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# Annual Report & Accounts 2003



Schroders | 2004

200 years of forward thinking

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200 years of forward thinking

**Contents**

In 2004 Schroders celebrates its 200th anniversary. With 35 offices in 26 countries and over 2,000 employees, we manage nearly £100 billion on behalf of institutional, government, charity, retail and high net worth clients worldwide. Our independence and our exclusive focus on asset management free us to align our interests with those of our clients.

# Financial headlines 2003

## A year of good progress

**Underlying asset management profit £81.0 million (2002: £77.0 million)**

***Profit before goodwill £75.9 million (2002: £29.5 million)***

**Profit before tax £65.6 million (2002: £18.9 million)**

**Funds under management £98.3 billion (2002: £86.2 billion*)**

**Total dividend unchanged at 18.5 pence per share**

# Results

| | Year ended 31st December 2003 £mn | Year ended 31st December 2002 £mn |
|---|---|---|
| **Underlying asset management profit** | 81.0 | 77.0 |
| Project expenditure | (16.4) | (33.2) |
| Redundancy costs | (4.1) | (13.7) |
| **Asset management profit before exceptional items** | 60.5 | 30.1 |
| Exceptional items – net profit/(loss) on sale of subsidiary undertakings | 2.4 | (5.4) |
| **Asset management profit before goodwill** | 62.9 | 24.7 |
| **Private equity** | 16.8 | 12.9 |
| **Group net income/(costs)** | (3.8) | (8.1) |
| **Profit before goodwill** | 75.9 | 29.5 |
| Goodwill amortisation | (10.3) | (10.6) |
| **Profit before tax** | 65.6 | 18.9 |
| Basic earnings per share | 16.7p | 8.8p |
| Diluted earnings per share | 16.6p | 8.8p |

*Adjusted to exclude £2.1 billion from funds under management on the completion of the sales of Schroder Hermes and Schroder Pensions in January and February 2003.

# Management statement

2003 was a year of good progress with higher profits, better investment performance and reduced net business outflows.

Despite the rise in equity markets from the second quarter of 2003, average market levels were lower than in 2002. Driven by lower costs, underlying asset management profit, before project expenditure and redundancy costs, rose 5.2 per cent. to £81.0 million (2002: £77.0 million). Asset management net revenues were £417.8 million, down 5.1 per cent. from £440.4 million in the previous year.

Profit from private equity was £16.8 million (2002: £12.9 million) as we benefited from carried interests and realisations from Schroder Ventures funds, the rise in the share price of Schroder Ventures International Investment Trust plc (SVIIT) and the realised gain from the sale of 5.9 per cent. of SVIIT in March 2003.

Group costs at £406.2 million were £63.9 million lower than the previous year and £113.8 million lower than in 2001.

Profit before goodwill was £75.9 million (2002: £29.5 million) and profit before tax was £65.6 million (2002: £18.9 million).

### Funds under management

From an opening position of £86.2 billion at the end of December 2002, adjusted to exclude £2.1 billion on the completion of the sales of Schroder Hermes and Schroder Pensions in January and February 2003 respectively, funds under management rose 14.0 per cent. to £98.3 billion during the period. Net business outflows were £0.5 billion, an improvement from the net outflows of £2.2 billion in 2002.

*In September a simpler management* structure was introduced to extend the improvement in investment performance and combine the Group's business development and client service skills across Institutional and Retail. Asset management now operates through four divisions: Investment, Distribution, Private Banking and Infrastructure.

### Investment

During 2003, we continued to invest in strengthening our portfolio management and research capabilities. None of the cost reduction achieved over the past two years has been at the expense of our investment platform. This year we expect to spend more on portfolio management and research than we did in either 2002 or 2003.

We generated good investment performance across a range of key products during the year, including UK equities, specialist European equities, Pacific Basin equities and international fixed income. Our UK multi-asset pooled fund has also outperformed its benchmark over three and five years. However, further improvement is required in some other asset classes.

We added to our product offerings during the year with a US tax-exempt fixed income capability which has started well, two further single strategy hedge funds, new property and private equity funds and a range of structured products.

### Distribution

Overall net outflows of institutional funds were £4.3 billion, down from £5.4 billion in 2002. Institutional funds under management ended the year at £71.2 billion.*

The net outflow was due in part to *underperformance in some asset classes* but, as importantly, to restructuring by clients in the UK and elsewhere from balanced and multi-asset mandates to specialist mandates. The latter was the major factor underlying a net outflow in the UK of £3.7 billion.

*See Note on page 5.

# Management statement

There was a net outflow of £1.5 billion from our Americas business, due to weak international equity performance. We saw good net inflows in continental Europe of £1.1 billion and a small net outflow in Asia Pacific with the 'daiko henjo' effect in Japan, as corporate pension plans returned assets to Government schemes, offsetting strong new business flows elsewhere.

Net retail sales were £4.2 billion, against £3.5 billion in 2002. Retail funds under management ended the year at £22.1 billion.*

Retail fund performance continued to be strong with two-thirds of UK and Luxembourg domiciled retail assets above the peer group median. This is reflected in the high proportion of our funds rated by Standard & Poor's, the 37 awards won by our funds around the world and our being named as Investment Management House of 2003 by Financial Times Fund Ratings.

New retail business flows were well diversified geographically. In the UK and continental Europe net sales were £2.6 billion. In Japan we had another strong year with net sales of £900 million, and a further £700 million of net inflows elsewhere in Asia Pacific.

Investor demand for more actively managed funds is growing and we have followed the success of our UK Alpha fund with the launch of other Alpha products in European and Japanese asset classes. We have also seen a high level of interest in our multi-manager offering.

**Private Banking**

Net outflows during the year, including the transfer of a small book of business to another private bank, amounted to £0.4 billion. Private Banking funds under management ended the year at £5.0 billion.*

Private Banking provides solutions-led, bespoke asset management and banking services predominantly for high net worth individuals. In 2003 we strengthened our client relationship, marketing and banking teams and introduced new administration systems in London and Zurich which will shortly be extended to the Channel Islands.

Private Banking is now positioned to deliver superior risk-adjusted returns and a broader range of specialist banking products supported by an efficient systems platform. The benefits of this are starting to come through in terms of business flows and revenues.

**Board changes**

Andrew Sykes leaves the Board in March 2004 and he goes with the Board's thanks and good wishes after 25 years with the Group.

In November 2003, in the context of the revised Combined Code on Corporate Governance, we announced that Charles Sinclair and Nicholas Ferguson, who have served as non-executive Directors since 1990 and 2001 respectively, will retire from the Board at the 2004 Annual General Meeting in April. The Board would like to thank them for their major contribution to the Group.

We also announced in November that Sir Peter Job, who joined the Board in

*See Note on page 5.

1999 as a non-executive Director, had been appointed as the Senior Independent Director.

On 11th March we announced that Merlyn Lowther will join the Board on 1st April, and we look forward to the contribution that she will make.†

### Dividend

The Board has recommended a final dividend of 13 pence per share, payable on 26th April 2004 to shareholders on the register at 26th March 2004, which brings the total dividend to 18.5 pence per share, unchanged on 2002.

### Outlook

We are now half way through a four year turnaround programme under a new management team, designed to deliver strong investment performance, positive net new business flows and higher profitability. Investment performance has improved markedly but there is further work to do. Net business outflows in 2003 were down on the previous year, although this was in part due to certain expected client withdrawals being deferred to 2004.

Meanwhile the cost base has been reduced significantly which has resulted in increased profitability.

The reorganisation of the firm is now complete and the emphasis is on extending the improvement in investment performance, developing new products and distribution channels, and growing revenues. In an increasingly competitive environment and with higher levels of client turnover than the industry has seen historically, inflows and outflows of business can be sizeable and their timing unpredictable. Nonetheless, as Schroders celebrates its 200th anniversary year, we expect the improving trend in net business flows and financial performance to continue.

**Michael Miles**
Chairman

**Michael Dobson**
Chief Executive

11th March 2004

**Note**

*During the year £3.5 billion of sub-advisory assets were transferred from Institutional to Retail to reflect more closely the underlying source of this business. In Asia, £0.3 billion was transferred from Private Banking to Institutional. Of the £2.1 billion adjustment to reflect the sales of Schroder Hermes and Schroder Pensions, £1.5 billion was classified as institutional assets and £0.6 billion as retail assets. These changes have been reflected as appropriate throughout the Annual Report and Accounts.

†A profile of Merlyn Lowther is on page 13.

# Operating and financial review

### Overview

Schroders is a global provider of fund management services for institutional, retail and private clients. Its operations have a broad geographical span covering the main financial centres of the world, with 35 offices divided organisationally between the Americas, Europe and Asia Pacific.
The management of international assets is now concentrated in two locations, with a further nine responsible for domestic assets only and the balance acting as sales offices. We are committed to an integrated approach to the management of the business, designed to achieve maximum leverage of its intellectual and operational resources across geographical regions and asset classes.

Over recent years Schroders has tightened its focus on asset management, outsourcing administrative functions to specialist third party suppliers and disposing of non-core activities. Within the asset management field, the products cover a wide range of asset classes and client segments, but the management of equity portfolios still dominates the mix, with 68 per cent. of client investments in equities at the end of 2003. Schroders' client profile continues to diversify, with Retail and Private Banking clients now accounting for 28 per cent. (2002: 24 per cent.) of funds under management and 43 per cent. (2002: 37 per cent.) of net revenues in 2003, which are stated after internal fund management charges paid by Retail and Private Banking to Institutional.

Most of Schroders' income derives from fund management services sold through third party or institutional distribution channels. The principal exception to this rule is in Private Banking, where the retention of direct distribution capacity to individual clients and the provision of banking and trust services to supplement the core fund management offering are central to the business model.

### Results

Group profit before tax of £65.6 million for 2003 compares with a profit of £18.9 million in 2002. The profits of the asset management business before goodwill rose from £24.7 million in 2002 to £62.9 million in 2003. The private equity business contributed a profit of £16.8 million compared with a profit of £12.9 million in 2002 and Group net income/(costs) saw net costs fall to £3.8 million in 2003 compared with £8.1 million in 2002.

Basic and diluted earnings per share were 16.7 pence and 16.6 pence respectively (2002: both 8.8 pence).

### Asset management

Net revenues in asset management before exceptional items fell from £440.4 million to £417.8 million. The underlying profit from the core asset management business was £81.0 million (2002: £77.0 million), a rise of 5.2 per cent. from 2002. Asset management costs (excluding amortisation of goodwill) decreased from £415.6 million in 2002 to £368.7 million in 2003.

Underlying asset management costs (administrative expenses and depreciation less project and redundancy costs) fell by 5.6 per cent. from £368.7 million to £348.2 million. Project expenditure was down 50.6 per cent. from £33.2 million to £16.4 million with a number of key strategic projects completed or approaching completion. Project expenditure comprises the costs associated with (i) the replacement programme for certain of the Group's core IT systems and (ii) certain key Group outsourcing projects. Our outsourcing of UK institutional custody and administration services to JP Morgan Chase Bank is expected to start realising financial benefits in 2004. Implementation of an agreement with International Financial Data Services to outsource the transfer agency function for the UK retail business signed in June 2002 was completed in the first quarter of 2003. The sales of Schroder Hermes Limited and Schroder Pensions Limited negotiated in 2002 were completed in early 2003. Redundancy costs fell by £9.6 million to £4.1 million.

### Private equity

The Group's private equity profit of £16.8 million (2002: £12.9 million) was strongly influenced by the Group's holding in Schroder Ventures International Investment Trust plc, with the sale of part of the holding in the first half of 2003 combined with a mark to market gain on the remainder leading to a profit of £10.7 million. Among other flows, further distributions were received from the sale of Homebase by Permira Europe II in 2002, a private equity fund in which the Group has direct and indirect interests. Interests in certain other venture funds were written down by £1.8 million.

**Group net income/(costs)**
Group net income/(costs) comprises income on the Group's liquid capital less Group costs and provisions – that is those costs not directly attributable to the other segments – and the results of the leasing business (before any tax credits, which are taken through the tax line). An improvement in the income earned on the Group's liquid capital and a reduction in Group costs were principally responsible for the reduction in the loss in this business segment.

**Pensions**
Pensions have been accounted for in accordance with SSAP 24 with a net cost of £11.4 million (2002: £0.5 million) relating to the Group's UK defined benefit scheme. Under FRS 17 the market value of the assets of the scheme is £353.7 million and the deficit on the scheme is £20.1 million. The FRS 17 charge for the year would have been £7.6 million.

**Funds under management**
Funds under management (FUM), adjusted to exclude £2.1 billion on the completion of the sales of Schroder Hermes and Schroder Pensions in January and February 2003 respectively, increased by £12.1 billion from £86.2 billion at 31st December 2002 to £98.3 billion at 31st December 2003, of which £12.6 billion arose principally from higher equity markets. New and existing clients contributed £21.4 billion, of which £12.2 billion was from retail and private banking clients.

**Funds under management**

| | Total £bn | Institutional £bn | Retail £bn | Private Banking £bn |
|---|---|---|---|---|
| 31st December 2002 | 88.3 | 70.7 | 12.4 | 5.2 |
| Sale of Schroder Hermes/ Schroder Pensions | (2.1) | (1.5) | (0.6) | – |
| Functional reorganisation | – | (3.2) | 3.5 | (0.3) |
| 31st December 2002 restated | 86.2 | 66.0 | 15.3 | 4.9 |
| Transfers | – | (0.3) | 0.3 | – |
| Market movement | 12.6 | 9.8 | 2.3 | 0.5 |
| Net asset (losses)/gains | (0.5) | (4.3) | 4.2 | (0.4) |
| **31st December 2003** | **98.3** | **71.2** | **22.1** | **5.0** |

**Commentary**
From certain angles, 2003 appears to have been a year of little change. Net new business was more or less in balance, so that the changes in FUM over the year predominantly reflected market movements. Underlying asset management profits at £81.0 million were modestly up on 2002 (£77.0 million). By the end of the year our clients' asset mix (68 per cent. equities, 24 per cent. fixed income, 8 per cent. alternatives) was broadly the same as at the end of 2002.

Looked at more closely, the results reflect a year of positive developments for Schroders.

**Revenues**
On the revenue side, the most important features were the continuing change in the balance of net revenues between the different distribution channels and the increase in gross and net margins. In 2003, net revenues from Retail and Private Banking amounted to 43 per cent. of the asset management total, up from 37 per cent. in the previous year. This change was driven primarily by the success of our retail operations around the world, coupled with net outflows in institutional as clients continued to restructure their portfolios. While the balance between the three distribution channels is changing, it is noteworthy that revenue margins rose in each. In Institutional, lower margin balanced business was replaced by higher margin fixed income and specialist equity products. In Retail, returns were boosted by the structured products area, offsetting the negative margin development caused by clients switching from equity to fixed income products through much of the year. The drive in Private Banking to concentrate on higher value added services including banking was rewarded with a substantial increase in margins. Overall, asset management net revenue margins increased from 44 basis points to 46 basis points.

# Operating and financial review

**Costs**

While the performance of underlying asset management profits may look unexciting (£81.0 million, +5.2 per cent.), this improvement was achieved in a year in which average equity market levels were down on 2002, so that, despite gross margin improvements, net revenues declined by £22.6 million. This decline was almost entirely offset by the year-on-year reduction in underlying costs of £20.5 million (-5.6 per cent.). At the Group level this effect was even more dramatic: the improvement in Group pre-tax profits from £18.9 million to £65.6 million was primarily driven by the elimination of £63.9 million (13.6 per cent.) from the Group's 2002 operating cost base. Lower headcount, efficiency gains and falling project and redundancy costs all contributed to this cost reduction, which was achieved despite a £10.6 million increase in the cost of pension contributions in the year.

**Earnings momentum**

Schroders went into 2003 with net revenue margins (2002 asset management net revenue divided by 2002 *average* FUM) on its fund management business of 44 basis points and current cost margins (2002 underlying asset management costs divided by 2003 *opening* FUM) of 42 basis points, giving an estimated net margin of 2 basis points. By the end of the year, as we have already noted, revenue margins had risen to 46 basis points. More importantly, the 2004 opening current cost margins, calculated on the same basis, stood at 35 basis points. This would suggest that we start 2004 with a net margin of 11 basis points. Whilst these measures of current operating margins are somewhat crude, the size and direction of the change in the net margins between the beginning of 2003 and the beginning of 2004 illustrate the very positive impact on profitability of rising markets and tight cost control.

**Market trends and related risks**

In Spring 2003, equity markets reached their lowest point since the start of the bear market in 2000, driven by geopolitical and economic concerns. While the global political picture has improved less than might have been hoped since the conclusion of the Iraq war, the economic environment has undoubtedly strengthened and this has fed through into the fund management sector in the form of higher profits and changing strategic asset allocation. Equally, whatever the level of markets in the short term, underlying momentum behind the sector remains strong, with gaps in existing pensions provision and positive demographic factors promising a continued focus on stimulating savings over the coming years.

Schroders retains a relatively high level of operational gearing and profits would clearly be exposed in the short term to a decline in equity markets from their current levels. Market related risks have become more manageable in the light of the reduction in costs and increase in margins over the last two years. Retaining the cost disciplines acquired during this period as the market moves into a more expansionary phase presents a further challenge and requires a strong alignment between the interests of staff and shareholders. Schroders has considerably increased the proportion of total staff compensation delivered in the form of equity over the last three years and we rely on this and other measures to maintain an appropriate focus on profitability, particularly at a senior level.

We believe that our remuneration policies mitigate the inevitable risks in the current more robust recruitment environment, and will help us to retain our key staff.

While the economic background has been favourable for fund managers over the last 12 months, the regulatory and legal environment in which we operate has become more complex. The impact on Schroders of the market timing scandals in the US mutual fund industry has been very limited to date, but the potential consequences for the industry in the longer term are hard to predict. If the regulatory environment is tightened disproportionately in response, the costs of doing business are bound to rise. The same, broadly speaking, applies to the debate about the softing and unbundling of equity trading and research commissions, where we await further developments. Our overriding concern is that any new regulation should be appropriate and maintain a level playing field between market participants.

**Capital allocation and liquidity**

Shareholders' funds at 31st December 2003 were £1.04 billion.

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| Asset management | 342 | 358 |
| Surplus: | | |
| Liquid funds | 458 | 457 |
| Private equity | 119 | 124 |
| Other Schroder funds* | 73 | 72 |
| Leasing | 32 | 41 |
| | 682 | 694 |
| Group provisions | (9) | (35) |
| | 1,015 | 1,017 |
| Goodwill* | 25 | 35 |
| | 1,040 | 1,052 |

*Disclosed within the asset management segment.

The table above sets out management's view of the allocation of capital between the different activities in the Group. On the basis of this analysis, the Group's holding companies have some £682 million of surplus capital available to fund acquisitions or investment opportunities. Liquid funds are invested in cash, bank deposits or segregated money market and bond portfolios. With the exception of private equity, the great majority of surplus capital is held directly in sterling instruments or hedged back into sterling.

Schroders carries no significant borrowings on the balance sheet and working capital requirements are largely confined to the maintenance of regulatory capital and the funding of fee receivables billed in arrears.

**Cash flows**

A significant proportion of the cash flows reflected in the financial statements relate to the Private Banking businesses. Stripping these out leaves two significant non-operating items: (i) cash inflows during the year relating to net interest received (£25.5 million); and (ii) cash outflows relating to payment of dividends (£53.4 million).

**Corporate actions**

The Group's major corporate actions in 2003 were the sale of the following subsidiaries:

- Schroder Hermes Limited (January 2003)

- Schroder Pensions Limited (February 2003).

**Credit ratings**

| | **Short term** | **Long term** |
|---|---|---|
| Fitch IBCA | F1 | A+ |
| Standard & Poor's | A1 | A |

**Currency exposure**

Approximately 94 per cent. of the Group's capital is invested in four currencies: sterling, U.S. dollars, euros and Swiss francs. Sterling alone accounts for 72 per cent.

**Dividends**

The Directors recommend an unchanged final dividend of 13.0 pence per share, bringing dividends for the year to 18.5 pence per share or £53.7 million which will be 92 per cent. covered from the Group's after-tax profits.

**Performance measurement**

The primary measures of the Group's performance for the asset management business are the underlying costs: net revenues ratio, 83 per cent. (2002: 84 per cent.); net revenues on average funds under management, 46 basis points (2002: 44 basis points); and underlying costs on average funds under management, 39 basis points (2002: 37 basis points).

**Analyst presentation**

The presentation to analysts and investment managers can be viewed on www.schroders.com.

**Jonathan Asquith**
Chief Financial Officer

11th March 2004

# Governance

# Corporate governance report

This section of the Annual Report & Accounts describes Schroders' governance arrangements as follows:



The Board of Schroders plc is committed to business integrity, high ethical values and professionalism across all its activities. As an essential part of this commitment, the Board supports the highest standards of corporate governance.

In July 2003 the new Combined Code on Corporate Governance was published by the Financial Reporting Council, following the review of the role and effectiveness of non-executive directors by Sir Derek Higgs[1] and the review of audit committees by Sir Robert Smith[2], and will formally apply to the Company for the year ending 31st December 2004.

During the year, the Company carried out a review of its corporate governance practices and identified a number of measures to be taken in order that the Company would be in a position to report its substantial compliance with the requirements of the new Code in its Annual Report and Accounts for 2004. These measures included clarification of the role of the Board, enhancement of the quality of reporting to the Board and the appointment of a Senior Independent Director.

### Compliance with Code Provisions

As required by the Listing Rules issued by the UK Listing Authority, this report describes how the Company has applied the principles set out in Section 1 of the Combined Code published in 1998. It also discloses the extent to which the Company has complied with the Code's provisions and provides an explanation of those areas where the Company departs from them. The Board considers that the Company has complied throughout the period under review (and subsequently at the date of this report) with the principles set out in Section 1 of the Combined Code, with the following exceptions:

1. The Company had no Senior Independent Director until the appointment of Sir Peter Job on 20th November 2003.

2. Bruno Schroder is a member of the Remuneration Committee. He is not independent under the provisions of the Combined Code; however, his continued membership is considered by the Board to be appropriate.

**Notes**

(1) 'Review of the role and effectiveness of non-executive directors', published January 2003.

(2) 'Audit Committees Combined Code Guidance', published January 2003.

### The Board

**Composition** The Board believes that it operates most effectively as a unitary Board, with a good balance of executive Directors, Directors who have a connection with the Company's principal shareholder group, and independent non-executive Directors. At 31st December 2003 the Board comprised thirteen Directors: the Chairman, five executive Directors and seven non-executive Directors. The Company announced on 4th September 2003 that Andrew Sykes will be standing down from the Board on 31st March 2004, and on 20th November 2003 that Nicholas Ferguson and Charles Sinclair, two of the non-executive Directors, will retire at the 2004 Annual General Meeting. The Board has also appointed Merlyn Lowther as an independent non-executive Director with effect from 1st April 2004 and anticipates appointing at least one additional independent non-executive Director this year. The Board is satisfied that no individual or group of individuals is or has been in a position to dominate the Board's decision making. Brief profiles of each of the Directors are set out on pages 12 to 13.

**The role of the Board** is to be accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. To achieve this, the Board is responsible for the appointment of the Chief Executive, the approval and monitoring of Group strategy, and the review of financial performance within a framework of prudent and effective risk management.

**The Chairman** is responsible for leading the Board, ensuring its effectiveness in all aspects of its role, monitoring and evaluating the performance of the Chief Executive and maintaining a dialogue with the Company's shareholders.

**The Chief Executive** is responsible for the executive management of the business, including building shareholder value over the long-term through growth in profits, and the recommendation and implementation of the Group's strategy and budget.

**The Senior Independent Director** is available to shareholders if they have concerns which have not or cannot be resolved through discussion with the Chairman or the executive Directors. He will chair meetings of the non-executive Directors at which the performance of the Chairman is reviewed.

**The non-executive Directors** The Board considers that Sir Peter Job, Kevin Parry and David Swensen are independent non-executive Directors, as will be Merlyn Lowther on her appointment becoming effective. Each of them brings to the Board an objective viewpoint and none of the factors implying a lack of independence, as set out in the new Combined Code, applies. Although George Mallinckrodt and Bruno Schroder do not meet the test of independence contained in the new Combined Code, the Board considers that each of them brings valuable experience to Board deliberations.

The Board is satisfied that each of the non-executive Directors commits sufficient time to the fulfilment of their duties as a Director of the Company. The Chairman's external commitments have not changed during 2003. None of the non-executive Directors has any conflict of interest which has not been disclosed to the Board in accordance with the Company's Articles of Association.

**External non-executive directorships** The Board believes, in principle, in the benefit of executive Directors accepting non-executive directorships of other companies in order to widen their skills and knowledge for the benefit of the Company. Executive Directors may not, however, take on more than one non-executive directorship of a FTSE 100 company or any chairmanship of such a company.

**The Board Secretary** is responsible for advising and supporting the Chairman and the Board on corporate governance matters. Directors have access through the Board Secretary to independent professional advice.

### The operation of the Board

**Board meetings and attendance** The Board is scheduled to hold five meetings during 2004 including a meeting to review Group strategy. During 2003 the Board met five times. Additional unscheduled Board meetings may be held from time to time, as required. There was full attendance by Directors at each of the Board meetings held during the year.

**Non-executive Directors' meetings** In 2004, the non-executive Directors are scheduled to meet regularly without the executive Directors present and once a year without the Chairman present as well.

**Delegated authorities** The Board has a formal schedule of matters reserved to it, subject to which the Board delegates authority for the management of the business to the Chief Executive, who in turn delegates to members of the Group Management Committee. The Chief Executive is chairman of the Group Management Committee and its membership is set out below.

### Group Management Committee

The members of the Group Management Committee, and their roles or responsibilities following the retirement of Andrew Sykes from the Board on 31st March 2004, will be as follows:

| | |
|---|---|
| Michael Dobson | Chief Executive |
| Jonathan Asquith | Chief Financial Officer |
| Paul Barry | Human Resources |
| Peter Clark | Americas |
| David Gibson | Asia Pacific |
| Lester Gray | Operations and IT |
| Richard Horlick | Investment |
| Philip Mallinckrodt | Corporate Development |
| Sally Tennant | Private Banking |
| Massimo Tosato | Distribution |
| Howard Trust | General Counsel |

Certain matters are delegated by the Board to the Audit, Nominations and Remuneration Committees, the terms of reference of which are summarised on pages 23, 24 and 14 respectively.

**Information flow** Non-executive Directors receive comprehensive reports about the Group and its business for the purpose of meetings of the Board and its Committees, as well as regular updates between meetings.

### Board effectiveness

**Evaluation** The Board, led by the Chairman, reviews its own performance and that of its Committees to determine what, if any, improvements should be made. During the year a review of the Company's corporate governance arrangements was carried out, as referred to in the introductory paragraph to this report.

**Induction** All new Directors will receive an induction, on joining the Board, to the Group's business, operations and governance arrangements.

### Shareholder relations

Ongoing communication across the Company's shareholder base, including institutional investors and private and employee shareholders, is achieved mainly through the publication of the annual and interim reports and quarterly trading statements, the announcement of significant developments affecting the Group and the Annual General Meeting. The Company's website, www.schroders.com, contains corporate and investor information and is updated on a regular basis.

The Board as a whole is responsible for ensuring that dialogue with shareholders takes place. During the year the Chief Executive and the Chief Financial Officer conduct a series of presentations with institutional investors to review the Group's strategy and prospects. The Chairman is also available to meet institutional shareholders, as is the Senior Independent Director. Feedback from shareholders is given to the Board by the Chairman, the Chief Executive and the Chief Financial Officer.

The Annual General Meeting, usually held in April in London, provides shareholders with an opportunity to question the Chairman and other Directors, including the chairmen of the Audit and Remuneration Committees. The Annual Report and Accounts and the notice of meeting are sent to shareholders at least 20 working days prior to the date of the Annual General Meeting. The Board has noted the recommendations of the Myners report and will keep under review the appropriateness of resolutions being decided on a poll rather than a show of hands.

**Michael Miles**
Chairman

11th March 2004

# Governance
# Directors' profiles

**Michael Miles**
**Chairman**

**Michael Dobson**
**Chief Executive**

**Richard Horlick**
**Executive Director**

**Jonathan Asquith**
**Chief Financial Officer**

**Massimo Tosato**
**Executive Director**

## Chairman

**Michael Miles, OBE** (67), Chairman (Chairman of the Nominations Committee), was appointed as a non-executive Director and Chairman of the Board on 1st January 2003.

From 1958 to 1999 he worked for the Swire Group, serving as Chairman of the Swire Group in Hong Kong and of Cathay Pacific Airways from 1984 until 1988. He is Chairman of Johnson Matthey plc and a non-executive Director of BP plc. He is also an adviser to the Board of John Swire & Sons Ltd and a Governor of Wellington College.

## Executive Directors

**Michael Dobson** (51), Chief Executive, joined the Board of Schroders as a non-executive Director in April 2001, and subsequently became Chief Executive in November of that year.

In 1987 he was appointed chief executive of Morgan Grenfell Asset Management, becoming chief executive of Morgan Grenfell Group in 1989 and chief executive of Deutsche Morgan Grenfell from 1993 to 1996. He was a member of the Board of Managing Directors of Deutsche Bank AG, responsible for investment banking and subsequently asset management, from 1996 until 2000. He is a non-executive director of General Enterprise Management Services Ltd and a member of the investment committee and chairman of the audit committee of the King's Fund.

**Jonathan Asquith** (47), Chief Financial Officer, joined Schroders in 2002 and was appointed to the Board in January 2002, taking up his current position of Chief Financial Officer in March of that year. Since December 2003 he has also held the position of chairman of the Group's Private Banking division.

From 1979 he worked with Morgan Grenfell until his appointment as chief financial officer of Deutsche Morgan Grenfell in 1995 and chief operating officer in 1997. In 2001 he joined Barclays Private Bank Ltd, where he was head of UK private banking until his move to Schroders. He is a non-executive director of Macmillan Cancer Relief.

**Richard Horlick** (45), Head of Investment, joined Schroders as Head of the Global Institutional business in November 2002 and became a Director on 1st January 2003. He became Head of Investment in September 2003.

From 1984 until 1994 he held various senior management positions within Newton Investment Management, following which he joined Fidelity Investments in London and served as president of Fidelity's global institutional business outside the US. During 2001 and 2002 he served as president and chief executive of Fidelity Management and Trust Company, Boston. He holds no non-executive directorships.

**Massimo Tosato** (49), Head of Distribution, joined Schroders in 1995, became Global Head of Retail in February 2001 and was appointed to the Board in August of that year. He became Head of Distribution in September 2003.

Between 1981 and 1992 he was a founding partner and chief executive officer of Cominvest SpA. From 1992 to 1995 he acted as managing director of Euromercantile SpA. From 1995 to 1999 he was responsible for Schroders' asset management activities in Italy and from 1999 to 2001 for Continental Europe. He is a member of the International Advisory Board of Columbia Business School and currently serves as a non-executive director of Banca Nazionale del Lavoro.

## Non-executive Directors

**Nicholas Ferguson** (55), non-executive Director, joined Schroders in 1980 and was appointed a non-executive Director in 2001. He currently serves as chief executive of Schroder Ventures International Investment Trust plc. From 1984 to 2001 he was Chairman of Schroder Ventures. As announced in November 2003, he will retire from the Board at the Annual General Meeting on 22nd April 2004.

He is a director of Asiarails Ltd and GuideStar UK Ltd, and also serves as Chairman of the Courtauld Institute of Art and the International Students Club.

**Sir Peter Job** (62), Senior Independent non-executive Director (Chairman of the Remuneration Committee and member of the Nominations Committee), was appointed as an independent non-executive Director in 1999 and was appointed Senior Independent Director in November 2003.

From 1991 to 2001 he was chief executive of Reuters Group plc. He is a non-executive Director of GlaxoSmithKline plc, The 'Shell' Transport and Trading Company plc, Instinet Group Inc. and Tibco Software Inc. He is also a member of the supervisory boards of Bertelsmann AG and Deutsche Bank AG.

**Merlyn Lowther** (50), Independent non-executive Director, will become a Director of the Company on 1st April 2004, having been appointed on 10th March, and will also join the Audit Committee during the year.

She spent her career with the Bank of England, joining the Economics Division in 1975 and becoming Chief Cashier in 1999. Prior to this she held various senior management positions within the Bank, including Personnel Director from 1996 to 1998 and Deputy Chief Cashier from 1991 to 1996. She is a Trustee of Henry Smith's Charity and of the Winston Churchill Memorial Trust. She holds no other non-executive directorships.

**George W. Mallinckrodt, KBE** (73), President (member of the Nominations Committee), joined Schroders in 1954, was appointed as a Director in 1977 and served as Chairman from 1984 to 1995. He became President in 1995.

He was a non-executive director of Siemens Holdings plc between 1989 and 2000 and, until recently, an adviser to Bain & Company and Chairman of the Council of the World Economic Forum. He is Vice-President of the German-British Chamber of Industry & Commerce.

**Kevin Parry** (42) FCA, Independent non-executive Director (Chairman of the Audit Committee), was appointed as an independent non-executive Director on 1st January 2003.

He qualified as a chartered accountant with KPMG in 1986 and became a partner at the firm's London office in 1994 and a senior partner in 1998. He moved to Management Consulting Group plc in January 2000 as its chief executive. He is deputy chairman of the Royal Wanstead Foundation.

**Bruno Schroder** (71), Non-executive Director (member of the Audit, Nominations and Remuneration Committees), joined Schroders in 1960 and was appointed as a Director in 1963. He holds no other non-executive directorships.

**Charles Sinclair** (55), Non-executive Director (member of the Audit, Nominations and Remuneration Committees), was appointed as an independent non-executive Director of Schroders in 1990. As announced in November 2003, he will retire from the Board at the Annual General Meeting on 22nd April 2004.

He qualified as an accountant and joined Daily Mail and General Trust plc in 1975, where he currently serves as Chief Executive. He is a non-executive Director of Reuters Group plc and of Euromoney Institutional Investor plc.

**David Swensen** (50), Independent non-executive Director (member of the Nominations Committee), was appointed as an independent non-executive Director in April 2002. He will join the Remuneration Committee during the year.

He joined the Yale University Endowment Fund in 1985 and currently serves as its chief investment officer. He is a trustee of the Carnegie Institution of Washington and treasurer of the Hopkins Committee of Trustees. He is also a non-executive director of Asset Value Investors Ltd.

# Governance
# Remuneration report

This report describes the Group's overall remuneration policy and gives details of the compensation arrangements for Directors for the year ended 31st December 2003. It also sets out the membership of the Remuneration Committee and its role and remit. The report has been prepared in accordance with the Companies Act 1985 and the Combined Code on Corporate Governance published in 1998.

A resolution to approve this report will be put to shareholders at the 2004 Annual General Meeting.

The information set out in the section headed Directors' remuneration in 2003 (with the exception of the final table) has been audited by the Company's auditors. The remainder of the information in this report is not subject to audit.

### The Remuneration Committee

**Committee Members**
The Committee members at 31st December 2003 were:

Sir Peter Job (Chairman)
Bruno Schroder
Charles Sinclair

William Turner, Jr., former Chairman of the Committee, and Alva Way were members until their retirement from the Board and the Committee on 13th March 2003. Michael Miles ceased to be a member of the Committee on 18th November 2003. Charles Sinclair will retire as a member of the Committee at the 2004 Annual General Meeting.

David Swensen will join the Committee during 2004. It is the Board's intention to appoint another independent non-executive Director to this Committee during 2004.

**Terms of Reference** The Board has delegated to the Committee responsibility for reviewing and recommending the remuneration strategy and policies for the Group and for setting the remuneration of the executive Directors. The responsibilities of the Committee include:

- reviewing and recommending annually employee compensation strategies and policy for the Group's annual compensation review
- determining the remuneration of executive Directors and monitoring the level and structure of remuneration for senior management
- approving targets for any performance-related pay schemes applicable to executive Directors.

A copy of the terms of reference of the Committee is available on request from the Board Secretary at the registered office.

**Meetings and attendance** The Committee, which is scheduled to meet at least four times a year, met on five occasions during 2003 and there was full attendance at each meeting.

Executive Directors and senior executives are invited to attend meetings as appropriate by the Committee Chairman to provide a management perspective on all aspects of employee compensation. Executive Directors play no part in the determination by the Committee of their individual remuneration arrangements.

**External Advisers** The Committee has appointed New Bridge Street Consultants LLP and McLagan Partners to provide advice on technical aspects of compensation policy. New Bridge Street Consultants LLP provide advice to the Committee on equity incentive plans; they also provide advice to the Group on the implementation of these plans. McLagan Partners provide the Committee with an interpretation on external market compensation levels and practices; they also provide information and advice to the Group on the external market. Hewitt Bacon & Woodrow provide advice to both the Committee and the Group on domestic and international pensions issues, as well as acting as the actuarial advisers to, and administrators of, the UK pension scheme.

**Remuneration policy**

The Group's remuneration policy is designed to ensure that the Company is able to attract, motivate and retain the executive talent required to run the business successfully. The Group structures the remuneration of executive Directors to ensure that they perform in the best interests of shareholders and that they accumulate and retain equity in the Company to align their interests with those of shareholders.

The Group compensates its executive Directors and senior executives by balancing the following elements of compensation:

- base salary, payable in cash
- benefits-in-kind
- discretionary bonus, payable partly in cash and partly in shares, with the entitlement to the shares being deferred for three years
- discretionary grants of market value share options.

The mix of these components is designed to create a total compensation package which:

- is directly linked to the Group's overall performance and profitability
- is based upon individual and business contribution
- encourages retention in the long-term
- is market competitive.

There are no current plans to change the Group's remuneration policy. However, the Committee reviews the policy on a regular basis and it will propose or implement changes where appropriate.

The Committee's policy is not to guarantee compensation for executive Directors and senior executives where this can be avoided. The Committee recognises, however, that competitive market pressures sometimes mean that the Group has to agree exceptional compensation terms for the initial year or years of appointment. In addition, in circumstances where an executive Director or senior executive forfeits bonuses or deferred awards in order to join the Group, compensation may be paid. In these cases, the Group expects to phase such payments along the same time lines as the forfeited awards.

**Base salary** The fixed compensation of executive Directors and senior executives is reviewed annually by the Committee, having regard to individual performance and comparative market data. Base salaries are set at the lower end of the market compared with other quoted companies of similar size. A maximum limit, currently £200,000, is applied to the base salaries of executive Directors. Base salary is the only element of remuneration which is pensionable.

**Benefits-in-kind** The range of benefits-in-kind available to executive Directors and senior executives is also limited and is listed in Note 1 to the Directors' emoluments table on page 18.

**Discretionary bonuses** The Committee determines the aggregate amount distributable as discretionary bonus awards across the Group at the end of each financial year. This aggregate amount is based upon a ratio of the cost of total compensation and benefits to net operating revenues. Consideration is also given to the Group's pre-tax profit.

Annual bonuses are determined having regard to the performance of the individual, the performance of the area or function of the business for which the individual is responsible, the performance of the Group and the external market. The aim is to incentivise executive Directors and senior executives to achieve outstanding performance and to ensure the majority of their total remuneration is provided in the form of performance related compensation. Given the maximum limit of £200,000 applied to the base salaries of executive Directors, the Committee does not consider it appropriate to set a cap for discretionary bonus awards.

It is intended that the executive Directors and senior executives increase their equity participation in the Company and that, as their compensation increases, they should receive increasing proportions in deferred shares. So, as the total size of an award increases, so does the proportion which is delivered in shares via the Equity Compensation Plan 2000 (see box).

Prior to 2000, such deferred shares were delivered through the Equity Compensation Plan. That plan operated along similar lines to the Equity Compensation Plan 2000, except that the maximum award comprises the original rights plus a maximum 25 per cent. increased rights after five years for awards granted in 1997 and 1998.

**Share options** In addition to the deferred bonus awards delivered through the Equity Compensation Plan 2000, the Committee also considers the grant of options to executive Directors and other executives under the Share Option Plan 2000 (see box).

**Equity Compensation Plan 2000**

The retention of executive talent is of critical importance to the Company. This Plan is used to defer part of the discretionary bonus, already earned by an executive in respect of a given performance period, for three years to encourage retention.

Awards over non-voting ordinary shares (to the value of the deferred part of their discretionary bonus), normally structured as nil-cost awards, are made to eligible participants. These awards do not give rise to any immediate entitlement to shares and are at risk of forfeiture in whole or part during the first three years. Awards vest in full from the third anniversary after the grant date, provided the participant continues to be employed within the Group.

The number of shares to which a participant is entitled is increased at the end of the three-year vesting period by 20 per cent. of the number of shares originally allocated. If the participant chooses to defer taking their shares until after five years, a further award equivalent to 13.3 per cent. of the original number of shares is made.

There are no performance conditions attached to these uplifts because they are at risk of forfeiture and because they attract no dividends.

**Share Option Plan 2000**

Under this Plan, the Company grants market value share options. Options usually become exercisable if the option holder remains with the Group for at least three years and, for executive Directors, the performance target has been met.

The performance target is that the Company's earnings per share growth (defined as the earnings per ordinary share before exceptional items, as shown in the Company's reported accounts) must be at least four per cent. per annum above the increase in the Retail Price Index over the initial three-year period. For existing option grants under this Plan, where the target is not achieved after three years, it is extended on a yearly basis from the fixed base until the target is achieved or the option lapses at the end of ten years. In January 2004 the Committee implemented a change in this policy. For options granted after 27th January 2004, if the target is not achieved after three years it will be extended for an additional two years when a single re-test from the same fixed base will take place. If this test is not met the options will then be forfeited. The performance condition is designed to ensure that executive Directors strive to improve the long-term financial performance of the Company and share in the share price appreciation. New Bridge Street Consultants LLP confirm the performance calculations annually for the Committee.

Outstanding awards held by executive Directors under these Plans are disclosed in the Directors' rights to shares table on page 21.

# Governance

# Remuneration report

Prior to 2000, options over shares were granted to executive Directors and other executives under the Senior Executive Share Option Scheme 1986 and the Share Option Plan 1999 (together the former plans). In line with market practice at the time the Senior Executive Share Option Scheme 1986 was introduced, the vesting of these awards was not subject to performance conditions. Under the Share Option Plan 1999 the performance target of all option holders, including executive Directors, is that the Company's earnings per share growth must be at least two per cent. per annum above the increase in the Retail Price Index over a minimum five-year period. This performance condition was in line with market practice at the time of the award. Awards are no longer granted by the Company under these former plans.

**Personal shareholding policy** In order to align the interests of our most senior employees with those of shareholders, each executive Director and member of the Group Management Committee is required, over time, to acquire and retain a target shareholding of non-voting ordinary shares in the Company, equivalent to 300 per cent. of their annual base salary.

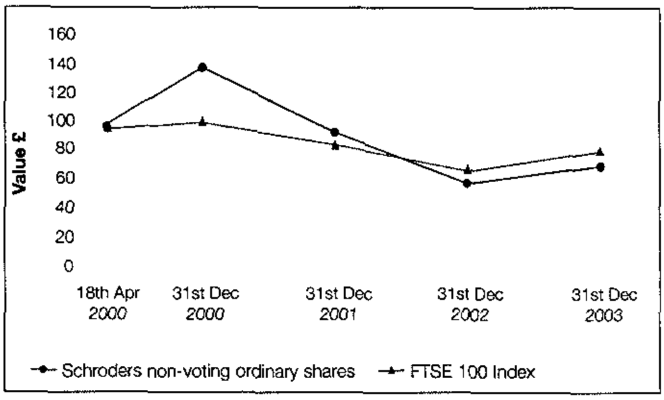
**Pensions** All the executive Directors participate in the Retirement Benefits Scheme (the UK Scheme) which provides defined benefit and defined contribution arrangements. The UK Scheme is an Inland Revenue approved, non-contributory occupational pension scheme.

During 2003 the Committee discussed the implications of the Inland Revenue's consultation documents on pension reform for the Group's existing UK pensions policy. The Committee will continue to monitor progress on this in 2004.

### Performance graph

The following performance graph shows the Company's total shareholder return performance compared with that of the FTSE 100 Index. This Index was chosen by the Committee as the comparator broad equity market index because it is the principal index in which the Company's shares are quoted.

This performance graph uses the Company's non-voting ordinary shares because these are the shares delivered under the employee retention plans. It shows the change in the hypothetical value of £100 invested in the Company's non-voting ordinary shares on 18th April 2000 (its initial listing date following the disposal of the Group's investment banking business) compared with the change in the hypothetical value of £100 invested in the FTSE 100 Index, at 31st December in each year.




Source: Datastream

### Service contracts

The Committee's general policy is that all executive Directors should have rolling contracts of employment with notice periods of six months on either side and that the contract will terminate on the Director reaching age 60. When recruiting executive Directors, the Committee's policy is that contracts should not contain any provision for compensation upon early termination and that the parties should rely on employment rights conferred by law.
In the event that compensation for early termination is payable by the Group, the Committee's policy is to seek to keep such compensation at an appropriate level.

The following table provides details of the executive Directors' service contracts:

| | Date of contract | Nature of contract | Notice period from Company | Notice period from Director | Compensation provisions for early termination |
|---|---|---|---|---|---|
| Michael Dobson[1] | 19th Oct 2001 | Rolling | 12 months | 6 months | See Note 1 |
| Jonathan Asquith | 17th Dec 2001 | Rolling | 6 months | 6 months | None |
| Richard Horlick[2] | 2nd Sept 2002 | Rolling | 6 months | 6 months | None |
| Andrew Sykes | 21st Aug 1978 | Rolling | 6 months | 6 months | None |
| Massimo Tosato[3] | 27th July 2001<br>1st Aug 2001 | Rolling<br>Rolling | 6 months<br>6 months | 6 months<br>6 months | See Note 3 |

(1) Michael Dobson is in the final year of his original contractual incentive awards. He is entitled to receive a cash bonus of £1.8 million in respect of 2004 and also an award of shares under the Equity Compensation Plan 2000 with a value of £1.5 million, calculated by reference to the share price on the day that is twelve months before the date of award.

Michael Dobson participates in the Retirement Benefits Scheme up to the statutory earnings cap and has a contractual right to have 13 per cent. of his base salary in excess of the earnings cap paid into a funded unapproved retirement benefits scheme.

He is also eligible to receive a further award by way of an additional equity incentive, depending upon the increase in the price of the non-voting ordinary shares from 666p over a five-year period commencing from his date of employment or until any earlier change in control. If the increase is 50 per cent., there will be an award of shares, under the terms of the Equity Compensation Plan 2000, to the value of £2.5 million, with increments thereafter to a maximum award to the value of £3.75 million if the increase in the share price is 100 per cent. or higher. Any award granted under the Equity Compensation Plan 2000 will then be subject to the three-year vesting period.

If his employment is terminated by the Company without cause prior to 31st December 2004, he will be entitled to not less than £3.5 million. If his employment is terminated after 31st December 2004, the maximum he would be entitled to receive is equal to one year's compensation, calculated as the annual average of the aggregate of base salary, discretionary cash bonus and awards under the Equity Compensation Plan 2000 received in the preceding three years.

(2) Under his contract of employment Richard Horlick is entitled to receive, in respect of 2004, a cash bonus of £1.3 million, an award of 200,000 non-voting ordinary shares under the Equity Compensation Plan 2000 with a minimum value of £1.0 million and an option over 200,000 shares under the Share Option Plan 2000.

In recognition of the deferred compensation Richard Horlick forfeited on leaving his last employer, he will receive additional awards under the Equity Compensation Plan 2000 valued at £700,000 for each of the performance years 2004 and 2005.

(3) Massimo Tosato's contract dated 27th July 2001 relates to his UK duties and his contract dated 1st August 2001 relates to his international duties. He is entitled to receive a minimum cash bonus of £180,000 for each of the performance years 2004 and 2005. Upon early termination of each contract he is entitled to 12 months' compensation (calculated as base salary and bonus for the previous year).

Massimo Tosato's pension arrangements include an augmentation to pension under the UK scheme in respect of his UK contract and a contribution paid into a separate pension arrangement in respect of his international contract.

### Executive Directors' non-executive directorships

It is the Company's policy to allow executive Directors to retain any fees earned from any non-executive directorships they hold in other companies.

### Non-executive Directors

Each non-executive Director has a letter of appointment in which both the non-executive Director and the Company is required to give reasonable notice to terminate the appointment. Non-executive Directors are subject to the re-election requirements of the Company's Articles of Association without a fixed term, although new appointments, including that of Merlyn Lowther, will be for an initial period of three years and may be terminated on six months' notice. There are no provisions for non-executive Directors to receive compensation upon early termination.

The following table provides dates of the non-executive Directors' letters of appointment:

| | |
|---|---|
| Michael Miles | 17th Dec 2002 |
| George Mallinckrodt | 24th Dec 2002 |
| Nicholas Ferguson | 23rd Dec 2002 |
| Sir Peter Job | 23rd Dec 2002 |
| Merlyn Lowther | 8th Mar 2004 |
| Kevin Parry | 16th Dec 2002 |
| Bruno Schroder | 24th Dec 2002 |
| Charles Sinclair | 23rd Dec 2002 |
| David Swensen | 23rd Dec 2002 |

Fees for non-executive Directors are determined annually by the Board based on market information supplied by New Bridge Street Consultants LLP, and in accordance with the restrictions contained in the Company's Articles of Association. Non-executive Directors do not participate in decisions concerning their own fees.

The annual fees payable in 2003 were as follows:

| | £ |
|---|---|
| Board Chairman | 150,000 |
| Board member | 30,000 |
| Audit Committee member | 7,500 |
| Audit Committee chairman (in addition to the member's fee) | 7,500 |
| Nominations Committee member | nil |
| Nominations Committee chairman | 5,000 |
| Remuneration Committee member | 5,000 |
| Remuneration Committee chairman (in addition to the member's fee) | 5,000 |

Non-executive Directors do not participate in any of the Group's incentive plans.

# Governance
# Remuneration report

### Directors' remuneration in 2003

The following tables on pages 18 to 22 provide detail in respect of each of the Directors' and former Directors' emoluments, pension entitlements, deferred cash, share interests and rights to shares. The final table on page 22 summarises total remuneration earned in respect of 2003 by the executive Directors. In accordance with the Act, the tables have been audited by the independent auditors with the exception of the final table.

### Directors' emoluments

The emoluments (cash payments and benefits in-kind, but not including any pension and equity incentive award) of the Directors of the Company in respect of the period for which they were in office in the relevant year, including their remuneration in respect of subsidiary undertakings, comprised:

| | Salary and fees £000 | Benefits-in-kind[1] £000 | Annual cash bonus £000 | 2003 Total £000 | 2002 Total £000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Michael Dobson (Chief Executive) | 200 | 14 | 1,800 | 2,014 | 2,018 |
| Jonathan Asquith | 180 | 13 | 600 | 793 | 1,135[2] |
| Richard Horlick | 200 | 11 | 1,000 | 1,211 | – |
| Andrew Sykes | 175 | 17 | 400 | 592 | 431 |
| Massimo Tosato | 175 | 159 | 805 | 1,139 | 776 |
| Former executive Directors | – | – | – | – | 632 |
| **Non-executive Directors** | | | | | |
| Michael Miles (Chairman) | 158 | – | – | 158 | – |
| George Mallinckrodt (President)[3] | 80 | 24 | – | 104 | 123[4] |
| Nicholas Ferguson | 30 | – | – | 30 | 29 |
| Sir Peter Job | 39 | – | – | 39 | 34 |
| Kevin Parry | 42 | – | – | 42 | – |
| Bruno Schroder[5] | 70 | 4 | – | 74 | 74 |
| Charles Sinclair | 44 | – | – | 44 | 48 |
| David Swensen | 30 | – | – | 30 | 21 |
| **Former non-executive Directors** | | | | | |
| William Turner, Jr. | 14 | – | – | 14 | 49 |
| Alva Way | 12 | – | – | 12 | 69 |
| Other former non-executive Directors | – | – | – | – | 239 |
| Total | 1,449 | 242 | 4,605 | 6,296 | 5,678 |

(1) The benefits-in-kind provided to Directors comprise one or more of: a car allowance, private use of company chauffeur, a mortgage subsidy allowance, private healthcare and membership of a Company pension scheme, including life assurance protection. Expatriate benefits (such as accommodation and schooling assistance) are also available to those executives on international secondment.

(2) Including £375,000 paid at the time of joining the Company, in respect of 2001 annual bonus foregone from his previous employer.

(3) George Mallinckrodt received an annual fee of £30,000 as a Director, a fee of £50,000 for his additional services to the Company plus £14,000 of allowance and £10,000 in benefits-in-kind.

(4) George Mallinckrodt's 2002 salary and fees for the year were £175,000 of which he elected to waive £71,000. He was an executive Director until 31st March 2002.

(5) Bruno Schroder received an annual fee of £30,000 as a Director, committee membership fees of £12,500, a fee of £27,500 for his additional services to the Company plus £4,000 in benefits-in-kind.

## Directors' pension entitlements

### Defined benefit

The following table gives details of the accrued pension benefit at 31st December 2003 for Directors who have participated in the defined benefits section of the UK Scheme during the year to 31st December 2003. Further information concerning the Company's pension schemes is set out in Note 5 of the Notes to the Accounts on page 46.

| | Accrued pension at 31st Dec 2002 £000 | Change in accrued pension due to inflation £000 | Change in accrued pension excluding inflation | | Accrued pension at 31st Dec 2003 £000 | Transfer value at 31st Dec 2002 £000 | Increase in transfer value £000 | Transfer value at 31st Dec 2003 £000 |
|---|---|---|---|---|---|---|---|---|
| | | | Increase £000 | Transfer value £000 | | | | |
| **Executive Directors** | | | | | | | | |
| Michael Dobson | 3 | – | 2 | 24 | 5 | 24 | 29 | 53 |
| Andrew Sykes | 73 | 2 | 1 | 1 | 76 | 543 | 109 | 652 |
| Massimo Tosato | 6 | – | 3 | 31 | 9 | 35 | 52 | 87 |
| **Non-executive Directors** | | | | | | | | |
| Nicholas Ferguson[1] | 106 | 3 | 1 | 7 | 110 | 1,255 | 218 | 1,473 |
| Bruno Schroder | 21 | 1 | 1 | 18 | 23 | 278 | 21 | 299 |

The accrued pension represents the annual pension which each Director would be entitled to receive from normal retirement age after leaving service. The accrued pension would be increased each year until it became payable in accordance with statutory requirements.

The change in accrued pension represents the difference between the accrued pension at 31st December 2002 and 31st December 2003. This is broken down into inflationary increases and increases arising as a result of service for the year concerned and any change in salary, where appropriate.

The transfer value represents the current capital sum which would be required, using demographic and financial assumptions, to provide the accrued pension and ancillary benefits at the relevant date.

The accrued pension or transfer value shown above does not include any allowance for additional voluntary contributions made by the Director.

(1) The pension benefit provided to Nicholas Ferguson is reimbursed by his current employer.

### Defined contribution

The following table gives details of pension contributions paid or payable by the Company into defined contribution arrangements for the year to 31st December 2003.

| | 2003 Employer contributions £000 | 2002 Employer contributions £000 |
|---|---|---|
| **Executive Directors** | | |
| Michael Dobson | 13 | 14 |
| Jonathan Asquith | 17 | 16 |
| Richard Horlick | 13 | – |
| Massimo Tosato | 52 | 51 |
| Former executive Directors | – | 851 |
| Total | 95 | 932 |

The contributions disclosed exclude any personal contributions made by a Director.

# Governance

# Remuneration report

### Directors' deferred cash

This table summarises the deferred cash awards outstanding as at 1st January 2003 (originally granted to the executive Directors in 1999) and delivered to them during 2003 in accordance with the original terms of the award.

| | Awards held at 1st Jan 2003 £000 | Awards paid out during year £000 | Awards held at 31st Dec 2003 £000 | Payment Date |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Massimo Tosato | 74 | (78)[1] | – | 18 Feb 2003 |
| **Former executive Directors** | | | | |
| Nicholas MacAndrew | 57 | (57) | – | 18 Feb 2003 |
| John Troiano | 199 | (199) | – | 18 Feb 2003 |
| **Non-executive Directors** | | | | |
| Nicholas Ferguson | 35 | (35) | – | 18 Feb 2003 |
| Total | 365 | (369) | – | |

(1) Award denominated in Euros and payment resulted in a foreign exchange difference of £4,000.

### Directors' share interests

At 31st December 2003 and at 1st January 2003 (or date of appointment, if later) the Directors had the following interests in shares of the Company:

| | **31st Dec 2003** | | 1st Jan 2003 | |
|---|---|---|---|---|
| | **Ordinary shares** | **Non-voting ordinary shares** | Ordinary shares | Non-voting ordinary shares |
| **Beneficial** | | | | |
| **Executive Directors** | | | | |
| Michael Dobson | 2,000 | 561,105 | 2,000 | 561,105 |
| Jonathan Asquith | – | – | – | – |
| Richard Horlick | – | – | – | – |
| Andrew Sykes | 5,940 | 52,105 | 5,940 | 34,709 |
| Massimo Tosato | – | 24,363 | – | 363 |
| **Non-executive Directors** | | | | |
| Michael Miles | 5,000 | – | – | – |
| George Mallinckrodt | 30,000 | 507,226 | 30,000 | 234,375 |
| Nicholas Ferguson | – | 53,117 | – | 53,117 |
| Sir Peter Job | 860 | – | 860 | – |
| Kevin Parry | – | – | – | – |
| Bruno Schroder | 6,353,655 | 59,310 | 6,353,655 | 59,310 |
| Charles Sinclair | 4,100 | – | 4,100 | – |
| David Swensen | 800 | – | – | – |
| **Non-beneficial** | | | | |
| George Mallinckrodt | 213,631 | – | 213,631 | – |
| Kevin Parry | 333 | – | 333 | – |
| Bruno Schroder | 64,800 | 16,200 | 64,800 | 16,200 |
| Charles Sinclair | – | 3,900 | – | 3,900 |

Additionally, at 31st December 2003, the Board of Directors as a whole was deemed to have an interest in 6,404,679 non-voting ordinary shares held in trust in respect of employee share schemes (1st January 2003: 7,457,937).

At 31st December 2003 and at 1st January 2003, Michael Dobson had a beneficial interest in £3,721,250 Schroders plc Floating Rate Unsecured Loan Notes 2007.

During 2003 no Director held an interest in the shares or loan stock of any subsidiary of the Company.

There has been no change in the interests set out above between 31st December 2003 and 19th February 2004, being the date one month prior to the date of the Notice of the Annual General Meeting.

## Directors' rights to shares

At 31st December 2003 and at 1st January 2003 (or at date of appointment, if later) the Directors had the following rights to non-voting ordinary shares:

| | | Number of Shares | | | | | | Exercise price of outstanding rights | Exercise dates | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | *Held at* 1st Jan 2003 | *Rights* granted during year | *Rights* exercised during year[1] | *Rights* lapsed during year | *Held at* 31st Dec 2003 | *Rights* granted 8th Mar 2004 | | Earliest | Latest |
| ***Executive Directors*** | | | | | | | | | | |
| Michael Dobson | (3) | 250,000 | | | | 250,000 | | £4.83 | 9 Dec 2005 | 8 Dec 2012 |
| | (3) | – | 150,000 | | | 150,000 | | £3.98 | 10 Mar 2006 | 9 Mar 2013 |
| | (3) | 500,000 | | | | 500,000 | | £7.06 | 12 Nov 2006 | 11 Nov 2011 |
| | (4) | – | 352,186 | | | 352,186 | | – | 10 Mar 2006 | 9 Mar 2013 |
| | (4) | – | | | | – | 502,386 | – | 8 Mar 2007 | 7 Mar 2014 |
| Jonathan Asquith | (3) | 150,000 | | | | 150,000 | | £8.00 | 22 Apr 2005 | 21 Apr 2012 |
| | (3) | 150,000 | | | | 150,000 | | £5.41 | 6 Nov 2005 | 5 Nov 2012 |
| | (3) | – | 100,000 | | | 100,000 | | £3.98 | 10 Mar 2006 | 9 Mar 2013 |
| | (4) | – | 133,969 | | | 133,969 | | – | 10 Mar 2006 | 9 Mar 2013 |
| | (4) | – | | | | – | 81,466 | – | 8 Mar 2007 | 7 Mar 2014 |
| Richard Horlick | (3a) | 400,000 | | | | 400,000 | | £4.53 | 6 Nov 2005 | 5 Nov 2012 |
| | (3) | – | 200,000 | | | 200,000 | | £3.98 | 10 Mar 2006 | 9 Mar 2013 |
| | (3) | – | | | | – | 200,000 | £6.55 | 8 Mar 2007 | 7 Mar 2014 |
| | (4) | – | 334,924 | | | 334,924 | | – | 10 Mar 2006 | 9 Mar 2013 |
| | (4) | – | | | | – | 266,600 | – | 8 Mar 2007 | 7 Mar 2014 |
| | (4a) | – | | | | – | 142,565 | – | 8 Mar 2007 | 7 Mar 2014 |
| Andrew Sykes | (1) | 47,930 | | | | 47,930 | | £4.19 | 28 Mar 2000 | 27 Mar 2005 |
| | (1) | 42,605 | | | | 42,605 | | £4.41 | 18 Mar 2001 | 17 Mar 2006 |
| | (2) | 24,851 | | | | 24,851 | | £8.22 | 7 May 2004 | 6 May 2009 |
| | (2) | 112,499 | | | | 112,499 | | £8.00 | 13 Mar 2005 | 12 Mar 2010 |
| | (3) | 118,750 | | | | 118,750 | | £8.00 | 22 Apr 2005 | 21 Apr 2012 |
| | (3) | 50,000 | | | | 50,000 | | £5.41 | 6 Nov 2005 | 5 Nov 2012 |
| | (3) | – | 40,000 | | | 40,000 | | £3.98 | 10 Mar 2006 | 9 Mar 2013 |
| | (3) | 91,185 | | | | 91,185 | | £9.87 | 13 Mar 2006 | 12 Mar 2011 |
| | (4) | 40,795 | | | | 40,795 | | – | 13 Mar 2004 | 12 Mar 2011 |
| | (4) | 6,199 | | | | 6,199 | | – | 11 Mar 2005 | 10 Mar 2012 |
| | (4) | – | 20,094 | | | 20,094 | | – | 10 Mar 2006 | 9 Mar 2013 |
| | (5) | 10,757 | | 10,757 | | – | | | | |
| | (5a) | 8,148 | | 7,822 | 326 | – | | | | |
| | (5) | 17,562 | | | | 17,562 | | – | 13 Mar 2003 | 12 Mar 2010 |
| | (6) | 93,750 | | 93,750 | | – | | | | |
| Massimo Tosato | (2) | 18,963 | | | | 18,963 | | £8.22 | 7 May 2004 | 6 May 2009 |
| | (2) | 62,499 | | | | 62,499 | | £8.00 | 13 Mar 2005 | 12 Mar 2010 |
| | (3) | 165,350 | | | | 165,350 | | £8.00 | 22 Apr 2005 | 21 Apr 2012 |
| | (3) | 100,000 | | | | 100,000 | | £5.41 | 6 Nov 2005 | 5 Nov 2012 |
| | (3) | – | 65,000 | | | 65,000 | | £3.98 | 10 Mar 2006 | 9 Mar 2013 |
| | (3a) | 91,185 | | | | 91,185 | | £9.87 | 13 Mar 2006 | 12 Mar 2011 |
| | (4) | 64,826 | | | | 64,826 | | – | 13 Mar 2004 | 12 Mar 2011 |
| | (4) | 16,294 | | | | 16,294 | | – | 10 Mar 2005 | 9 Mar 2012 |
| | (4) | – | 80,381 | | | 80,381 | | – | 10 Mar 2006 | 9 Mar 2013 |
| | (4) | – | | | | – | 80,447 | – | 8 Mar 2007 | 7 Mar 2014 |
| | (6) | 40,000 | | 40,000 | | – | | | | |
| **Non-executive Directors** | | | | | | | | | | |
| *George Mallinckrodt* | *(1a)* | *332,319* | | *332,319* | | – | | | | |
| Nicholas Ferguson | (5) | 2,858 | | 2,858 | | – | | | | |
| | (5) | 3,055 | | | | 3,055 | | – | 8 Mar 2002 | 7 Mar 2006 |
| | (5) | 2,173 | | | | 2,173 | | – | 13 Mar 2003 | 12 Mar 2009 |

For an explanation of the notes see page 22 (overleaf)

# Governance

# Remuneration report

### Directors' rights to shares (continued)

The market price of the non-voting ordinary shares at 31st December 2003 was £5.72 and the range during 2003 was £3.65 to £7.13. The closing market price of the non-voting ordinary shares on 5th March 2004 was £6.55.

(1) Senior Executive Share Option Scheme 1986. There were no performance conditions associated with this award.

(1a) This award was granted on 22nd March 1993 during George Mallinckrodt's period of service as an executive Director.

(2) Share Option Plan 1999. Conditional upon achieving a performance target of earnings per share growth greater than the Retail Price Index plus two per cent. per annum over a minimum five year period.

(3) Share Option Plan 2000. A summary of the performance target is shown in the box on page 15.

(3a) There were no performance conditions associated with these awards as Richard Horlick and Massimo Tosato were not Directors at the time the awards were granted.

(4) Equity Compensation Plan 2000. The figures shown above comprise the original rights plus the maximum 33.3 per cent. conditional entitlement to increased rights after five years.

Awards are structured as nil-cost share awards. See page 15 for details.

(4a) This includes an award of £700,000 in recognition of the deferred compensation Mr Horlick forfeited upon leaving his last employer.

(5) Equity Compensation Plan. Similar to the Equity Compensation Plan 2000, but the maximum award comprises the original rights plus the maximum 25 per cent. conditional entitlement to increased rights after five years for awards granted in 1997 and 1998, and a maximum of 33.3 per cent. conditional entitlement to increased rights after five years for awards granted in 1999.

(5a) Andrew Sykes exercised awards under the Equity Compensation Plan which had not fully vested, thus 326 shares have lapsed.

(6) Retention Plan. Awards were structured as nil-cost share awards. There were no performance conditions associated with this one-off award as they were granted to ensure employee retention during the sale of the investment bank in 2000.

(7) The market prices on the dates the rights were exercised during 2003 were respectively: Andrew Sykes £4.40 for all awards; Massimo Tosato £4.40, George Mallinckrodt £4.56, Nicholas Ferguson £4.40. The aggregate gain on rights exercised amounted to £1,257,000 of which £579,000 relates to gains on nil-cost awards and £678,000 relates to market value options.

### Summary of Executive Directors' remuneration in 2003

The following table presents a summary of the total potential compensation (other than the maximum 33.3 per cent. conditional entitlement referred to in Note 4 to the previous table) earned in respect of the 2003 performance year by the executive Directors in service at 31st December 2003.

Awards under the Equity Compensation Plan 2000 and Share Option Plan 2000 do not give rise to any immediate entitlement to shares. Awards vest from the third anniversary after the grant date, provided the executive Director continues to be employed by the Company.

| | *Salary* £000 | Benefits-*in-kind* £000 | Pension £000 | Annual cash *bonus* £000 | Equity Compensation Plan award £000 | 2003 *Total* £000 | Share Option Plan awards granted *during 2003* No. of options |
|---|---|---|---|---|---|---|---|
| Michael Dobson (Chief Executive) | 200 | 14 | 37 | 1,800 | 2,467 | 4,518 | 150,000 |
| Jonathan Asquith | 180 | 13 | 17 | 600 | 400 | 1,210 | 100,000 |
| Richard Horlick[1] | 200 | 11 | 13 | 1,000 | 1,309 | 2,533 | 200,000 |
| Andrew Sykes | 175 | 17 | 1 | 400 | – | 593 | 40,000 |
| Massimo Tosato | 175 | 159 | 83 | 805 | 395 | 1,617 | 65,000 |

(1) Excludes the award referred to in note (4a) to the previous table.

Approved and signed on behalf of the Board

**Sir Peter Job**
*Chairman, Remuneration Committee*

11th March 2004

# Governance
# Audit committee report

This report sets out the membership of the Audit Committee, its role, remit and its activities during the year.

**Committee Members**

The Committee members at 31st December 2003 were:

Kevin Parry (Chairman)
Bruno Schroder
Charles Sinclair

Kevin Parry was appointed to the Committee on 13th March 2003. William Turner, Jr. and Alva Way were members until their retirement from the Board on 13th March 2003. Kevin Parry took over from Charles Sinclair as Chairman of the Committee on 26th May 2003. Charles Sinclair will retire as a member of the Committee at the 2004 Annual General Meeting.

Merlyn Lowther will join the Committee during the year, following her appointment to the Board on 1st April 2004. It is the Board's intention to appoint another independent non-executive Director to the Committee during 2004.

**Financial experience** For the purposes of the new Combined Code, Kevin Parry is considered by the Board to have recent and relevant financial experience.

**Terms of reference**

The Board has delegated to the Committee responsibility for overseeing the financial reporting and internal control of the Group and for maintaining an appropriate relationship with the Company's auditors.

The role of the Committee is to encourage and safeguard the highest standards of integrity, financial reporting, risk management and internal control. The principal responsibilities of the Committee include:

- reviewing the form and content and monitoring the integrity of the Company's and the Group's financial statements
- monitoring and reviewing the arrangements for ensuring the objectivity and effectiveness of the external and internal audit functions
- recommending to the Board the appointment, re-appointment or removal of the external auditors
- reviewing the effectiveness of the Company's internal controls and risk management systems
- reviewing and monitoring the Company's ethical standards, procedures for ensuring compliance with regulatory and financial reporting requirements and its relationship with the relevant regulatory authorities.

A copy of the terms of reference of the Committee is available on request from the Board Secretary at the Company's registered office.

**Report on the Committee's activities in 2003**

**Meetings and attendance** The Committee, which is scheduled to meet at least four times a year, met on six occasions during 2003 and there was full attendance at each meeting.

During the year the Committee met separately with the Group's external auditors and with the Head of Group Internal Audit without executive management present.

**Principal issues** addressed during 2003 were:

- the annual financial statements for 2002
- the interim financial results for 2003
- the external audit plan for 2003
- the Group's risk management process, including key risks facing the Group
- the Group's quarterly and annual reports on internal audit activities and the effectiveness of internal controls
- the external auditors' year-end report
- the independence and objectivity of the external auditors, including a review of non-audit fees
- the arrangements for staff to raise concerns about possible improprieties relating to the Company's operations.

**Non-audit services** The Committee has reviewed all non-audit services provided by the external auditor in order to ensure that auditor objectivity and independence is safeguarded.

**Other issues** The Committee received regular reports from the Chief Financial Officer, the Group Compliance and Risk Director and the General Counsel. It also reviewed reports on various subjects including a review of corporate governance and the new Combined Code, the risk management framework, investment risk management, the Basel consultation paper, governance of overseas funds, Group insurance arrangements, the governance of Group pension arrangements, health and safety, disaster recovery arrangements and a review of its own effectiveness.

**Support** The Committee received information and support from management during the year to enable it to carry out its duties and responsibilities effectively. A co-ordinated programme of training and briefing has been arranged for Committee members. The Committee has access to external independent advice.

# Governance

# Nominations Committee report

This report sets out the membership of the Nominations Committee, its role and remit and its activities during the year.

**Committee Members**

The Committee members at 31st December 2003 were:

Michael Miles (Chairman)
Sir Peter Job
George Mallinckrodt
Bruno Schroder
Charles Sinclair

William Turner, Jr. and Alva Way were members until their retirement from the Board on 13th March 2003. Charles Sinclair will retire as a member of the Committee at the 2004 Annual General Meeting.

David Swensen joined the Committee on 26th February 2004. It is the Board's intention to appoint another independent non-executive Director to this Committee during 2004.

**Terms of reference**

The Board has delegated to the Committee responsibility for reviewing and proposing appointments to the Board and for recommending any other changes to the Board's composition or that of Board Committees.

*The principal responsibilities of the Committee include:*

- reviewing the size and composition of the Board
- selecting candidates for appointment to the Board to meet the desired composition
- ensuring that there is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board
- ensuring succession plans are in place for key Board members.

A copy of the terms of reference of the Committee is available on request from the Board Secretary at the registered office.

**Report on the Committee's activities in 2003**

**Meetings and Attendance** The Committee, which meets periodically as required, met on four occasions during 2003. There was full attendance by Committee members at each of those meetings.

**Principal issues** addressed during 2003 were:

- the process used for Board appointments
- the composition of the Board and proposed new non-executive appointments
- the succession plan for Board Members.

As discussed in the Corporate Governance Report, the Board has, since the announcement in November 2003 of the retirements from the Board of Charles Sinclair and Nicholas Ferguson at the 2004 Annual General Meeting, been seeking to appoint new independent non-executive Directors in order to achieve a more balanced composition of the Board.

**Support** The Committee received information and support from management during the year to enable it to carry out its duties and responsibilities effectively. The Committee also sought and received external information and advice from Gow & Partners in relation to the proposed recruitment of non-executive Directors.

# Directors' report

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31st December 2003.

**Principal activities and business review**

Schroders plc is the parent company of an international asset management group.

A review of the Group's business during 2003 and likely future developments is contained in the Management Statement on pages 3 to 5 and in the Operating and Financial Review on pages 6 to 9.

**Results and dividends**

The profit for the year attributable to shareholders was £49.2 million, compared with £26.1 million for 2002.

| Ordinary shares and non-voting ordinary shares | **2003 £mn** | 2002 £mn |
|---|---|---|
| Interim dividend 5.5p per share (2002: 5.5p) | 16.1 | 16.0 |
| Recommended final dividend 13.0p per share (2002: 13.0p) | 37.6 | 37.3 |
| Total dividend 18.5p per share (2002: 18.5p) | 53.7 | 53.3 |

The final dividend will be paid on 26th April 2004 to shareholders on the register on 26th March 2004.

**Investments and disposals**

Details of disposals are shown on page 62.

**Directors**

The names and biographical details of the Directors of the Company are given on pages 12 to 13 with the exception of Andrew Sykes who served as an executive Director throughout the year and who will retire as a Director with effect from 31st March 2004. On 1st January 2003 Michael Miles was

# Governance
# Directors' report

appointed as a non-executive Director and Chairman, Richard Horlick was appointed as an executive Director and Kevin Parry was appointed as a non-executive Director. In addition, Merlyn Lowther will join the Board as a non-executive Director from 1st April 2004 following her appointment on 10th March 2004. In accordance with the Company's Articles of Association, she will seek election as a Director at the 2004 Annual General Meeting.

Nicholas Ferguson and Charles Sinclair will be retiring at the 2004 Annual General Meeting and will not be seeking re-election.

In accordance with the Company's Articles of Association, George Mallinckrodt and Bruno Schroder, who are both over the age of seventy, will retire from office at the forthcoming Annual General Meeting and will offer themselves for re-election.

The Articles of Association require each Director to retire from office at the third Annual General Meeting following their last election or re-election to the Board. Since no Directors have currently served for three years since their last election or re-election, no other Director is required to retire from office.

Details of existing Directors' service contracts or terms of appointment, together with their interests in the Company's shares are shown in the Remuneration Report on pages 16, 17, 20 and 21.

None of the Directors had an interest in any contract with the Company or any of its subsidiaries either during or at the end of the year.

### Substantial shareholdings

As at 19th February 2004, being the date one month prior to the date of the Notice of the Annual General Meeting, the Company had received notification pursuant to section 198 of the Companies Act 1985 of the following interests of three per cent. or more of the Company's ordinary share capital:

| | | |
|---|---|---|
| Vincitas Limited | 62,341,233 shares | 27.58% |
| Veritas Limited | 37,308,464 shares | 16.51% |
| Legal & General Group plc and/or its subsidiaries | 7,125,346 shares | 3.15% |

Vincitas Limited and Veritas Limited act as trustees of certain settlements made by members of the Schroder family.

The Company is not subject to the close company provisions of the Income and Corporation Taxes Act 1988.

### Capital structure

The Company's share capital is comprised principally of ordinary shares and non-voting ordinary shares of £1 each. As at 31st December 2003, 226,022,400 ordinary and 70,263,358 non-voting ordinary shares were in issue, representing 76.3 per cent. and 23.7 per cent. respectively of the total issued share capital.

The non-voting ordinary share class was introduced in 1986 to permit the operation of an employee share option plan without diluting the voting rights of ordinary shareholders. Since then, non-voting ordinary shares have been used in connection with subsequent employee share and share option plans as well as the acquisition of Beaumont Capital Management Limited in 2001. The non-voting ordinary shares carry the same rights as ordinary shares save that they do not confer the right to attend and vote at any general meeting of the Company, and that on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares.

The Company does not intend that the issued share capital should increase over the medium term as a result of the awards under the share and share option plans described in the Remuneration report. The Company therefore plans to repurchase an equivalent number of non-voting ordinary shares to neutralise any dilutive effect of awards made under those plans, as described in the Notice of Annual General Meeting.

### Employees

Details of the Company's employment practices can be found in the Corporate and Social Responsibility section on page 26.

### Donations

The amount paid by Group companies to charitable organisations during 2003 was £510,000 (2002: £646,000), of which £433,000 (2002: £350,000) was donated to UK charities. No political donations were made or expenditure incurred by the Company or its subsidiaries during the year (2002: nil).

### Creditor payment policy

The Group's policy and practice in the UK is to agree the terms of payment with suppliers at the time of contract and to make payment in accordance with those terms subject to satisfactory performance. The Group does not follow any code or standard on payment practice. At 31st December 2003 the amount owed to the Group's trade creditors in the UK represented approximately 15 days' average purchases from suppliers (2002: 17 days).

### 2004 Annual General Meeting

The Annual General Meeting will be held at 31 Gresham Street, London EC2V 7QA on 22nd April 2004 at 12 noon. The Notice of Meeting includes the following four items of special business: an increase in the aggregate Directors' fees limit; general authority for the Company to purchase its own shares; amendments to the Articles of Association; and authority for political donations and expenditure.

Details of all items of business to be dealt with at the Annual General Meeting can be found in the Notice of Meeting.

### Auditors

Resolutions will be proposed at the forthcoming Annual General Meeting to re-appoint PricewaterhouseCoopers LLP as Auditors and to authorise the Directors to fix their remuneration.

By Order of the Board

31 Gresham Street
London EC2V 7QA

**Howard Trust**
Secretary

11th March 2004

# Governance
# Corporate and social responsibility

### Employees

The Company recognises the importance of making Schroders an employer of choice, ensuring that its employees understand the strategic aims and objectives of the Group, being clear about what is expected of them and having policies and practices that make Schroders a good place to work.

The Group has developed a process for communicating with employees worldwide, on a day-to-day basis, via email and the Group's intranet site. The Group also ensures that what is explained to the market is disseminated internally.

There has been an increased use of employee meetings designed to facilitate the exchange of views with senior management and discussion of the progress made by the Group. Furthermore, the Group has decided to benchmark the views and attitudes of employees by conducting an employee opinion survey in Spring 2004.

The performance management process, which comprises an annual performance appraisal and 360° assessment, has been automated globally and now incorporates an assessment of each employee against the Group's core values: integrity; passion; innovation; teamwork and excellence. The Group has taken steps to ensure that the output from the performance management process is used to inform any decisions on promotion and reward.

The Group has begun to run new learning and development programmes on sales and management development.

The Group is committed to equal opportunities for both existing employees and applicants seeking employment. It is the Group's policy to give appropriate consideration to applications for employment from disabled persons, having regard to their particular aptitudes. For the purposes of training, career development and promotion, disabled employees, including any who become disabled in the course of their employment, are treated on equal terms with other employees.

The Group promotes high standards of health and safety at work for all employees.

### Corporate Responsibility

The Group promotes energy efficiency and avoidance of waste throughout its operations, including appropriate conservation measures in the design and use of buildings and equipment, recycling of materials and reduction in use of paper through office automation.

Targets for the reduction of waste and the adoption of sustainable environmental measures have been set. The Group again participated in the annual 'Business in the Environment' survey, the results of which have been used to help assess the Group's own performance with a view to making improvements wherever practicable.

Additionally, the Group, through the investment management process, advises companies in which it invests of its socially responsible investment policy, a copy of which can be obtained from the Company's website at www.schroders.com.

### Community Involvement

The Group continues to widen its links with the broader community. In particular, some 20 volunteers from our London office mentor children and assist children with numeracy, IT and literacy skills in local schools.

UK employees are encouraged to make any of their charitable donations through the payroll system and at the end of the year 22 per cent. of staff were participating in this scheme. Employees also arranged fund raising events in support of charitable causes. In celebration of Schroders' 200th anniversary in 2004, an additional £200,000 has been budgeted for matching charitable giving and, following consultation with employees worldwide, the charitable themes of cancer and children have been selected for our anniversary year.

A number of employees are serving on public bodies such as regulators and local government whilst others participate in trade organisations.

A more detailed report on the Group's community involvement is contained in our Social and Environment Report which is available on the Company's website at www.schroders.com.

# Governance

# Risk management and internal control

### Risk Management

The Board is accountable for risk and is responsible for oversight of the risk management process. The principal risks facing the Group are operational, including legal, and reputational risk although credit, market and liquidity risk exposures exist within the Group businesses and need to be managed appropriately.

The Group Management Committee has approved a risk management framework and structure established by the Group Risk function. The framework sets out a definition of risk and describes the methodology for the identification, assessment, mitigation and reporting of risks. A risk management structure has been implemented which aligns risk with corporate governance and embeds risk management within the business. The Group Management Committee reviews the key corporate risks facing the Group and receives regular reports as to the current status of each risk.

The Group Risk Committee, chaired by the Chief Financial Officer, oversees the risk management process. Local management is responsible for operational risk controls where appropriate and, depending on the size and complexity of the business unit, risk and control maps have been prepared and these have been integrated into a world-wide risk management system. The Group Risk Committee liaises with the relevant line management regarding any matters giving cause for concern.

In respect of credit risk, limits are reviewed and set centrally by the Group Agency and Principal Risk Committees supported by a dedicated team of credit professionals. Local management is responsible for monitoring exposure against these limits and reporting to Group management by exception. In respect of principal risk, authority to set credit limits within an overall Group limit has been delegated to the Group's banking businesses in Guernsey and Switzerland.

The Group does not run a trading book. The Private Banking subsidiaries hold certain financial instruments (debt securities, forward foreign exchange contracts and interest rate swaps) for customer facilitation purposes. It is Group policy to hedge interest rate risk but this is largely mitigated by the short-term re-pricing nature of the interest bearing assets/liabilities.

The Group has a number of overseas subsidiaries whose shareholders' funds, revenues and expenses are denominated principally in local currencies. Financial instruments are used within the Group where it is considered that the sterling values of such amounts are at risk. In such cases, forward foreign exchange contracts with third parties are used as hedging devices to mitigate exposure to currency movements. The use of such instruments is limited and is subject to approval by the Capital Committee.

In addition, the Group's seed capital investments may also be hedged in respect of market risk where it is possible to construct an effective hedge and there is a perceived risk of volatility in the value of the investment due to market movements. The decisions to hedge market risk on seed capital investments, typically using futures, are taken by the Capital Committee in consultation with the business.

The liquidity of individual bank entities is monitored by the Principal Risk Committee and that of the Group by the Capital Committee. The Capital Committee monitors and controls the use of the Group's non-operating capital resources.

Dedicated personnel are responsible for producing and maintaining market and liquidity risk reports based upon the Financial Services Authority's methodologies under the Capital Adequacy Directive. The underlying methodologies and limits are reviewed and set centrally by the Principal Risk Committee. Local risk committees and the Principal Risk Committee review exposures against limits on a regular basis.

Group Compliance undertakes detailed monitoring activities to review compliance with legal and regulatory requirements. Group Internal Audit carries out a programme of audits, provides advice on and reviews the risk management process.

### Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system can provide only reasonable and not absolute assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk.

On behalf of the Board, the Audit Committee has carried out its annual assessment of the effectiveness of internal control during 2003 using the following to support its conclusions:

- the opinion of the Group Management Committee of key corporate risks and responsibilities for those risks
- reports from Group Risk summarising the results of the twice-yearly business standards and controls survey, describing the risk management process, summarising the work undertaken by the Group Risk Committee and highlighting any significant control issues arising
- an internal audit review of the effectiveness and application of the risk management process, including results of internal audits during the year, showing outstanding matters
- a report detailing outstanding litigation and other major claims
- a report from the Group Compliance & Risk Director on fraud within the Group
- a report from Group Compliance summarising activity during the year and highlighting any major instances of non-compliance.

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Group's significant risks and that:

- it has been in place for the year ended 31st December 2003 and up to the date of approval of the annual report and accounts
- it is regularly reviewed by the Board and accords with the *internal control guidance for directors in the Combined Code.*

The Board fully recognises the benefit of promoting a programme of continuous improvement in the area of risk management.

# Governance

# Notice of Annual General Meeting

Notice is hereby given that the 2004 Annual General Meeting of Schroders plc will be held at 31 Gresham Street, London EC2V 7QA on Thursday 22nd April 2004 at 12 noon to transact the following business:

### Resolutions

To consider and, if thought fit, to pass resolutions numbered 1 to 9 and 12 to 14 as Ordinary Resolutions (requiring a majority of more than 50 per cent.) and resolutions 10 and 11 as Special Resolutions (requiring a majority of not less than 75 per cent.).

### Report & Accounts

1. To receive and adopt the Report of the Directors and the Accounts of the Company for the year ended 31st December 2003.

For each financial year the Directors are required to present the report of the Directors and the financial accounts for adoption by the shareholders. Accordingly, the Report and Accounts for the year ended 31st December 2003 are now presented.

### Final Dividend

2. To declare a final dividend of 13.0p per share on the ordinary shares and on the non-voting ordinary shares of £1 each of the Company.

The payment of the final dividend of 13.0p per share in respect of the year ended 31st December 2003, recommended by the Board on the ordinary and non-voting ordinary shares of the Company, requires the approval of shareholders in general meeting.

### Remuneration Report

3. To approve the Remuneration Report for the year ended 31st December 2003.

Section 234B of the Companies Act 1985 (as amended) requires that the Directors must prepare an annual report detailing the remuneration of the Directors and the Company's remuneration policy and under section 241A ensure that a resolution is put to shareholders each year for their approval. The Remuneration Report can be found on pages 14 to 22. This notice therefore contains a resolution to approve the Remuneration Report for the year to 31st December 2003. The result of this resolution is advisory only.

### Election of Director appointed since the last Annual General Meeting

4. To elect Merlyn Lowther as a Director of the Company.

Article 87 of the Company's Articles of Association requires that any Director appointed to office by the Board may hold office only until the next Annual General Meeting, when shareholders have the opportunity to vote on their election. Accordingly, Merlyn Lowther, appointed on 10th March with effect from 1st April 2004, is seeking election. A profile of Merlyn Lowther is contained on page 13.

The Board supports the election of Merlyn Lowther, who will provide additional independent non-executive representation on the Board and the Audit Committee.

### Re-election of Directors having attained the age of seventy (Resolutions 5 and 6)

5. To re-elect George Mallinckrodt as a Director of the Company.

6. To re-elect Bruno Schroder as a Director of the Company.

Under Articles 84 and 89 of the Company's Articles of Association any Director must retire and offer themselves for re-election annually once they have attained the age of seventy. Both George Mallinckrodt and Bruno Schroder are over seventy and retire and offer themselves for re-election. Profiles of George Mallinckrodt and Bruno Schroder are contained on page 13.

The Board believes that it is appropriate for George Mallinckrodt to be re-elected in view of his many years' international business experience. The Board also believes that it is appropriate for Bruno Schroder, as the representative of our principal shareholder group, to be re-elected.

### Auditors (Resolutions 7 and 8)

7. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company.

8. To authorise the Directors to fix the remuneration of the Auditors.

The Company's auditors must offer themselves for re-appointment at each Annual General Meeting at which accounts are presented. Accordingly, the Board, on the recommendation of the Audit Committee, proposes the re-appointment of PricewaterhouseCoopers LLP as the Company's auditors. Resolution 8 authorises the Directors to agree the remuneration of PricewaterhouseCoopers for their services as auditors.

### Increase in aggregate Directors' fees limit

9. That the Company be and is hereby generally and unconditionally authorised to increase the aggregate Directors fees as detailed in Article 97 of the Articles of Association from £500,000 per annum to £1,000,000 per annum.

The current cap on aggregate Directors' fees is £500,000. This level has not been reached but the Board believes that it should be increased to £1,000,000 to allow the Board to recruit further independent non-executive Directors and to provide headroom to accommodate future developments in directors' remuneration.

### Authority to purchase own shares

10. That the Company be and is hereby generally and unconditionally authorised to make market purchases within the meaning of section 163(3) of the Companies Act 1985 (as amended) of non-voting ordinary shares of £1 each ('Shares'), subject to the following conditions:

    (a) such authority be limited to a maximum number of 14,750,000 Shares;

(b) the maximum price at which Shares may be purchased is 5 per cent. above the average of the middle market quotations for the Shares as derived from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase or, in the case of a tender or partial offer, the date the tender or partial offer is made whichever is the greater, and the minimum price at which Shares may be purchased is £1 per share, in both cases exclusive of expenses; and

(c) such authority shall, unless renewed prior to such time, expire at the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry enter into a contract to purchase Shares under which such purchase will or may be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Shares in pursuance of any such contract.

If passed, this resolution would renew the Company's authority to make purchases of its own non-voting ordinary shares. This authority relates to 14,750,000 shares, representing approximately 5 per cent. of the total issued share capital and some 21 per cent. of the issued non-voting ordinary share capital. The authority sets limits on the price which may be paid for any shares and is limited to market purchases on the London Stock Exchange or (so far as required under the Listing Rules) by tender or partial offer to all shareholders.

The previous authority granted at the Annual General Meeting on 23rd April 2003 was not used during the year. The Directors have no plans to use this authority generally if it is renewed. However, they do intend that, if the authority is given, the Company would exercise its right to make purchases with a view to maintaining over the medium term the ratio of ordinary shares to non-voting ordinary shares, taking into account the issue of non-voting ordinary shares under the Company's share or share option plans.

If the authority is given, purchases would only be made where the Directors believed that they were in the best interests of the Company, taking into account other available investment opportunities and the overall financial position of the Group. Purchases would only be made where earnings per share would be increased (except possibly in respect of purchases made in relation to the issue of non-voting ordinary shares under the Company's share or share option plans).

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1st December 2003 and made certain amendments to the Companies Act 1985 so as to allow companies acquiring their own shares in certain circumstances to hold those shares in treasury, for resale or for the purposes of a company's share or share option plans, rather than being obliged to cancel them. If the Company were to purchase its own non-voting ordinary shares pursuant to the authority sought in this resolution, the Directors would consider whether to cancel those shares or hold them as treasury shares, in the latter case only to be used for the purposes of the Company's share or share option plans.

**Amendments to the Company's Articles of Association**

11. That the Articles of Association of the Company be amended by the adoption of the amendments to articles 2, 4, 6, 8, 13, 14, 16, 37, 38, 41, 43, 44, 47, 54, 58, 63, 76, 79, 88, 95, 101, 112, 124, 131, 132, 140, 142, 144 and 145 highlighted in the revised print of the Articles of Association initialled by the Chairman for the purpose of identification only.

The Company's Articles of Association were adopted in February 2000 and last amended in April 2002. Since then there have been certain changes to company law and practice, most notably the coming into force of the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003, the effect of which is explained above in relation to resolution 10. Various minor amendments to the Company's Articles of Association are recommended so as to make them consistent with these Regulations. This will clarify the interpretation of the Articles of Association should the Company wish to hold shares in treasury in the future. These amendments affect Articles 8, 13, 58, 63, 101, 112, 131, 132 and 145.

In addition, a number of technical amendments are proposed to take account of the Uncertificated Securities Regulations 2001 and other developments relating to the holding of shares in uncertificated form. These amendments affect Articles 2, 14, 43, 44, 47, 79 and 144.

Certain other changes to the Articles of Association are recommended to be made to take account of developments in market practice or which are of a technical or drafting nature. These changes would affect Articles 2, 4, 6, 13, 16, 37, 38, 41, 54, 58, 76, 95, 124, 131, 132, 140 and 142. In addition, an amendment to Article 88 is proposed to allow Directors to retire by rotation more frequently than once every three years. This is intended to spread the retirement of Directors more evenly over a three year period. An amendment to Article 54 is proposed to authorise the Company to dispense with sending notices of meetings and related documents to members who are untraceable. It would no longer be necessary to continue mailing documents to an inoperative address after documents had been returned undelivered on two consecutive occasions.

The number of the proposed amendments is such that they have not been described separately in this resolution but have been marked in a revised draft of the Articles of Association which is available for inspection as detailed on page 30.

**Political donations and expenditure (Resolutions 12, 13 and 14)**

12. That pursuant to section 347C of the Companies Act 1985 (as amended) the Company be and is hereby authorised to:

(a) make donations to EU political organisations; and

(b) incur EU political expenditure in an aggregate amount not exceeding £50,000 during the period commencing on the passing of this resolution and ending on 22nd April 2008 or, if sooner, at the conclusion of the Annual General Meeting to be held in 2008. For the purposes of this resolution, the terms 'donations', 'EU political organisations' and 'EU political expenditure' shall have the meanings set out in Part XA of the Companies Act 1985 (as amended).

# Governance
# Notice of Annual General Meeting

13. That pursuant to section 347D of the Companies Act 1985 (as amended) Schroder Investment Management Limited being a wholly-owned subsidiary of the Company, be and is hereby authorised to:
    (a) make donations to EU political organisations; and
    (b) incur EU political expenditure in an aggregate amount not exceeding £50,000 during the period commencing on the passing of this resolution and ending on 22nd April 2008 or, if sooner, at the conclusion of the Annual General Meeting of the Company to be held in 2008. For the purposes of this resolution, the terms 'donations', 'EU political organisations' and 'EU political expenditure' shall have the meanings set out in Part XA of the Companies Act 1985 (as amended).

14. That pursuant to section 347D of the Companies Act 1985 (as amended) Schroder Investment Management (Luxembourg) S.A. being a wholly-owned subsidiary of the Company, be and is hereby authorised to:
    (a) make donations to EU political organisations; and
    (b) incur EU political expenditure in an aggregate amount not exceeding £50,000 during the period commencing on the passing of this resolution and ending on 22nd April 2008 or, if sooner, at the conclusion of the Annual General Meeting of the Company to be held in 2008. For the purposes of this resolution, the terms 'donations', 'EU political organisations' and 'EU political expenditure' shall have the meanings set out in Part XA of the Companies Act 1985 (as amended).

These resolutions concern Part XA of the Companies Act 1985 (as amended), inserted by the Political Parties, Elections and Referendums Act 2000. Any donations to political organisations in excess of an aggregate of £5,000 or any political expenditure by the Company and any appropriate subsidiaries must be authorised by the Company's shareholders. Whilst the Group and its subsidiaries did not make any donations to political parties in the last financial year and each does not intend to do so in the current one, the resolutions are intended to authorise normal expenditure which, due to the wide definitions under Part XA, may be construed as political expenditure or as a donation to a political organisation. The resolutions do not purport to authorise any particular donation or expenditure but are in general terms as required by the Act. Any donations or expenditure in excess of £200, falling within the ambit of the definitions, are required to be disclosed in the Company's Annual Report in compliance with the Act.

A proxy form is enclosed to enable shareholders unable to attend the meeting to cast their votes by post at the Annual General Meeting.

By Order of the Board

**Howard Trust**
Secretary

19th March 2004

Registered Office:
31 Gresham Street
London EC2V 7QA

**Notes**
An ordinary shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and (insofar as permitted by the Company's Articles of Association) to vote instead of him.

A proxy need not be a member. A form of proxy is enclosed for ordinary shareholders which should be completed and returned to the Company's registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DN not later than 48 hours before the time fixed for the meeting. Completion of the proxy will not preclude an ordinary shareholder from attending and voting in person.

Shareholders who prefer to register the appointment of their proxy electronically via the internet can do so through the registrars' website at www.sharevote.co.uk where full instructions are given. The personal reference number, card ID and account number printed on the proxy form will be required. Alternatively shareholders who have already registered with Lloyds TSB Registrars' on-line portfolio service, Shareview, can appoint their proxy by logging on to their portfolio at www.shareview.co.uk and clicking on 'Company Meetings'. A proxy appointment made electronically will not be valid if sent to any address other than those provided or if received after 12 noon on 20th April 2004. Please note that any communication found to contain a computer virus will not be accepted.

The Company specifies that only those ordinary shareholders on the register of members as at 6 p.m. on 20th April 2004 will be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 6 p.m. on 20th April 2004 will be disregarded in determining the rights of any person to attend or vote at the meeting.

The Register of Directors' interests kept in accordance with section 325 of the Companies Act 1985 and a print of the Articles of Association showing proposed changes are available for inspection at the Company's registered office of the during normal business hours on weekdays until 22nd April 2004 and will be available for inspection at least 15 minutes prior to and during the meeting.

Profiles of each of the Directors offering themselves for election or re-election are on page 13 of this report. The profiles include, where appropriate, membership of Board Committees.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

# Governance
# Shareholder information

### Schroders plc

Registered in England
Company No. 3909886

### Registered Office

Schroders plc
31 Gresham Street
London EC2V 7QA
Tel: +44 (0) 20 7658 6000
Fax: +44 (0) 20 7658 6965

### Company Secretary

Howard Trust
Schroders plc
31 Gresham Street
London EC2V 7QA
Tel: +44 (0) 20 7658 6000
Fax: +44 (0) 20 7658 6965

### Financial Calendar

| | |
|---|---|
| Ex-dividend date | 24th March 2004 |
| Record date | 26th March 2004 |
| Annual General Meeting | 22nd April 2004 |
| Final dividend payment date | 26th April 2004 |

### Registrar

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

| | |
|---|---|
| UK Helpline: | +44 (0) 870 600 3970 |
| Fax: | +44 (0) 870 600 3980 |

### Overseas Branch Register

An Overseas Branch Register is operated in Bermuda for the benefit of shareholders with registered addresses in Bermuda. Enquiries should be directed to Lloyds TSB Registrars.

### Shareview Portfolio Service

The Shareview portfolio service from the Company's Registrar gives direct access to details of your shareholding, portfolio valuation and general information for shareholders. Shareholders must register at www.shareview.co.uk. You will need to enter the shareholder reference on your share certificate and other personal details. Having selected your own PIN, a user ID will be sent to you.

### Postal Dealing Service

Cazenove & Co. operates a postal dealing service in the Company's shares. A form can be accessed from our website at www.schroders.com. Further information is available from:

Cazenove & Co. Ltd
20 Moorgate
London EC2R 6DA

| | |
|---|---|
| Tel: | +44 (0) 20 7588 2828 |
| Fax: | +44 (0) 20 7155 9000 |

### Sharegift

If you only have a small number of shares whose value makes it difficult to sell, you may wish to consider donating to charity through Sharegift, an independent charity share donation scheme. For further information, please contact either Lloyds TSB Registrars or Sharegift, telephone +44 (0) 20 7337 0501 or see the website at www.sharegift.org.

### Enquiries

Enquiries and notifications concerning dividends, share certificates or transfers and address changes should be sent to the Registrar; other shareholder enquiries should be addressed to the Company Secretary at the Registered Office.

Further information is also available from the Company's investor relations website at http://ir.schroders.com.

### Capital Gains Tax

**Values at 31st March 1982**
The market values of the former parent company's shares at 31st March 1982 (adjusted to take account of the 1986, 1990, 1993, 1995 and 1998 capitalisation issues) were:

Ordinary shares: 23.6509p
Non-voting ordinary shares: 22.7582p

**Values related to disposal of investment banking business**

Shareholders who received Schroders plc shares and Schroder Holdings (Jersey) Ltd (SHJ) shares in place of Schroders plc shares held prior to 18th April 2000 may have a liability to UK capital gains tax in respect of their disposal of the SHJ shares for a consideration of £3.00 per share to Salomon Smith Barney.

Shareholders on the register at 17th April 2000 received an additional 4.5132p per share in October 2000 under the terms of the Offer from Salomon Smith Barney dated 27th April 2000. This should be taken into account for capital gains tax in the same way as the original consideration of £3.00 per share. The base cost of the previously held shares should be apportioned between the SHJ shares and the new Schroders plc shares.

The Inland Revenue has confirmed the methodology to be used for this apportionment.

The market values for the new Schroders plc shares on their first day of trading were £9.77 for the ordinary shares and £8.05 for the non-voting ordinary shares.

The market value of the SHJ shares on that date was £3.00 and the apportionment of base cost is based on this value notwithstanding that the total consideration to be included in capital gains tax computations will include the additional consideration of 4.5132p.
For voting ordinary shares the base cost apportionment is:

- £9.77 ÷ 12.77 to the new Schroders plc shares,
- £3.00 ÷ 12.77 to the SHJ shares.

# Governance

# Shareholder information

For non-voting ordinary shares, the base cost apportionment is:

- £8.05 ÷ 11.05 to the new non-voting Schroders plc shares and;
- £3.00 ÷ 11.05 to the SHJ shares.

Whether or not a liability to UK capital gains tax arises on the disposal of SHJ shares will depend on the individual circumstances of the shareholder and the form of consideration received:

- Where cash was received, the shareholder will be treated as having made a disposal or part disposal of the SHJ shares for capital gains tax purposes;
- To the extent that loan notes or shares were received, there is no disposal for capital gains tax and any gain or loss which would have arisen on a disposal will be 'rolled over' into the loan notes or shares. These are treated as the same asset as the relevant holding of SHJ shares for which they were exchanged. Any subsequent disposal of the loan notes or shares may give rise to a capital gain or loss depending on individual circumstances. In calculating the capital gain arising on any such disposal, the holder's acquisition costs will be deemed to be the original acquisition cost to the holder of the relevant holding of SHJ shares.

# Directors' responsibility statement

The following statement, which should be read in conjunction with the Report of the independent auditors, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Report and Accounts. The Directors have responsibility for ensuring that the Group keeps proper accounting records. They are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and of the Group at the end of the financial year and of the results for the year. They are also responsible for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors remain satisfied that the Group has adequate resources to continue in business and accordingly that financial statements should be drawn up on a going concern basis. Further, appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates have been used in the preparation of these financial statements and applicable accounting standards have been followed. These policies and standards, for which the Directors accept responsibility, have been discussed with the auditors.

The Directors, having prepared the financial statements, have requested the auditors to take whatever steps and to undertake whatever inspections they consider appropriate for the purpose of giving their report.

The Management statement on pages 3 to 5 and the Operating and financial review on pages 6 to 9 contain certain forward-looking statements with respect to the financial condition, results of, operations and businesses of the Group. These statements and forecasts involve risk and uncertainty because they relate to events and depend on 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 report should be construed as a profit forecast.

# Report of the independent auditors

**Independent Auditors' report to the members of Schroders plc**

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain current assets) and in accordance with the accounting policies set out in Note 1. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Remuneration Report under the headings 'Directors' emoluments', 'Directors' pension entitlements', 'Directors' deferred cash', 'Directors' share interests' and 'Directors' rights to shares' (the auditable part).

**Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Directors' responsibility statement.

Our responsibility is to audit the financial statements and the auditable part of the Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Management Statement, the Operating and Financial Review, the Corporate Governance Statement, the unaudited part of the Remuneration Report and the Directors' Report.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code (issued in June 1998) specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

**Basis of audit opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the Remuneration Report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the auditable part of the Remuneration Report.

**Opinion**

**In our opinion:**

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December 2003 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors London

11th March 2004

# Financial accounts

## Consolidated Profit and Loss Account for the year ended 31st December 2003

| | Notes | 2003 Continuing operations £mn | 2003 Discontinued operations £mn | 2003 Total £mn | 2002 Continuing operations £mn | 2002 Discontinued operations £mn | 2002 Total £mn |
|---|---|---|---|---|---|---|---|
| Net revenues | 2, 3 | 427.5 | 0.1 | 427.6 | 471.2 | 1.4 | 472.6 |
| Gains/(losses) on current asset investments | | 17.1 | – | 17.1 | (5.1) | – | (5.1) |
| Administrative expenses | 4 | (387.2) | (0.4) | (387.6) | (421.2) | (6.2) | (427.4) |
| Depreciation | 11 | (8.2) | (0.1) | (8.3) | (30.5) | (1.6) | (32.1) |
| Amortisation of goodwill | 10 | (10.3) | – | (10.3) | (10.6) | – | (10.6) |
| Group operating profit/(loss) | | 38.9 | (0.4) | 38.5 | 3.8 | (6.4) | (2.6) |
| Share of operating profit of associated undertakings | 12 | 2.5 | – | 2.5 | 7.7 | – | 7.7 |
| **Total operating profit/(loss)** | | 41.4 | (0.4) | 41.0 | 11.5 | (6.4) | 5.1 |
| Provision for loss on sale of subsidiary undertakings | | – | – | – | – | (6.3) | (6.3) |
| Profit on disposal of subsidiary undertakings | 32 | – | 2.4 | 2.4 | 0.9 | – | 0.9 |
| Interest receivable and similar income | | 24.7 | 0.1 | 24.8 | 22.0 | 0.8 | 22.8 |
| Amounts written off fixed asset investments | 12 | (1.9) | – | (1.9) | (3.3) | – | (3.3) |
| Interest payable and similar charges | 3 | (0.7) | – | (0.7) | (0.3) | – | (0.3) |
| **Profit/(loss) on ordinary activities before tax** | 2, 3 | 63.5 | 2.1 | 65.6 | 30.8 | (11.9) | 18.9 |
| Tax (charge)/credit on profit/(loss) on ordinary activities | 7 | | | (16.4) | | | 7.7 |
| **Profit on ordinary activities after tax** | | | | 49.2 | | | 26.6 |
| Minority interests | | | | – | | | (0.5) |
| **Profit attributable to shareholders** | | | | 49.2 | | | 26.1 |
| Dividends | 8 | | | (53.7) | | | (53.3) |
| **Loss retained by the Group for the financial year** | 24 | | | (4.5) | | | (27.2) |
| **Basic earnings per share** | 9 | | | 16.7p | | | 8.8p |
| **Diluted earnings per share** | 9 | | | 16.6p | | | 8.8p |

# Statement of Total Consolidated Recognised Gains and Losses for the year ended 31st December 2003

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| Profit for the financial year | 49.2 | 26.1 |
| Exchange translation adjustments to foreign currency net investments | (7.6) | (14.0) |
| **Total recognised gains and losses** | 41.6 | 12.1 |

# Note of Historical Cost Profits and Losses for the year ended 31st December 2003

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| Reported profit on ordinary activities before tax | 65.6 | 18.9 |
| Unrealised (gains)/losses on current asset investments | (12.0) | 3.0 |
| **Historical cost profit on ordinary activities before tax** | 53.6 | 21.9 |
| **Historical cost loss for the year retained, after tax, minority interest and dividends** | (16.5) | (24.2) |

# Reconciliation of Movements in Consolidated Shareholders' Funds for the year ended 31st December 2003

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| Profit for the financial year | 49.2 | 26.1 |
| Dividends | (53.7) | (53.3) |
| | (4.5) | (27.2) |
| New share capital subscribed | 4.8 | 3.0 |
| Reduction in shares to be issued | (5.0) | (3.0) |
| Cancellation of non-voting ordinary shares | – | (19.4) |
| Exchange translation adjustments | (7.6) | (14.0) |
| Net decrease in shareholders' funds | (12.3) | (60.6) |
| Equity shareholders' funds brought forward | 1,051.9 | 1,112.5 |
| **Equity shareholders' funds carried forward** | 1,039.6 | 1,051.9 |

# Financial accounts

## Consolidated Balance Sheet 31st December 2003

| | Notes | 2003 £mn | 2003 £mn | 2002 £mn | 2002 £mn |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets – goodwill | 10 | 24.5 | | 35.0 | |
| Tangible assets | 11 | 10.1 | | 17.8 | |
| Investments | 12 | 116.6 | | 100.5 | |
| | | | 151.2 | | 153.3 |
| **Insurance assets attributable to unit linked policyholders** | 13 | | – | | 2,134.6 |
| | | | 151.2 | | 2,287.9 |
| **Current assets** | | | | | |
| Debtors due after more than one year | 14 | 266.2 | | 262.1 | |
| Debtors due within one year | 14 | 499.9 | | 409.0 | |
| Investments | 17 | 1,245.0 | | 889.6 | |
| Own shares | 28 | 10.4 | | 7.5 | |
| Cash and balances with banks | | 462.9 | | 736.4 | |
| | | 2,484.4 | | 2,304.6 | |
| **Creditors** | | | | | |
| Amounts falling due within one year | 18 | (1,350.6) | | (1,098.5) | |
| **Net current assets** | | | 1,133.8 | | 1,206.1 |
| **Total assets less current liabilities** | | | 1,285.0 | | 3,494.0 |
| **Creditors** | | | | | |
| Amounts falling due after more than one year | 18 | | (213.0) | | (256.6) |
| **Insurance liabilities attributable to unit linked policyholders** | | | – | | (2,134.6) |
| ***Provisions for liabilities and charges*** | 21 | | (32.4) | | (50.9) |
| **Net assets** | | | 1,039.6 | | 1,051.9 |
| **Capital and reserves** | | | | | |
| Called up share capital | 23 | | 296.3 | | 295.7 |
| Share premium account | 24 | | 22.0 | | 17.8 |
| Shares to be issued | | | 4.9 | | 9.9 |
| Capital reserves | 24 | | 130.8 | | 129.4 |
| Profit and loss account | 24 | | 585.6 | | 599.1 |
| **Equity shareholders' funds** | 2 | | 1,039.6 | | 1,051.9 |

Approved by the Board of Directors on 11th March 2004.

Jonathan Asquith
Bruno Schroder
} Directors

Bruno L. Schroder

# Consolidated Cash Flow Statement for the year ended 31st December 2003

| | | Notes | **2003 £mn** | 2002 £mn |
|---|---|---|---|---|
| **Net cash inflow from operating activities** | | 25 | 129.9 | 78.7 |
| **Dividends/distributions received from associates** | | | – | 0.5 |
| **Returns on investments and servicing of finance** | | | | |
| Interest received | | | 26.2 | 21.1 |
| Interest paid | | | (0.7) | (0.3) |
| **Net cash inflow from returns on investments and servicing of finance** | | | 25.5 | 20.8 |
| **Taxation** | | | | |
| United Kingdom corporation tax recovered | | | 0.2 | 8.6 |
| *Overseas tax paid* | | | (9.4) | (13.2) |
| **Total tax paid** | | | (9.2) | (4.6) |
| **Capital expenditure and financial investments** | | | | |
| Tangible fixed assets | – purchases | | (1.6) | (91.1) |
| | – disposals | | 0.6 | 104.3 |
| Fixed asset investments | – purchases | | (63.5) | (52.9) |
| | – disposals | | 49.6 | 53.5 |
| **Net cash (outflow)/inflow from capital expenditure and financial investments** | | | (14.9) | 13.8 |
| **Acquisitions and disposals** | | | | |
| Associated undertakings | – acquisitions | | (4.2) | (1.3) |
| | – disposals | | 0.4 | – |
| Subsidiaries | – acquisitions | | – | (0.5) |
| | – cash disposed | | (21.8) | (2.1) |
| | – disposals | | 27.0 | 3.3 |
| **Net cash inflow/(outflow) from acquisitions and disposals** | | | 1.4 | (0.6) |
| **Dividends paid** | | | (53.4) | (53.5) |
| **Net cash inflow before use of liquid resources and financing** | | | 79.3 | 55.1 |
| **Management of liquid resources** | | | | |
| **Net cash outflow from management of liquid resources** | | 25 | (159.6) | (97.7) |
| **Financing** | | | | |
| Purchase of non-voting ordinary shares for cancellation | | | – | (19.4) |
| **Decrease in cash** | | 25 | (80.3) | (62.0) |

# Financial accounts

## Schroders plc Balance Sheet 31st December 2003

| | Notes | 2003 £mn | 2003 £mn | 2002 £mn | 2002 £mn |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments | | | | | |
| Shares in subsidiary undertakings | 27 | | 1,228.0 | | 1,228.0 |
| Loans to subsidiary undertakings | 27 | | 32.4 | | 42.0 |
| | | | 1,260.4 | | 1,270.0 |
| **Current assets** | | | | | |
| Own shares | 28 | 10.1 | | 7.3 | |
| Other debtors | | 9.5 | | 12.4 | |
| | | 19.6 | | 19.7 | |
| Cash and balances with banks | | | | | |
| Deposits with banks | | 0.1 | | 0.1 | |
| Deposits with subsidiary undertakings | | 0.4 | | 3.4 | |
| | | 20.1 | | 23.2 | |
| **Creditors** | | | | | |
| Amounts falling due within one year | 29 | (655.9) | | (605.7) | |
| **Net current liabilities** | | | (635.8) | | (582.5) |
| **Total assets less current liabilities** | | | 624.6 | | 687.5 |
| **Creditors** | | | | | |
| Amounts falling due after more than one year | 29 | | (0.9) | | – |
| **Net assets** | | | 623.7 | | 687.5 |
| **Capital and reserves** | | | | | |
| Called up share capital | 23 | | 296.3 | | 295.7 |
| Share premium account | 24 | | 22.0 | | 17.8 |
| Capital reserve | 24 | | 3.7 | | 3.7 |
| Shares to be issued | | | 4.9 | | 9.9 |
| Profit and loss account | 24 | | 296.8 | | 360.4 |
| **Equity shareholders' funds** | | | 623.7 | | 687.5 |

Approved by the Board of Directors on 11th March 2004.

Jonathan Asquith
Bruno Schroder
} Directors

Bruno L. Schroder

# Notes to the Accounts 31st December 2003

**Presentation of the financial statements**

Financial information for the year ended 31st December 2003 is presented in accordance with Format 1 of Schedule 4 to the Companies Act 1985 ('the Act'), adapted to include additional line items disclosing gains/(losses) on current asset investments.

The presentation of the consolidated balance sheet has been amended to show 'Own shares' and accordingly a separate accounting policy note is presented in this regard (see Note 1(l) below). In previous years, the Group has included holdings of its own shares within 'Investments' in 'Current assets'. In order to provide greater clarity as to the extent of such holdings, they are now shown separately on the face of the consolidated balance sheet.

## 1. Principal accounting policies

**(a) Basis of preparation:**
The consolidated accounts have been prepared in accordance with applicable accounting standards and, except for the treatment of taking to the profit and loss account profits and losses arising on the valuation of current asset investments, in accordance with the requirements of the Act. An explanation of this departure from the requirements of the Act is given in Notes 1(k)(ii) and 17.

The balance sheet of the Company complies with section 226 of, and Schedule 4 to, the Act. The Company takes advantage of the exemption in section 230 not to present its own profit and loss account.

**(b) Changes in accounting policy:**
There have been no changes to accounting policy during the year.

**(c) Basis of consolidation:**
The accounts of subsidiary and associated undertakings are coterminous with those of the Company apart from those of certain undertakings which have accounting reference dates other than 31st December for commercial reasons. Management accounts made up to 31st December are used for such undertakings.

In order to reflect the different nature of the shareholders' and unit linked policyholders' interests in the insurance business, the assets and liabilities attributable to unit linked policyholders are classified under separate headings in the consolidated balance sheet.

The accounts of certain subsidiary and associated undertakings incorporated outside the United Kingdom are drawn up initially to conform with local regulations and adjusted subsequently on consolidation to conform with United Kingdom company law and accounting standards.

The accounts incorporate the Group's share of the results of associated undertakings.

The results of subsidiary and associated undertakings acquired or sold are included from the date of acquisition or to the date of sale respectively.

The Group manages, as general partner, a number of limited partnership funds. In these situations the Group's investment, as the general partner, in the limited partnership fund is nominal in amount. The general partner's interests are accounted for in accordance with the policy on fixed asset investments (see Note 1(k)(i)) and are included within the total of 'Fixed asset investments' shown in the balance sheet. The limited partnership funds are not consolidated because there are severe long-term restrictions on the rights of the general partner.

**(d) Fees and commissions:**
'Net revenues' include gross fees receivable less commissions and distribution fees payable to third parties.

Asset management fees are credited on an accruals basis and commissions are credited as earned. Such income is included in 'Net revenues' in the profit and loss account.

**(e) Net interest income:**
Net interest income from Private Banking subsidiaries comprises interest receivable on debt securities and other fixed income securities, loans, advances and deposits placed, guarantee and commitment commissions, less interest payable on deposits taken and debt securities in issue, and is accounted for on an accruals basis. Such income is recorded in the profit and loss account within 'Net revenues'. Interest of doubtful collectability is excluded from the profit and loss account.

**(f) Leasing:**

(i) As lessor. Rental income from operating leases is recognised on a straight line basis. Income from finance leases after initial direct costs is recognised in proportion to the funds invested in leased assets. Such income is included in 'Net revenues' in the profit and loss account. Incentives given to enter into leases are amortised over the primary period of the lease.

(ii) As lessee. Rental costs under operating leases are charged to the profit and loss account in equal amounts over the periods of the leases. Incentives received to enter into leases of premises are amortised over the primary period of the lease.

**(g) Dividends from investments and capital distributions from venture capital and buy-out funds:**
Dividends from investments are credited to income when the right to receive payment is established; capital distributions, including carried interests, from venture capital and buy-out funds are credited against the cost of the relevant investment when received and any excess over cost is included in 'Net revenues'.

**(h) Foreign currency transactions:**
The results of subsidiary and associated undertakings drawn up in currencies other than sterling are translated at average rates of exchange ruling during the year. The assets and liabilities of these entities are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising on the translation of the results of these entities from the average rate used in the consolidated profit and loss account to the closing rate used in the consolidated balance sheet are taken through reserves.
In addition, exchange differences arising on the translation of the capital and reserves of these undertakings at the beginning of the year are also taken directly to reserves, against which are offset exchange translation differences arising on currency loans financing investment in subsidiary and associated undertakings.

# Financial accounts

## Notes to the Accounts 31st December 2003

The results of non-sterling branches are translated using the closing or temporal rate methods, as applicable.
Foreign currency assets and liabilities are translated at the rates of exchange ruling at the balance sheet date and any exchange differences arising are taken to the profit and loss account.

**(i) Provisions for bad and doubtful debts:**
Specific provisions for bad and doubtful debts are made against loans and advances made by Private Banking subsidiaries and leasing receivables to reflect an assessment of likely losses and are deducted from the relevant assets. Such provisions are recorded within 'Administrative expenses' in the profit and loss account.

**(j) Provision for surplus property:**
Provision is made on a discounted basis for the future rent expenses and related costs of leasehold property (net of estimated rental income) where the space is surplus to the future requirements of the Group.

**(k) Investments:**
Investments are accounted for according to the purpose for which they are held:

(i) Fixed asset investments. Investments that are held for continuing use in the business are classified as fixed asset investments and recorded in the balance sheet at cost less provision for impairment and, in the case of venture capital and buy-out funds, less capital distributions. Impairments in value are taken to the profit and loss account and recorded within 'Amounts written off fixed asset investments'.

(ii) Current asset investments. Investments held other than for continuing use in the business are recorded in the balance sheet at fair value. Gains and losses on such investments are recorded in the profit and loss account in the period in which they arise within 'Gains/(losses) on current asset investments'. The particulars of this departure from the Act and its financial effect are given in Note 17.

(iii) Seed capital investments. From time to time, Group companies inject capital into funds operated by the Group at their inception. Such 'seed capital' investments are accounted for in accordance with the Group's policy on current asset investments (see 1(k)(ii)) and are included within the total of current asset investments shown in the balance sheet. Gains and losses arising on such investments are recorded in the profit and loss account in the period in which they arise within 'Gains/(losses) on current asset investments'.

**(l) Own shares:**
Employee trusts have been established for the purposes of satisfying certain equity based awards. The holdings of these trusts include shares ('Own shares') that have not been allocated to employees of the Group, and where the risk of price fluctuation lies with the Group.

'Own shares' are held for the short term to meet future award requirements and are recorded at the lower of cost and market value in the balance sheet.

Revaluations of such holdings are taken to the profit and loss account and recorded within 'Gains/(losses) on current asset investments'.

**(m) Derivative contracts:**
Derivative contracts held for customer facilitation are included at fair value at the balance sheet date and movements in fair value are taken to the profit and loss account and are included within 'Net revenues'. Fair values represent the amount at which a derivative could be exchanged in a transaction at the balance sheet date between willing parties. Derivative contracts held for internal hedging purposes are valued on a basis consistent with the underlying transaction.

**(n) Goodwill:**
Goodwill arising on the acquisition of subsidiary and associated undertakings represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill is included in the balance sheet as an intangible asset and amortised on a straight line basis over the period of its estimated useful life not exceeding 20 years.

Goodwill is subject to impairment reviews at the end of the first full financial year following acquisition and at the end of any period when events or changes of circumstances indicate that the carrying value may not be recoverable. Impairment losses are taken to the profit and loss account and are included within 'Amortisation of goodwill'.

**(o) Tangible fixed assets:**
The Group's assets include leasehold improvements, office equipment, computers and cars which are depreciated over their useful lives on a straight line basis at rates varying between 20% and 33% per annum. Refundable lease deposits are stated at cost. The Group does not revalue its tangible fixed assets. Depreciation on assets purchased for operating leases is calculated using the straight line method so as to write off cost, less estimated residual value, of each asset over the life of the lease.

**(p) Deferred tax:**
Deferred tax is accounted for on an undiscounted basis at expected tax rates on all differences arising from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. A deferred tax asset is only recognised when it is more likely than not that the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying timing differences can be deducted.

**(q) Long-term life business:**
Premium income is accounted for when the policy liabilities are created. Assets attributable to unit linked policyholders are valued at market value.

Expenses incurred in the operation and establishment of the life business are deducted in arriving at operating profit/(loss). Costs of acquiring new business are deferred to the extent that they are recoverable out of future income and amortised as appropriate. Insurance liabilities to unit linked policyholders represent the value of in force units at the balance sheet date.

The Group sold its long-term life business, which consisted of its two defined contributions pension administration businesses, early in 2003 (see Note 32).

**(r) Pension costs:**
For defined contribution schemes, pension contributions payable in respect of the accounting period are charged to the profit and loss account. For defined benefit schemes, pension contributions are charged systematically to the profit and loss account over the expected service lives of employees. Variations from the regular cost are allocated to the profit and loss account over the average remaining service lives of employees.

**(s) Discontinued operations:**
The Group sold its two defined contribution pensions administration businesses early in 2003 (see Note 32) and withdrew from the provision of such services. Discontinued operations comprise the operating results for these entities for 2002 and 2003, together with profit arising on their disposal in 2003 and provisions for losses on their sale in 2002.

**(t) Associated undertakings:**
Associated undertakings comprise those undertakings, not being subsidiary undertakings, which carry on related activities, whose directors include representatives of the Group and where the Group has a significant interest in the equity capital.

In the Group financial statements, investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of associates' profits less losses within 'Share of operating profit of associated undertakings'. Tax arising on such profits is included within 'Tax (charge)/credit on profit/(loss) on ordinary activities'. The Group's share of the net assets of the associates is included under 'Fixed assets' within 'Investments' in the consolidated balance sheet.

# Financial accounts

# Notes to the Accounts 31st December 2003

### 2(a) Net revenues

Net revenues are stated after deducting commissions and distribution fees payable to third parties of £44.9 million (£57.6 million).

### 2(b) Segmental reporting

**(i) By class of business:**

The Group has three continuing classes of business: asset management, private equity and Group net income/(costs). Asset management principally comprises investment management and private banking, including advisory services, property and other alternative assets; private equity comprises private equity, venture capital and buy-out funds; Group net income/(costs) represents the return on the investment of the Group's liquid capital, Group central costs and provisions, and big ticket leasing.

| 2003 | Asset management continuing operations £mn | Asset management discontinued operations £mn | Total asset management £mn | Private equity £mn | Group net income /(costs) £mn | Total £mn | Total continuing operations £mn | Total discontinued operations £mn |
|---|---|---|---|---|---|---|---|---|
| Net revenues | 417.7 | 0.1 | 417.8 | 6.4 | 3.4 | 427.6 | 427.5 | 0.1 |
| Gains on current asset investments | 5.2 | – | 5.2 | 10.9 | 1.0 | 17.1 | 17.1 | – |
| Administrative expenses | (360.2) | (0.4) | (360.6) | (2.2) | (24.8) | (387.6) | (387.2) | (0.4) |
| Depreciation | (8.0) | (0.1) | (8.1) | – | (0.2) | (8.3) | (8.2) | (0.1) |
| Amortisation of goodwill | (10.3) | – | (10.3) | – | – | (10.3) | (10.3) | – |
| Group operating profit/(loss) | 44.4 | (0.4) | 44.0 | 15.1 | (20.6) | 38.5 | 38.9 | (0.4) |
| *Share of operating profit of* associated undertakings | 0.2 | – | 0.2 | 2.3 | – | 2.5 | 2.5 | – |
| **Total operating profit/(loss)** | 44.6 | (0.4) | 44.2 | 17.4 | (20.6) | 41.0 | 41.4 | (0.4) |
| Profit on disposal of subsidiary undertakings | – | 2.4 | 2.4 | – | – | 2.4 | – | 2.4 |
| Interest receivable and similar income | 6.4 | 0.1 | 6.5 | 1.2 | 17.1 | 24.8 | 24.7 | 0.1 |
| Amounts written off fixed asset investments | (0.1) | – | (0.1) | (1.8) | – | (1.9) | (1.9) | – |
| Interest payable and similar charges | (0.4) | – | (0.4) | – | (0.3) | (0.7) | (0.7) | – |
| **Profit/(loss) on ordinary activities before tax** | 50.5 | 2.1 | 52.6 | 16.8 | (3.8) | 65.6 | 63.5 | 2.1 |
| **Shareholders' funds** | 440.2 | – | 440.2 | 118.6 | 480.8 | 1,039.6 | 1,039.6 | – |

## 2(b) Segmental reporting (continued)

### (i) By class of business (continued):

| 2002 | Asset management continuing operations £mn | Asset management discontinued operations £mn | Total asset management £mn | Private equity £mn | Group net income /(costs) £mn | Total £mn | Total continuing operations £mn | Total discontinued operations £mn |
|---|---|---|---|---|---|---|---|---|
| Net revenues | 439.0 | 1.4 | 440.4 | 5.7 | 26.5 | 472.6 | 471.2 | 1.4 |
| (Losses)/gains on current asset investments | (1.7) | – | (1.7) | 2.5 | (5.9) | (5.1) | (5.1) | – |
| Administrative expenses | (395.1) | (6.2) | (401.3) | (1.0) | (25.1) | (427.4) | (421.2) | (6.2) |
| Depreciation | (12.7) | (1.6) | (14.3) | – | (17.8) | (32.1) | (30.5) | (1.6) |
| Amortisation of goodwill | (10.6) | – | (10.6) | – | – | (10.6) | (10.6) | – |
| Group operating profit/(loss) | 18.9 | (6.4) | 12.5 | 7.2 | (22.3) | (2.6) | 3.8 | (6.4) |
| Share of operating profit of associated undertakings | – | – | – | 7.7 | – | 7.7 | 7.7 | – |
| **Total operating profit/(loss)** | 18.9 | (6.4) | 12.5 | 14.9 | (22.3) | 5.1 | 11.5 | (6.4) |
| Provision for loss on disposal of subsidiary undertakings | – | (6.3) | (6.3) | – | – | (6.3) | – | (6.3) |
| Profit on disposal of subsidiary undertakings | 0.9 | – | 0.9 | – | – | 0.9 | 0.9 | – |
| Interest receivable and similar income | 7.1 | – | 7.1 | 1.3 | 14.4* | 22.8 | 22.0 | 0.8 |
| Amounts written off fixed asset investments | – | – | – | (3.3) | – | (3.3) | (3.3) | – |
| Interest payable and similar charges | (0.1) | – | (0.1) | – | (0.2) | (0.3) | (0.3) | – |
| **Profit/(loss) on ordinary activities before tax** | 26.8 | (12.7) | 14.1 | 12.9 | (8.1) | 18.9 | 30.8 | (11.9) |
| **Shareholders' funds** | 440.6 | 24.2 | 464.8 | 124.1 | 463.0 | 1,051.9 | 1,027.7 | 24.2 |

*Contains £0.8 million income relating to discontinued operations.

# Financial accounts

# Notes to the Accounts 31st December 2003

### 2(b) Segmental reporting (continued)

**(ii) By geographic area:**

The geographic analysis is based on the location of the entity or branch at which transactions are recorded.

| | United Kingdom* | | Continental Europe | | Americas | | Asia Pacific | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2003 £mn** | 2002 £mn | **2003 £mn** | 2002 £mn | **2003 £mn** | 2002 £mn | **2003 £mn** | 2002 £mn | **2003 £mn** | 2002 £mn |
| Net revenues | 223.3 | 275.1 | 85.2 | 73.2 | 40.6 | 60.3 | 78.5 | 64.0 | 427.6 | 472.6 |
| Gains/(losses) on current asset investments | 12.5 | 1.1 | (0.8) | (0.9) | 5.3 | (5.2) | 0.1 | (0.1) | 17.1 | (5.1) |
| Administrative expenses | (239.4) | (247.0) | (52.7) | (54.6) | (42.0) | (60.2) | (53.5) | (65.6) | (387.6) | (427.4) |
| Depreciation | (5.3) | (28.7) | (1.4) | (1.4) | (0.5) | (0.8) | (1.1) | (1.2) | (8.3) | (32.1) |
| Amortisation of goodwill | (7.6) | (7.6) | – | – | – | – | (2.7) | (3.0) | (10.3) | (10.6) |
| Group operating profit/(loss) | (16.5) | (7.1) | 30.3 | 16.3 | 3.4 | (5.9) | 21.3 | (5.9) | 38.5 | (2.6) |
| Share of operating profit of associated undertakings | 0.2 | – | 2.3 | 7.7 | – | – | – | – | 2.5 | 7.7 |
| **Total operating profit/(loss)** | (16.3) | (7.1) | 32.6 | 24.0 | 3.4 | (5.9) | 21.3 | (5.9) | 41.0 | 5.1 |
| Provision for loss on disposal of subsidiary undertakings | – | (6.3) | – | – | – | – | – | – | – | (6.3) |
| Profit on disposal of subsidiary undertakings | 2.4 | – | – | – | – | 0.8 | – | 0.1 | 2.4 | 0.9 |
| Interest receivable and similar income | 20.4 | 17.1 | 2.8 | 3.1 | 0.8 | 1.7 | 0.8 | 0.9 | 24.8 | 22.8 |
| Amounts written off fixed asset investments | (0.1) | – | – | – | (0.6) | (2.0) | (1.2) | (1.3) | (1.9) | (3.3) |
| Interest payable and similar charges | (0.6) | (0.3) | – | – | (0.1) | – | – | – | (0.7) | (0.3) |
| **Profit/(loss) on ordinary activities before tax** | 5.8 | 3.4 | 35.4 | 27.1 | 3.5 | (5.4) | 20.9 | (6.2) | 65.6 | 18.9 |
| **Shareholders' funds** | 513.5 | 582.2 | 182.7 | 154.5 | 267.4 | 266.1 | 76.0 | 49.1 | 1,039.6 | 1,051.9 |

**Included within the United Kingdom are discontinued operations which relate solely to Schroder Hermes Limited and Schroder Pensions Limited which were sold on 24th January 2003 and 6th February 2003 respectively (see Note 32).*

### 3. Profit/(loss) on ordinary activities before tax is stated after:

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| **Crediting:** | | |
| Operating lease rentals | – | 19.3 |
| Aggregate amounts receivable under finance leases | 11.8 | 14.5 |
| Gain on sale of tangible fixed assets | 0.1 | – |
| **Charging:** | | |
| Loss on sale of tangible fixed assets | – | 1.9 |
| Provision against surplus leasehold office space (see Note 21) | 2.2 | 3.7 |
| Interest payable and similar charges on overdrafts and bank loans | 0.7 | 0.3 |
| Operating lease rentals | 23.9 | 24.9 |
| Audit and non-audit fees | 2.7 | 2.8 |

Audit and non-audit fees comprised:

| | **2003** | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **UK £mn** | **Overseas £mn** | **Total £mn** | UK £mn | Overseas £mn | Total £mn |
| Audit services | 0.6 | 0.6 | 1.2 | 0.6 | 0.5 | 1.1 |
| Further assurance services | 0.2 | 0.1 | 0.3 | 0.1 | 0.1 | 0.2 |
| Tax services | – | 0.2 | 0.2 | – | 0.7 | 0.7 |
| Other services | 0.9 | 0.1 | 1.0 | 0.8 | – | 0.8 |
| | 1.7 | 1.0 | 2.7 | 1.5 | 1.3 | 2.8 |

### 4. Administrative expenses

| | **2003** | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Continuing operations £mn** | **Discontinued operations £mn** | **Total £mn** | Continuing operations £mn | Discontinued operations £mn | Total £mn |
| Staff costs | | | | | | |
| Salaries and other remuneration | 200.6 | 0.2 | 200.8 | 216.7 | 2.9 | 219.6 |
| Social security costs | 12.8 | – | 12.8 | 14.5 | 0.2 | 14.7 |
| Other pension costs (see Note 5) | 17.1 | – | 17.1 | 6.4 | 0.1 | 6.5 |
| | 230.5 | 0.2 | 230.7 | 237.6 | 3.2 | 240.8 |
| Other administrative expenses | 156.7 | 0.2 | 156.9 | 183.6 | 3.0 | 186.6 |
| | 387.2 | 0.4 | 387.6 | 421.2 | 6.2 | 427.4 |

The average number of employees employed by the Company and its subsidiary undertakings during the year was:

| | **Average** | |
|---|---|---|
| | **2003 Number** | 2002 Number |
| Full-time employees | 2,090 | 2,360 |
| Contract and temporary staff | 217 | 281 |
| | 2,307 | 2,641 |
| They were employed as follows: | | |
| Continuing operations | 2,304 | 2,576 |
| Discontinued operations | 3 | 65 |
| | 2,307 | 2,641 |

# Financial accounts

# Notes to the Accounts 31st December 2003

### 5. Pension costs

The charge for other pension costs comprised:

| | **2003** **£mn** | 2002 £mn |
|---|---|---|
| Defined benefit schemes | 12.0 | 0.9 |
| Defined contribution schemes | 5.0 | 5.5 |
| Self-funding schemes | 0.1 | 0.1 |
| | 17.1 | 6.5 |

The principal scheme in the UK is the Schroders Retirement Benefits Scheme (the 'UK Scheme') which is non-contributory and primarily defined benefit. It has 612 active members in the final salary section and 359 members in the defined contribution section at 31st December 2003 (725 and 334 respectively at 31st December 2002). The most recent triennial valuation of the UK Scheme was carried out as at 1st January 2003 and disclosed that the market value of the assets of the UK Scheme represented 88% of the liability for the benefits that had accrued to members at that date allowing for future increases in earnings and pensions. As a result of discussions between the Trustees and Company following the valuation, the Company agreed to increase its contributions to 30.8% of capped salaries to cover the accrual of ongoing benefits. In addition, the Company agreed to make additional contributions of £375,000 per month from January 2003 until June 2015 to extinguish the past service deficit in the UK Scheme. These contributions will be reviewed at the next formal valuation of the UK Scheme which is due as at 1st January 2006.

The pension cost under SSAP 24 for the final salary section of the UK Scheme has been determined by independent qualified actuaries, Hewittt Bacon & Woodrow, and is based on a valuation of the UK Scheme as at 1st January 2003. This valuation was carried out using the projected unit method. The principal financial assumptions used to calculate the pension cost were that inflation would average 2.3% per annum and that pension increases and pay increases would average 0.2% per annum and 1.5% per annum above inflation. A discount rate of 5.5% before retirement and 4.75% after retirement was used. Assets were taken at market value together with an adjustment that phased in over three years the UK Scheme's assets' underperformance versus a notional portfolio constructed to match the liabilities of the UK Scheme.

This SSAP 24 valuation showed that the market value of the assets of the final salary section was £302 million. After allowing for the underperformance adjustment, the assets represented 106% of the liabilities. The amount charged to the profit and loss account in respect of regular costs of the UK Scheme was £13.1 million (£11.7 million) less the variation of £1.1 million (£10.8 million) for the amortisation of the surplus over the average remaining service lives of the active employees, using the percentage of payroll method. The net pension cost charged was £11.4 million (£0.5 million) which incorporated a small reduction of £0.6 million (£0.4 million) in respect of the balance sheet prepayment at the start of the year. The main reason for the significant increase in the net pension cost for 2003 over that charged for 2002, was the worldwide fall in equity values which reduced the SSAP 24 surplus in the UK Scheme with a corresponding decrease in the variation credit.

Over the year, the contributions to the final salary section of the UK Scheme totalled £15.8 million (£4.6 million). The balance sheet prepayment at 31st December 2003 was £15.6 million (£11.2 million).

The Group operates a number of smaller non-material pension schemes around the world, some of which are funded defined benefits schemes with valuations performed regularly by qualified actuaries, the actuarial assumptions varying according to the economic conditions of the countries in which the funds are situated. In addition, there are several defined contribution schemes.

The additional disclosures required by Financial Reporting Standard 17 ('FRS 17') are set out below. Figures are shown for the UK Scheme.

**FRS 17 Retirement Benefits**

The date of the most recent actuarial valuation of the UK Scheme is 1st January 2003. Qualified independent actuaries, Hewitt Bacon & Woodrow, have updated these valuations to 1st January 2004.

The major assumptions used to calculate the FRS 17 figures for the UK Scheme are set out below:

| | **2003** **% p.a.** | 2002 % p.a. | 2001 % p.a. |
|---|---|---|---|
| Rate of general long-term increase in salaries | 4.3 | 3.8 | 4.0 |
| Rate of increase to pensions in payment | 2.7 | 2.4 | 2.5 |
| Discount rate applied to scheme liabilities | 5.4 | 5.5 | 5.8 |
| Inflation assumption | 2.8 | 2.3 | 2.5 |

### 5. Pension costs (continued)

The expected rate of return and market values of the assets of the UK Scheme at 31st December 2003 were as follows:

| | **2003** | | 2002 | | 2001 | |
|---|---|---|---|---|---|---|
| | **Expected long term rate of return %** | **Market value £mn** | Expected long term rate of return % | Market value £mn | Expected long term rate of return % | Market value £mn |
| **Market value of assets** | | | | | | |
| Equities | 8.3 | 299.6 | 8.0 | 227.0 | 8.4 | 279.0 |
| Bonds | 4.9 | 48.5 | 4.6 | 51.0 | 5.0 | 52.0 |
| Other | 4.8 | 5.6 | 4.5 | 24.0 | 4.9 | 32.0 |
| Total | | 353.7 | | 302.0 | | 363.0 |
| Present value of scheme liabilities | | (382.4) | | (317.6) | | (298.0) |
| (Deficit)/surplus in the scheme | | (28.7) | | (15.6) | | 65.0 |
| Deferred tax | | 8.6 | | 4.7 | | (19.5) |
| Net pension (liability)/asset | | (20.1) | | (10.9) | | 45.5 |

The amount that would be charged to the profit and loss account over the year under FRS 17 is set out below:

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| Current service cost | 11.6 | 13.6 |
| Expected return on scheme assets | (21.2) | (27.4) |
| Interest on scheme liabilities | 17.2 | 17.0 |
| Total charge | 7.6 | 3.2 |

Past service costs for the year would have been £nil (£nil).

The change in the (deficit)/surplus in the UK Scheme over the year is analysed below:

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| (Deficit)/surplus in scheme at beginning of year | (15.6) | 65.0 |
| Current service cost | (11.6) | (13.6) |
| Expected return on scheme assets | 21.2 | 27.4 |
| Interest on scheme liabilities | (17.2) | (17.0) |
| Contributions | 15.8 | 4.6 |
| Actuarial loss | (21.3) | (82.0) |
| Deficit in scheme at end of year | (28.7) | (15.6) |

The amounts under FRS 17 that would be recognised in the Statement of Total Consolidated Recognised Gains and Losses (STRGL) *for the year are set out below:*

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **£mn** | % | £mn | % |
| Actual return less expected return on scheme assets (% of year end market value of assets) | 25.7 | 7.3 | (83.2) | (27.5) |
| Experience gains and losses arising on scheme liabilities (% of year end present value of scheme liabilities) | 7.4 | 1.9 | 10.7 | 3.4 |
| Changes in assumptions underlying the present value of the scheme liabilities (% of year end present value of scheme liabilities) | (54.4) | (14.2) | (9.5) | (3.0) |
| Actuarial loss recognised in STRGL (% of year end present value of scheme liabilities) | (21.3) | (5.6) | (82.0) | (25.8) |

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# Notes to the Accounts 31st December 2003

## 5. Pension costs (continued)

The effects of the FRS 17 pension liability on the net assets and reserves of the Group are set out below:

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| **Net assets** | | |
| Net assets | 1,039.6 | 1,051.9 |
| FRS 17 pension liability | (20.1) | (10.9) |
| SSAP 24 pension prepayment | (15.6) | (11.2) |
| Deferred tax on SSAP 24 pension prepayment | 4.7 | 1.7 |
| Net assets including FRS 17 pension liability | 1,008.6 | 1,031.5 |

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| **Reserves** | | |
| Profit and loss account | 585.6 | 599.1 |
| FRS 17 pension liability | (20.1) | (10.9) |
| SSAP 24 pension prepayment | (15.6) | (11.2) |
| Deferred tax on SSAP 24 pension prepayment | 4.7 | 1.7 |
| Profit and loss account including FRS 17 pension liability | 554.6 | 578.7 |

## 6. Directors

### (a) Total emoluments

The aggregate emoluments of the Directors amounted to £6.3 million (£5.7 million). The aggregate of employer contributions to defined contribution arrangements in respect of the Directors during the year was £0.1 million (£0.9 million). Retirement benefits are accruing to 4 (5) Directors under defined contribution arrangements and to 5 (8) Directors under the defined benefit section of the UK Scheme. The aggregate amount paid to Directors under the deferred cash arrangement during the year was £0.4 million (£0.2 million).
The emoluments of the highest paid Director during the year amounted to £2.0 million (£2.0 million). The gain on the exercise of market value share options during 2003 amounted to £0.7 million (£nil). The aggregate gain on nil cost options exercised during 2003 amounted to £0.6 million (£0.7 million). There are no severance payments included in the emoluments for 2003 (£0.1 million to one Director). Further details relating to emoluments paid to Directors are given in the Remuneration Report on pages 14 to 22.

### (b) Rights to shares

Details of Directors' rights to shares are provided in the Remuneration Report on page 21.

### (c) Directors' loans

Under the Companies Act 1985, Schroder & Co. Limited is permitted as a banking company to make loans to Directors of the Company. There were no loans outstanding at 31st December 2003 or at 31st December 2002 to Directors which need to be disclosed pursuant to the Act. Financial Reporting Standard 8 recognises that banks are obliged to observe a strict duty of confidentiality in respect of their customers' affairs and accordingly no information is provided regarding deposits placed by or loans to and guarantees on behalf of the Group's Directors except as required by law.

## 7. Tax on profit/(loss) on ordinary activities

### (a) Analysis of charge/(credit) in the year

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| Current tax: | | |
| UK corporation tax on profits of the year | 6.5 | 4.7 |
| Double tax relief | (6.5) | (4.6) |
| | – | 0.1 |
| Adjustments in respect of prior years | 0.6 | 6.5 |
| | 0.6 | 6.6 |
| Foreign tax - current | 14.6 | 6.4 |
| Foreign tax - adjustments in respect of prior years | 0.1 | 6.7 |
| Total current tax | 15.3 | 19.7 |
| *Deferred tax - origination and reversal of timing differences (see Note 21(b))* | 1.1 | (27.4) |
| Tax charge/(credit) on profit/(loss) on ordinary activities | 16.4 | (7.7) |

### (b) Factors affecting tax charge for the year

The current tax for the year is lower than the standard rate of corporation tax in the UK of 30% (30%). The differences are explained below:

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| Profit on ordinary activities before tax | 65.6 | 18.9 |
| Profit on ordinary activities before tax multiplied by corporation tax at the UK standard rate of 30% (30%) | 19.7 | 5.7 |
| Effects of: | | |
| Expenses not deductible for tax (including goodwill amortisation and losses not recognised for deferred tax) | 11.0 | 3.7 |
| Impact of profits/losses arising in jurisdictions with higher tax rates | 2.2 | 0.6 |
| Impact of profits/losses arising in jurisdictions with lower tax rates | (16.9) | (7.3) |
| Movement in tax losses | 1.1 | 0.4 |
| Timing differences - fixed assets | (4.5) | (0.9) |
| Other timing differences | 1.5 | 2.2 |
| UK tax - prior year adjustments | 0.6 | 6.5 |
| Foreign tax - prior year adjustments | 0.1 | 6.7 |
| UK tax on US profits | 0.5 | 2.1 |
| Current tax charged for the year (see (a) above) | 15.3 | 19.7 |

Tax on exceptional items amounted to £nil (£0.8 million credit).

### (c) Factors that may affect future tax charges

Deferred tax has been recognised on losses and timing differences as the expectation is that these will be utilised against the profits of later years.

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# Notes to the Accounts 31st December 2003

## 8. Dividends

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| Interim dividend - 5.5p (5.5p) per share | 16.1 | 16.0 |
| Final dividend proposed - 13.0p (13.0p) per share | 37.6 | 37.3 |
| | 53.7 | 53.3 |

Dividends of £1.3 million (£1.5 million) on shares held by the employee trusts have been waived (see Note 28).

## 9. Earnings per share

Basic earnings per share is calculated by dividing the profit for the financial year of £49.2 million (£26.1 million) by the weighted average number of ordinary shares (voting and non-voting) in issue during the year, less own shares not vesting unconditionally in employees.

Diluted earnings per share is calculated as for basic earnings per share with a further adjustment to the weighted average number of ordinary shares to reflect the effects of all dilutive potential ordinary shares.

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

| | **2003 Number** | 2002 Number |
|---|---|---|
| Number of shares used in calculation of basic earnings per share | 294,373,681 | 296,551,011 |
| Options issued prior to 31st December | 7,629,726 | 702,319 |
| Number of shares that would have been issued at fair value | (6,577,442) | (389,653) |
| Contingently issuable shares | 1,221,275 | 1,291,524 |
| Number of shares used in calculation of diluted earnings per share | 296,647,240 | 298,155,201 |

There is no difference between the profit for the financial year used in the basic and diluted earnings per share calculations.

## 10. Intangible fixed assets

| | **£mn** |
|---|---|
| **Goodwill** | |
| **Cost** | |
| At 1st January 2003 | 81.6 |
| Exchange translation and other adjustments | (1.3) |
| Disposals | (29.8) |
| **At 31st December 2003** | 50.5 |
| | |
| **Accumulated amortisation** | |
| At 1st January 2003 | (46.6) |
| Exchange translation adjustments | 1.1 |
| Amortisation for the year | (10.3) |
| Disposals | 29.8 |
| **At 31st December 2003** | (26.0) |
| | |
| **Net book value** | |
| **At 31st December 2003** | 24.5 |
| At 1st January 2003 | 35.0 |

## 11. Tangible fixed assets

| | Long leasehold premises and leasehold improvements* £mn | Office equipment, computers and cars £mn | Assets leased out under operating leases £mn | Total £mn |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1st January 2003 | 29.2 | 33.3 | 8.9 | 71.4 |
| Exchange translation adjustments | 0.2 | – | – | 0.2 |
| Additions | 0.1 | 1.5 | – | 1.6 |
| Disposals | (1.0) | (11.8) | (8.9) | (21.7) |
| **At 31st December 2003** | 28.5 | 23.0 | - | 51.5 |
| **Depreciation** | | | | |
| At 1st January 2003 | (18.7) | (26.0) | (8.9) | (53.6) |
| Exchange translation adjustments | (0.1) | – | – | (0.1) |
| Charge for the year | (3.9) | (4.4) | – | (8.3) |
| Disposals | 0.7 | 11.0 | 8.9 | 20.6 |
| **At 31st December 2003** | (22.0) | (19.4) | – | (41.4) |
| **Net book value** | | | | |
| **At 31st December 2003** | 6.5 | 3.6 | – | 10.1 |
| At 1st January 2003 | 10.5 | 7.3 | – | 17.8 |

*Includes lease deposits £1.9 million (£1.9 million).

## 12. *Investments held as fixed assets*

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| Associated undertakings | 49.9 | 43.6 |
| Other fixed asset investments | 66.7 | 56.9 |
| | 116.6 | 100.5 |

The principal associated undertaking, which is engaged in private equity investment and whose results are included in these accounts, is shown below together with the Group's percentage interest therein at 31st December 2003. The undertaking is incorporated and operates in Guernsey.

The interest in associated undertakings comprised:

| | Equity and *junior debt* £mn | Group's share *of reserves* £mn | *Total* £mn |
|---|---|---|---|
| At 1st January 2003 | 35.3 | 8.3 | 43.6 |
| Additions, including junior debt | 4.2 | – | 4.2 |
| Disposals | (0.4) | – | (0.4) |
| Profit for the year (tax - £nil) | – | 2.5 | 2.5 |
| **At 31st December 2003** | 39.1 | 10.8 | 49.9 |

Particulars of issued share and loan capital of the principal associated undertaking at 31st December 2003 were:

| | Class | Number | Issued capital | Percentage owned by the Group |
|---|---|---|---|---|
| **Guernsey** | | | | |
| Schroder Ventures Investments Limited | Ordinary shares | 446,200 | £4,462 | 50% |
| | Deferred Shares | 107,200 | £1,072 | – |
| | Redeemable preference shares | 8,792,371 | £8,792 | 50% |
| | 'B' Redeemable preference shares | 796,265 | £796,265 | – |
| | 'C' Redeemable preference shares | 2,109,062 | £2,109 | – |
| | Junior debt, 2008 | | £30,818,465 | 100% |
| | Senior debt, 2007 | | £44,489,506 | – |

# Financial accounts

# Notes to the Accounts 31st December 2003

## 12. Investments held as fixed assets (continued)

Other fixed asset investments comprised:

| | £mn |
|---|---|
| At 1st January 2003 | 56.9 |
| Exchange translation adjustments | (3.0) |
| Additions | 63.5 |
| Net transfers from current asset investments | 0.8 |
| Disposals | (49.6) |
| Amounts written off investments | (1.9) |
| **At 31st December 2003** | 66.7 |

Of the above investments, £32.1 million (£26.4 million) are listed. The market value of listed investments is £33.0 million (£27.2 million).

## 13. Insurance assets attributable to unit linked policyholders

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| (a) At 31st December, the insurance assets attributable to unit linked policyholders comprised: | | |
| Equities and unit trusts | – | 1,485.3 |
| Overseas investments | – | 518.0 |
| Fixed interest stocks | – | 69.7 |
| Cash unit trusts | – | 0.7 |
| Cash | – | (10.9) |
| Derivatives | – | (0.3) |
| Dividends and accrued interest | – | 5.9 |
| | – | 2,068.4 |
| Reinsurer's share of technical provisions for linked liabilities | – | 66.2 |
| | – | 2,134.6 |

(b) For the year ended 31st December, the summarised income and expenditure account of the life business comprised:

| | 2003 £mn | 2002 £mn |
|---|---|---|
| Gross premiums written | 38.9 | 113.6 |
| Reinsurance premiums | (2.5) | (21.2) |
| Net claims incurred | (13.8) | (278.5) |
| Unrealised losses | (160.4) | (635.6) |
| Investment income receivable | (2.3) | 27.4 |
| Change in technical provisions for linked liabilities | 140.1 | 795.5 |
| *Net operating expenses* | (0.5) | (7.4) |
| | (0.5) | (6.2) |

The above figures relate to Schroder Hermes Limited and Schroder Pensions Limited which were sold on 24th January 2003 and 6th February 2003 respectively.

## 14. Debtors

| | **2003** | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Due within one year £mn** | **Due after more than one year £mn** | **Total £mn** | Due within one year £mn | Due after more than one year £mn | Total £mn |
| Prepayments and accrued income | 86.2 | 7.4 | 93.6 | 78.5 | 9.0 | 87.5 |
| Loans and advances to customers of Private Banking subsidiaries | 267.4 | 182.5 | 449.9 | 214.9 | 159.2 | 374.1 |
| Leasing receivables (see Note 16) | 0.2 | 33.0 | 33.2 | 0.5 | 43.5 | 44.0 |
| Fee debtors | 58.0 | – | 58.0 | 40.2 | – | 40.2 |
| Derivative contracts | 21.6 | – | 21.6 | 2.5 | – | 2.5 |
| Settlement accounts | 29.8 | – | 29.8 | 24.6 | – | 24.6 |
| Deferred tax (see Note 21(b)) | 10.9 | 42.7 | 53.6 | 12.4 | 50.0 | 62.4 |
| Other debtors | 25.8 | 0.6 | 26.4 | 35.4 | 0.4 | 35.8 |
| | 499.9 | 266.2 | 766.1 | 409.0 | 262.1 | 671.1 |

Certain comparative amounts have been restated as a result of separating out the caption 'Settlement accounts' in the above analysis.

## 15. Specific provisions for bad and doubtful debts

Loans and advances to Private Banking customers and leasing receivables are stated less the following specific provisions:

| | **£mn** |
|---|---|
| **At 1st January 2003 and 31st December 2003** | 0.5 |

## 16. Leasing receivables

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| Net investment in finance leases | 33.2* | 44.0* |
| By maturity: | | |
| More than 3 months but not more than 1 year | 0.2 | 0.5 |
| *More than 1 year but not more than 5 years* | 4.9 | 17.3 |
| More than 5 years | 28.1 | 26.2 |
| | 33.2 | 44.0 |

*Includes receivables guaranteed by banks of £28.4 million (£30.1 million).

The cost of assets acquired for finance leases was £nil (£15.0 million).

## 17. Investments held as current assets

| | **2003 £mn** | 2002 £mn |
|---|---|---|
| Treasury and other eligible bills | 3.9 | 2.5 |
| Debt securities and other fixed income securities | 1,146.7 | 773.7 |
| Equity shares | 94.4 | 113.4 |
| | 1,245.0 | 889.6 |

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **Book value £mn** | **Market value £mn** | Book value £mn | Market value £mn |
| Listed on recognised stock exchanges: | | | | |
| Debt securities and other fixed income securities | 477.6 | 477.6 | 269.7 | 269.7 |
| Equity shares | 65.0 | 67.9 | 80.9 | 84.8 |
| | 542.6 | 545.5 | 350.6 | 354.5 |

As disclosed in Note 1(k)(ii), the Group's accounting policy for current asset investments represents a departure from the Act. The effect of the departure is that an unrealised profit of £12.0 million (£3.0 million loss) has been taken through the profit and loss account rather than reserves.

## 18. Creditors

| | **2003** | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Due within one year £mn** | **Due after more than one year £mn** | **Total £mn** | Due within one year £mn | Due after more than one year £mn | Total £mn |
| Deposits by banks | 462.0 | 0.2 | 462.2 | 117.7 | 2.2 | 119.9 |
| Customer accounts | 620.2 | 123.7 | 743.9 | 645.7 | 131.9 | 777.6 |
| Debt securities in issue (see Note 19) | 4.3 | 44.6 | 48.9 | 26.1 | 78.4 | 104.5 |
| Derivative contracts | 5.8 | – | 5.8 | 2.3 | – | 2.3 |
| Settlement accounts | 30.5 | – | 30.5 | 26.5 | – | 26.5 |
| Other liabilities including taxation and social security (see Note 20) | 102.3 | 13.1 | 115.4 | 129.6 | 13.2 | 142.8 |
| Accruals and deferred income | 125.5 | 31.4 | 156.9 | 150.6 | 30.9 | 181.5 |
| | 1,350.6 | 213.0 | 1,563.6 | 1,098.5 | 256.6 | 1,355.1 |

Certain comparative amounts have been restated as a result of separating out the caption 'Settlement accounts' in the above analysis and 'Social security' in Note 20.

# Financial accounts

# Notes to the Accounts 31st December 2003

## 19. Debt securities in issue

| | 2003 £mn | 2002 £mn |
|---|---|---|
| Certificates of deposit (issued by a Private Banking subsidiary undertaking) at a weighted average interest rate of 5.1% | 44.6 | 96.9 |
| Floating rate unsecured loan notes 2007 with a coupon rate of 0.5% below LIBOR | 4.3 | 7.6 |
| | 48.9 | 104.5 |
| By maturity: | | |
| In 1 year or less, or on demand | 4.3 | 26.1 |
| More than 1 year but not more than 5 years | 44.6 | 78.4 |
| | 48.9 | 104.5 |

## 20. Other liabilities including taxation and social security

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | Due within one year £mn | Due after more than one year £mn | Total £mn | Due within one year £mn | Due after more than one year £mn | Total £mn |
| Social security | 9.7 | – | 9.7 | 9.7 | – | 9.7 |
| Tax | 19.7 | 5.5 | 25.2 | 21.6 | 1.0 | 22.6 |
| Trade creditors | 14.5 | – | 14.5 | 7.1 | – | 7.1 |
| Proposed dividend | 37.6 | – | 37.6 | 37.3 | – | 37.3 |
| Other | 20.8 | 7.6 | 28.4 | 53.9 | 12.2 | 66.1 |
| | 102.3 | 13.1 | 115.4 | 129.6 | 13.2 | 142.8 |

Certain comparative amounts have been restated as a result of separating out the captions 'Settlement accounts' in Note 18, and 'Social security' in the above analysis.

## 21. Provisions for liabilities and charges

### (a) Deferred tax liability and other provisions

| | Deferred tax £mn | Other £mn | Total £mn |
|---|---|---|---|
| At 1st January 2003 | 9.5 | 41.4 | 50.9 |
| Exchange translation adjustments | – | (1.0) | (1.0) |
| Provisions utilised | – | (14.8) | (14.8) |
| (Credit)/charge for the year | (6.6) | 3.1 | (3.5) |
| Reclassifications | 3.3 | (2.5) | 0.8 |
| **At 31st December 2003** | 6.2 | 26.2 | 32.4 |

'Reclassifications' relate to transfers of provisions from/(to) creditors falling due within one year.

'Other provisions' consist primarily of liabilities relating to surplus space, the sale of the Group's investment banking business in April 2000, and litigation.

Provisions have been made against certain leaseholds in connection with surplus space. The provisions have been made taking into account residual lease commitments, other outgoings and sub-letting arrangements. In arriving at the provisions, the cash flows have been discounted at rates representing an estimation of the interest rates relevant to the period of provision. The weighted average of these rates is 4.4% (4.2%).

### (b) Deferred tax assets and liabilities

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | Liabilities £mn | Assets £mn | Total £mn | Liabilities £mn | Assets £mn | Total £mn |
| Accelerated capital allowances and timing differences | – | (14.5) | (14.5) | 14.2 | (21.3) | (7.1) |
| Timing differences including bonuses | 6.2 | (25.0) | (18.8) | – | (24.7) | (24.7) |
| Tax losses carried forward | – | (14.1) | (14.1) | (4.7) | (16.4) | (21.1) |
| **At 31st December** | 6.2 | (53.6) | (47.4) | 9.5 | (62.4) | (52.9) |
| At 1st January | 9.5 | (62.4) | (52.9) | 44.0 | (48.1) | (4.1) |
| Disposal of subsidiary undertaking | – | 1.1 | 1.1 | (21.4) | – | (21.4) |
| (Credit)/charge for the year (see Note 7) | (6.6) | 7.7 | 1.1 | (20.0) | (7.4) | (27.4) |
| Reclassifications | 3.3 | – | 3.3 | 6.9 | (6.9) | – |
| **At 31st December** | 6.2 | (53.6) | (47.4) | 9.5 | (62.4) | (52.9) |

## 22. Derivative and other financial instrument contracts

Details of the Group's risk management processes are outlined in the 'Risk management and internal control' statement on page 27.

Short-term debtors and creditors, excluding those which arise from traditional lending and deposit-taking activities, have been excluded from all disclosures other than the currency disclosures set out on page 56.

### (a) Interest rate risk

Analysis of financial assets and liabilities by interest rate:

| | 2003 | | | | 2002 | | | |
|---|---|---|---|---|---|---|---|---|
| **Currency** | **Fixed rate £mn** | **Floating rate £mn** | **Non-interest bearing £mn** | **Total £mn** | Fixed rate £mn | Floating rate £mn | Non-interest bearing £mn | Total £mn |
| **Assets** | | | | | | | | |
| Sterling | 795.3 | 237.6 | 82.1 | 1,115.0 | 669.9 | 501.7 | 100.8 | 1,272.4 |
| U.S. dollar | 272.3 | 330.9 | 72.3 | 675.5 | 255.4 | 67.8 | 79.7 | 402.9 |
| Euro | 151.4 | 69.2 | 24.4 | 245.0 | 149.7 | 55.9 | 6.5 | 212.1 |
| Swiss franc | 84.8 | 22.0 | 3.8 | 110.6 | 72.1 | 23.7 | 2.2 | 98.0 |
| Japanese yen | 11.2 | 13.4 | 29.9 | 54.5 | 14.4 | 8.5 | 15.3 | 38.2 |
| Other | 15.6 | 53.5 | 1.4 | 70.5 | 42.4 | 34.4 | 1.0 | 77.8 |
| | 1,330.6 | 726.6 | 213.9 | 2,271.1 | 1,203.9 | 692.0 | 205.5 | 2,101.4 |
| **Liabilities** | | | | | | | | |
| Sterling | (490.7) | (201.6) | (38.3) | (730.6) | (310.5) | (210.8) | (51.0) | (572.3) |
| U.S. dollar | (149.2) | (99.3) | (49.2) | (297.7) | (164.8) | (93.8) | (41.3) | (299.9) |
| Euro | (108.5) | (50.8) | (37.2) | (196.5) | (62.9) | (47.6) | (17.7) | (128.2) |
| Swiss franc | (19.0) | (5.8) | (32.3) | (57.1) | (20.5) | (4.7) | (25.6) | (50.8) |
| Japanese yen | (1.8) | (0.6) | (14.6) | (17.0) | (2.7) | (0.4) | (9.9) | (13.0) |
| Other | (17.8) | (2.4) | (12.4) | (32.6) | (7.8) | (3.0) | (14.8) | (25.6) |
| | (787.0) | (360.5) | (184.0) | (1,331.5) | (569.2) | (360.3) | (160.3) | (1,089.8) |

Total financial assets comprise fixed and current asset investments (excluding interests in associated undertakings), derivative contracts, loans and advances to customers of Private Banking subsidiaries and cash, together with debtors (excluding prepayments and accrued income and deferred tax) due in more than one year. Shares held in Schroders plc in equity compensation plans or as 'Own shares' (see Note 28) have been excluded. Such holdings totalled £19.0 million (£16.5 million).

Total financial liabilities comprise deposits by banks, customer accounts, debt securities in issue, other provisions and derivative contracts, together with accruals and deferred income, tax, trade creditors and other liabilities falling due after more than one year.

Analysis of fixed rate and non-interest bearing financial assets and liabilities:

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | | **Fixed rate** | **Non-interest bearing** | | Fixed rate | Non-interest bearing |
| **Currency** | **Weighted average interest rate %** | **Weighted average period for which rate is fixed years** | **Weighted average period until maturity* years** | Weighted average interest rate % | Weighted average period for which rate is fixed years | Weighted average period until maturity* years |
| **Assets** | | | | | | |
| Sterling | 4.7 | 0.3 | 9.2 | 5.0 | 0.2 | 1.1 |
| U.S. dollar | 1.8 | 1.3 | 4.0 | 2.3 | 1.1 | 1.2 |
| Euro | 2.9 | 0.6 | 7.6 | 3.1 | 0.1 | 3.3 |
| Swiss franc | 1.3 | 0.4 | 0.1 | 0.9 | 0.2 | 0.1 |
| Japanese yen | 0.6 | 0.1 | 0.1 | 0.4 | 0.1 | – |
| Other | 3.3 | 0.6 | 1.0 | 3.7 | 0.2 | – |
| **Liabilities** | | | | | | |
| Sterling | (4.8) | (0.2) | (0.9) | (5.3) | (0.4) | (0.2) |
| U.S. dollar | (2.5) | (0.3) | (4.2) | (3.1) | (1.0) | (0.8) |
| Euro | (2.5) | (0.2) | (0.1) | (2.8) | (0.1) | – |
| Swiss franc | (0.3) | (0.3) | (0.1) | (0.4) | (0.1) | – |
| Japanese yen | (0.1) | (0.2) | – | (0.1) | (0.1) | – |
| Other | (4.4) | (0.2) | (2.9) | (3.0) | (0.1) | – |

*Weighted average excludes financial assets that neither pay interest nor have a maturity date.

# Financial accounts

# Notes to the Accounts 31st December 2003

## 22. Derivative and other financial instrument contracts (continued)

### (b) Currency risk

Currency exposures arise on the monetary assets and liabilities of the Group that are not denominated in the base currency of the operating unit involved.

The Group uses foreign currency borrowings and forward foreign exchange contracts to hedge against certain foreign net investments. The figures presented below are shown net of such hedging devices.

| | **2003 Net foreign currency monetary assets/(liabilities)** | | | | | |
|---|---|---|---|---|---|---|
| Functional currency of the operation involved: | **Sterling £mn** | **U.S. dollar £mn** | **Euro £mn** | **Japanese yen £mn** | **Other £mn** | **Total £mn** |
| Sterling | – | 4.8 | 1.8 | 2.1 | 1.0 | 9.7 |
| U.S. dollar | 0.2 | – | 7.3 | 0.3 | 0.3 | 8.1 |
| Other | 6.6 | 10.2 | (3.5) | 8.7 | 1.6 | 23.6 |
| | 6.8 | 15.0 | 5.6 | 11.1 | 2.9 | 41.4 |

| | 2002 Net foreign currency monetary assets | | | | | |
|---|---|---|---|---|---|---|
| Functional currency of the operation involved: | Sterling £mn | U.S. dollar £mn | Euro £mn | Japanese yen £mn | Other £mn | Total £mn |
| Sterling | – | 22.8 | 25.5 | 1.9 | 0.9 | 51.1 |
| U.S. dollar | 0.7 | – | 5.4 | 0.2 | 0.2 | 6.5 |
| Other | 0.1 | 15.5 | 4.6 | 10.5 | 2.0 | 32.7 |
| | 0.8 | 38.3 | 35.5 | 12.6 | 3.1 | 90.3 |

### (c) Maturity of financial assets and liabilities

The maturity profile of the carrying amount of financial assets and liabilities included in the Group's balance sheet as at 31st December was as follows:

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **Assets £mn** | **Liabilities £mn** | Assets £mn | Liabilities £mn |
| In one year or less, or on demand | 1,660.7 | (1,114.2) | 1,660.1 | (824.7) |
| In more than one year but not more than two years | 67.4 | (91.0) | 178.4 | (57.7) |
| In more than two years but not more than five years | 247.1 | (118.7) | 145.1 | (198.9) |
| In more than five years | 295.9 | (7.6) | 117.8 | (8.5) |
| | 2,271.1 | (1,331.5) | 2,101.4 | (1,089.8) |

The Group had no material undrawn committed borrowing facilities at 31st December 2003 or 2002.

### (d) Fair values of financial assets and liabilities

Fair values have been derived from market prices where available. Current asset investments, which constitute a significant proportion of the Group's financial assets, are recorded in the balance sheet at fair value.

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **Book value £mn** | **Fair value £mn** | Book value £mn | Fair value £mn |
| Financial assets | 2,271.1 | 2,274.9 | 2,101.4 | 2,102.2 |
| Financial liabilities | (1,331.5) | (1,331.5) | (1,089.8) | (1,089.8) |
| | 939.6 | 943.4 | 1,011.6 | 1,012.4 |
| Included within financial assets: | | | | |
| Equity contracts | 0.2 | 0.2 | – | – |
| Exchange rate contracts | 21.4 | 21.4 | 2.5 | 2.5 |
| | 21.6 | 21.6 | 2.5 | 2.5 |

The Group's derivative contracts at 31st December 2003 and 2002 were held for customer facilitation by Private Banking subsidiaries and for hedging certain of the Group's net investments in foreign operations. These instruments comprised debt securities, forward foreign exchange contracts and interest rate swaps.

Where instruments have been used for hedging purposes, the underlying assets that are being hedged relate to investments in subsidiaries or current asset investments. Fair value disclosures relating to such hedging instruments are disclosed above; fair value disclosures relating to the underlying assets are only disclosed above if those assets are financial assets.

## 22. Derivative and other financial instrument contracts (continued)

### (e) Hedges

As stated on page 27, the Group has a number of overseas subsidiaries whose shareholders' funds, revenues and expenses are denominated principally in local currencies. Financial instruments are used within the Group where it is considered that the sterling values of such amounts are at risk. In such cases, forward currency contracts with fair values at the balance sheet date of £1.3 million (£0.2 million) were being used to hedge foreign currency assets.

In relation to the Group's hedging of its seed and liquid capital investments, at 31st December 2003, the Group had futures contracts with fair values of £(0.5) million (£nil) hedging investments against market movements and forward currency contracts with fair values of £12.1 million (£0.2 million) hedging investments against currency movements. The increase in the use of forward currency contracts is due principally to the investment of liquid capital in U.S. fixed income securities hedged to sterling.

The Group has a policy of hedging certain exposures as and when they arise. Gains and losses made on hedges are recognised by marking to market, except for certain Private Banking transactions which are not deemed to be material.

## 23. Share capital

| | **2003 Number** | 2002 Number | **2003 £mn** | 2002 £mn |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of £1 each | 226,022,400 | 226,022,400 | 226.0 | 226.0 |
| Non-voting ordinary shares of £1 each | 113,977,598 | 113,977,598 | 114.0 | 114.0 |
| Subscriber shares of 1p each | 200 | 200 | – | – |
| | 340,000,198 | 340,000,198 | 340.0 | 340.0 |
| Allotted, called up and fully paid: | | | | |
| Ordinary shares of £1 each | 226,022,400 | 226,022,400 | 226.0 | 226.0 |
| Non-voting ordinary shares of £1 each | 70,263,358 | 69,634,870 | 70.3 | 69.7 |
| Subscriber shares of 1p each | 200 | 200 | – | – |
| | 296,285,958 | 295,657,470 | 296.3 | 295.7 |

### Rights of each class of share

The two classes of ordinary share are equal in all but two respects: the ordinary non-voting shares do not have voting rights and hence their holders are not entitled to attend or to vote at general meetings of the Company and, on a capitalisation issue, ordinary non-voting shares carry the right to receive non-voting ordinary shares rather than ordinary shares.

Holders of the subscriber shares have no right to participate in the profits or assets of the Company and are not entitled to vote at general meetings of the Company, although they are entitled to receive notice of and attend such meetings.

### *Changes in authorised, allotted and issued share capital*

During the year, 628,488 non-voting ordinary shares were issued as part of the deferred consideration arising from the acquisition of Beaumont Capital Management Limited in 2001. As a result, £0.6 million was credited to share capital and £4.2 million to the share premium account.

### Options

At 31st December 2003 options to subscribe for non-voting ordinary shares were outstanding:

#### (a) Under the terms of the Senior Executive Share Option Scheme 1986:

| **Exercisable** | **Price per share** | **2003 Number** | 2002 Number |
|---|---|---|---|
| 22nd March 1998 to 21st March 2003 | 252p | – | 332,319 |
| 21st March 1999 to 20th March 2004 | 349p | 47,930 | 47,930 |
| 28th March 2000 to 27th March 2005 | 419p | 79,883 | 79,883 |
| 18th March 2001 to 17th March 2006 | 441p | 159,768 | 159,768 |

#### (b) Under the terms of the Share Option Plan 1999:

| **Exercisable** | **Price per share** | **2003 Number** | 2002 Number |
|---|---|---|---|
| 7th May 2004 to 6th May 2009 | 822p | 833,788 | 897,464 |
| 13th March 2005 to 12th March 2010 | 800p | 2,909,232 | 3,402,952 |

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# Notes to the Accounts 31st December 2003

## 23. Share capital (continued)

### (c) Under the terms of the Share Option Plan 2000:

| Exercisable | Price per share | 2003 Number | 2002 Number |
|---|---|---|---|
| 13th March 2006 to 12th March 2011 | 987p | 5,160,365 | 5,524,583 |
| 2nd April 2006 to 1st April 2011 | 1000p | 30,000 | 30,000 |
| 12th November 2006 to 11th November 2011 | 706p | 500,000 | 500,000 |
| 22nd April 2005 to 21st April 2012 | 800p | 6,398,040 | 6,940,415 |
| 14th May 2005 to 13th May 2012 | 756p | 60,000 | 60,000 |
| 25th June 2005 to 24th June 2012 | 561p | 30,000 | 30,000 |
| 5th September 2005 to 4th September 2012 | 440p | 3,500 | 3,500 |
| 6th November 2005 to 5th November 2012 | 453p | 400,000 | 400,000 |
| 6th November 2005 to 5th November 2012 | 541p | 3,860,000 | 4,165,000 |
| 9th December 2005 to 8th December 2012 | 483p | 250,000 | 250,000 |
| 10th March 2006 to 9th March 2013 | 398p | 2,922,198 | – |
| 2nd April 2006 to 1st April 2013 | 472p | 20,000 | – |
| 1st May 2006 to 30th April 2013 | 537p | 75,000 | – |
| 4th June 2006 to 3rd June 2013 | 600p | 20,000 | – |
| 6th October 2006 to 5th October 2013 | 660p | 15,000 | – |
| 27th October 2006 to 26th October 2013 | 665p | 15,000 | – |

Options granted under the Share Option Plan 1999 and to Directors of Schroders plc under the Share Option Plan 2000 are subject to performance targets.

## 24. Reserves

| | Schroders plc and *subsidiary undertakings* £mn | Associated *undertakings* £mn | *Group* £mn | *Company* £mn |
|---|---|---|---|---|
| **Share premium** | | | | |
| At 1st January 2003 | 17.8 | – | 17.8 | 17.8 |
| Issue of shares | 4.2 | – | 4.2 | 4.2 |
| **At 31st December 2003** | 22.0 | – | 22.0 | 22.0 |
| **Capital reserves (including capital redemption reserve)** | | | | |
| At 1st January 2003 | 129.4 | – | 129.4 | 3.7 |
| Exchange translation adjustments | (1.0) | – | (1.0) | – |
| Transfers from profit and loss account* | 2.4 | – | 2.4 | – |
| **At 31st December 2003** | 130.8 | – | 130.8 | 3.7 |
| ***Profit and loss account*** | | | | |
| At 1st January 2003 | 590.8 | 8.3 | 599.1 | 360.4 |
| Exchange translation adjustments | (6.6) | – | (6.6) | – |
| (Loss)/profit retained for the year | (7.0) | 2.5 | (4.5) | (63.6) |
| Transfers to capital reserves* | (2.4) | – | (2.4) | – |
| **At 31st December 2003** | 574.8 | 10.8 | 585.6 | 296.8 |
| **Total capital and profit and loss account reserves** | 705.6 | 10.8 | 716.4 | 300.5 |
| **Total reserves at 31st December 2003** | 727.6 | 10.8 | 738.4 | 322.5 |

*Transfers relate to profits/(losses) in investment holding companies transferred from/(to) non-distributable reserves.

The reserves of the Group include £162.4 million (£166.8 million) not available for distribution.

The Company's reserves available for distribution were £252.8 million (£310.3 million).

The loss dealt with in the accounts of the Company was £9.9 million (2002: loss £12.4 million).

## 25. Consolidated cash flow statement

| (a) Reconciliation of total operating profit to net cash flow from operating activities: | 2003 £mn | 2002 £mn |
|---|---|---|
| Total operating profit | 41.0 | 5.1 |
| Depreciation of tangible fixed assets | 8.3 | 32.1 |
| Amortisation of goodwill | 10.3 | 10.6 |
| (Increase)/decrease in debtors | (105.7) | 66.4 |
| Increase/(decrease) in creditors | 246.3 | (44.7) |
| (Decrease)/increase in debt securities in issue | (55.6) | 13.8 |
| (Gain)/loss on sale of tangible fixed assets | (0.1) | 1.9 |
| Share of operating profit of associated undertakings | (2.5) | (7.7) |
| Provision for liabilities and charges | 3.1 | 4.8 |
| (Gains)/losses on current asset investments | (17.1) | 5.1 |
| *Other non-cash movements* | 1.9 | (8.7) |
| **Net cash inflow from operating activities** | 129.9 | 78.7 |

| (b) Analysis of changes in financing during the year: | Share capital/share premium/shares to be issued £mn |
|---|---|
| Balance at 1st January 2003 | 323.4 |
| Non-cash movements | (0.2) |
| **Balance at 31st December 2003** | 323.2 |

| (c) Reconciliation of net cash flow to movement in net funds: | 2003 £mn | 2002 £mn |
|---|---|---|
| Decrease in cash in year | (80.3) | (62.0) |
| Cash outflow/(inflow) from redemption/issue of certificates of deposit | 55.6 | (13.8) |
| Cash outflow from increase in liquid resources | 159.6 | 97.7 |
| Changes in net funds resulting from cash flows | 134.9 | 21.9 |
| Non-cash movements in liquid resources | 5.5 | (17.3) |
| Loan notes issued for non-cash consideration | – | 7.7 |
| Net funds at 1st January | 1,529.0 | 1,516.7 |
| **Net funds at 31st December** | 1,669.4 | 1,529.0 |

| (d) (i) Analysis of cash: | 2003 £mn | 2002 £mn | 2003 Movement £mn | 2002 Movement £mn |
|---|---|---|---|---|
| Cash and balances at central banks | 9.8 | 10.5 | (0.7) | 0.5 |
| Cash and balances with other banks | 195.2 | 273.7 | (78.5) | (64.9) |
| | 205.0 | 284.2 | (79.2) | (64.4) |
| Exchange adjustments | | | (1.1) | 2.4 |
| **Decrease in cash** | | | (80.3) | (62.0) |

| (ii) Reconciliation of movements in cash: | 2003 £mn | Cash flow £mn | 2002 £mn |
|---|---|---|---|
| Cash and balances with banks - repayable on demand | 205.0 | (79.2) | 284.2 |
| Cash and balances with banks - other | 257.9 | | 452.2 |
| Cash and balances with banks | 462.9 | | 736.4 |
| Exchange adjustments | | (1.1) | |
| **Decrease in cash** | | (80.3) | |

### (e) Acquisitions and disposals of subsidiary undertakings

Analysis of the net assets of subsidiaries acquired and disposed of during the year are shown in Notes 31 and 32.

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# Notes to the Accounts 31st December 2003

## 26. Commitments and contingent liabilities

| (a) Commitments | 2003 Risk weighted amount £mn | 2003 Principal amount £mn | 2002 Risk weighted amount £mn | 2002 Principal amount £mn |
|---|---|---|---|---|
| Documentary credits | 1.0 | 5.1 | 1.1 | 5.5 |
| Undrawn note issuance and undrawn formal standby facilities, credit lines and other commitments to lend | 86.1 | 93.5 | 92.0 | 114.8 |
| | 87.1 | 98.6 | 93.1 | 120.3 |
| **(b) Contingent liabilities** | | | | |
| Assets pledged as collateral security | 12.7 | 13.3 | 10.2 | 10.6 |
| Guarantees and irrevocable letters of credit | 31.2 | 130.7 | 42.9 | 192.8 |
| | 43.9 | 144.0 | 53.1 | 203.4 |

### (c) Future capital expenditure
At 31st December 2003, there was no capital expenditure contracted but not provided in the accounts.

### (d) Litigation
Certain Group undertakings are the subject of current or pending legal actions; the Directors believe that none of these actions, either individually or in aggregate, is likely to have a material adverse effect on the Group's financial position.

### (e) Operating leases
At 31st December 2003 the Group's annual commitments under non-cancellable operating leases were:

| | 2003 Offices £mn | 2003 Office equipment £mn | 2002 Offices £mn | 2002 Office equipment £mn |
|---|---|---|---|---|
| Annual commitment expiring: | | | | |
| Less than 1 year | 3.0 | – | 0.9 | – |
| 1 year and over but less than 5 years | 3.1 | 0.2 | 6.2 | 0.2 |
| 5 years and over | 18.3 | – | 17.3 | – |
| | 24.4 | 0.2 | 24.4 | 0.2 |

### (f) Contingent tax liability
If debt securities and equity shares, other than those accounted for at market value, had been realised at market value or Directors' valuation at 31st December 2003, an additional liability for tax of £nil (£0.1 million) (Company: £nil (£nil)) would have arisen.

### (g) Other
*The Group has contractual obligations to carry out building works and to reinstate certain leasehold premises before expiry of the* leases. The Directors believe that certain obligations cannot be provided for because they cannot be measured reliably.

Obligations of certain Group companies under the Euroclear settlement system are secured by charges on assets held on their behalf from time to time within that system and by cash deposits placed.

In the ordinary course of business, subsidiary undertakings have custody of customers' securities, act as trustees and issue indemnities on behalf of customers who have lost certificates of title.

The Company and subsidiary undertakings have also provided letters of comfort to regulatory authorities and others that subsidiary undertakings will be capitalised adequately and will meet their contractual obligations.

## 27. Shares in and loans to subsidiary undertakings

| | Shares in subsidiary undertakings £mn | Loans to subsidiary undertakings £mn |
|---|---|---|
| At 1st January 2003 | 1,228.0 | 42.0 |
| Additions | – | 6.2 |
| Repayments | – | (15.8) |
| **At 31st December 2003** | 1,228.0 | 32.4 |

There were no material commitments for investment in subsidiary undertakings.

Details of subsidiary undertakings are given in Note 33. Investments in subsidiary undertakings are carried in aggregate at cost, less provision for impairment; in the opinion of the Directors the aggregate value of the investments in subsidiary undertakings at 31st December 2003 is not less than book value.

## 28. Own shares

Employee trusts have been established for the purposes of satisfying certain equity based awards. At 31st December 2003, the trusts held 6,836,401 (2002: 7,895,464) non-voting ordinary shares costing £51.7 million (2002: £72.6 million), with a market value of £39.1 million (2002: £38.2 million). Dividends on shares held by the trusts are waived.

| | **2003** | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Number of shares** | **Cost £mn** | **Market value £mn** | Number of shares | Cost £mn | Market value £mn |
| **Group companies** | | | | | | |
| Shares funded by employing companies | 5,010,515 | 41.2 | 28.7 | 6,337,289 | 61.8 | 30.7 |
| Shares yet to be allocated | 1,825,886 | 10.5 | 10.4 | 1,558,175 | 10.8 | 7.5 |
| | 6,836,401 | 51.7 | 39.1 | 7,895,464 | 72.6 | 38.2 |
| **Company** | | | | | | |
| Shares yet to be allocated | 1,774,013 | 10.2 | 10.1 | 1,515,473 | 10.6 | 7.3 |

## 29. Creditors of the Company

| | **2003** | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Due within one year £mn** | **Due after more than one year £mn** | **Total £mn** | Due within one year £mn | Due after more than one year £mn | Total £mn |
| Amounts owed to subsidiary undertakings | 1.4 | – | 1.4 | 3.5 | – | 3.5 |
| Loans from subsidiary undertakings | 597.6 | – | 597.6 | 544.5 | – | 544.5 |
| Loan notes issued | 4.3 | – | 4.3 | 7.7 | – | 7.7 |
| Accruals | 15.0 | 0.9 | 15.9 | 12.7 | – | 12.7 |
| Proposed dividend | 37.6 | – | 37.6 | 37.3 | – | 37.3 |
| | 655.9 | 0.9 | 656.8 | 605.7 | – | 605.7 |

## 30. Related parties

Bruno Schroder and George Mallinckrodt, being Directors, are related parties of the Company. Certain of their close family members, and the trustees of certain settlements made by members of the Schroder family whose notifiable shareholdings are disclosed in the Report of the Directors on page 25, may also be related parties of the Company. The Board confirms, however, that the rights of the aforementioned as Directors or shareholders, as the case may be, are not exercised in any way as to require disclosure under Financial Reporting Standard 8.

# Financial accounts

# Notes to the Accounts 31st December 2003

## 31. Acquisitions

There were no acquisitions during the year.

| | **2003 Book value/ fair value £mn** | 2002 Book value/ fair value £mn |
|---|---|---|
| **Net assets acquired:** | | |
| Cash at bank and in hand | – | 0.1 |
| Debtors | – | 0.7 |
| Creditors | – | (0.4) |
| | – | 0.4 |
| **Goodwill** | – | 0.1 |
| | – | 0.5 |
| **Satisfied by:** | | |
| Cash | – | 0.5 |

Comparative figures relate to the acquisition of the remaining 49% interest in Schroder Mildesa Investment Management S.A. on 18th December 2002.

## 32. Disposals

There were two material disposals during the year:

The sale of Schroder Hermes Limited ('SHL') to Hermes Pension Management Limited was completed on 24th January 2003 for a consideration of £4.8 million and the sale of Schroder Pensions Limited ('SPL') to Investment Solutions Limited was completed on 6th February 2003 for a consideration of £22.3 million. The results of these subsidiaries have been recorded under 'Discontinued operations' in the consolidated profit and loss account. The profit on the sale of SHL was £2.4 million. The profit on the sale of SPL was not material.

| | **SPL/SHL £mn** | **Other £mn** | **2003 £mn** | 2002 £mn |
|---|---|---|---|---|
| **Net assets disposed:** | | | | |
| Tangible fixed assets | 0.6 | – | 0.6 | 38.1 |
| Assets held to cover linked liabilities | 1,989.7 | – | 1,989.7 | – |
| Cash at bank and in hand | 21.7 | 0.1 | 21.8 | 2.1 |
| Debtors | 3.8 | – | 3.8 | 73.4 |
| Investments | – | – | – | 0.2 |
| Technical provisions for linked liabilities | (1,989.7) | – | (1,989.7) | – |
| Deferred tax | – | – | – | (21.4) |
| Other liabilities | (2.1) | – | (2.1) | (90.0) |
| | 24.0 | 0.1 | 24.1 | 2.4 |
| **Represented by:** | | | | |
| Net cash consideration received | 26.9* | 0.1 | 27.0 | 3.3 |
| Profit on disposal | (2.4) | – | (2.4) | (0.9) |
| Profit taken in prior year | (0.5) | – | (0.5) | – |
| | 24.0 | 0.1 | 24.1 | 2.4 |

*Net of costs of disposal of £0.2 million.

Comparative figures relate to the disposal of Schroder Asset Management Limited on 6th January 2002, JHS Leasing (6/98) Limited and JHS Leasing (9/98) Limited on 25th September 2002, and the business of, and subsequently, the investment in, Schroder & Co. Trust Bank on 2nd December 2002 and 31st December 2002 respectively.

### 33. Subsidiary undertakings

The following information is given in respect of those subsidiary undertakings which, in the opinion of the Directors, principally affect the consolidated profits or assets of the Group. They are all wholly-owned subsidiary undertakings of the Company (except where shown) and their issued share capital consists of equity shares and other classes of shares where indicated.

All undertakings operate in the countries where they are registered or incorporated except where shown. All companies are engaged in the business of asset management or private equity, or are immediate or intermediate holding companies of such companies.

**England**
Schroder & Co. Limited
Schroder Financial Services Limited
Schroder Holdings plc*
Schroder International Holdings Limited
Schroder Investment Company Limited
Schroder Investment Management Limited
Schroder Investment Management International Limited
Schroder Investment Management North America Limited
Schroder Investments Limited
*Schroder Property Investment Management Limited*
Schroder Unit Trusts Limited
Schroder Ventures (1991) Limited

**Argentina**
Schroder Investment Management S.A.

**Australia**
Schroders Australia Holdings Pty Limited
*Preference shares*

**Bermuda**
Schroder Holdings (Bermuda) Limited
Schroder International Holdings (Bermuda) Limited
Schroder Investments (Bermuda) Limited
Preference shares
Schroder Investments (SVIIT) Limited
Preference shares
*Schroders (Bermuda) Limited*

**Channel Islands**
Burnaby Insurance (Guernsey) Limited
Schroder Investments (Guernsey) Limited
Schroder Investment Management (Guernsey) Limited
Schroder Property Managers (Jersey) Limited
Schroder Venture Managers (Guernsey) Limited
Schroders (C.I.) Limited

**China-Hong Kong S.A.R.**
Schroder Investment Management (Hong Kong) Limited

**Denmark**
Schroder Investment Management Fondsmaeglerselskab A/S

**Germany**
Schroder Investment Management GmbH

**Indonesia**
PT Schroder Investment Management Indonesia - 99%

**Italy**
Schroder Investment Management (Italy) S.p.A.

**Japan**
Schroder Investment Management (Japan) Limited

**Korea**
Schroders Korea Limited

**Luxembourg**
Schroder Investment Management (Luxembourg) S.A.

**Netherlands**
Schroder International Finance B.V.
Schroder Investment Management Benelux N.V.
Schroder Nederland Finance B.V.

**Singapore**
Schroder Investment Management (Singapore) Limited

**Switzerland**
Schroder & Co. Bank A.G.

**United States of America**
Internet Finance Partners LP
Schroder Investment Management North America Inc.
Schroder U.S. Holdings Incorporated

*Held directly by Schroders plc

# Financial accounts

# Five Year Financial Summary

| | **2003 £mn** | 2002 £mn | 2001 £mn | 2000[1] £mn | 1999[1] £mn |
|---|---|---|---|---|---|
| Profit/(loss) before tax | 65.6 | 18.9 | (8.1) | 275.3 | 324.0 |
| Tax | (16.4) | 7.7 | (12.6) | (53.8) | (80.2) |
| Profit/(loss) after tax before minority interests | 49.2 | 26.6 | (20.7) | 221.5 | 243.8 |
| Minority interests | – | (0.5) | 0.1 | (0.2) | 0.8 |
| **Profit/(loss) for the year** | 49.2 | 26.1 | (20.6) | 221.3 | 244.6 |
| **Earnings per share:** | | | | | |
| Basic earnings/(loss) per share (pence)[2] | 16.7 | 8.8 | (7.0) | 74.6 | 82.8 |
| Diluted earnings/(loss) per share (pence)[2] | 16.6 | 8.8 | (7.0) | 74.2 | 82.5 |
| **Dividends:** | | | | | |
| Cost (£mn) | 53.7 | 53.3 | 53.9 | 54.1 | 53.9 |
| Pence per share[3] | 18.5 | 18.5 | 18.5 | 18.5 | 18.5 |
| **Shareholders' funds** (£mn) | 1,039.6 | 1,051.9 | 1,112.5 | 1,161.2 | 1,370.4 |
| **Net assets per share** (pence)[4] | 351 | 355 | 372 | 391 | 464 |

### Group employees at year end

| 31st December | **2003 Number** | 2002 Number | 2001 Number | 2000 Number | 1999[1] Number |
|---|---|---|---|---|---|
| Europe | 1,571 | 1,668 | 1,952 | 2,122 | 3,572 |
| Americas | 164 | 220 | 316 | 397 | 1,868 |
| Asia Pacific | 485 | 504 | 622 | 598 | 936 |
| | 2,220 | 2,392 | 2,890 | 3,117 | 6,376 |

(1) Includes the investment banking business sold in April 2000.

(2) See Note 9 for basis of calculation.

(3) Dividends per share are those amounts proposed to be paid or paid for the year on a per share basis to the shareholders on the register at specified dates.

(4) Net assets per share are calculated by using the actual number of shares in issue at the balance sheet date (see Note 23).

### Exchange rates

| 31st December | | **2003** | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| Sterling: | | | | | | |
| | Euro | 1.42 | 1.54 | 1.64 | 1.60 | 1.62 |
| | U.S. dollar | 1.79 | 1.61 | 1.45 | 1.49 | 1.62 |
| | Swiss franc | 2.21 | 2.23 | 2.42 | 2.44 | 2.60 |
| | Australian dollar | 2.38 | 2.85 | 2.84 | 2.68 | 2.48 |
| | Hong Kong dollar | 13.86 | 12.57 | 11.31 | 11.62 | 12.61 |
| | Japanese yen | 190.86 | 191.28 | 190.44 | 171.05 | 166.42 |
| | Singaporean dollar | 3.03 | 2.80 | 2.68 | 2.58 | 2.70 |
| | Deutsche mark | – | – | 3.20 | 3.13 | 3.17 |
| | French franc | – | – | 10.74 | 10.51 | 10.64 |
| | Italian lira | – | – | 3,170.23 | 3,102.20 | 3,140.63 |
| | Spanish peseta | – | – | 272.42 | 266.58 | 269.88 |