-	-	9.1	-	-	9.1
Share of profit of joint ventures	0.1	-	-	-	-	0.1
	0.1	-	9.1	-	-	9.2
External interest receivable and similar income	2.8	-	-	7.0	-	9.8
Inter-segment interest receivable	2.4	-	-	0.9	(3.3)	-
Interest receivable and similar income	5.2	-	-	7.9	(3.3)	9.8
Interest payable and similar charges	(0.5)	-	-	(0.3)	-	(0.8)
Profit before tax	96.8	11.2	17.7	6.6	-	132.3

Inter-segment amounts represent interest payable and receivable on cash balances held by Private Banking on behalf of Group companies.

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Segmental reporting (continued)

Six months ended 30 June 2005	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group Net Income/ (Costs) £mn	Inter-segment elimination £mn	Total £mn
External revenue	311.9	27.9	9.8	7.9	-	357.5
External net interest	-	10.1	-	-	-	10.1
Inter-segment interest payable	-	(2.8)	-	-	2.8	-
Revenue	311.9	35.2	9.8	7.9	2.8	367.6
Cost of sales	(61.6)	(0.9)	-	-	-	(62.5)
Gross profit	250.3	34.3	9.8	7.9	2.8	305.1
Gain on discontinued outsourcing contract	20.1	0.3	-	-	-	20.4
Administrative expenses	(170.6)	(30.4)	(1.4)	(16.0)	-	(218.4)
Depreciation and amortisation	(3.4)	(2.0)	-	-	-	(5.4)
Operating profit	96.4	2.2	8.4	(8.1)	2.8	101.7
Share of profit of associates	0.1	-	8.9	-	-	9.0
External interest receivable and similar income	1.8	-	0.7	10.7	-	13.2
Inter-segment interest receivable	1.7	-	-	1.1	(2.8)	-
Interest receivable and similar income	3.5	-	0.7	11.8	(2.8)	13.2
Interest payable and similar charges	(0.2)	-	-	(0.2)	-	(0.4)
Profit before tax	99.8	2.2	18.0	3.5	-	123.5

Inter-segment amounts represent interest payable and receivable on cash balances held by Private Banking on behalf of Group companies.

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Tax expense

	Six months ended 30 June 2006 £mn	Six months ended 30 June 2005 £mn	Year ended 31 December 2005 £mn
Current tax			
UK corporation tax on profits of the period	28.3	21.2	29.6
Double taxation relief	(15.1)	(9.7)	(17.4)
	13.2	11.5	12.2
Adjustments in respect of prior periods	0.1	0.2	(0.1)
	13.3	11.7	12.1
Foreign tax - current	22.0	18.2	39.4
Foreign tax - adjustments in respect of prior periods	(0.8)	0.2	0.7
Total current tax	34.5	30.1	52.2
Deferred tax - origination and reversal of temporary differences	(4.2)	1.2	3.9
Adjustments in respect of prior periods	3.7	1.5	1.3
Total tax charge for the period	34.0	32.8	57.4

Reconciliation of net cash from operating activities

	Six months ended 30 June 2006 £mn	Six months ended 30 June 2005 £mn	Year ended 31 December 2005 £mn
Operating profit	114.1	101.7	213.1
Adjustments for:			
Depreciation and amortisation	4.2	5.4	10.9
Impairment of available-for-sale assets recycled through the income statement	6.4	-	1.3
Other amounts recycled through the income statement in respect of investments	(16.5)	-	(32.3)
Increase in trade and other receivables	(277.5)	(168.1)	(154.2)
Increase in trade and other payables and provisions	214.7	384.8	402.1
Increase in life assurance company technical provision	82.4	-	-
Net decrease in debt securities in issue	(0.5)	(30.1)	(18.0)
Profit on disposal of business	(2.7)	(0.2)	(0.2)
Charge for provisions	1.0	1.0	9.4
Impairment of non-current assets held for sale	2.2	-	-
Gains on investments at fair value through profit or loss	(19.5)	(6.9)	(24.2)
Share-based payments expensed	15.2	10.0	23.3
Other non-cash movements	13.5	(6.2)	(26.1)
Special payment made to UK pension scheme	-	(30.3)	(30.3)
United Kingdom corporation tax recovered/(paid)	4.2	(6.9)	(16.1)
Overseas tax paid	(18.2)	(21.4)	(34.7)
Interest received	4.0	6.5	11.8
Interest paid	(0.8)	(0.4)	(1.2)
Net purchase of life assurance company investments	(82.4)	-	-
Net disposal/(purchase) of current asset investments	125.5	(276.9)	(242.4)
Net cash from/(used in) operating activities	**169.3**	**(38.0)**	**92.2**

Funds under management – 2006 flows

	Institutional £bn	Retail £bn	Private Banking £bn	Total £bn
31 December 2005	78.7	36.0	7.8	122.5
Gross sales	4.2	14.0	1.4	19.6
Gross redemptions	(8.8)	(11.7)	(1.1)	(21.6)
Net asset (losses)/gains	(4.6)	2.3	0.3	(2.0)
Market movement	0.4	0.2	-	0.6
Adjustment on purchase of NewFinance Capital	1.2	-	-	1.2
30 June 2006	75.7	38.5	8.1	122.3

Income and cost metrics for the Group

	Six months ended 30 June 2006	Six months ended 30 June 2005
Group cost: income ratio	66%	64%
Group cost: gross profits	69%	73%
Return on average capital (pre-tax)	20%	21%
Return on average capital (post-tax)	15%	15%
Asset Management cost: gross profits	69%	69%
Asset Management gross profit on average funds under management	51bps	49bps
Asset Management costs on average funds under management	36bps	34bps
Asset Management costs on closing funds under management	37bps	33bps