Annual Report and Accounts 2007

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Schroders

At Schroders, asset management is our only business. Our goals are completely aligned with our clients' – the creation of long-term value.

We manage £139.1 billion on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of asset classes across equities, fixed income and alternatives.

We employ more than 2,800 talented people worldwide operating from 37 offices in 28 different countries across Europe, the Americas, Asia and the Middle East, close to the markets in which we invest and close to our clients.

Schroders has developed under stable ownership for over 200 years and long-term thinking governs our approach to investing, building client relationships and growing our business.

Schroders in review

£392.5 million
Profit before tax
2006 £290 0 million

£139.1 billion
Funds under management
2006 £128 5 billion

£266.5 million
Asset Management profit before tax
2006 £219 0 million

104.8 pence
Basic earnings per share
2006 76 9 pence

£41.3 million
Private Banking profit before tax
2006 £26 9 million

30.0 pence
Total dividend per share
2006 25 0 pence

£84.7 million
Private Equity and Group profit before tax
2006 £44 1 million

Chairman's and Chief Executive's statement

Continued progress

2007 was a year of continued progress for Schroders in spite of the recent turbulence in financial markets This reflected the diversity of our business by region, by client channel and by product

Income increased 21 per cent to £1,004 3 million (2006 £832 3 million) and Group profit before tax increased 35 per cent to £392 5 million (2006 £290 0 million) Funds under management at year end were 8 per cent higher at £139 1 billion (2006 £128 5 billion)

Asset Management
We continued to see the benefits of a strategy focused on higher value added, higher margin products in both Institutional and Retail channels and the development of our already extensive international business Gross profit margins increased to 60 basis points (2006 55 basis points) and more than two thirds of income was earned outside the UK Asset Management income increased 20 per cent to £785 4 million (2006 £655 6 million) and profit before tax increased 22 per cent to £266 5 million (2006 £219 0 million)

We had a record year in our Retail business with net sales of £8 8 billion Retail net inflows were exceptionally strong in Asia Pacific and the UK, and heavily outweighed net outflows in Continental Europe which to a large extent reflected the experience of the European fund industry as a whole In Asia Pacific a well established presence on the ground in eight countries across the region coupled with a competitive product range led to a very significant increase in net sales In the UK, net sales doubled compared to 2006, as did our market share of flows from the independent intermediary sector In the US, the second year of our initiative in the intermediary channel, we saw a satisfactory increase in flows and an expanding number of distribution relationships 67 per cent of funds under management outperformed their peer group in the three years to the end of 2007 and funds under management in Retail ended the year at £56 2 billion (2006 £42 5 billion) In China, our joint venture asset management company had net sales of £0 8 billion bringing funds under management to £3 8 billion at the year end (not reported in total funds under management)

Our Institutional business also made progress in 2007 We won more than 100 new institutional mandates in the UK alone and our business continues to evolve towards new, higher margin asset classes fees on business won in 2007 were on average more than 40 per cent higher than the fees on business lost Income in Institutional increased despite net outflows of £10 6 billion, which included continued outflows from UK balanced and UK equities and, to a lesser extent, Japanese and Asian equities, the latter in part driven by client asset allocation decisions Overall investment performance improved with 69 per cent of institutional funds under management outperforming their benchmarks in the three years to the end of 2007 Funds under management in Institutional ended the year at £73 2 billion (2006 £77 4 billion)

Michael Miles
Chairman

We have a growing and widely diversified alternatives business encompassing property, funds of hedge funds, private equity funds of funds, emerging market debt, commodities and agriculture funds Alternative funds under management now amount to £15 9 billion, more than 25 per cent up on the year

We have an extensive network of overseas offices across Asia, Continental Europe and North and South America, with strong representation in developing markets During the year we added to our presence on the ground with new offices in Mumbai and Dubai, and we expect continued high levels of growth in our international business which is well placed to benefit from the demographic and savings trends in developing markets

Private Banking

Private Banking had another strong year with income up 11 per cent to £105 9 million (2006 £95 7 million) and profit before tax up 54 per cent to £41 3 million (2006 £26 9 million) We completed the transfer of our back office operations to Zurich during the year which enabled us both to improve our client reporting and reduce costs We recently completed the acquisition of a small private client business in Singapore which will give us a platform from which to serve high net worth individuals in the region Net new business in 2007 amounted to £0 2 billion (2006 £0 4 billion) and funds under management ended the year at £9 7 billion (2006 £8 6 billion)

Group and Private Equity

In 2007 we achieved realised gains of £101 6 million (2006 £75 7 million) on our investment capital which totalled £979 6 million (2006 £789 0 million) at the year end A high level of realisations during the year resulted in profit before tax from our private equity portfolio of £58 5 million (2006 £34 6 million) Profit before tax from Group was £26 2 million (2006 £9 5 million) Given more challenging markets, we anticipate a reduced level of private equity realisations in 2008 and lower returns on seed capital investments

Dividend

The Board is recommending an increased final dividend of 21 0 pence per share, payable on 30 April 2008 to shareholders on the register at 14 March 2008 This brings the total dividend for the year to 30 0 pence per share (2006 25 0 pence per share), an increase of 20 0 per cent

Outlook

Recent months have seen a setback in equity markets and high levels of volatility as the impact of the sub-prime crisis in America spreads to world financial markets and the real economy This in turn has affected investors' risk appetite and retail flows across the industry have fallen back sharply We expect these volatile market conditions to persist through much of 2008 and as a result we envisage a less favourable environment for our business Our cost base has a significant variable component linked to revenues which offsets in part the impact of declining markets However, we do not intend to scale back our strategic investment plans as we see this more challenging period as an opportunity to position Schroders for further growth in the longer term, taking advantage of our strong financial position and highly diversified business

We would like to thank all our staff around the world for their contribution to these record results

Michael Dobson
Chief Executive

Business review

Schroders is a global asset management company with over 200 years of experience in the world's financial markets.

We serve institutional and retail investors, financial institutions and high net worth clients, providing them with a broad range of investment products, to meet their long-term investment goals

We believe that

- the interplay between market economics and long-term trends in demographics, investments and savings offers exciting growth prospects for the asset management industry,
- our research-based approach, both fundamental and quantitative, allows us to identify and exploit inefficiencies inherent in the marketplace, using a disciplined investment process to add value to client assets,
- our focus on asset management minimises conflicts of interest and aligns our objectives with those of our clients

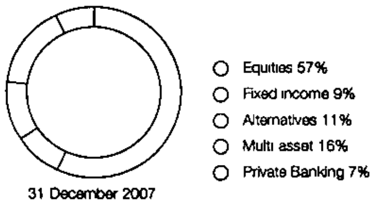
Our goal is to be a pre-eminent provider of active asset management services to our worldwide clients and in doing so reward our shareholders by growing returns on a sustainable basis over the long-term

A highly diversified business, by product, geography and client

We provide our clients with varied solutions to address their investment needs, allowing the flexibility to invest across a wide range of products, including

- a broad range of equity products covering different regions, industry sectors, investment styles and risk/reward characteristics Our approach is research-based using an extensive group of analysts located around the world in markets in which we invest, combined with quantitative research and risk management
- fixed income securities in all major currencies including sovereign debt, high-grade corporate bonds, high-yield instruments and emerging market debt Today's fixed income markets demand a deep, global knowledge of credit markets borne of local insight We have credit teams located on the ground in Asia, the UK and the Americas to support our fixed income fund managers
- alternative asset classes such as property, agriculture and commodities, private equity and funds of hedge funds These asset classes have seen an increase in demand with our clients Their attraction is based on the opportunities that they offer to provide uncorrelated sources of return for portfolio diversification purposes and the prospect of generating superior risk adjusted returns

Funds under management



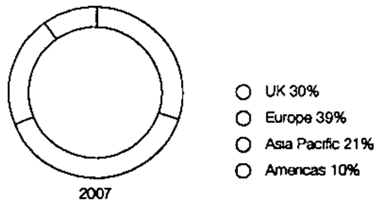
The breadth of our product range is designed to accommodate a wide spectrum of investor needs and risk appetites and to provide solutions to meet our clients' investment needs Our service offering extends from benchmark products with limited risk, designed to deliver returns in excess of market indices, to 'high alpha' products designed to exceed benchmarks by a greater margin but with higher associated risk We also provide unconstrained products designed to deliver returns independent of benchmarks and absolute return products that focus on capital protection as well as growth

Schroders is a dynamic organisation that prides itself on its innovation and specialisation Our goals are completely aligned with those of our clients' – the creation of long-term value

We operate on a global scale with 37 offices in 28 countries
Schroders accesses clients in the traditional areas of the UK, Europe, North America and Japan, where the demand for asset management services is long established, as well as in the fast-growing savings pools in emerging and more recently developed economies in the Middle East, Asia Pacific and Latin America

Geographic split of income

The majority of our income was earned outside the UK (70 per cent)



We work with a number of different clients Our core skills in devising, producing and delivering products for clients across the full range of asset management activities allow us to meet the needs of a broad spectrum of clients, which we group into

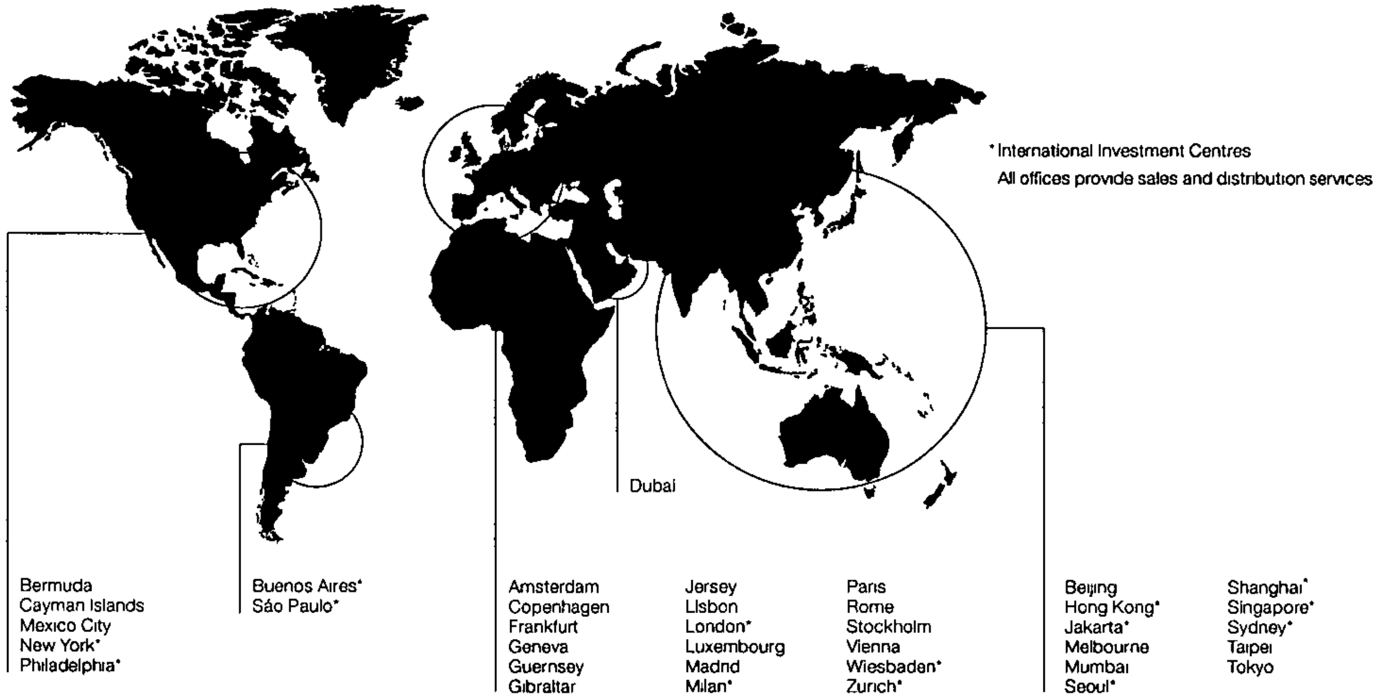
Asset Management

Institutional – where we manage assets, in pooled or segregated form, on behalf of large corporate, local authority, central government and charitable entities, including both defined benefit and defined contribution pension funds Our Institutional business accounts for 33 per cent of income and 53 per cent of our total funds under management

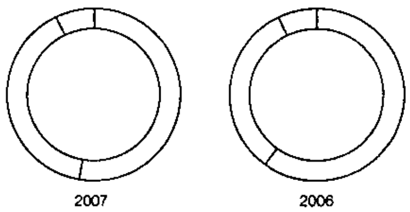
Retail – where we manage assets on behalf of individuals, via mutual funds and investment trusts, to address their investment needs including defined contribution pension schemes, delivered in a variety of user-friendly forms This business accounts for 45 per cent of income and 40 per cent of funds under management We have developed strong relationships with our distribution partners across the globe, from local banks and independent financial advisers to global banks and insurance companies, through which we distribute a range of Schroders branded or sub-advised mutual funds

Private Banking

Where we manage assets on behalf of high net worth individuals and family offices We focus on growing and preserving wealth, utilising the knowledge of our economics and investment strategy teams, and using both proprietary Schroders investment products and external funds in structuring our clients' portfolios, to provide a highly personal private banking service to wealthy individuals and their advisers We provide a full range of products including deposit-taking, cash management, custody and execution services, advisory and discretionary asset management and specialised lending Private Banking accounts for 11 per cent of income and 7 per cent of funds under management

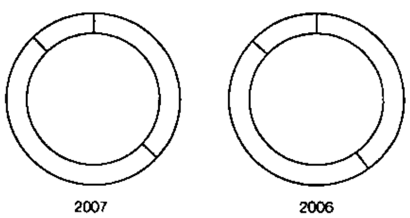


Funds under management by client



- Institutional 2007 53% (2006 60%)
- Retail 2007 40% (2006 33%)
- Private Banking 2007 7% (2006 7%)

Income by client



- Institutional 2007 37% (2006 40%)
- Retail 2007 51% (2006 47%)
- Private Banking 2007 12% (2006 13%)

Business review

We aim to provide excellent client service

Schroders has developed under stable ownership for over 200 years and long-term thinking governs not only our approach to investing but also to building client relationships

We operate in a highly competitive industry where clients have many choices We aim to excel in client service and offer partnerships of real value to the client over and above the immediate product we are providing

Institutional clients will often come to us through their own adviser or consultant The assignments we are given by clients are typically highly specific and dovetail with their other investments in a range of asset classes and with the other managers they employ We are judged in relation to performance against client objectives and the quality of the client service and advice we provide

In our Retail channel we work very closely with banks, insurance companies and independent financial advisers These intermediaries advise the ultimate client and we support them by designing products which meet their client needs

In Private Banking we advise wealthy individuals directly Our high net worth clients are looking to maintain or grow their assets after taking into account inflation, taxes, fees and other charges We work with them in realising their goals using the full range of Schroders capabilities combined with third-party products

We have a transparent organisational structure

Asset Management

To allow us to serve our clients effectively, we are organised into three main areas

Investment – where we produce solutions and manufacture products to meet client needs
All investment activities are managed within a single division with a clear objective of delivering performance which meets or exceeds client objectives Investment professionals are located in Europe, Asia and the Americas, close to the markets in which we invest The division plays a key role in product design, concentrating particularly on the risk/reward features of each product and is responsible for delivering reliable and sustainable investment performance, reflecting specific investment objectives Our investment function encourages the sharing of portfolio and research excellence management across the organisation

Distribution – which is responsible for delivering products to institutional and retail clients
We look to build successful, long-term relationships with clients across a wide spread of locations and markets by understanding their investment requirements and ensuring that we provide suitable investment solutions. We design and develop innovative product strategies that respond to client needs. This process is supported by sales and client service teams which cover the full range of strategies, market segments, distribution channels, products and geographies.

Infrastructure – which is responsible for the operational platform and ensures quality assurance, control and efficiency
This area provides and maintains the operating platform and services necessary to deliver our products to clients whilst ensuring that we meet the high standards of quality assurance and control expected by our clients and regulatory bodies. Our administrative systems are concentrated in four key centres – London, Singapore, Luxembourg and Switzerland. This ensures a wide reach across the globe while delivering economies of scale in both front and middle offices and in the associated operations and administration platforms.

Infrastructure responsibilities range from Operations, Information Technology, Human Resources and Facilities to Finance, Tax, Legal, Risk and Compliance. In addition, this area manages all the Group's major projects and outsourcing arrangements.

Private Banking
Private Banking offers specialist financial solutions to high net worth individuals, families and their advisers, across the globe, utilising Schroders asset management skills and external providers. Dedicated relationship management is core to our activities to ensure that we gain a detailed understanding of our clients' needs in order to provide customised solutions geared to their financial goals. Our Private Banking Service Centre in Zurich provides the integrated infrastructure resources to support this business.

We actively manage risk
As an organisation, the management of risk is embedded in our corporate culture, in the way we operate and the way we manage all aspects of our business.

The senior management team, supported by a number of central risk management functions, takes the lead role in ensuring that proper controls are in place across the business to maintain the quality standards expected by our clients and regulators across the globe.

Key to our model is a philosophy that, led by management, it is the responsibility of all employees across the Group to ensure that the control culture of Schroders is embedded within our working practices and in everything that we do.

We have a number of specific risks associated with our business model which we manage actively.
Like any successful business we are exposed to a range of risks. These risks, if not managed properly, could lead to the Group not being able to meet its objectives. Some of them, like the risks inherent in taking active investment decisions on behalf of clients, are the risks we are in business to take. Our focus is on managing risk rather than eliminating it. Others, like regulatory and compliance risk, are risks that we seek actively to avoid.

We monitor performance across more than 20 company-wide risk categories. Risks are managed in a variety of different ways, depending on the nature of the risk and the areas potentially affected, to ensure that wherever appropriate, their impacts are mitigated.

Our key risks, and the ways in which we mitigate them, include:
Market risk
The risk that market conditions will lead to a reduction in revenues across asset classes through a decline in existing funds under management, a reduction in further investment flows mainly from retail clients and a decline in the valuation of principal investments.

- We have a broad product range enabling us to provide clients with solutions tailored to a variety of market conditions.
- We hedge our principal investments to reduce market risk where possible and monitor performance on a regular basis.

Investment performance risk
The risk to delivery of relative performance and the delivery of performance on absolute return funds, particularly in the current challenging market environment.

We adhere to a clearly defined investment process in all asset classes which is combined with a programme of continuous review and improvement.

- Individual portfolio performance, valuations and risk profiles are monitored on a regular basis through the year, allowing issues in these areas to be identified and mitigating actions to be taken.
- Recognising that not all products will outperform all of the time, we offer a diversified product set which reduces the concentration of risk on the performance of any one fund or asset class.

Product risk
The risk of maintaining a very broad product range across multiple asset classes, whilst continuing to develop new products to meet changes in client demands.

- We have a dedicated product development team with clear product approval procedures which combines representation from Investment, Distribution and Infrastructure. We also have an established product review process designed to ensure that we appropriately manage our product range, including the continual assessment of capacity constraints.

Human resource risk
There is an increasing requirement for scarce, specialist skills as the range of our product offering deepens and our investment and distribution strategies develop into more complex areas.

- We have competitive remuneration plans, with appropriate deferred benefits, targeted at key staff.
- Setting clear objectives and measuring success in the annual review process allows us to identify employee development initiatives which are a motivational force in retaining talented executives.

Business continuity risk
Underpinning our whole proposition is the need to ensure that in a global marketplace we are able to continue to operate in difficult conditions.

- Continuity planning is in place across the business with clear identification of key staff and their involvement in business resumption plans, as well as regular testing of communication plans.
- While the increase in the concentration of global systems presents further risks, additional resilience and contingency arrangements are in place including the relocation of the key computer servers and back-ups away from London.
- Group-wide insurance is held against business interruptions that cause a loss of revenue.

Project risk
The risk that ineffective project implementation could lead to sub-optimal solutions being delivered on our key projects.

- We have a dedicated Change Management Team overseeing all major projects, ensuring that a consistent Group-wide rigour is brought to the initiation, approval and monitoring of projects.
- We do not implement live projects before they have been fully tested.

Business review

2007: record financial performance

2007 saw a 21 per cent growth in income and a 35 per cent growth in profit before tax compared with 2006 This strong performance was delivered despite turbulent market conditions, particularly during the second half of 2007

In the first half of 2007, equities strongly outperformed fixed income, as they had done in 2006, with the major world stock market indices, especially in Continental Europe, seeing significant rises in local currency terms However, in July and August, as credit spreads widened, the markets retreated and there was a flight to government bonds as investors sought safe havens in the unravelling credit crisis arising from fears over the recoverability of sub-prime debt By the end of the year, all major stock markets were significantly down from mid-year highs

In the UK, the economy slowed in the second half despite acceleration in household spending Gross domestic product ('GDP') growth was also restrained in the Eurozone However, there was better than expected growth in GDP in the US, despite the weakness in the housing market In Asia Pacific, excluding Japan, economies continued to expand

The following table shows the movement in a number of recognised stock market indices over 2007*

Local Stock markets	Movement six months to June 2007 %	Movement six months to December 2007 %
FTSE 100	6	-2
S&P 500	6	-2
Nikkei 225	5	-16
Broad Market Indices		
MSCI World	7	-4
MSCI Europe ex UK	9	-5
MSCI Pacific	7	-10
Fixed Income 10 year benchmark		
UK Gilts	-5	7
US Treasuries	-2	7
Japanese Treasuries	-1	4
Alternatives		
UK Property Index, Capital Growth	2	-6
Credit Suisse/ Tremont Hedge Fund Index	9	4

* in local currency terms

The strength of Schroders' financial performance in these difficult market conditions reflects the benefits of the diversity of our business, by geography and client, combined with a very broad product range

Strong income growth underpinned by solid investment performance

Asset Management income increased by 20 per cent, with growth in both Institutional (9 per cent) and Retail (29 per cent) This was driven by strong sales of higher margin products across both distribution channels

Within the Retail business, net sales were exceptionally strong at £8 8 billion (2006 £3 8 billion) Asia Pacific had a particularly strong year, with the notable performance of our Korean business, where changes in the tax laws and regulatory environment provided us with an opportunity for growth Across Asia Pacific, emerging market equity funds were the most popular investor choices In the UK, well-established funds – such as the UK Mid 250 and the UK Alpha Plus – as well as newer funds – such as Income Maximiser and Agriculture – helped attract strong UK retail net inflows during the year Adverse market conditions in Continental Europe led to net outflows, centred principally in Germany, Spain and Switzerland

The Group's joint venture with Bank of Communications in China, in which we have a 30 per cent equity investment, enjoyed a strong year reflecting a buoyant stock market in the first half of 2007 and notable gross inflows in the second half, including the Blue Chip Fund hitting its predetermined sales cap of RMB 12 billion on the first day of offer The venture holds both QFII and QDII status in China and contributed £7 1 million to Group profit before tax The joint venture funds under management are not included in total funds under management

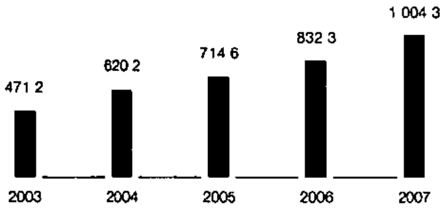
Our Institutional business continues to evolve towards new, higher margin asset classes fees on business won in 2007 were on average more than 40 per cent higher than fees on business lost Income increased despite net outflows of £10 6 billion (2006 £8 billion), including continued outflows from UK balanced and UK equities and, to a lesser extent Japanese and Asian equities, the latter reflecting client driven asset allocation decisions

In response to client requirements, we have continued to broaden our product range and won over 100 new mandates in the UK during 2007 Notable successes included the innovative Diversified Growth Fund, which attracted a further 44 clients with a net inflow of £0 5 billion during the year, and our Quantitative Global Equity product, with a net inflow of £0 7 billion during the year and 55 new institutional clients

Private Banking income increased by 11 per cent compared with 2006 In terms of funds under management, we achieved net inflows of £0 2 billion (2006 £0 4 billion)

Private Equity income increased by 67 per cent in the year despite a reduced number of exits from investments in the second half We expect further gains from our legacy private equity portfolio over the next three to five years

Five-year income growth
£mn



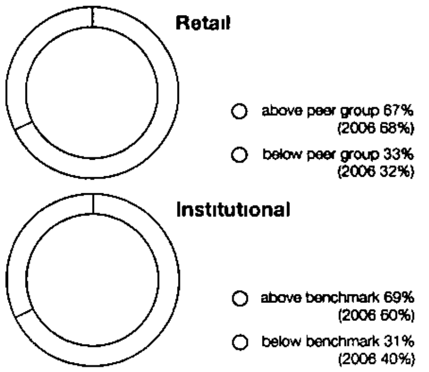
The breadth of our product range is designed to meet the financial needs of our clients, in both retail and institutional channels We launched 30 new products in 2007, including the Global Climate Change Fund, one of the first funds of its kind, and the Global Emerging Opportunities Fund

During 2007 we continued to build up the life assurance company established in 2005 to help meet the demands of the defined contributions market in the UK As at 31 December 2007 this business was responsible for over £2 7 billion of funds under management (31 December 2006 £1 5 billion)

Our acquisition during the year of Aareal Asset Management, a pan-European property asset manager based in Germany, enhanced our capabilities in European property funds and gives us a platform for further growth in this area This business was integrated with our existing UK property business, into a single European property business in order to deliver a consistent level of service for our clients

Investment performance
We have maintained our overall levels of investment performance in 2007 In total, 68 per cent of funds under management have performed above their benchmark for the three years to end 2007, compared with 64 per cent in 2006

Three years to 31 December 2007

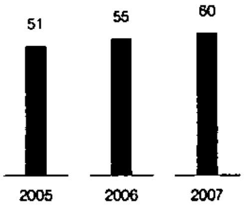


Higher margins

Gross profit margins on funds under management have continued to grow, reflecting the increase in Retail sales and more specialised Institutional products that command higher margins In 2007 gross profit margins were 64 basis points (2006 59 basis points) for Asset Management and Private Banking combined

Gross profit margins for Asset Management were 60 basis points, an increase of 5 basis points from 2006

Asset management gross profit margin

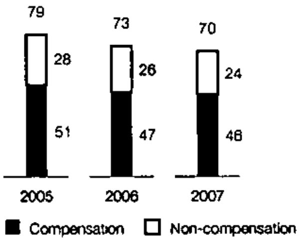


Costs
2007 saw further improvement in our key cost ratios The total costs to operating revenues ratio reduced to 70 per cent (2006 73 per cent) and the cost to income ratio reduced to 61 per cent (2006 65 per cent) Cost control continues to be fundamental to our business We target long-term ratios for cost to income and compensation costs to operating revenues of 65 per cent and 45 per cent respectively

Overall compensation costs have risen by £57 8 million (17 per cent), reflecting higher revenues, with the ratio of total compensation costs to operating revenues reducing to 46 per cent (2006 47 per cent) The use of this metric helps to ensure our compensation cost growth is consistent with the pace of revenue growth in the firm

Total costs to operating revenues· ratio

%



Non-compensation costs amounted to 24 per cent of operating revenues in the year

The primary drivers of increased non-compensation costs in Asset Management during the year were marketing and spending on infrastructure replacement projects Marketing spend increased to £27 9 million in support of the growth in Retail sales

Business review

Infrastructure project spend centred on replacing our existing portfolio systems with a single Book of Records system, which will support all aspects of our business, from portfolio accounting to client reporting This project, due to be completed in Europe by the end of 2008, will provide a platform capable of supporting Schroders' business development for the next ten to fifteen years

Private Banking costs decreased further following the successful project implementation of an integrated service centre providing a single back office function for our London, Guernsey and Zurich offices

Group costs were lower in 2007, principally due to a decrease in spending on financial systems against 2006 and a release of provisions for vacant space in our London offices

As part of managing our cost base, we operate an environment where costs are analysed, monitored and challenged, but also where expenditure that enhances the long-term performance of the Group is encouraged

Profit before tax
Profit before tax increased by 35 per cent to £392 5 million, a record result for the Group

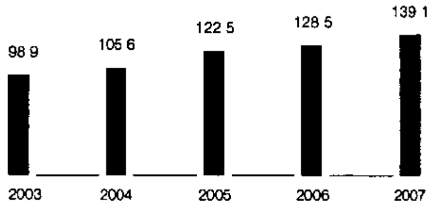
The segmental analysis of results is shown in more detail in note 3 on pages 57 to 59

Profit after tax
Profit after tax also increased strongly, up by 37 per cent , with a net profit of £299 7 million attributable to shareholders, up 35 per cent on the previous year

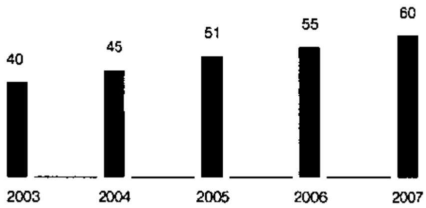
The tax rate of 23 per cent in 2007 is similar to the tax rate for 2006 This is lower than the current UK corporate tax rate of 30 per cent , principally because of the level of profit arising in jurisdictions with lower tax rates than the UK

There are a number of key indicators that are reviewed by management to assist with monitoring the performance of our business A five-year view of these is shown below

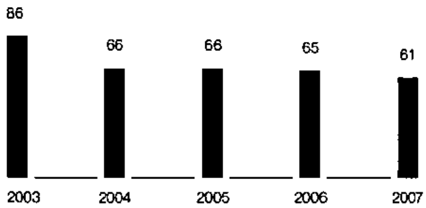
Funds under management
£bn



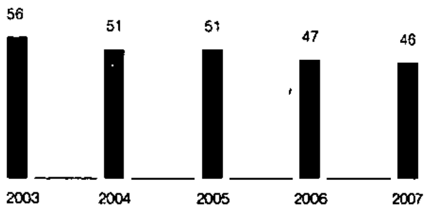
Asset management: Gross margin
bps



Cost: Income ratio
%



Compensation cost: Operating revenue ratio
%



Financial strength to invest for the future

The profit of £299.7 million generated in the year was used in a number of ways
Distributions to shareholders
£80 3 million of the profit earned in the year was distributed to shareholders via the payment of dividends and the repurchase of our own shares

The dividends declared and paid in 2007, being the final dividend for 2006 and the interim dividend for 2007, came to 26 5 pence per share or £74 9 million, an increase of £11 5 million on 2006 Share buybacks net of inflows from the exercise of share options totalled £5 4 million in the year

A final dividend of 21 0 pence per share or £59 4 million for the year ended 31 December 2007 has been recommended by the Board

Investment in organic growth
We are continually looking at ways of improving our product offering, investing in our people and increasing operational efficiency During the year we increased average headcount across the business by 172, whilst reducing our ratio of compensation costs to operating revenue We invested £47 3 million in infrastructure projects

Investment in acquisitions
In February 2007, we acquired Aareal Asset Management, a pan-European property asset manager based in Germany, for an initial consideration of £27 7 million This added £1 3 billion of funds under management at acquisition The business was integrated with our existing property business to create a pan-European property business with £9 2 billion of funds under management

In November, subject to certain conditions, including regulatory approval, we reached agreement to acquire the Singapore-based private client advisory unit of the Commonwealth Bank of Australia for a consideration of approximately £5 0 million This transaction completed on 29 February 2008 The unit will be managed as part of the Private Banking business segment

We increased our pool of working and investment capital
Schroders has a substantial pool of capital to support the business, derived from retained earnings and the proceeds from the sale of the investment banking business in April 2000 This capital is deployed in accordance with limits approved by the Board It is divided between

Regulatory and working capital
£716 million (2006 £654 million)

This represents the Group's investment in the underlying operating companies and the capital required for the day to day management of the business, together with retained profits awaiting distribution to the Group holding companies

Investment capital – consists of

Fixed income and money market
£371 million (2006 £312 million)

This comprises cash, money market investments and fixed income securities, designed to give flexibility to react to the changing requirements of the business The return on these assets in the year was 3 4 per cent (2006 4 3 per cent)

Other investment capital
£609 million (2006 £477 million)

This comprises investments to support new products through short-term seed capital investments as well as longer-term investments in hedge, property and private equity funds The return for the year on these investments reflected in the income statement was 17 4 per cent (2006 13 4 per cent)

The strength of our capital position enables us to maintain our credit ratings, provides our clients and counterparties with continued confidence in the resilience of our business over the long-term and gives us the flexibility to consider acquisition opportunities as they become available

We are well placed to take advantage of longer-term changes in our industry

Key global demographic trends are changing the outlook for savings and therefore the long-term outlook for Schroders

- In the major western economies average life expectancy has increased by over 10 per cent in the period 1960 to 2005, with further increases expected Taking a retirement age of 65, life expectancy post-retirement has nearly tripled in this period
- Birth rates are falling across the major western economies Allied to increased life spans this will dramatically increase the ratio of non-working age individuals to those of working age (20-65) in the next 30-40 years

Increased life expectancy will require savers to accumulate more assets before retirement in order to generate income that will last them through their retirement years At the same time reduced birth rates will decrease the supply of new workers to help fund longer-living retirees This will have a major impact on the cost of state-provided pensions, and suggests that few individuals in developed economies will be able to rely solely on government pension schemes to fund their retirement

The weak equity markets in 2000-2003 and changes in accounting practices left many defined benefit pension schemes underfunded and exposed to risks their sponsors may find difficult to control

As a result many company schemes have ceased to provide benefits and others have been closed to new members

Unable, therefore, to rely on the state or their employers to provide adequate earnings-related defined benefit pensions, many of today's workers are increasingly obliged to take personal responsibility for their savings through defined contribution schemes

These changes have significant implications for the nature of both institutional and retail savings offerings

We see the landscape changing for asset management businesses in the following areas

- Growth in products for the defined contribution sector to complement our existing product range, reflecting the continued emergence and importance of the individual in the savings sector,
- Continued growth in demand for alternative products as savers diversify their investment portfolios in pursuit of higher, risk adjusted, long-term returns,
- Innovative and complex new products to cater for the needs of the 'instividual', for example, retail investors grouped together in defined contribution schemes that consequently have resources similar to institutions and who therefore expect institutional quality service and access,
- Distribution partnerships becoming increasingly important within the industry as the number of investors turning to intermediaries for advice grows, and
- Continued increase in demand for outcome oriented products and strategic solutions as clients seek to minimise shortfall risks without sacrificing upside potential

Our priorities for 2008

Looking forward to 2008

We will continue to support our clients through the challenging market conditions that began in the second half of 2007, offering a relationship of real value over and above the immediate product we are providing In uncertain financial markets, fulfilling our client requirements for good advice and maintaining solid investment performance, particularly on a risk adjusted basis, will be paramount We will continue to help our clients to understand their risk management options and implement solutions for their investment needs This will include reviewing their asset allocations, where possible, and increasing the diversity of their investment portfolios

In order to offer further diversification of risk, we expect continued growth in our Global Diversified Growth Fund, providing investment exposure to a range of asset classes, including alternatives, in such a way as to diversify asset class risk whilst enhancing total expected return Products such as this will help us to meet the growing demand for specialist products for pension fund trustees and plan sponsors

We plan to expand our offering of alternative investments, meaning greater levels of accessibility for our clients in terms of investing in property, hedge funds of funds, private equity, multi-manager, commodities and agriculture and absolute return products In January 2008, we launched the Diversified Completion Fund to offer alternative investments for pension funds These products allow individual investors greater exposure to a more diversified product range and new investment strategies, as a means of maximising their savings consistent with their personal risk profiles We have also been working with intermediaries to enhance the packaging of combined investments to provide a range of lifestyle savings products designed to suit different stages of life and financial circumstances

We will continue to drive for operational efficiencies and increased productivity, particularly across our infrastructure, to deliver both process consistency and cost effectiveness across our core operating hubs This will ensure that we can continue to invest in those areas that are of strategic importance in delivering our long-term growth ambitions

We intend to continue the expansion of our global reach, whilst at the same time consolidating and improving our position in markets where we already have a presence In 2008, we expect to begin trading in India and will be looking to strengthen our market position in North America and Asia Pacific through increased investment in people and products

Our Private Banking division will seek growth in both funds under management and revenues

We are well placed for further growth

2007 was a year of strong financial performance to the highest level in our 203-year history We saw improved performance in our core business areas with increased gross margins in Asset Management and good growth in revenues and profit from Private Banking

2008 will undoubtedly be a more challenging year However, our programme of investing in the business for the longer-term will continue and the Group is well positioned to meet these challenges, with a highly diversified business geographically by client and by product

Corporate responsibility

With a trusted heritage of over 200 years, Schroders has a long-standing commitment to maintaining consistently high standards in all areas of corporate responsibility ('CR') We seek to

- Reduce our environmental footprint,
- Support the communities in which we operate,
- Attract and develop the best people,
- Be transparent in our operations and reporting, and
- Encourage and support these principles in the companies in which we invest

Schroders is an index component of both the Dow Jones Sustainability World Index (DJSI World) and the Dow Jones STOXX Sustainability Index (DJSI STOXX) We are also included in the FTSE4Good Index that is designed to identify companies that meet globally recognised CR standards

As one of the leading quoted asset managers in the world, we recognise that how we behave can influence other companies in the global financial services market Our stakeholders, with whom we maintain an ongoing dialogue, include shareholders, staff, non-governmental organisations, the wider community and companies in which we invest Our behaviour is in turn influenced by our core values – Integrity, Passion, Innovation, Teamwork and Excellence

Governance structure

A clear delegation of responsibilities forms the backbone of our CR activities The Board is ultimately responsible for corporate governance and CR within the Group During 2007, a new Corporate Responsibility Committee was established to provide a strategic framework and better co-ordination of the Group's CR activities This Committee is responsible for the development of Schroders policies on CR and their implementation through the Group as we look further to embed CR principles in all of our activities and culture, as well as to introduce a formal measurement system

As part of this change, Alan Brown, Group Chief Investment Officer, has assumed responsibility for all employee, environmental and community involvement issues, socially responsible investment and corporate governance issues relating to the companies in which we invest

Our approach to corporate responsibility is built around four main areas

- Workplace,
- Marketplace,
- Environment, and
- Community

Workplace

Schroders has more than 2,800 people across 28 countries Throughout our 203-year history, our people have always been our most important asset, at the heart of everything we do It remains a priority for us to develop, manage and retain our talented people in order to deliver our potential as an organisation We want to be an employer of choice and we work to ensure that our employee policies reflect best practice within each of the countries where we operate and that our staff understand the strategic aims and objectives of the Group, are clear about their role in achieving them and are aware of and participate in the wider community

An Employee Consultation Forum was established in the UK in 2005, consisting of employees elected by their peers Members of the Forum meet regularly with management as part of a Joint Consultative Group which discusses employee-related matters and provides feedback and recommendations to the senior management team

High ethical standards
We actively promote high ethical standards. Concerns about behaviour or decisions that are perceived to be unethical can be raised by employees through our internal whistleblowing process. Personal securities trading by employees is regulated and monitored to ensure this does not lead to conflicts of interest. Staff are not permitted to solicit or accept any inducements which are likely to conflict with their duties to clients. Training is provided in relation to these issues and in relation to money laundering, terrorist finance and data protection.

Remuneration
Our approach to remuneration is consistent with our ambition to be an employer of choice. We have developed flexibility to enable our staff to personalise their remuneration package to suit their own needs and ambitions.

As a further example of our commitment to our staff, at the end of 2007, we announced our intention to significantly enhance the defined pension contribution rates for UK staff from 1 March 2008 Pension arrangements in other locations have also been reviewed

Further information on our remuneration policy is outlined in the remuneration report on pages 27 and 28

Personal development
Our performance management process comprises an annual performance appraisal against agreed objectives and our core values Output from this performance process is used to inform decisions on remuneration, career development and progression In creating a high performing organisation, we recognise the importance of encouraging all our employees to learn, develop and fulfil their potential We provide our staff worldwide with access to a wide range of training and development opportunities that are relevant to our business

Diversity
We are committed to providing equal opportunities and seek to ensure that our workforce reflects the diversity of the many communities in which we operate

A flexible working policy has been developed to recognise the diverse needs of employees in managing the responsibilities of their work and personal lives We believe that achieving an effective balance in these areas is beneficial to both the Group and the individual We recognise that through the attraction and retention of a diverse workforce we are better able to understand the needs of all our clients It is the Group's policy to give full and fair consideration to applications from disabled persons, having regard to their particular aptitudes and abilities For the purposes of training, career developments and progression disabled employees (including those who become disabled during the course of their employment) are treated on equal terms with other employees We operate a zero tolerance policy to harassment and bullying

Health and safety
We promote high standards of health and safety at work and have a globally implemented health and safety policy, which we expect all staff to follow and which highlights our commitment to ensuring employees are provided with a safe and healthy working environment Training is also offered to all staff

Marketplace

As a leading asset management group, investing over £139 1 billion on behalf of our clients, our investment decisions have a greater impact than our direct operational activities

Schroders initially introduced a socially responsible investment policy in 2000 to enhance our approach to corporate governance This policy meets the ABI Disclosure Guidelines on Socially Responsible Investment and endorses the Voluntary Code on Shareholder Activism issued by the Institutional Shareholders Committee A copy of the policy is available on our website at http //ir schroders com/download/SRIPolicy pdf

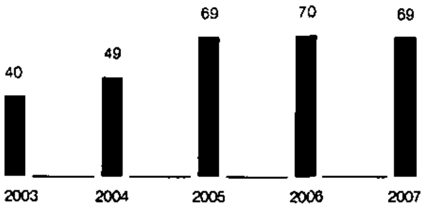
In 2007, Schroders became a signatory to the United Nations Principles for Responsible Investment ('UN-PRI') that provide a framework for how to consider environmental, social and corporate governance issues into our investment decision making

We are also a founding member of the Institutional Investors Group on Climate Change, signatories to the Bali Communique issued by the Corporate Leadership Group on Climate Change and a member of the Carbon Disclosure Project

Our investment process incorporates research into the corporate responsibility performance of companies and we engage with companies where the scope of environmental, social and governance codes falls short of acceptable standards

During 2007, Schroders voted on 122 shareholder resolutions of a social, ethical or environmental nature and engaged in dialogue with 69 companies on these issues to improve our analysis

Number of companies engaged with on CR issues



In addition to our engagement activities we also utilise the research of the Ethical Investment Research Service This enables us to screen investable universes in order to reflect clients' values in their investment portfolios At the end of 2007, Schroders had £9 2 billion of funds under management which had some form of ethical criteria attached to them

Environment

We are committed to continuous improvement in minimising the negative environmental impact of our operations and to the promotion of positive environmental practices We measure our performance in terms of waste management, water usage and energy usage

Business review

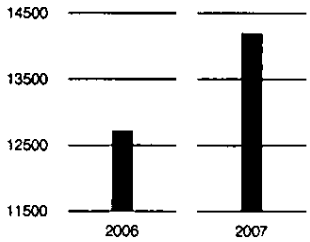
Waste management
We try to balance business needs with the aim of reducing our consumption of materials In 2007, we saw a 12 per cent reduction in waste generation, and through the introduction of further recycling initiatives and staff awareness campaigns we continued to beat our target to recycle or reuse over 90 per cent of our waste

	2006	**2007**
Waste generated (tonnes)	685	**568**
Waste recycled or reused (per cent)	92	**91**
Waste generated (tonnes per employee)	0 256	**0 196**

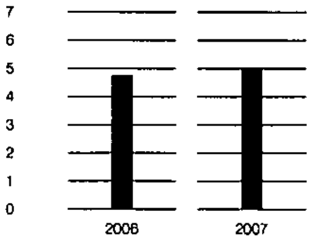
Schroders has been awarded the Platinum Award in the City of London's Clean City Scheme for the third year running The award places us in the top 20 out of 1,300 buildings in the Scheme, which recognises good waste management and effective recycling

Water usage
We are also committed to the efficient use of water and encourage our staff to conserve water However, in 2007, our consumption of piped water increased as a result of the refurbishment work undertaken at our Gresham Street office in London

Total water consumption
cubic metres



Water consumption per employee
cubic metres

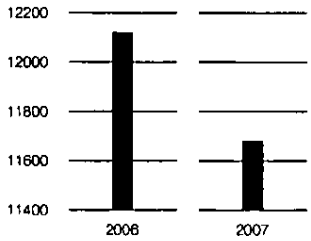


Energy usage
Our energy usage is one of the most significant impacts that our operations have on the environment Schroders has monitored and managed its energy consumption for several years and continues to look for new opportunities to minimise our usage wherever possible In 2008, we intend to install an electrical sub-metering system at our Gresham Street offices, better to understand and target efficiencies in our energy consumption

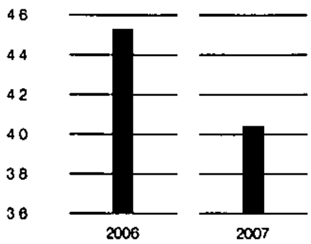
Total energy consumption for 2007 across our London offices has decreased by 3 6 per cent compared with 2006, primarily reflecting the building work undertaken during the year to refurbish our Gresham Street offices and reduce our IT load through consolidation and decommissioning of redundant equipment

As part of this work, we have introduced more energy efficient systems and more advanced controls to reduce our overall consumption

Energy consumption
Mwh



Energy consumption per employee
Mwh



Almost all of our staff in London travel to work by public transport All business travel is approved and authorised by line managers and the use of video conferencing as an alternative to travel is actively encouraged We have increased the number of video conference facilities in London and are developing a programme to increase the number of video conferencing facilities at our other offices during 2008

Community

We encourage all staff to participate in the community and in civic and charitable causes Involvement is valuable to the community and also assists personal development

Charitable giving

Our charitable giving has in recent years focused on employee choice with the Group 'matching' staff donations and sponsorship In 2007, the Board agreed to increase our charitable giving to include discretionary donations doubling our donations to £1 25 million

A new Charity Committee was established to receive nominations from staff for potential donations, targeted at specific projects in the areas of education, development and health Fifty-two applications were considered before five donations of between £50,000 and £100,000 were made

A number of our offices operate payroll giving schemes of which the UK scheme is the largest At the end of 2007, nearly 16 per cent (2006 16 per cent) of UK staff were participating, making charitable donations totalling £197,317 through this scheme We again received the Payroll Giving Quality Mark Gold Award in 2007, in recognition of over 10 per cent of staff giving money to charity via the payroll

Volunteering

As well as making financial donations, staff are encouraged to spend time working in the community Since June 2005, staff in the UK have been able to take up to 15 hours paid leave per year to provide volunteer services Many staff regularly volunteer their own time to work in the not for profit sector, utilising their business experience

Overseas volunteering

During 2007, Schroders staff continued to volunteer to help Habitat for Humanity, a global charity dedicated to eliminating sub-standard housing and homelessness Investing time to help build homes with their colleagues enables employees to build strong team relationships and develop their communication skills, whilst making a positive and lasting contribution to the communities they help Schroders contributes 50 per cent of the cost of participating, with employees meeting the remainder as well as raising money for the charity

Local community involvement

In London, Schroders is a significant corporate supporter of the Hackney Schools Mentoring Programme, established in 1996 by the East London Business Alliance and Hackney Learning Partnerships Our staff continue to help mentor 14 and 15 year old students in the London Borough of Hackney to increase students' self confidence and improve their academic performance and allow them to gain experience of the working world and to broaden their aspirations A number of staff also help primary school children with literacy skills

Directors' profiles

Chairman
1. Michael Miles, OBE (71)
Chairman
(Chairman of the Nominations Committee), was appointed as a non-executive Director and Chairman of the Board on 1 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 was chairman of Johnson Matthey plc (1998 – 2006) and a non-executive director of BP plc (1994 – 2006) He is also an adviser to the board of John Swire & Sons Ltd and chairman of BP Pension Trustees Ltd

Executive Directors
2 Michael Dobson (55)
Chief Executive
Joined the Board of Schroders as a non-executive Director in April 2001, and became Chief Executive in November of that year

From 1973 to 2000 he worked for Morgan Grenfell and Deutsche Bank He was chief executive of Morgan Grenfell Group from 1989 to 1996 and a member of the Board of Managing Directors of Deutsche Bank AG from 1996 until 2000 He is a member of the investment committee of the King's Fund, a member of the advisory committee of the Staff Retirement Plan of the International Monetary Fund and chairman of the investment board of the Cambridge University Endowment Fund

3. Jonathan Asquith (51)
Vice Chairman
Joined Schroders and was appointed to the Board in January 2002, and was Chief Financial Officer from March 2002 until April 2007 Within the investment function, he is responsible for fixed income, emerging market debt, commodities and property He oversees the Group's investment capital and private equity interests and is responsible for corporate development

From 1979 he worked for Morgan Grenfell and was appointed as chief financial officer of Deutsche Morgan Grenfell in 1995 and chief operating officer in 1997 In 2001 he joined Barclays Private Bank, where he was head of UK private banking until his move to Schroders

4. Alan Brown (54)
Group Chief Investment Officer
Joined Schroders in 2005 and was appointed to the Board in July of that year In addition to being Chief Investment Officer, he is directly responsible for multi-asset portfolios, quantitative equity products, manager of managers and structured products

Between 1974 and 1995 he worked for Morgan Grenfell, Posthorn Global Asset Management and PanAgora Asset Management before joining State Street Global Advisors ('SSgA'), where he served initially as managing director of the London office, and later as group chief investment officer and vice chairman of SSgA, and executive vice president of State Street Corporation

He is chairman and treasurer of the CERGE-EI US Foundation (Centre for Economic Research and Graduate Education – Economics Institute), an advisory council member of the Chartered Financial Analyst ('CFA') Centre for Financial Market Integrity and a member of the MSCI Barra Editorial Advisory Board

5 Massimo Tosato (53)
Vice Chairman
Joined Schroders in 1995, when he was responsible for Schroders' asset management activities in Italy and from 1999 to 2001 for the whole of continental Europe He became Global Head of Retail in February 2001 and was appointed to the Board in August of that year He became the Head of Distribution globally in September 2003

Between 1981 and 1992 he was a founding partner and chief executive officer of Cominvest SpA From 1992 to 1995 he was a partner and managing director of Euromercantile SpA Since 1992 he has been a member of the International Advisory Board of Columbia Business School From 2002 to 2005 he was an independent director of the board of Banca Nazionale del Lavoro In March 2005 he became a trustee of the Parasol Unit Foundation for Contemporary Art, London

Non-executive Directors
6 Andrew Beeson (63)
Independent non-executive Director (member of the Audit, Nominations and Remuneration Committees), was appointed a Director on 1 October 2004

He was the founder and CEO of the Beeson Gregory Group and subsequently chairman of Evolution Group plc following its merger with Beeson Gregory, before leaving in 2003 He founded the City Group for Smaller Companies in 1992 now known as Quoted Company Alliance ('QCA') and became its first chairman

Between 2001 and 2004 he was a director of IP Group Plc and is currently a non-executive director of Woolworths Group plc, Datawind UK plc, NB Real Estate Holdings Limited and QC Holdings Limited He is on the advisory board of Armstrong Bonham Carter

1 Michael Miles **3 Jonathan Asquith** **5 Massimo Tosato**

2 Michael Dobson **4 Alan Brown** **6 Andrew Beeson**

7 Luc Bertrand (57)
Independent non-executive Director (member of the Audit and Nominations Committees), was appointed a Director on 1 March 2006

He is chairman of the executive committee of the Belgian company, Ackermans & van Haaren N V, which he joined in 1985 He was appointed managing director in 1990 and became chairman of the executive committee in 1996 Ackermans & van Haaren is a diversified group active in four sectors dredging, environmental and construction services, real estate and related services, private banking and private equity

He started his career as a corporate financier with Bankers Trust in 1974 Between 1976 and 1980 he held various overseas posts, including positions in London and Amsterdam He is an independent director of ING Belgium He is also on the advisory council of INSEAD Belgium

8. Sir Peter Job (66)
Senior Independent Director (Chairman of the Remuneration Committee and member of the Nominations Committee), was appointed a Director of Schroders on 5 November 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 Royal Dutch Shell plc and Tibco Software Inc He is also a member of the supervisory board of Deutsche Bank AG

9. Merlyn Lowther (54)
Independent non-executive Director (member of the Audit and Nominations Committees), was appointed a Director on 1 April 2004

She joined the Bank of England Economics Division in 1975 and held various senior management positions within the Bank including personnel director from 1996 to 1998 and deputy chief cashier from 1991 to 1996 She was appointed Chief Cashier in 1999, a post she held until leaving the Bank in 2004 She is a trustee of Henry Smith's Charity and of the Winston Churchill Memorial Trust, and is a member of the advisory group to the chief executive of Frogmore Property Company Ltd

10. George W. Mallinckrodt, KBE (77)
President and non-executive Director (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 was 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, a member of the INSEAD Circle of Patrons, a member of the Dean's Council at the John F Kennedy School of Government, Harvard University, and a member of The Chancellor's Court of Benefactors, Oxford University He is also a trustee of Christian Responsibility in Public Affairs ('CRPA') and Christian trustee of the Committee of The Interfaith Foundation

11 Kevin Parry, FCA (46)
Independent non-executive Director (Chairman of the Audit Committee and member of the Nominations and Remuneration Committees), was appointed a Director on 1 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 From 2000 to 2008 he was chief executive of Management Consulting Group plc He is deputy chairman of the Royal Wanstead Children's Foundation

12. Bruno Schroder (75)
Non-executive Director (member of the Nominations Committee), from 1954 to 1955 he worked for Schroder Gebruder (Bank) in Hamburg and he joined the Schroder Group in London in 1960 where he worked in the Commercial Banking and Corporate Finance divisions of J Henry Schroder Wagg & Co Ltd, London In 1963 he was appointed a Director of Schroders He is a director of a number of other private limited companies

7. Luc Bertrand **9. Merlyn Lowther** **11 Kevin Parry**

8 Sir Peter Job **10 George W Mallinckrodt** **12 Bruno Schroder**

Directors' report

The Directors are pleased to present their report for the year ended 31 December 2007 The information contained in the statement from the Chairman and the Chief Executive, the business review, the Directors' profiles, the corporate governance and the Nominations and Audit Committees' reports, risk management and internal control report and the Directors' responsibility statement, forms part of this Directors' report

Principal activities and business review

Schroders plc is the parent company of an international asset management and private banking group A review of the Group's business during 2007 and likely future developments is contained in the statement from the Chairman and the Chief Executive and in the business review

Results and dividends

The profit for the year attributable to equity holders of the parent company was £299 7 million, compared to £221 3 million for 2006 Dividends payable in respect of the year and their total value are set out below

Ordinary shares and non-voting ordinary shares	2007 £mn	2006 £mn
Interim dividend 9 0p per share (2006 7 5p)	25 4	21 4
Recommended final dividend 21 0p per share (2006 17 5p)	59 4	49 5
Total dividend 30 0p per share (2006 25 0p)	84 8	70 9

The Schroders plc Employee Benefits Trust and the Schroder US Holdings Inc Grantor Trust have both waived their rights to the dividends paid on both the ordinary and non-voting ordinary shares in 2007 The Schroders plc Employee Benefits Trust has waived dividends due at any time in the future in respect of all the Trust's shares

The final dividend, if approved by shareholders at the Annual General Meeting, will be paid on 30 April 2008 to shareholders on the register of members at the close of business on 14 March 2008

Investments and disposals

On 28 February 2007 we announced that we had completed the acquisition of Aareal Asset Management GmbH, a pan-European property asset manager based in Germany The acquisition represented interests of 99 75 per cent of the share capital of Aareal Asset Management GmbH and its related companies The total cost of the acquisition was £27 7 million in cash

On 2 October 2007 we reached agreement to acquire the Singapore-based private client advisory unit of Commonwealth Bank of Australia This transaction completed on 29 February 2008 We paid US$10 million (£5 million) in cash for the business, which at completion had more than US$660 million of assets under administration and employed 12 staff

Directors

The names and biographical details of the Directors of the Company are given on pages 20 and 21 The Articles of Association require each Director to retire from office not later than the third Annual General Meeting following his or her last election or re-election to the Board

Jonathan Asquith, Andrew Beeson, Michael Dobson, Sir Peter Job and Massimo Tosato are retiring from office in accordance with the Articles and will offer themselves for re-election at the Annual General Meeting In accordance with the Company's Corporate Governance Guidelines, which reflect the provisions of the Combined Code on Corporate Governance, George Mallinckrodt and Bruno Schroder, who have both served as Directors for more than nine years, will retire from office at the forthcoming Annual General Meeting and will also offer themselves for re-election

Details of the service contracts or terms of appointment, together with interests in the Company's shares, for those Directors in office during the year, are shown in the remuneration report on pages 32, 36 and 37 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

Capital structure and voting rights

The Company's share capital is comprised of ordinary shares and non-voting ordinary shares of £1 each As at 31 December 2007, 226,022,400 ordinary and 68,476,443 non-voting ordinary shares were in issue, representing 76 7 per cent and 23 3 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 The non-voting ordinary shares carry the same rights as ordinary shares except 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 During 2007, the Company issued 3,866,560 non-voting ordinary shares as a result of awards under share and share options plans

Since the end of the year a further 14,039 non-voting ordinary shares have been issued

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 issues of non-voting ordinary shares made as a result of those plans, as described in the notice of Annual General Meeting

At its Annual General Meeting on 24 April 2007, shareholders gave approval for the Company to purchase up to 14,700,000 non-voting ordinary shares During the financial year 3,243,590 non-voting ordinary shares were repurchased at an average price excluding costs of £10 49 per share, representing 4 7 per cent of the issued non-voting ordinary share capital Since the year end, a further 1,414,561 shares have been repurchased at an average price of £9 53 All shares repurchased were cancelled As at the date of this report there were 67,075,921 non-voting ordinary shares in issue

Under the terms of the Schroders Share Incentive Plan ('SIP'), participants acquire shares in the Company – called Partnership Shares – and in return receive awards of shares – called Matching Shares To qualify for maximum tax benefits, Partnership Shares and Matching Shares must be left in the SIP for five years Participants are free to withdraw their Partnership Shares at any time but, if they do so within three years of the acquisition of the Partnership Shares, they forfeit the corresponding Matching Shares, save in certain circumstances set out in the rules of the SIP Participants are not normally entitled to withdraw the Matching Shares from the SIP within three years of the shares being awarded to them

Under the terms of the Schroder plc Employee Benefits Trust the Trustee may vote or abstain from voting, or accept any offer relating to shares, in any way that it thinks fit In so doing, it may take into account both financial and non-financial interests of the beneficiaries or their dependants

Directors' share interests

The interests of the Directors in the securities of the Company can be found in the remuneration report on pages 36 and 37

Employees

Details of the Company's employment practices (including the employment of disabled persons) can be found in the corporate responsibility section of the business review on pages 14 to 16

Substantial shareholdings

As at the date of this report, the Company has received notifications in accordance with the FSA's Disclosure and Transparency Rule 5 1 2 R of the following interests in three per cent or more of the voting rights attaching to the Company's issued share capital

Voting rights attached to shares

Notifier	Class of shares	No of shares Direct	No of voting rights Direct	No of voting rights Indirect	% of voting rights Direct	% of voting rights Indirect
Vincitas Limited*	Ordinary	–	–	62,861,892	–	27 81
Veritas Limited*	Ordinary	–	–	37,308,464	–	16 51
Flavida Limited#	Ordinary	–	–	62,861,892	–	27 81
Fervida Limited#	Ordinary	–	–	38,278,700	–	16 94
Harris Associates L P	Ordinary	12,919,102	12,919,102	–	5 72	–
Legal & General Group Plc	Ordinary	6,873,379	6,873,379	–	3 04	–

*Vincitas Limited and Veritas Limited act as trustees of certain settlements made by members of the Schroder Family

#The interests of Flavida Limited and Fervida Limited include interests in voting rights in respect of all the shares in which Vincitas Limited and Veritas Limited are interested as trustees

Change of control

The provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover

Charitable donations

The amount paid by Group companies to charitable organisations during 2007 was £1,252,090 (2006 £616,000) Further information on the Group's charitable activities can be found in the corporate responsibility section of the business review No political donations or contributions were made or expenditure incurred by the Company or its subsidiaries during the year (2006 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 31 December 2007 the amount owed to the Group's trade creditors in the UK represented approximately 15 days' average purchases from suppliers (2006 13 days)

Provision of information to auditors

To the best of the Directors' knowledge, there is no relevant audit information of which the Company's auditors are unaware Each of the Directors has taken all steps that ought to have been taken by him or her as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of such information

2008 Annual General Meeting

The Annual General Meeting will be held at 31 Gresham Street, London EC2V 7QA at 11 30 a m on Thursday, 24 April 2008 Resolutions will be proposed at the Annual General Meeting to reappoint PricewaterhouseCoopers LLP as auditors and to authorise the Directors to fix their remuneration

The notice of meeting also contains business in relation to the general authority for the Directors to allot non-voting ordinary shares or to grant rights to subscribe for, or convert securities into, non-voting ordinary shares, a general authority for the Company to purchase its own non-voting ordinary shares, authority to make political donations and expenditure, amendments to the rules of the Equity Compensation Plan and amendments to the Company's Articles of Association The Board believes that each of the items of business are in the interests of shareholders and recommends them to shareholders for approval

Details of the items of business to be dealt with at the Annual General Meeting can be found in the notice of meeting on pages 104 to 107

By Order of the Board

Graham Staples
Company Secretary
31 Gresham Street
London EC2V 7QA

10 March 2008

Corporate governance report

This section of our Annual Report sets out our approach to corporate governance in 2007 In it you will find information on the Board, how it operated, how it delegated its responsibilities to the Executive team and to the Board Committees, how those Committees discharged their responsibilities and how we evaluated the effectiveness of the Board, the Committees and the Directors It also sets out how we engaged with our shareholders and how we approached our corporate and social responsibilities

Corporate governance review 2007

This section explains our overall approach to corporate governance, how we have applied the principles of the 2006 Combined Code on Corporate Governance (the 'Code'), the extent to which we have complied with the Code's provisions and an explanation of the one area where we have not complied

As one of the UK's largest asset managers, corporate governance is very important to us We are committed to business integrity, high ethical values and professionalism across all our activities The Board of Schroders plc supports the highest standards of corporate governance

In 2004 the Board adopted the Schroders Governance Guidelines These Guidelines form the basis for how the Board and the Committees operate, what is expected of Directors and how they discharge their duties During 2007 the Board reviewed and updated these Guidelines and the Group's other core governance documents, including the Schedule of Matters Reserved to the Board and the terms of reference of the principal Board Committees, to ensure that they remained appropriate for Schroders taking into account current best practice The Guidelines, and all the other documents mentioned in this report, are available on the website at www schroders com or from the Company Secretary

The role of the Board

The Board is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value The Board achieves this through a combination of deciding on issues itself, delegating responsibility to Board Committees and delegating authority to the Chief Executive Certain matters can only be decided by the Board These are contained in the Schedule of Matters Reserved to the Board and include consideration and approval of such matters as

- The Group's strategy,
- Major acquisitions and disposals,
- Significant new business activities,
- The Annual Report and Accounts and other financial statements,
- The annual budget, and
- The issue and repurchase of the Company's shares

The composition of the Board

There are currently 12 Directors In addition to the Chairman, there are four executive Directors and seven non-executive Directors, of which five are considered by the Board to be independent Biographical details of the Directors can be found on pages 20 and 21

There were no changes to the composition of the Board during the year

The Chairman is Michael Miles He is responsible for leading the Board His other responsibilities are to ensure the effectiveness of the Board, monitor and evaluate the performance of the Chief Executive and ensure there is appropriate dialogue with our shareholders

The Chief Executive is Michael Dobson He is responsible for the executive management of the business of the Company and its subsidiaries This includes recommending to the Board the Group's strategy for building shareholder value over the long-term through growth in profits

The roles of the Chairman and Chief Executive are totally separate and each has a written job description setting out their respective responsibilities Both job descriptions were reviewed and updated in 2007

The Senior Independent Director is Sir Peter Job He is available to shareholders if they have concerns which have not or cannot be resolved through discussion with the Chairman or the executive Directors Sir Peter also chairs meetings of the non-executive Directors at which the performance of the Chairman is reviewed

The non-executive Directors The Board considers that Andrew Beeson, Luc Bertrand, Sir Peter Job, Merlyn Lowther and Kevin Parry are independent non-executive Directors None of the factors implying a lack of independence, as set out in the Code, applies George Mallinckrodt and Bruno Schroder are also non-executive Directors, but do not meet the test of independence in the Code However, the Board considers that both of them bring valuable experience to Board deliberations and that at all times they act in the best interests of the Company

Time commitment The Board is satisfied that the Chairman and each of the non-executive Directors committed sufficient time during 2007 to the fulfilment of their duties as Directors of the Company 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 and other employees accepting non-executive directorships of other companies in order to widen their skills and knowledge for the benefit of the Company The Board has adopted a policy on external appointments, which is designed to ensure that employees remain able to discharge their responsibilities to the Group Directors and employees are usually permitted to retain any fees paid in respect of such appointments Under the policy, executive Directors may not take on more than one non-executive directorship of a FTSE 100 company or any chairmanship of such a company None of the executive Directors currently holds a directorship of a FTSE 100 company

To avoid potential conflicts of interest, non-executive Directors are expected to inform the Chairman before taking up any additional external appointments

Board meetings The Board held five meetings during 2007, including a two-day off-site meeting which considered the Group's strategy The Board has a two-year rolling plan of items for discussion, agreed between the Chairman and the Chief Executive This plan is reviewed and adapted regularly to ensure that all of the matters reserved to the Board, as well as other key issues, are discussed at the appropriate time At each Board meeting the Chief Executive provided a review of the business and how it was performing and the Chief Financial Officer provided a detailed review of the Group's financial position In 2007 the range of subjects discussed included

- The strategic development of the Group, including its people strategy
- The Group's financial results,
- The budget for 2008,
- The level of dividend and the use of the Group's capital,
- Our regional businesses in Asia, Europe and the Americas,
- Our key business areas including Investment, Distribution, Private Equity and Private Banking,
- Our IT and operational platform,
- Possible acquisitions and the review of the acquisitions of NewFinance Capital and Aareal Asset Management, and
- Regulatory and governance issues

Attendance at the Board meetings is set out in the table below

	Maximum possible attendance	Meetings attended
Michael Miles	5	5
Jonathan Asquith	5	5
Andrew Beeson	5	4
Luc Bertrand	5	5
Alan Brown	5	5
Michael Dobson	5	5
Sir Peter Job	5	5
Merlyn Lowther	5	5
George Mallinckrodt	5	4
Kevin Parry	5	5
Bruno Schroder	5	5
Massimo Tosato	5	4

Information to the Board Before each Board meeting Directors received comprehensive papers and reports on the issues to be discussed at the meeting Senior executives below Board level also attended meetings to make presentations on their areas of responsibility This gave the Board the opportunity to have direct access to a broader group of executives below Board level In addition to Board papers, Directors are provided with relevant information between meetings This included information on management changes, analysts' commentaries on the Company, our competitors and the asset management industry generally Directors were also sent copies of the minutes of the Group Management Committee meetings

Support to the Board 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 at the Company's expense

Insurance and indemnities The Company maintains appropriate Directors' and Officers' liability insurance

At the 2007 Annual General Meeting, shareholders authorised the Company to provide indemnities to Directors in certain circumstances and to fund a Director's defence costs Following the 2007 Annual General Meeting the Company granted specific deeds of indemnity to each of the Directors

Chairman's Committee Meetings of the Chairman and non-executive Directors, usually without the executive Directors present, are held prior to most scheduled Board meetings Four such meetings were held in 2007 and matters discussed included the evaluation of the Board, the performance of the Chairman and the Chief Executive, senior management succession and investment performance The Chief Executive attended two meetings at the invitation of the Chairman

Delegated authorities The Board has a formal schedule of matters reserved to it, subject to which authority to manage the business is delegated to the Chief Executive He in turn delegates authority to the senior executive team which meets as the Group Management Committee This is chaired by the Chief Executive and generally meets twice each month to oversee the strategic management of the Group's business The current members and their areas of responsibility are set out below

Michael Dobson	Chief Executive
Jonathan Asquith	Vice Chairman and Head of Fixed Income, Property and Corporate Development
Stephen Brooks	Chief Financial Officer
Alan Brown	Chief Investment Officer
Jamie Dorrien-Smith	Head of Americas
Lester Gray	Head of Asia Pacific
Ken Lambden	Head of Equities
Philip Mallinckrodt	Head of Private Banking
Markus Ruetimann	Head of Operations and IT
Massimo Tosato	Vice Chairman and Head of Distribution
John Troiano	Head of Global Institutional Business
Howard Trust	Group General Counsel

The Board delegates certain of its responsibilities to its Remuneration Committee, Nominations Committee and Audit Committee Summaries of the terms of reference of these Committees are set out on pages 27, 38 and 39 respectively, together with reports on the Committees' activities during the year The Chairmen of the Audit, Remuneration and Nominations Committees reported to the Board on the matters considered, and any significant issues that had arisen, at the next Board meeting after the Committees had met Meetings of the Nominations Committee were held after the conclusion of scheduled Board meetings All Directors received copies of the minutes of all Committee meetings

Board effectiveness

Evaluation The Board, led by the Chairman, reviewed during the year the effectiveness of the Board and the principal Board Committees The Board considered alternative evaluation methods and agreed that internal evaluation using a Schroders-specific questionnaire complemented by interviews between the Chairman and individual Directors where required was appropriate The performance of the Board Committees and individual Directors was considered as part of this evaluation process The responses to the questionnaires were analysed and discussed with the Chairman A report was prepared on the findings of the evaluation process and this was considered by the whole Board at the Board meeting in February 2008

The performance of the Chief Executive was considered by the Chairman's Committee against his objectives agreed with the Chairman for the year The outcome was discussed by the Chairman with the Chief Executive

The Chairman's Committee, led by Sir Peter Job in his role as Senior Independent Director, also assessed the performance of the Chairman with input from the whole Board Sir Peter discussed with the Chairman the outcome of this review

Induction All new Directors undertake an induction programme on joining the Board The aim of this programme is to introduce new Directors to the Group's business, its operations and its governance arrangements The induction programme includes meetings with senior management, visits to offices, presentations on key business areas and relevant documentation The Board receives presentations on business and functional areas, new business and strategic developments, changes to the regulatory environment and the impact of specific issues, such as the implications of the new Companies Act

Corporate governance report

In order to keep the Board informed of wider developments within the business and on general issues affecting their role as Directors, a series of specific briefing sessions were held outside of Board meetings These were open to all Directors One of the principal objectives was to ensure that there was consistency of knowledge on the issues considered The Board held three briefing sessions in 2007 and the topics covered included the use of derivatives within the business and the management of associated risks, the Internal Capital Adequacy Assessment Process and product development We shall be continuing with these briefings in 2008

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 updates, the announcement of significant developments affecting the Group and the Annual General Meeting Corporate and investor information, including webcasts of the presentations of the interim and final results made by the Chief Executive and Chief Financial Officer, can be found at www schroders com

The Board as a whole is responsible for ensuring that dialogue with shareholders takes place During the year the Chief Executive, the Chief Financial Officer and other senior executives conducted a series of meetings with and presentations to institutional investors, analysts and prospective shareholders to review the Group's strategy and prospects and to discuss corporate governance matters Over 30 such meetings were held in 2007 The Chairman is also available to meet institutional shareholders, as is the Senior Independent Director Feedback from shareholders is available to the Board from the Chairman, the Chief Executive and the Chief Financial Officer

The Annual General Meeting provides shareholders with an opportunity to question the Chairman and other Directors, including the Chairmen of the Remuneration and Audit Committees The Chief Executive provided shareholders at the meeting in April 2007 with a review of the Group's business in 2006

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

Compliance with code provisions

The Company complied with all of the provisions of section 1 of the Code throughout the year except for one Neither Bruno Schroder nor George Mallinckrodt are considered independent under the provisions of the Code Consequently, less than half of the Board (excluding the Chairman) comprised independent non-executive Directors Bruno Schroder is a representative of the principal shareholder group and the Board considers that it is appropriate for this group to be represented on the Board The Board considers that George Mallinckrodt's business and international experience are of great value to the Board

Michael Miles
Chairman
10 March 2008

Remuneration report 2007

This report sets out the role and remit of the Remuneration Committee and its membership It describes the Group's overall remuneration policy and gives details of the compensation arrangements for Directors for the year ended 31 December 2007 The report has been prepared on behalf of the Board in accordance with the Companies Act 1985 (as amended) and the Combined Code on Corporate Governance

Role of the Committee
The Committee's role is to review and approve the remuneration strategy and policies for the Group including the approach for the Group's annual compensation review It is also responsible for determining the remuneration of the executive Directors, and monitoring the level and structure of remuneration for senior management generally

The Committee reviewed its terms of reference in October 2007 and proposed certain minor amendments, to bring them in line with those of the other Board Committees, that were approved by the Board on 22 November 2007 The full terms of reference of the Committee are available at www schroders com or from the Company Secretary

Composition of the Committee
The current members of the Committee, unchanged throughout 2007, are

Sir Peter Job (Chairman)
Andrew Beeson
Kevin Parry

The Committee met on four occasions during 2007 and there was full attendance at all meetings

Other non-executive Directors as well as the Chief Executive, Chief Financial Officer and senior Human Resources executives attend by invitation but they play no part in the determination of their own remuneration arrangements

The Committee has appointed New Bridge Street Consultants LLP, McLagan Partners Inc and Hewitt Bacon & Woodrow Limited as its external advisers New Bridge Street Consultants LLP provided advice to the Committee on equity incentive plans and to the Group on the implementation of these plans McLagan Partners Inc provided the Committee with an interpretation of external market compensation levels and practices and also provided information and advice to management on the external market Hewitt Bacon & Woodrow Limited provide advice to 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 McLagan Partners Inc attended two meetings of the Committee during 2007

Remuneration policy
The Group's remuneration policy is designed to attract, motivate and retain the talent the Group needs in order to help it to achieve its strategic objectives, while ensuring that the ratio of total compensation costs to a measure of net operating revenues for the Group is within a target determined by the Board The Board determines the target aggregate ratio ahead of the performance year as part of the annual Budget process, and an analysis of competitor ratios is provided to the Board At the end of each financial year the Committee is advised of the level of fixed compensation expense and then approves the amount distributable as variable compensation across the Group The ratio of total compensation costs to operating revenues in 2007 was 46 per cent (2006 47 per cent) The broader context for this ratio is covered in the business review on page 9

The Committee believes that total compensation must reflect the global competition for talent in an industry in which successful people are highly rewarded and mobile The Group compensates all of its employees, including executive Directors, by balancing fixed and variable compensation Fixed compensation, in the form of base salary, pensions and other benefits, continues to be low for the executive Directors relative to other companies in the FTSE 100 Index and market competitive against a broader base of asset management competitors In years of strong performance, however, variable compensation, in the form of cash bonuses and deferred bonuses, can be high

Remuneration report 2007

The remuneration of executive Directors is structured in a manner which reflects performance, at both an individual and Group level, and results in them accumulating rights to shares in the Company and exposure to the performance of Schroders investment funds

Group policy is not to guarantee compensation levels but to recognise that there will be times when this forms part of the initial package necessary to recruit senior employees No executive Director has such a guarantee

It remains the Committee's practice and intention to grant share options sparingly, mainly to assist in recruitment where necessary

Key developments

During the year the Committee considered papers presented on a variety of topics including the following

- 2006 and 2007 annual compensation reviews,
- Impact of age discrimination legislation on the share plans,
- Changes to the UK defined contribution pension scheme

The Committee reviewed the existing remuneration policy and, among other factors, considered the guidelines of investor bodies on policies and practices in executive remuneration The Committee considered that the Group's reward policy was appropriately aligned to the business strategy and that the policy within the Group was therefore fit for purpose No changes were made to the existing policy Discussions were initiated on ways of encouraging greater employee share ownership and a longer-term view of performance for senior executives and these discussions are ongoing

Developments since the last report

- In June 2007 the Committee increased the base salaries of the executive Directors This is the first increase to the salary of the Chief Executive since his appointment in November 2001 and to the salaries of the other executive Directors since the later of April 2004 and their appointment
- A global review of the pension benefits offered by the Group was undertaken The core employer contribution to the Defined Contribution section of the Schroders Retirement Benefit Scheme increased to 14 per cent for UK-based employees with effect from 1 March 2008 Prior to this change, UK-based employees in the Defined Contribution section received a core contribution of 7 per cent or an age-related contribution, depending on the date on which their employment started

Elements of the compensation package

Base salary

The Committee reviews the base salary of executive Directors annually During 2007 the Committee agreed to increases for each of the executive Directors to address market relativities and salary compression accruing with respect to other senior executives Details are set out on page 33 Base salary is the only element of remuneration that is pensionable, with the level of contribution into the UK pension scheme being subject to a notional earnings cap (see note 5 on page 61)

Benefits

Executive Directors can participate in the flexible benefits plan on the same basis as other UK employees Benefits entitlements, including pension, for the executive Directors are shown in the tables on pages 33 and 34

In response to the changes in pensions legislation that came into effect in April 2006 in the UK, employees who choose not to accrue benefits in the pension scheme apart from life assurance cover receive a taxable cash allowance in lieu This allowance is set at a level to ensure that the cost impact to the Group (including employer National Insurance) is neutral Two of the executive Directors are in receipt of such an allowance

Variable compensation

Discretionary bonus awards are delivered in two forms a cash bonus and a deferred bonus The deferral is mandatory and delivered via the Equity Compensation Plan There are two types of Equity Compensation Plan award a share award and a fund award These are described more fully on page 30

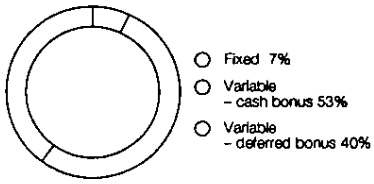
The bonus awards are determined with regard to the performance of the individual and the area or function of the business in which the individual works or for which the individual is responsible, the profitability of the Group and the external market within the overall limit determined by the ratio of compensation to revenue as explained earlier Given that our remuneration structure places a high degree of emphasis on variable compensation, the Committee does not consider it appropriate to set a cap on discretionary bonus awards at the individual level Variable compensation is dependent upon responsibilities, business contribution and individual performance and is not linked to base salary As is referred to in the section starting on page 14 of the business review dealing with our corporate responsibility, the Committee considered the impact of these factors on our corporate performance when determining the overall reward to the executive Directors The Committee can confirm that the discretionary nature of our variable compensation means that senior management are not inadvertently motivated to behave irresponsibly

Part of the cash bonus award for the senior management of the Group is directly linked to annual improvements in the profitability of the Group

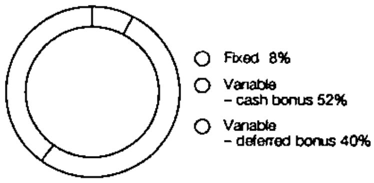
The balance between the fixed and variable elements of the total compensation package for each of the executive Directors is shown in the adjacent diagram (extracted from the tables on pages 33 and 34) Less than 12 per cent of their individual total compensation was fixed, and more than one third of the 2007 variable compensation for each of the executive Directors in 2007 has been deferred for three years on a mandatory basis via the Equity Compensation Plan

Proportions of 2007 fixed and variable compensation for each executive Director

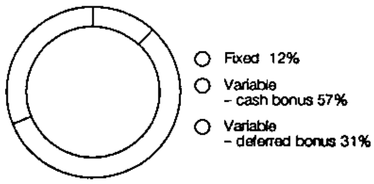
Michael Dobson



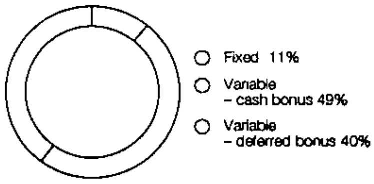
Jonathan Asquith



Alan Brown



Massimo Tosato



Fixed includes base salary, other cash payments, benefits-in-kind and pension entitlements

Remuneration report 2007

Equity Compensation Plan 2000

Key employees receive part of their earned bonus in the form of deferred awards under the Equity Compensation Plan on terms designed to align their interests with shareholders and to retain their services in the Group The level of mandatory deferral is determined by the Committee in accordance with a matrix that is agreed in advance of the annual compensation review

These awards do not give rise to any immediate entitlement but will vest in full on the third anniversary of the grant date provided that the participant continues to be employed within the Group This Plan allows deferred awards to be granted in either share awards, fund awards or a combination of both At the third anniversary the original grant is increased by 20 per cent

Share awards

Share awards can be granted over either ordinary or non-voting ordinary shares in the Company and are normally structured as rights to acquire shares at nil cost Historically, awards under this Plan were made over non-voting ordinary shares As a result of a resolution approved at the 2006 Annual General Meeting share awards for 2006 and 2007 are in respect of ordinary shares

If a participant resigns before the three years have elapsed then the following forfeiture provisions apply as at the date of resignation

Completed years of service from date of award	Less than 1	≥1 and <2	≥2 and <3	3
Percentage of share award forfeited	100%	72%	44%	0%

These awards do not attract dividends To the extent that the employee chooses to leave share awards within the Equity Compensation Plan for a further two years after vesting, the employee is rewarded with additional shares of 11 1 per cent of the number of shares which vest at the third anniversary This compensates for dividends foregone during this period A resolution is being proposed at the 2008 Annual General Meeting to enable awards to be adjusted to reflect the dividends paid on shares during the period starting with the fifth anniversary of grant and ending with the date on which the award is exercised

Fund awards

Fund awards are notional investments in a range of Schroders' investment funds and can be granted by the Committee as an alternative to share awards They give holders a personal interest in the performance of Group funds Fund awards have a three-year vesting period, with no option to extend, and have the following forfeiture provisions as at the date of resignation

Completed years of service from date of award	Less than 1	≥1 and <2	≥2 and <3	3
Percentage of fund award forfeited	100%	66 6%	33 3%	0%

These fund awards will be re-valued in line with the performance of the selected products and will be paid out in cash at the end of the deferral period

In respect of 2007 the first £60,000 of the deferred bonus award was delivered in share awards and any balance, above a minimum level, was generally delivered equally in share awards and fund awards

Equity Compensation Plan awards are not subject to further performance conditions as they are considered as already having been earned by reference to performance

Share Option Plan 2000

Under the Share Option Plan 2000, the Company has granted market value share options over non-voting ordinary shares Options usually become exercisable if the option holder remains with the Group for at least three years and, for executive Directors, if the performance target has been met at the third anniversary Share options granted to other employees have no performance conditions

In line with market practice, the performance target is that the Company's earnings per share growth (defined as the earnings per ordinary share before any items considered exceptional, as derived from the Company's Annual Report and Accounts) must be at least four per cent per annum above the increase in the Retail Price Index over a three-year period There is no re-test if the target is not met after three years This performance target is a general condition and standard for each executive Director New Bridge Street Consultants LLP assesses the performance criteria calculations annually for the Committee based on audited results

Outstanding awards held by executive Directors under these Plans are disclosed in the tables on pages 35 and 36 This year the value of those awards that are still subject to some degree of forfeiture is disclosed

Employee shares

Of the total variable compensation awarded to all employees in the Group in 2007, the proportion that was deferred amounted to 32 1 per cent

The Share Incentive Plan that was introduced in 2006 for all UK-based employees is also helping to broaden the number of employee shareholders Each of the executive Directors and 579 other employees are now members of the Plan (representing 51 per cent of UK employees)

Total employees' rights to ordinary and non-voting ordinary shares in all of Schroders' employee share plans, as a percentage of the total ordinary and non-voting ordinary shares in issue, were 6 7 per cent as at 31 December 2007

Personal shareholding policy

In order further to align the interests of the most senior employees with those of shareholders, each of the executive Directors and the other members of the Group Management Committee is required, over time, to acquire and retain a target holding of Schroders' shares and/or rights to shares, equivalent to 300 per cent of annual base salary This target has been achieved for each of the executive Directors Despite the recent increase in base salaries for the executive Directors the Committee determined not to alter the shareholding target

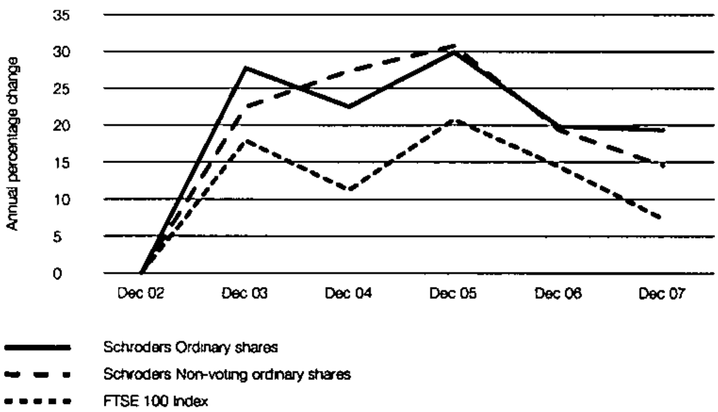
Performance graph

The following performance graph shows the Company's total shareholder return performance, comprising share price movements plus the value of dividends reinvested, compared with that of the FTSE 100 Index This index was chosen by the Committee because it represents the principal index in which the Company's shares were quoted throughout the majority of the performance period and is still perceived as the most relevant index

This graph shows the annual percentage change in the value over each financial year of an initial amount invested in Schroders plc on 31 December 2002 to 31 December 2007 compared with the same initial amount invested in each of the companies making up the FTSE 100 Index

Schroders comparative total return index since 31 December 2002

Source Thomson Financial



Remuneration report 2007

Service contracts

The Committee's general policy is that each executive Director should have a rolling contract of employment with mutual notice periods of six months 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, the Committee's policy is to seek to keep such compensation at an appropriate level

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

	Date of contract(s)	Nature of contract	Notice period from Company	Notice period from Director
Executive Directors				
Michael Dobson[1]	19 October 2001	Rolling	12 months	6 months
Jonathan Asquith	12 November 2001	Rolling	6 months	6 months
Alan Brown	17 May 2005	Rolling	6 months	6 months
Massimo Tosato[2]	27 July 2001 and 1 August 2001	Rolling	6 months	6 months

Notes

[1] If Michael Dobson's employment is terminated by the Company without cause he would be entitled to receive the equivalent of 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 received in the preceding three years

[2] Massimo Tosato's contract dated 27 July 2001 relates to his UK duties and his contract dated 1 August 2001 relates to his international duties Upon early termination of these contracts he would be entitled to 12 months' compensation (calculated as base salary, discretionary cash bonus and any award under the Equity Compensation Plan for the previous year)

Executive Directors' non-executive directorships

It is the Group's policy to allow executive Directors to retain any fees earned from any non-executive directorships they hold in other external organisations No such fees were earned during the year

Non-executive Directors

Each non-executive Director has a letter of appointment in which both the non-executive Director and the Company are required to give reasonable notice to terminate the appointment Non-executive Directors' appointments are subject to the re-election requirements of the Company's Articles of Association and are without a fixed term There are no specific contractual provisions for non-executive Directors to receive compensation upon early termination

The dates of the non-executive Directors' letters of appointment are set out in note 6 of the Directors' emoluments table on page 33

Fees for the Chairman and other non-executive Directors are determined 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 fees Fees are reviewed annually, although it is anticipated that, in the absence of any significant market movement, fees would remain unchanged for two years The fees were last formally reviewed in May 2006 No changes to the fees were made during 2007 and the next review will take place during 2008

The current annual fees payable are as follows

Non-executive Directors' fees	Current £
Board chairman	200,000
Board member	45,000
Audit Committee member	12,500
Audit Committee chairman*	15,000
Nominations Committee member	Nil
Nominations Committee chairman	Nil
Remuneration Committee member	10,000
Remuneration Committee chairman*	12,000

In addition to the Committee membership fee

The Senior Independent Director receives no additional fee

Awards from the Group's incentive and pensions plans are not made to non-executive Directors

Directors' remuneration in 2007

The following tables on pages 33 to 37 provide details of each of the Directors' emoluments, pension entitlements, rights to fund awards, rights to shares and share interests In accordance with the Companies Act 1985 (as amended by the 2006 Companies Act), the tables on pages 33 to 37, excluding the summary of deferred compensation table on page 34, have been audited by the independent auditors

Directors' emoluments

The emoluments (not including any pension entitlements, rights to fund awards and rights to shares which can be found on pages 33 to 36) 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[1] £'000	Other cash payments[2] £'000	Benefits-in-kind[3] £'000	Annual cash bonus £'000	2007 Total £'000	2006 Total £'000
Executive Directors						
Michael Dobson (Chief Executive)	317	58	7	2,963	3,345	2,470
Jonathan Asquith	258	29	1	1,778	2,066	1,268
Alan Brown	258	33	1	1,438	1,730	1,376
Massimo Tosato	258	13	38	1,938	2,247	1,627
Non-executive Directors						
Michael Miles (Chairman)	200	–	4	–	204	184
George Mallinckrodt (President)[4]	109	–	7	–	116	113
Andrew Beeson	68	–	–	–	68	65
Luc Bertrand	58	–	–	–	58	46
Sir Peter Job	67	–	–	–	67	63
Merlyn Lowther	58	–	–	–	58	55
Kevin Parry	83	–	–	–	83	80
Bruno Schroder[5]	73	–	5	–	78	75
Total	1,807	133	63	8,117	10,120	7,422

Notes

[1] The annual base salaries for the executive Directors were each increased with effect from 1 June 2007 Michael Dobson from £200 000 to £400,000 and Jonathan Asquith, Alan Brown and Massimo Tosato from £200,000 to £300,000

[2] Other cash payments comprise one or more of cash allowance in lieu of a company car and cash allowance in lieu of pension entitlements

[3] The benefits-in-kind provided to Directors comprise one or more of private use of company chauffeur, company car, private use of taxis, life insurance and private healthcare

[4] George Mallinckrodt received an annual fee of £45,000 as a Director, a fee of £64,000 in respect of his services as President of the Company and £7,000 in benefits in kind

[5] Bruno Schroder received an annual fee of £45 000 as a Director, a fee of £28,000 for his additional services to the Group and £5,000 in benefits-in kind

[6] The dates of the non-executive Directors' letters of appointment are as follows Michael Miles 17 December 2002 Andrew Beeson 1 October 2004, Luc Bertrand 20 February 2006, Sir Peter Job 23 December 2002, Merlyn Lowther 4 March 2004, George Mallinckrodt 24 December 2002 Kevin Parry 16 December 2002 and Bruno Schroder 24 December 2002

Directors' pension entitlements

Defined benefit

The following table gives details of the accrued pension benefit at 31 December 2007 for Directors who have participated in the defined benefits section of the Schroders Retirement Benefits Scheme during the year to 31 December 2007 Further information concerning the Group's pension schemes is set out in note 5 in the notes to the Accounts on pages 61 to 64

	Accrued pension at 31 Dec 2006 £'000	Change in accrued pension due to inflation £'000	Change in accrued pension excluding inflation		Accrued pension at 31 Dec 2007 £'000	Transfer value at 31 Dec 2006 £'000	Increase in transfer value £'000	Transfer value at 31 Dec 2007 £'000
			Increase £'000	Transfer value £'000				
Executive Directors								
Michael Dobson[1 2]	11	–	–	–	11	182	12	194
Massimo Tosato	21	1	4	60	26	324	82	406
Non-executive Director								
George Mallinckrodt[3]	216	8	2	19	226	2,423	12	2,435
Bruno Schroder[4]	31	1	–	4	32	378	(6)	372

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 31 December 2006 and 31 December 2007 This is broken down into inflationary increases and increases arising as a result of service for the year concerned, postponement of retirement or 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 transfer values have been calculated in a manner consistent with 'Retirement Benefit Schemes – Transfer Values (GN11)' published by the Institute of Actuaries and the Faculty of Actuaries

The pension is non-contributory The accrued pension or transfer value shown above does not include any allowance for additional voluntary contributions made by a Director

[1] Michael Dobson ceased further accrual in the Scheme on 31 March 2006 In lieu of this he receives a taxable cash payment of £34 462 per annum included in the emoluments table above

[2] No contributions were paid by the Company during the year

[3] George Mallinckrodt – no contributions have been made by the Company into the Scheme since 19 August 1990 He began to draw his pension from the Scheme on 1 September 1995 The values shown in this table in respect of his pension benefits are notional

[4] Bruno Schroder – no contributions have been made by the Company into the Scheme since 17 January 1993 He began to draw his pension from the Scheme on 17 April 2007 The values shown in this table in respect of his pension benefits are notional as at 31 December 2007

Remuneration report 2007

Defined contribution

The following table gives details of the pension contributions paid or payable by the Company into defined contribution arrangements for the year to 31 December 2007

	2007 Employer contributions £'000	2006 Employer contributions £'000
Executive Directors		
Michael Dobson[1]	–	12
Jonathan Asquith[2]	–	105
Massimo Tosato	78	60
Total	78	177

The contributions disclosed exclude any personal contributions made by a Director

[1] Michael Dobson ceased to have 13 per cent of his base salary in excess of the earnings cap paid into a funded approved retirement benefits scheme on 31 March 2006 and in lieu of this he receives a taxable cash payment of £11,882 per annum, included in the emoluments table on page 33 The notional earnings cap was £108,600 for the 2006-07 fiscal year and £112,800 for the 2007-08 fiscal year

[2] Jonathan Asquith ceased further accrual in the Scheme on 31 March 2006, and in lieu of this he receives a taxable cash payment of £16,367 per annum, included in the emoluments table on page 33

Summary of the deferred compensation earned in respect of 2007

In respect of 2007 the executive Directors were granted rights to deferred awards under the Equity Compensation Plan[1] These awards, split between fund awards and share awards, are subject to forfeiture and are not accessible for three years They will vest in full on the third anniversary of the grant date provided the Director continues to be employed within the Group, in line with the rules of the Plan Should the Director choose to leave the share awards within the Equity Compensation Plan for a further two years, the Director would be rewarded with additional shares of 11 1 per cent of the number of shares which vested at the third anniversary of the grant date, in lieu of dividends foregone

	Equity Compensation Plan[1]			
	Fund awards £'000	**Share awards £'000**	**2007 Total award £'000**	2006 Total award £ 000
Executive Directors				
Michael Dobson	994	1,252	2,246	2,187
Jonathan Asquith	586	763	1,349	1,004
Alan Brown	331	457	788	1,004
Massimo Tosato	706	907	1,613	1,400

[1] For further details in respect of the Equity Compensation Plan 2000 see box on page 30

Further details in respect of their awards and previous years' awards are shown in the following two tables

Directors' rights to fund awards

Fund awards are notional investments in a range of Schroders' investment funds These are rights to deferred cash and do not give rise to any immediate entitlement on grant The 'rights granted during year' refer to awards made in March 2007 in respect of the 2006 performance year 'Rights granted 10 March 2008' are made in respect of the 2007 performance year These rights are subject to forfeiture and the deferred cash awards are not accessible for three years They become fully vested on the third anniversary of the grant date provided the Director continues to be employed within the Group, in line with the rules of the Plan

The executive Directors had the following rights to deferred cash awards, under the Equity Compensation Plan[1]

	Rights held as at 1 Jan 2007 £'000	Rights granted during year £'000	Rights held as at 31 Dec 2007 £'000	Rights granted 10 Mar 2008 £'000	Vesting date
Executive Directors					
Michael Dobson	100	–	100	–	6 March 2008
	1,200	–	1,200	–	5 March 2009
	–	967	967	–	7 March 2010
				994	9 March 2011
Jonathan Asquith	526	–	526	–	6 March 2008
	727	–	727	–	5 March 2009
	–	429	429	–	7 March 2010
				586	9 March 2011
Alan Brown	225	–	225	–	5 March 2009
	–	429	429	–	7 March 2010
				331	9 March 2011
Massimo Tosato	500	–	500	–	6 March 2008
	727	–	727	–	5 March 2009
	–	609	609	–	7 March 2010
				706	9 March 2011

[1] For further details in respect of the Equity Compensation Plan 2000 see box on page 30

The grant value of these rights to fund awards that are still subject to forfeiture at the date of this report are as follows Michael Dobson £2,038,000, Jonathan Asquith £1,114,000, Alan Brown £692,000 and Massimo Tosato £1,354,000

Remuneration report 2007

Directors' rights to shares

These rights to shares do not give rise to any immediate entitlement on grant They are subject to forfeiture and are not accessible for three years They become fully vested on the third anniversary of the grant date provided the Director continues to be employed within the Group, in line with the rules of the respective plans

The executive Directors had the following rights to ordinary and non-voting ordinary shares

		Number of shares							
		Rights held as at 1 Jan 2007	Rights granted during year	Rights exercised during year[5]	Rights held as at 31 Dec 2007	Rights granted 10 Mar 2008[6]	Exercise price of outstanding rights	Exercise dates Earliest	Exercise dates Latest
Executive Directors									
Michael Dobson	(2)	250,000			250,000		£4 83	9 Dec 2005	8 Dec 2012
	(2)	150,000			150,000		£3 98	10 Mar 2006	9 Mar 2013
	(2)	500,000			500,000		£7 06	12 Nov 2006	11 Nov 2011
	(3)	352,186			352,186		–	10 Mar 2006	9 Mar 2013
	(3)	502,386			502,386		–	8 Mar 2007	7 Mar 2014
	(3)	305,499			305,499		–	7 Mar 2008	6 Mar 2015
	(4)	146,162			146,162		–	6 Mar 2009	5 Mar 2016
	(4)	–	119,719		119,719		–	8 Mar 2010	7 Mar 2017
	(4)					153,869	–	10 Mar 2011	9 Mar 2018
Jonathan Asquith	(2)	150,000			150,000		£8 00	22 Apr 2005	21 Apr 2012
	(2)	150,000			150,000		£5 41	6 Nov 2005	5 Nov 2012
	(2)	100,000			100,000		£3 98	10 Mar 2006	9 Mar 2013
	(3)	133,969			133,969		–	10 Mar 2006	9 Mar 2013
	(3)	81,466			81,466		–	8 Mar 2007	7 Mar 2014
	(3)	98,931			98,931		–	7 Mar 2008	6 Mar 2015
	(4)	90,877			90,877		–	6 Mar 2009	5 Mar 2016
	(4)	–	56,405		56,405		–	8 Mar 2010	7 Mar 2017
	(4)					93,811	–	10 Mar 2011	9 Mar 2018
Alan Brown	(4)	32,154			32,154		–	6 Mar 2009	5 Mar 2016
	(4)	–	56,405		56,405		–	8 Mar 2010	7 Mar 2017
	(4)					56,209		10 Mar 2011	9 Mar 2018
Massimo Tosato	(1)	18,963		18,963	–		£8 22	7 May 2004	6 May 2009
	(1)	62,499		62,499	–		£8 00	13 Mar 2005	12 Mar 2010
	(2)	165,350		48,601	116,749		£8 00	22 Apr 2005	21 Apr 2012
	(2)	100,000		100,000	–		£5 41	6 Nov 2005	5 Nov 2012
	(3)	16,294		16,294	–		–	10 Mar 2005	9 Mar 2012
	(3)	80,381			80,381		–	10 Mar 2006	9 Mar 2013
	(3)	80,447			80,447		–	8 Mar 2007	7 Mar 2014
	(3)	103,856			103,856		–	7 Mar 2008	6 Mar 2015
	(4)	90,877			90,877		–	6 Mar 2009	5 Mar 2016
	(4)	–	77,601		77,601		–	8 Mar 2010	7 Mar 2017
	(4)					111,505	–	10 Mar 2011	9 Mar 2018

The market price of the ordinary shares at 31 December 2007 was £13 02 and the range during 2007 was £10 72 to £15 60

The market price of the non-voting ordinary shares at 31 December 2007 was £11 68 and the range during 2007 was £9 90 to £13 52

The value of those rights to share awards based upon the original grant price that are still subject to forfeiture at the date of this report are as follows Michael Dobson £2,791,000, Jonathan Asquith £1,588,000, Alan Brown £1,017,000 and Massimo Tosato £1,887,000

[1] Share Option Plan 1999 Exercise of these options was conditional upon achieving a performance target of earnings per share growth of at least the Retail Price Index plus two per cent per annum over a minimum five-year period The performance target had been achieved

[2] Share Option Plan 2000 Exercise of these options is conditional upon achieving a performance target of earnings per share growth of at least the Retail Price Index plus four per cent per annum over a minimum three-year period In respect of the awards exercisable from 22 April 2005 6 November 2005 and 9 December 2005 the performance target has been achieved More detail is available on page 30

[3] Equity Compensation Plan 2000 The figures shown above comprise the number of shares available on the third anniversary plus additional shares of up to 11 1 per cent assuming shares remain within the Plan until the fifth anniversary Awards are structured as nil-cost share awards over non-voting ordinary shares Further detail is included in the box on page 30

[4] Same as note 3, with the exception that these awards are structured as nil-cost share awards over ordinary shares

[5] The market prices on the dates the rights were exercised during 2007 were £11 42 £11 42 £13 34 and £11 44 respectively for the share option awards and £11 42 for the Equity Compensation Plan award The aggregate gain on rights exercised amounted to £1 323,000, of which £1,137,000 relates to the share option awards and £186,000 relates to gains on the Equity Compensation Plan award

[6] These grants are in respect of the 2007 performance year and use the closing market price of the ordinary shares on 7 March 2008, which was £9 04

Directors' share interests

At 1 January 2007 (or date of appointment, if later) and at 31 December 2007, the Directors listed had the following interests in shares in the Company

	31 Dec 2007		1 Jan 2007	
	Ordinary shares	**Non-voting ordinary shares**	Ordinary shares	Non-voting ordinary shares
Beneficial				
Executive Directors				
Michael Dobson	2,413	11,105	2,243	561,105
Jonathan Asquith	447	–	278	–
Alan Brown	447	–	278	–
Massimo Tosato	1,413	–	1,243	–
Non-executive Directors				
Michael Miles	5,000	–	5,000	–
George Mallinckrodt	30,000	507,226	30,000	507,226
Andrew Beeson	–	15,000	–	15,000
Luc Bertrand	–	–	–	–
Sir Peter Job	–	–	–	–
Merlyn Lowther	1,000	–	1,000	–
Kevin Parry	5,000	–	5,000	–
Bruno Schroder	6,353,655	59,310	6,353,655	59,310
Non-beneficial				
George Mallinckrodt	213,631	–	213,631	–
Kevin Parry	333	–	333	–
Bruno Schroder	64,800	16,200	64,800	16,200

Additionally, at 31 December 2007, the executive Directors were potential beneficiaries of the Schroders Employee Benefit Trust, which held 4,367,479 non-voting ordinary shares (1 January 2007 6,610,454) and 4,397,446 ordinary shares (1 January 2007 3,204,197) on behalf of all non-US based employees Their own rights to shares held within this Trust are set out on page 36

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

Since 31 December 2007 each of the executive Directors, Michael Dobson (53 shares), Jonathan Asquith (54 shares), Alan Brown (54 shares) and Massimo Tosato (53 shares) acquired ordinary shares under the terms of the Schroders Share Incentive Plan There have been no other changes in the interests set out above between 31 December 2007 and the date of this report

A resolution to approve this report will be put to shareholders at the Annual General Meeting on 24 April 2008

Approved and signed on behalf of the Board

Sir Peter Job
Chairman, Remuneration Committee
10 March 2008

Peter Job

Nominations Committee report

In this section we set out the role of the Nominations Committee, its membership and what it considered during the year

Role of the Committee
The Board has delegated to the Committee responsibility for reviewing and proposing appointments to the Board and for recommending any other changes to the composition of the Board or the Board Committees The principal responsibilities of the Committee include

- reviewing the composition of the Board and making recommendations to the Board with respect to the role and responsibilities required for each appointment,
- ensuring there is a formal, rigorous and transparent procedure for the appointment of new Directors,
- selecting and/or interviewing potential candidates for appointment to the Board and its Committees,
- identifying and recommending suitable candidates for the roles of Chairman and Senior Independent Director,
- developing and recommending appropriate criteria for determining Director independence,
- periodically reviewing the terms of appointment of the non-executive Directors, and
- conducting an annual review of the Committee's performance, periodically reviewing the adequacy of its terms of reference and recommending any changes to the Board

The full terms of reference of the Committee are available on www schroders com or from the Company Secretary at the registered office

The composition of the Committee
All non-executive Directors are members of the Committee, the composition of which at the end of 2007 was

Michael Miles (Chairman)
Andrew Beeson
Luc Bertrand
Sir Peter Job
Merlyn Lowther
George Mallinckrodt
Kevin Parry
Bruno Schroder

In addition the Chief Executive, Michael Dobson, is generally invited to attend Committee meetings

There were no changes to the composition of the Committee during the year

Report on the Committee's activities in 2007
Meetings and Attendance The Committee, which meets as often as required, met five times during the year Attendance by Committee members at each meeting is set out in the table below

	Maximum possible attendance	Meetings attended
Michael Miles	5	5
Andrew Beeson	5	4
Luc Bertrand	5	3
Sir Peter Job	5	4
Merlyn Lowther	5	5
George Mallinckrodt	5	4
Kevin Parry	5	5
Bruno Schroder	5	5

Principal issues addressed during 2007 were

- The size and composition of the Board and the principal Board Committees, and
- The Committee's terms of reference and the discharge of its responsibilities

The Committee reviewed the size and composition of the Board and the three principal Committees Remuneration, Audit and Nominations Following the review, the Committee reaffirmed the principles agreed in 2003 that the Board should continue to have a balance of executive Directors, independent non-executive Directors and Directors who have a connection with the principal shareholder group

The Committee also undertook a review of its terms of reference and its operation to ensure the terms of reference reflected best practice and were appropriate for the Company This review included benchmarking against other FTSE 100 companies The review concluded that the terms of reference were broadly in line with other companies and reflected current best practice and it was agreed that there should be no extension of the Committee's current role The terms of reference were updated to reflect the current operation of the Committee This included clarifying that all non-executive Directors were members of the Committee and that the Chief Executive would normally be invited to attend meetings The revised terms of reference were approved by the Board on 22 November 2007

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 has the right to appoint external advisers where it believes it is appropriate

Audit Committee report

In this section we set out the role of the Audit Committee, its membership and the matters it considered during the year

Role of the Committee

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 main role of the Committee is to encourage and safeguard the highest standards of integrity, financial reporting, risk management and internal control In doing this 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,
- Reviewing and monitoring 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 adequacy and effectiveness of the Company's internal controls and risk management systems, and
- Reviewing and monitoring the Company's ethical standards and procedures for ensuring compliance with regulatory and financial reporting requirements and the Group's relationship with the relevant regulatory authorities

The Committee reviewed its terms of reference in February 2007 and proposed certain amendments to clarify its role in respect of the Group's UK subsidiaries that are regulated by the Financial Services Authority The revised terms of reference were approved by the Board and are available on www schroders com or from the Company Secretary at the registered office

The Composition of the Committee

The members of the Committee are

Kevin Parry (Chairman)
Luc Bertrand
Andrew Beeson
Merlyn Lowther

There were no changes to the composition of the Committee during the year All of the members are independent non-executive Directors For the purposes of the Combined Code, Kevin Parry, a former partner in the accountancy firm KPMG LLP, is considered by the Board to have recent and relevant financial experience

Report on the Committee's activities in 2007

Meetings and attendance The Committee met four times in 2007 and there was full attendance for all meetings

To assist the Committee in fulfilling its role, a number of senior executives are invited to attend Committee meetings These include the Chief Financial Officer, the Heads of Group Compliance, Group Risk, Group Internal Audit and the Group General Counsel Each of these provided reports on their areas of responsibility to each Committee meeting The Group's external auditors, PricewaterhouseCoopers, are also represented at each meeting and presented reports on their activities

During the year the Committee met separately on two occasions with the Group's external auditors and with the Head of Group Internal Audit without executive management present This provides an opportunity for the external and internal auditors to raise matters of concern in confidence No issues of significance were raised in 2007

The Committee has a formal programme of issues which it covers during the year This programme is formulated by the Committee Chairman and the Company Secretary and is designed to ensure that all matters that fall within the Committee's remit are reviewed at the appropriate time

Principal issues considered during 2007 were

- The annual financial statement for 2006 and interim financial statement for 2007,
- The external audit plan for 2007,
- Group Internal Audit's plans for 2007 and 2008 and its quarterly reports on its activities and the control environment,
- The Group's risk management process, including key risks facing the Group,
- The Group's overall governance and risk framework,
- The appropriateness of the accounting policies used in drawing up the Group's accounts,
- The Group's Internal Capital Adequacy Assessment Process as required under the Capital Requirements Directive,
- The external auditors' year-end report, interim report and management letter,
- The performance, independence and objectivity of the external auditors, including a review of non-audit fees,
- The performance of Group Internal Audit, and
- The arrangements for employees to raise concerns about possible improprieties relating to the Company's operations

Other issues As well as the agreed schedule of issues the Committee also received reports and presentations on various subjects connected principally to the control environment within the Group These included presentations on the management of major IT projects, the implications for the Group of the Marketing in Financial Instruments Directive and the provision of information to the external auditors The Committee also reviewed the scope and level of cover provided by the Group's Directors' and Officers' liability insurance and the appropriateness of cover provided by other insurances, the governance of the Group's pension arrangements and the governance of outsourced activities Each of these reports was discussed fully by the Committee

Non-audit services and auditor independence The Group has adopted a policy covering the provision of non-audit services to the Group by the external auditors This policy was adopted by the Committee in 2004 to enhance further the governance of the provision of such services and provide a clear and transparent framework to ensure the objectivity and independence of the external auditors Under the policy the provision of any service that might lead to a conflict of interests is not permitted unless other possible providers are themselves conflicted In such exceptional cases the Audit Committee must approve each service and approval will only be given where the Committee is satisfied that appropriate measures are in place to manage or mitigate any potential conflict of interest During 2007 there were no instances where PricewaterhouseCoopers were engaged to provide services which might lead to a conflict of interests

The policy also has strict rules in relation to the approval of contracts for non-audit services which do not present a possible conflict of interest All contracts for non-audit services must be notified to the Head of Finance Operations and contracts valued in excess of £5,000 require prior approval The Group's external auditors are also required to provide a report to the Audit Committee every six months detailing all non-audit services, including the level of fees charged, and to have their own internal processes to ensure that the firm, its partners and its staff are independent of the Group They must also provide confirmation of their independence annually PricewaterhouseCoopers has provided such confirmation in respect of 2007

Audit Committee report

The policy was reviewed by the Committee in 2007 and the Committee was satisfied that the policy remained appropriate and was being adhered to In 2007 the value of non-audit services provided by PricewaterhouseCoopers to Group companies was £1 1 million The range of non-audit services provided by PricewaterhouseCoopers in 2007 included tax advice, AAF report on internal controls and regulatory opinions on client money and assets for regulated subsidiaries

To support the principles of independence, the auditors have a policy governing the length of time a partner can work on the Schroders' audit In accordance with this policy PricewaterhouseCoopers changed the senior audit partner in 2006 The Committee is satisfied that the external auditors remain independent

The Committee considered the re-appointment of PricewaterhouseCoopers as auditors, taking into account the results of the auditor assessment process, the quality of work undertaken and the level of audit fees The Committee concluded that it was appropriate to recommend the re-appointment of the auditors and that this recommendation be put to shareholders at the Annual General Meeting

Committee evaluation
The annual evaluation of the Committee's effectiveness was undertaken as part of the overall Board evaluation process The specific findings relating to the Audit Committee were discussed with the Committee Chairman The Chairman subsequently met with the other members of the Committee and the Chief Financial Officer to review the Committee's role and responsibilities and the discharge of those responsibilities in the light of current best practice

Support to the Committee
The Committee received information and support from management during the year to enable it to carry out its duties and responsibilities effectively The programme of business-related presentations was integrated into the briefing sessions organised for the whole Board during the year Reference to these briefings are included in the corporate governance report on page 26

The Committee has access to external independent advice at the Company's expense, normally through the Board Secretary

Risk management and internal control report

In this section we detail the work undertaken in connection with the Group's operational risk management process and system of internal controls

Risk management

The Board is accountable for risk and is responsible for oversight of the risk management process The Board has considered the key risks facing the Group and the exposure in relation to each of those risks

The Group Management Committee reviews the key corporate risks facing the Group and receives regular reports as to the current status of each risk It has approved a governance and risk framework which includes the responsibility of the Chief Financial Officer for the risk and control framework within the Group and the independent monitoring and reporting of risk and controls A risk management structure is in place which embeds risk management within the business

Group Risk Committee The Group Risk Committee supports the Chief Financial Officer in discharging the responsibilities outlined above and is the principal management committee for the monitoring and reporting of risks and controls The Committee is chaired by the Chief Financial Officer, and includes representatives from the businesses and the control functions The Committee reviews and monitors the adequacy and effectiveness of the process for the identification, assessment, mitigation, monitoring and management of all risks faced by the Group in achieving its business objectives 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 which have been captured on an on-line worldwide risk management system The Group Risk Committee receives reports from line management regarding any matters giving cause for concern and ensures appropriate remedial action is taken

Credit risk Credit risk limits are reviewed and agreed centrally In respect of agency risk, a dedicated team of credit professionals, together with local risk personnel are responsible for monitoring exposures against these limits and reporting to Group Risk management by exception In respect of principal risk, the Group sets the overall Group limit and delegates authority to set credit limits within the overall limit to the Group's banking businesses in London and Switzerland

Interest rate and market risk 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 which is largely mitigated by the short-term nature of our holdings of interest-bearing assets and liabilities The Group has a number of overseas subsidiaries whose shareholders' funds, revenues and expenses are denominated principally in local currencies Forward foreign exchange contracts with third parties are used to mitigate exposure to currency movements where it is considered that the sterling values of such amounts are at risk The use of such instruments is limited and is subject to approval by the Group 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 Group Capital Committee in consultation with the business

Monitoring risk The liquidity of the banking entities within the Group is monitored by the relevant local risk committees The Group Capital Committee monitors and controls the use and liquidity of the Group's 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 Local risk committees 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 approved by the Audit Committee, including reviews of the risk management process and advice and recommendations on improving the control environment

Risk management and internal control report

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 mitigate, not eliminate, risk

On behalf of the Board, the Audit Committee carried out its annual assessment of the effectiveness of internal controls during 2007 using the following to support its conclusions

- The six-monthly assessments by the Group Management Committee of key risks and of responsibilities for those risks This assessment is supplemented where appropriate with the results of the semi-annual business risks and controls evaluation survey completed by business area heads across the Group,
- Quarterly reports from the Heads of Group Compliance and Group Risk on the control environment and relevant issues arising within the Group, highlighting any major instances of non-compliance and the actions being taken to remedy such non-compliance This includes consideration of fraud prevention measures in place across the Group,
- A twice-yearly report from the Group General Counsel outlining the Group's legal risks,
- Quarterly reports from the Head of Group Internal Audit on the key issues arising from Internal Audit's inspection programme,
- Group Internal Audit's review of the effectiveness and application of the risk management process, and
- Annual and regular reports from the Head of Group Internal Audit on the control environment

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

- Has been in place for the year ended 31 December 2007 and up to the date of approval of the Annual Report and Accounts,
- Is regularly reviewed by the Board and complies with the internal control guidance for directors in the Combined Code (the Turnbull guidance 2005), and
- Necessary actions have been or are being taken to remedy any significant failings identified as part of the ongoing risk management process

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 the 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 the financial statements should be drawn up on a going concern basis Further, appropriate accounting policies consistently applied and supported by reasonable and prudent judgments 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

Pages 2 to 26 and pages 38 to 43 contain the Directors' report and pages 27 to 37 contain the remuneration report, both of which have been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law

The statement from the Chairman and the Chief Executive on pages 2 and 3 and the business review on pages 4 to 19 contain certain forward-looking statements with respect to the financial condition, and 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 may 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 Forward-looking statements and forecasts are based on the Directors' current view and information known to them at the date of this report The Directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise Nothing in this report should be construed as a profit forecast

Contents to financial statements

Independent auditors' report to the members of Schroders plc

We have audited the Group and parent company financial statements (the 'financial statements') of Schroders plc for the year ended 31 December 2007, which comprise the Group income statement, the Group and parent balance sheets, the Group and parent cash flow statements, the Group and parent statements of recognised income and expense and the related notes These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the remuneration report that is described as having been audited

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 law and International Financial Reporting Standards ('IFRS') as adopted by the European Union are set out in the Directors' responsibility statement

Our responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) 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 part of the remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements The information given in the Directors' report includes that specific information presented in the Annual Report that is cross referred from the Directors' report We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises the statement from the Chairman and the Chief Executive, the business review, the unaudited part of the remuneration report and the other information listed in the contents We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 part of the remuneration report to be audited 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 part of the remuneration report to be audited

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended,
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' report is consistent with the Group financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors
London
10 March 2008

Consolidated income statement

for the year ended 31 December 2007

	Notes	**2007 £mn**	2006 £mn
Revenue	3, 4	1,191 8	967 2
Cost of sales		(232 4)	(169 0)
Gross profit		**959 4**	**798.2**
Administrative expenses	4	(611 8)	(542 3)
Operating profit		**347 6**	**255.9**
Interest receivable and similar income	4	23 1	20 1
Interest payable and similar charges	4	(0 5)	(1 4)
Net finance income		22 6	18 7
Share of profit of associates and joint ventures	13	22 3	15 4
Profit before tax		**392 5**	**290 0**
UK tax		(34 7)	(23 5)
Foreign tax		(54 1)	(44 6)
Tax	7	(88 8)	(68 1)
Profit after tax		**303.7**	**221 9**
Attributable to·			
Minority interests	34	4 0	0 6
Equity holders of the parent		299 7	221 3
		303 7	**221.9**
Memo – dividends	8	(74 9)	(63 4)
Basic earnings per share	9	**104.8p**	**76.9p**
Diluted earnings per share	9	**103 2p**	**75.7p**

Consolidated balance sheet
31 December 2007

	Notes	2007 £mn	2006 £mn
Non-current assets			
Goodwill	10	95 2	65 3
Intangible assets	11	25 1	15 0
Property, plant and equipment	12	25 6	12 7
Associates and joint ventures	13	32 2	25 3
Financial assets	15	220 8	215 6
Loans and advances to customers	18	356 1	372 1
Deferred tax	23	42 8	44 4
Retirement benefit scheme assets	5	42 5	16 8
Trade and other receivables	16	7 3	14 9
		847.6	**782 1**
Current assets			
Financial assets	17	1,968 6	1,681 7
Loans and advances to customers	18	266 9	316 2
Current tax		7 6	16 5
Trade and other receivables	16	305 2	283 1
Cash and cash equivalents	20	715 5	439 2
		3,263 8	**2,736 7**
Non-current assets held for sale	21	37 5	60 1
Assets backing insurance unit-linked liabilities	14	2,727 8	1,532 0
Total assets		**6,876 7**	**5,110 9**
Equity			
Called-up share capital	30	294 5	293 9
Share premium account	30	58 1	36 4
Other reserves	32	68 1	26 8
Retained profits	33	1,275 0	1,086 3
Equity attributable to equity holders of the parent		**1,695 7**	**1,443 4**
Minority interests	34	0 5	0 2
Total equity		**1,696.2**	**1,443 6**
Non-current liabilities			
Financial liabilities	22	20 3	30 7
Deposits by customers and banks	26	207 2	218 3
Deferred tax	23	2 7	2 4
Provisions	24	8 5	10 8
Trade and other payables	25	93 5	76 2
		332 2	**338 4**
Current liabilities			
Financial liabilities	22	59 5	17 9
Deposits by customers and banks	26	1,525 5	1,410 4
Provisions	24	4 4	13 9
Current tax		57 0	31 9
Trade and other payables	25	474 1	322 8
		2,120.5	**1,796.9**
Insurance unit-linked liabilities	14	2,727 8	1,532 0
Total equity and liabilities		**6,876 7**	**5,110 9**

Approved by the Board of Directors on 10 March 2008

Michael Dobson } Directors
Bruno Schroder

Consolidated statement of recognised income and expense
for the year ended 31 December 2007

	Notes	2007 £mn	2006 £mn
Exchange differences on translation of foreign operations	32	25 4	(65 9)
Net (losses)/gains on hedges recognised directly in equity	33	(9 4)	32 2
Actuarial gains on defined benefit pension schemes	33	5 5	5 5
Net gains on available-for-sale financial assets	33	18 3	65 2
Amounts recycled through the income statement	33	(40 2)	(26 8)
Tax on items taken directly to equity	7(b), 33	2 6	6 6
Net income and expense recognised directly in equity		**2.2**	**16 8**
Profit for the year		**303.7**	**221 9**
Total recognised income and expense for the year		**305.9**	**238 7**
Attributable to			
Minority interests	34	4 0	0 6
Equity holders of the parent		301 9	238 1
		305.9	**238 7**

Consolidated cash flow statement
for the year ended 31 December 2007

	Notes	2007 £mn	2006 £mn
Net cash from operating activities	35	**620.8**	**209 2**
Investing activities			
Acquisition of subsidiaries		(27 7)	(19 8)
Cash acquired with acquisitions		6 2	6 8
Purchase of joint ventures		(1 5)	–
Purchase of intangible assets		(11 9)	(4 6)
Purchase of property, plant and equipment		(18 0)	(7 1)
Purchase of non-current financial assets		(76 1)	(62 9)
Purchase of non-current assets held for sale		(36 1)	(90 1)
Disposal of non-current assets held for sale		5 8	50 8
Proceeds from sale of non-current financial assets		85 8	64 1
Proceeds from sale of property, plant and equipment		–	0 4
Net (outflow)/proceeds from current financial assets		(255 9)	58 6
Interest received		25 1	9 0
Dividends/capital distributions received from associates and joint ventures		20 1	23 6
Net cash (used in)/from investing activities		**(284.2)**	**28.8**
Financing activities			
Proceeds from issue of share capital		28 7	27 8
Acquisition of own shares		(21 5)	(90 8)
Disposal of own shares		19 2	37 3
Redemption of ordinary share capital		(34 1)	(84 3)
Distributions made to minority interests		(0 2)	–
Dividends paid		(74 9)	(63 4)
Net cash used in financing		**(82 8)**	**(173 4)**
Net increase in cash and cash equivalents		**253 8**	**64 6**
Opening cash and cash equivalents		452 1	402 4
Net increase in cash and cash equivalents		253 8	64 6
Effect of exchange rate changes		11 0	(14 9)
Closing cash and cash equivalents		**716.9**	**452.1**
Closing cash and cash equivalents consists of			
Cash and cash equivalents backing insurance unit-linked liabilities	14	1 4	12 9
Other cash and cash equivalents held by the Group	20	715 5	439 2
		716 9	**452.1**

Notes to the accounts
for the year ended 31 December 2007

Presentation of the financial statements
Financial information for the year ended 31 December 2007 is presented in accordance with IAS 1 Presentation of Financial Statements

IAS 1 allows an entity to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant

The Group has adopted a mixed basis of presentation within its consolidated balance sheet which shows the assets and liabilities of the Group's life company business, Schroder Pension Management Limited, in order of liquidity and the remainder of the Group's assets and liabilities using a current/non-current classification

This presentation provides more relevant information in that, if the assets and liabilities of the Group's life company business, Schroder Pension Management Limited, were to be included within existing captions on the Group's balance sheet, the effect would be to gross up a number of individual line items to a material extent By adopting a mixed basis of presentation, the Group is able to provide a more transparent presentation that shows the life company asset and the related unit-linked liability separate and distinct from the remainder of the Group's balance sheet items

In addition, the presentation of the consolidated balance sheet has been amended to show 'Loans and advances to customers' and 'Deposits by customers and banks' as separate line items Accordingly, separate accounting policies are presented for these items (see notes 1(k) and (r) below) In previous years, the Group has included 'Loans and advances to customers' within 'Trade and other receivables' and both 'Deposits by banks' and 'Customer accounts', which together make up 'Deposits by customers and banks', within 'Trade and other payables'

This change in presentation has been made to more readily disclose the extent of Private Banking assets and liabilities within the Group's balance sheet and thereby provide a more transparent and relevant presentation of the data Comparative amounts have been restated where appropriate

1. Summary of accounting policies

(a) Basis of preparation
The consolidated financial information contained within these financial statements has been prepared in accordance with International Financial Reporting Standards ('IFRS'), which comprise standards and interpretations approved by either the International Accounting Standards Board or the International Financial Reporting Interpretations Committee or their predecessors, as adopted by the European Union, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS

At the balance sheet date, the Group had adopted all Standards and Interpretations that were either issued, or which had become effective, during the year with the exception of IFRS 8 Operating Segments, a Standard that was in issue but not yet effective at the balance sheet date Apart from the Standards listed below, which required the Group to amend its disclosures within the notes to the accounts, none of the Standards and Interpretations adopted had any impact on the Group's financial statements

IAS 1 (Amended)	Presentation of Financial Statements
IFRS 7	Financial Instruments Disclosures

The consolidated financial information presented within these financial statements has been prepared on the historical cost basis, except for the measurement at fair value of derivative financial instruments and financial assets and liabilities that are available-for-sale or held at fair value through profit or loss and the measurement of long-term employee benefits at present value of the obligation less fair value of any assets held to settle the obligation The carrying value of recognised assets and liabilities that are hedged is adjusted to record changes in the fair values attributable to the risks that are being hedged This valuation is in accordance with IAS 39 Financial Instruments Recognition and Measurement

(b) Basis of consolidation
The consolidated financial information contained within these financial statements incorporates financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared to 31 December each year Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities Where the Group controls an entity, but does not own all the share capital of that entity, the interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised

The accounts of subsidiary undertakings and associates are coterminous with those of the Company apart from those of certain undertakings which have accounting reference dates other than 31 December for commercial reasons Management accounts made up to 31 December are used for such undertakings

The results of subsidiary undertakings and associates acquired or sold are included from or to the date control changes

Employee share ownership trusts have been established for the purposes of satisfying certain share-based awards These trusts are fully consolidated within the accounts

The Group has seed capital investments in a number of funds where it is in a position to be able to control those funds These funds are consolidated unless they meet the criteria set out in policy (o) below to be designated as being held for sale, in which case they are classified and accounted for in accordance with that policy

All intra-Group transactions, balances, income and expense are eliminated on consolidation

(c) Business combinations
The acquisition of subsidiaries is accounted for using the purchase method The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell

(d) Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition

Goodwill arising on the acquisition of subsidiaries is recognised as an asset and reviewed for impairment at least annually

Any impairment is recognised immediately in the income statement and is not subsequently reversed

Goodwill arising on the acquisition of associates or jointly controlled entities is included in the amount of the investments Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date and annually thereafter Goodwill written off to equity prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal

(e) Intangible assets – fund management contracts
The costs of acquiring intangible assets such as fund management contracts as part of a business combination are capitalised where it is probable that future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably

The fund management contracts are recorded initially at fair value and then amortised over their useful lives on a straight-line basis The fair value at the date of acquisition is calculated using discounted cash flow methodology and represents the valuation of the net residual income stream arising from the fund management contracts in place at the date of acquisition The contracts are included in the balance sheet as an intangible asset

At each reporting date, an assessment is made as to whether there is any indication that an asset in use may be impaired If any such indication exists and the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount The recoverable amount is the greater of fair value less costs to sell and value in use

(f) Intangible assets – software
The costs of purchasing and implementing software, together with associated relevant expenditure, are capitalised where it is probable that future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably

Software is recorded initially at cost and then amortised over its useful life on a straight-line basis It is included in the balance sheet as an intangible asset

At each reporting date, an assessment is made as to whether there is any indication that an asset in use may be impaired If any such indication exists and the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount The recoverable amount is the greater of fair value less costs to sell and value in use Where intangible software assets are not yet available for use, an assessment of whether the carrying values exceed the estimated recoverable amount is made irrespective of whether there is any indication of impairment

(g) Property, plant and equipment
The Group's assets include leasehold improvements, office equipment, computers and cars Depreciation is provided on the depreciable amount over their useful lives on a straight-line basis at rates varying between 20 per cent and 33 per cent per annum The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its economic life Depreciation rates and methods as well as the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances

The carrying values of these assets are reviewed for impairment at each reporting date An assessment is made as to whether there is any indication that an asset may be impaired, if any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount The recoverable amount is the greater of fair value less costs to sell and value in use Impairment losses are recognised in the income statement

(h) Associates and joint ventures
Associates comprise those undertakings, not being subsidiary undertakings, which carry out related activities, and where the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee

Joint ventures comprise those undertakings, not being subsidiary undertakings, which carry on related activities, and where there is contractually agreed sharing of control over the financial and operating policy decisions of the investee

Investments in associates and joint ventures are accounted for using the equity method The investments are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate or joint venture

The income statement includes the Group's post-tax share of associates' and joint ventures' profits less losses for the year Where a Group company transacts with an associate or joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in that associate or joint venture

Where the Group has investments in funds over which it is able to exert significant influence but not control, the Group has applied the scope exclusion within IAS 28 Investments in Associates for mutual funds, unit trusts and similar entities and has accounted for such holdings at fair value through the income statement

(i) Financial assets
Items included within this caption on the face of the balance sheet principally comprise investments in debt securities and equities and derivative instruments It excludes financial assets that are recorded under the following headings

- Associates and joint ventures,
- Loans and advances to customers,
- Trade and other receivables,
- Cash and cash equivalents, and
- Non-current assets held for sale

Separate accounting policies are presented in respect of these excluded items

Financial assets held at fair value through profit or loss
Designation
Unless a financial asset is designated as being held to maturity, the default designation for a financial asset on acquisition is at fair value through profit or loss To qualify for such designation, an asset must either be

- held for trading,
- an embedded derivative,
- recorded and measured as an investment at fair value through profit or loss in order to eliminate or significantly reduce a recognition or measurement inconsistency, or
- part of a group of financial assets managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, information about which is provided internally to key management personnel

The Group's financial assets designated as at fair value through profit or loss principally qualify under the held for trading criterion as they have been acquired for the purpose of selling in the short term Such investments include the Group's fixed income and money market portfolios, third party hedge fund investments, certain Private Banking investments and seed capital investments other than those classified as being held for sale

The remainder of the financial assets are recorded at fair value because they provide a hedge against liabilities for long-term employee benefits that are recorded at present value (in accordance with IAS 19 Employee Benefits) or because they provide a hedge against financial liabilities held at fair value (in accordance with IAS 39) Such assets are therefore designated in the same way as the hedged item in order to avoid a recognition or measurement inconsistency and principally comprise investments purchased by the Group to hedge against compensation awards such as fund awards and against deferred consideration payable on the acquisition of NewFinance Capital ('NFC') that derives its underlying value from specified hedge funds managed by the Group

Measurement
All investments are initially recognised at fair value, being the consideration given, including, where appropriate, transaction costs associated with the investment

After initial recognition, investments which are classified as held at fair value through profit or loss are measured at fair value Gains or losses, together with transaction costs, on investments are recognised within 'Revenue' in the income statement Such gains or losses, where they arise on seed capital investments, include distributions from funds

For investments that are actively traded in organised financial markets, fair value is determined by reference to official quoted market bid prices at the close of business on the balance sheet date For quoted investments that are not actively traded, fair value is determined by reference to quoted prices from market participants and/or valuation models For investments where there is no quoted market price, fair value is determined with reference to International Private Equity and Venture Capital Valuation Guidelines or by independent professional valuers

Carried interest represents the Group's share of the profits of private equity funds once the investors have achieved a specified rate of return In respect of carried interests, fair value is the carry accruing to the carried interest holder at the close of business on the balance sheet date, based upon the fair value of the underlying assets within the relevant limited partnership fund

All regular way purchases and sales of financial assets are recognised on the trade date, i e the date that the Group commits to purchase or sell the asset Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace

Financial assets held to maturity
Designation
Where the Group has the positive intention to hold financial assets to maturity, such investments are designated as held to maturity Such assets are held exclusively by the Group's Private Banking operations

Measurement
All investments are initially recognised at fair value, being the consideration given, including, where appropriate, acquisition charges associated with the investment

Financial assets held to maturity are measured at amortised cost, being the amount at which they are measured at initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or irrecoverability

Financial assets that are available-for-sale
Designation
The remaining financial assets, which do not meet the criteria to be designated at fair value through profit or loss or held to maturity, are designated as available-for-sale Such investments principally comprise investments in limited partnership funds and the Group's investment in SVG Capital plc

Measurement
All investments are initially recognised at fair value, being the consideration given, including, where appropriate, acquisition charges associated with the investment

After initial recognition, investments which are classified as available-for-sale are measured at fair value Gains or losses, on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included within 'Revenue' in the income statement

For investments that are actively traded in organised financial markets, fair value is determined by reference to official quoted market bid prices at the close of business on the balance sheet date For quoted investments that are not actively traded, fair value is determined by reference to quoted prices from market participants and/or valuation models For investments where there is no quoted market price, fair value is determined with reference to International Private Equity and Venture Capital Valuation Guidelines or by independent professional valuers

Carried interest represents the Group's share of the profits of private equity funds once the investors have achieved a specified rate of return In respect of carried interests, fair value is the carry accruing to the carried interest holder at the close of business on the balance sheet date, based upon the fair value of the underlying assets within the relevant limited partnership fund

All regular way purchases and sales of financial assets are recognised on the trade date, i e the date that the Group commits to purchase or sell the asset Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace

(j) Derivative financial instruments and hedge accounting
Derivative contracts are included at fair value at the balance sheet date within 'Financial assets' or 'Financial liabilities' Fair value represents the amount at which a derivative could be exchanged in a transaction at the balance sheet date between willing parties

Where derivatives are held for risk management purposes, the Group formally documents the relationship between the derivative and any hedged item, its risk management objectives, its strategy for undertaking the various hedging transactions and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items

In relation to fair value hedges such as forward foreign currency contracts which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting

In relation to hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement On disposal of the foreign operation, the gain or loss on the hedging instrument recognised directly in equity is transferred to the income statement

(k) Loans and advances to customers
Loans and advances to banks and customers are accounted for at amortised cost using the effective interest method

Impairments for specific bad and doubtful debts are made against loans and advances made by Private Banking subsidiaries to reflect an assessment of irrecoverability and are deducted from the relevant assets Such impairments are recorded within 'Administrative expenses' in the income statement

(l) Deferred tax
Deferred tax is provided in full, using the liability method, on all taxable and deductible temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes

However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss, it is not accounted for Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised Deferred tax is provided on temporary differences arising on investments in subsidiaries, branches and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

(m) Trade and other receivables
Trade receivables are recorded initially at fair value and subsequently at amortised cost

Impairments for specific bad and doubtful debts are made against receivables to reflect an assessment of irrecoverability and are deducted from the relevant assets Such impairments are recorded within 'Administrative expenses' in the income statement

(n) Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less Where the Group considers that such items are not to be used for settling its liabilities, for example, securities with short maturity dates that will be rolled over as part of an investment portfolio, they are classified as financial assets rather than cash and cash equivalents For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts where such facilities form an integral part of the Group's cash management

(o) Non-current assets held for sale
Non-current assets (and disposal groups) acquired exclusively with a view to subsequent disposal through sale or dilution are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification At date of sale, post-tax gains or losses on such assets are taken to the income statement where they are recorded within 'Revenue'

(p) Insurance unit-linked liabilities and assets backing insurance unit-linked liabilities
Investments in authorised unit trusts and other financial assets held by the life company are recognised and measured under IAS 39 which applies to investment contracts that do not meet the insurance contract definition under IFRS 4 Insurance Contracts Accordingly the life fund assets and liabilities are recorded at fair value, with gains and losses recorded within 'Revenue' in the income statement in the year in which they arise

(q) Financial liabilities
Items included within this caption on the face of the balance sheet principally comprise debt securities in issue, derivative instruments (see policy above on derivative instruments) and deferred consideration arising from the acquisition of NFC in 2006 It excludes financial liabilities that are recorded under the following headings

- Deposits by customers and banks,
- Customer accounts,
- Trade and other payables, and
- Provisions

Debt securities in issue are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement Gains and losses are recognised within 'Revenue' in the income statement when the liabilities are derecognised

The deferred consideration arising from the acquisition of NFC is designated as at fair value through profit or loss The liability represents the obligation the Group has to the former owners of NFC in respect of amounts linked to the performance of certain of the Group's hedge funds Such amounts are designated as at fair value through profit or loss to avoid a measurement inconsistency with corresponding assets held by the Group

(r) Deposits by customers and banks
Deposits by customers and banks are initially recognised at cost, being the fair value of the consideration received net of any directly attributable transaction costs incurred After initial recognition, the liabilities are accounted for at amortised cost using the effective interest method

(s) Trade and other payables
Trade payables, other than long-term employee benefits (see policy (t) below), are recorded initially at fair value and subsequently at amortised cost

(t) Long-term employee benefits
Long-term employee benefits consist of surpluses/deficits in defined benefit pension schemes and deferred cash awards under the Equity Compensation Plan They are recorded at the present value of the defined benefit obligation at the balance sheet date less the fair value at the balance sheet date of plan assets out of which the obligations are to be settled directly

For further details on the accounting policy in respect of defined benefit schemes, see policy (z) below

The Group makes deferred cash awards to key employees under the Equity Compensation Plan in the form of a notional investment in funds operated by the Group Such awards do not constitute share-based payments, but are accounted for in accordance with IAS 19 The Group hedges such awards by investing in the underlying funds These awards are charged to 'Administrative expenses' within the income statement in the performance year Awards that lapse are credited to the income statement, again within 'Administrative expenses', in the year in which they lapse

(u) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation

Where the existence of an obligation is possible, dependent on uncertain events not wholly within the control of the Group, or a present obligation cannot be measured reliably, or it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the Group discloses, but does not recognise, a contingent liability

Where the Group expects to recover amounts provided, for example under an insurance contract, the recovery is recognised as a separate asset but only when the recovery is virtually certain

For provisions for surplus space, where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense

(v) Own shares
Employee trusts have been established for the purposes of satisfying certain equity-based awards The holdings of these trusts include shares that have not vested unconditionally in employees of the Group (own shares)

Own shares are held for the short term to meet future award requirements and are recorded, at cost, as a deduction from equity

(w) Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured Unless otherwise stated, the types of revenue listed below are all reported within 'Revenue' in the income statement The following specific recognition criteria must also be met before revenue is recognised

Interest – non-banking
Interest on non-banking activities comprises amounts due on the Group's liquid capital and temporary surpluses or deficits in the Group's cash accounts held with banks Interest receivable and payable not arising from the Group's Private Banking activities is recognised using the effective interest method and is recorded in the income statement within 'Interest receivable and similar income' or 'Interest payable and similar charges', as appropriate

Interest – banking
Interest receivable on banking activities comprises interest receivable on debt securities and other fixed income securities, loans, advances and deposits placed, guarantee and commitment commissions, and is recognised using the effective interest method Interest payable on banking activities comprises interest payable on deposits taken and debt securities in issue, and is recognised using the effective interest method

Fees and commissions
Asset management fees, investment advisory fees, ad hoc advisory fees, custody fees, stock lending commission, commitment fees, arrangement fees, guarantor fees, and Directors' fees are accrued over the period for which the service is provided

Private Banking transaction and loan-related fees, together with fees from structured client facilitation transactions are accrued over the period for which the service is provided

Asset management fees received in advance are taken to the balance sheet and amortised over the period of the provision of the asset management service The period of provision of asset management service is estimated based on experience of average holding periods for investments in the separate geographical locations where such fees are earned Redemptions are reviewed on an annual basis and the amortisation rate adjusted where there has been a significant and lasting change in redemption levels

Asset management fees received in advance in respect of structured product funds and the reimbursement of any marketing and distribution fees paid to the distributor as agent of the fund are deferred and spread over the life of the fund Such deferred fees are released to the income statement on redemption

Performance fees are recognised on an accruals basis in accordance with the substance of the relevant contractual agreement

Dividends receivable
Revenue is recognised when the shareholders' right to receive the payment is established

Returns from Private Equity investments
After initial recognition, investments which are classified as held at fair value through profit or loss and available-for-sale are measured at fair value

Gains or losses, together with transaction costs, on investments held at fair value through profit or loss are recognised in the income statement Gains or losses, together with transaction costs, on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included within 'Revenue' in the income statement

Carried interests are recognised in the income statement on an accruals basis in accordance with the substance of the relevant contractual agreement Where there is a contractual agreement to receive such amounts subject to the fulfilment of specified conditions, capital gains receivable are recognised in the income statement on an accruals basis in accordance with the substance of the relevant contractual agreement Where there is no such agreement, capital gains receivable are recognised when the right to receive the payment is established

(x) Cost of sales
Commissions and distribution fees payable to third parties are recognised over the period for which the service is provided

Asset management fees paid in advance in respect of structured product funds and the reimbursement of any marketing and distribution fees paid to the distributor as agent of the fund are deferred and spread over the life of the fund Fees paid to the distributor but not yet charged that relate to deferred fees received are released to the income statement on redemption

(y) Leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases

As lessor, income from finance leases is recognised within 'Revenue' in the income statement over the lease term under the pre-tax net investment method

Income from operating leases is recognised on a straight-line basis over the period of the lease Incentives given to enter into leases are amortised over the period of the lease

As lessee, costs under operating leases are charged to the income statement as 'Administrative expenses' in equal amounts over the periods of the leases Incentives received to enter into leases are amortised over the period of the lease

(z) Pensions and other post-employment benefits
The Group operates a number of pension schemes around the world For defined contribution schemes, pension contributions payable in respect of the accounting period are charged as 'Administrative expenses' to the income statement For funded defined benefit schemes, the cost of providing benefits is determined separately for each plan using the projected unit credit actuarial valuation method The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unvested past service cost, is recognised as an asset or liability, as appropriate, in the balance sheet An asset arising, for example, as a result of past over-funding or the performance of the plan investments is recognised to the extent that it is recoverable either in that it does not exceed the present value of future contribution holidays or through refunds of contributions

All actuarial gains and losses are recognised in full in the statement of recognised income and expense

(aa) Share-based payments
The Group makes equity-settled share-based payments to key employees through awards over ordinary and non-voting ordinary shares and by the grant of market value share options over non-voting ordinary shares

Awards over ordinary and non-voting ordinary shares made under the Group's Equity Compensation Plan are charged at fair value as 'Administrative expenses' in the income statement The fair value of an award is calculated using the market value of the shares on the date of grant, discounted for the dividends forgone over the average holding period of the award The fair value charges, adjusted to reflect actual and expected levels of vesting, are spread over the performance period and the vesting period of the awards Awards that lapse are credited to the income statement in the year in which they lapse

Options granted over non-voting ordinary shares under the Group's Share Option Plan are measured at fair value at the date of grant The fair value determined is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest Fair value is measured by use of a stochastic option valuation model The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations

(ab) Foreign currency translation
The results of subsidiary undertakings, branches and associates 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 income statement to the closing rate used in the balance sheet are taken through equity In addition, exchange differences arising on the translation of the equity of these undertakings at the beginning of the year, together with hedges of such exposures, are also taken directly to equity

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 income statement within 'Revenue'

(ac) Dividends payable
Dividends payable are recognised when the dividend is paid or approved by shareholders

2. Estimates and judgements

Estimates and judgements used in preparing the financial statements are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable The resulting accounting estimates will seldom equal the related actual results The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below

Valuation of quoted financial assets where there is no active market
From time to time quoted investments held by the Group may not be actively traded in financial markets In such cases the Group applies appropriate valuation techniques, including the use of valuation models and data from third party market participants to determine fair value

Valuation of financial assets where there is no quoted price
Such assets principally consist of investments in private equity, venture and buy-out funds and are valued in accordance with International Private Equity and Venture Capital Valuation Guidelines and, where appropriate, by independent professional valuers This determination requires significant judgement particularly in determining changes in fair value since the last formal valuation by the fund manager In making this judgement the Group evaluates among other factors the effect of cash distributions and changes in the business outlook for each fund due to the financial health and performance of individual investments within each fund

Impairment of assets
Goodwill and other assets that have indefinite useful lives are tested annually to determine whether they have suffered any impairment Other intangible assets which have a finite useful economic life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates

Disclosure of the sensitivity of carrying amounts of goodwill to the methods, assumptions and estimates underlying the calculation is included in note 10 to the accounts

Income taxes
The Group is subject to income taxes in numerous jurisdictions Judgement is required in determining the worldwide provision for income taxes There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made

Pension obligations
The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions

The assumptions used in determining the net charge/(credit) for pension costs include the expected long-term rate of return on the plans' assets and the discount rate Any changes in these assumptions will impact the carrying amount of pension obligations

The expected return on plan assets assumption is determined on a uniform basis, taking into consideration long-term historical returns, asset allocation and future estimates of long-term investment returns

The Group determines the appropriate discount rate at the end of each year This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability

The other key assumption that impacts the carrying value of the obligation is that of expected mortality rates Any assumption made in this area is inherently uncertain The Group's mortality assumptions are based on standard mortality tables projected forwards ten years for current pensioners and 20 years for future pensioners with the 'medium cohort' adjustment applied, augmented by underpinning to provide for a constant level of improvement in long-term mortality rates

The Group reviews its assumptions annually in conjunction with its independent actuaries and considers this adjustment appropriate given the geographical and demographic profile of the scheme

Other assumptions for pension obligations are based in part on current market conditions Further information, including sensitivity analysis, is given in note 5 to the accounts

Surplus space

The Group periodically reviews its space requirements and makes provisions where the Group has no current need for space to which the Group is already contractually committed under the terms of an operating lease agreement The calculation of the required provision requires significant judgement, as the Group needs to estimate the provision based upon discounted future cash outflows due to be paid under the lease less any potential cash inflows from sub-letting arrangements that the Group is able to negotiate These cash flows are then discounted for the remaining lease period In estimating these cash flows, the Group consults with external advisors in the relevant location to understand the potential to sub-let the space, the rental rates which could be achieved and the potential amount and time period of any leasehold inducements which may need to be offered to successfully secure a sub-tenant

Disclosure of the sensitivity of carrying amounts of provisions for surplus space to the methods, assumptions and estimates underlying their calculation is included in note 24 to the accounts

3. Segmental reporting

(i) Primary reporting format – business segments
The Group has four continuing business segments Asset Management, Private Banking, Private Equity and Group Asset Management principally comprises investment management including advisory services, property, life company business and alternative assets, Private Banking principally comprises investment management and banking services provided to high net worth individuals and certain smaller institutions, Private Equity principally comprises the Group's investments in private equity, venture and buy-out funds and related vehicles, and Group consists of income on the Group's capital less Group costs and provisions, and the results of the leasing business, which was sold during the year

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

Non-current assets held for sale are included within the Group segment

Year ended 31 December 2007	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group £mn	Inter-segment elimination £mn	Total £mn
External revenue	991 4	87 6	48 1	41 0	–	1,168 1
External net interest	–	23 7	–	–	–	23 7
Inter segment interest payable	–	(1 7)	–	–	1 7	–
Total revenue	991 4	109 6	48 1	41 0	1 7	1,191 8
Cost of sales	(228 6)	(3 7)	–	(0 1)	–	(232 4)
Gross profit	762 8	105 9	48 1	40 9	1 7	959 4
Administrative expenses	(518 9)	(64 6)	(4 7)	(23 6)	–	(611 8)
Operating profit	243 9	41 3	43 4	17 3	1 7	347 6
External interest receivable and similar income	7 6	–	–	15 5	–	23 1
Inter-segment interest receivable	8 0	–	–	(6 3)	(1 7)	–
Interest receivable and similar income	15 6	–	–	9 2	(1 7)	23 1
Interest payable and similar charges	(0 2)	–	–	(0 3)	–	(0 5)
Net finance income	15 4	–	–	8 9	(1 7)	22 6
Share of profit of associates and joint ventures	7 2	–	15 1	–	–	22 3
Profit before tax	266 5	41 3	58 5	26 2	–	392 5
Administrative expenses include the following non-cash expenses						
Share-based payments	(28 0)	(2 3)	(0 1)	(2 5)	–	(32 9)
Depreciation and amortisation of software	(8 1)	(0 6)	–	–	–	(8 7)
Provisions	(0 1)	0 2	–	5 3	–	5 4
	(36 2)	(2 7)	(0 1)	2 8	–	(36 2)

Year ended 31 December 2007	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group £mn	Inter-segment elimination £mn	Income tax £mn	Total £mn
Segment assets	3 649 1[1]	2,078 6	95 1[2]	1,252 1	(248 6)	50 4	6 876 7
Segment liabilities	(3,229 8)	(1,870 2)	(2 4)	(267 0)	248 6	(59 7)	(5,180 5)
	419 3	208 4	92 7	985 1	–	(9 3)	1 696 2
Capital expenditure on segment assets	28 5	0 3	–	1 7	–	–	30 5

[1] Includes £15 4 million investment in joint ventures £0 1 million investment in associates
[2] Includes £16 7 million investment in associates

Impairment losses and the reversal of impairment losses have been recognised in the year as follows

	2007				
	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group £mn	Total £mn
Reversal of impairment losses recognised In profit or loss	–	0 1	–	–	0 1

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

Notes to the accounts
for the year ended 31 December 2007

3. Segmental reportıng (continued)

Year ended 31 December 2006	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group £mn	Inter-segment elimination £mn	Total £mn
External revenue	811 1	80 1	22 2	31 0	–	944 4
External net interest	–	22 8	–	–	–	22 8
Inter-segment interest payable	–	(4 4)	–	–	4 4	–
Total revenue	811 1	98 5	22 2	31 0	4 4	967 2
Cost of sales	(166 2)	(2 8)	–	–	–	(169 0)
Gross profit	644 9	95 7	22 2	31 0	4 4	798 2
Administrative expenses	(436 6)	(68 8)	(3 2)	(33 7)	–	(542 3)
Operating profit	208 3	26 9	19 0	(2 7)	4 4	255 9
External interest receivable and similar income	6 3	–	–	13 8	–	20 1
Inter-segment interest receivable	5 2	–	–	(0 8)	(4 4)	–
Interest receivable and similar income	11 5	–	–	13 0	(4 4)	20 1
Interest payable and similar charges	(0 6)	–	–	(0 8)	–	(1 4)
Net finance income	10 9	–	–	12 2	(4 4)	18 7
Share of profit of associates and joint ventures	(0 2)	–	15 6	–	–	15 4
Profit before tax	219 0	26 9	34 6	9 5	–	290 0
Administrative expenses include the following non-cash expenses						
Share based payments	(23 3)	(1 5)	–	(2 7)	–	(27 5)
Depreciation and amortisation of software	(5 0)	(2 5)	–	–	–	(7 5)
Provisions	0 1	–	–	(5 9)	–	(5 8)
	(28 2)	(4 0)	–	(8 6)	–	(40 8)

Year ended 31 December 2006	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group £mn	Inter-segment elimination £mn	Income tax £mn	Total £mn
Segment assets	2,375 1 [1]	1 936 4	170 3 [2]	853 8	(285 6)	60 9	5,110 9
Segment liabilities	(1 983 9)	(1 745 9)	(2 2)	(186 6)	285 6	(34 3)	(3 667 3)
	391 2	190 5	168 1	667 2	–	26 6	1 443 6
Capital expenditure on segment assets	10 8	1 2	–	–	–	–	12 0

[1] Includes £3 6 million investment in joint ventures, £0 1 million investment in associates
[2] Includes £21 6 million investment in associates

Impairment losses and the reversal of impairment losses have been recognised in the year as follows

	2006				
	Asset Management £mn	Private Banking £mn	Private Equity £mn	Group £mn	Total £mn
Impairment losses recognised					
In profit or loss	–	(0 2)	(1 4)	–	(1 6)

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

3. Segmental reportıng (contınued)

(ii) Secondary segment ınformatıon – geographıcal segments
The geographıc analysıs ıs based on the geographıcal locatıon of the Group's clıents

The allocatıon of costs to ındıvıdual geographıc areas ıs undertaken ın order to provıde management ınformatıon on the cost of provıdıng servıces and to provıde managers wıth a tool to manage and control expendıture Costs are allocated on a basıs that alıgns the charge wıth the resources employed by the Group ın a partıcular locatıon Typıcal dynamıc allocatıon bases are square footage occupıed and number of staff employed by dıfferent geographıc areas

Non-current assets held for sale are ıncluded ın the Amerıcas segment (£23 2 mıllıon) and the Asıa Pacıfıc segment (£14 3 mıllıon) Comparatıve amounts are ıncluded ın the Amerıcas segment (£50 1 mıllıon) and the Unıted Kıngdom segment (£10 0 mıllıon)

	Unıted Kingdom		**Continental Europe**		**Americas**		**Asia Pacific**		**Inter-segment elimination**		**Total**	
	2007 £mn	2006 £mn	**2007 £mn**	2006 £mn	**2007 £mn**	2006 £mn	**2007 £mn**	2006 £mn	**2007 £mn**	2006 £mn	**2007 £mn**	2006 £mn
External revenue	360 3	316 8	479 2	354 1	91 7	74 9	236 9	198 6	–	–	1,168 1	944 4
External net ınterest ıncome[1]	41 6	31 8	(17 8)	(8 9)	(0 1)	(0 1)	–	–	–	–	23 7	22 8
Inter segment ınterest (payable)/receıvable	(30 9)	(22 9)	28 9	18 3	0 3	0 2	–	–	1 7	4 4	–	–
Revenue	371 0	325 7	490 3	363 5	91 9	75 0	236 9	198 6	1 7	4 4	1,191 8	967 2
Cost of sales	(56 2)	(34 3)	(138 4)	(92 4)	(0 2)	(0 2)	(37 6)	(42 1)	–	–	(232 4)	(169 0)
Gross profit	314 8	291 4	351 9	271 1	91 7	74 8	199 3	156 5	1 7	4 4	959 4	798 2
Admınıstratıve expenses	(234 4)	(230 8)	(184 3)	(152 9)	(68 5)	(58 7)	(124 6)	(99 9)	–	–	(611 8)	(542 3)
Operating profit	80 4	60 6	167 6	118 2	23 2	16 1	74 7	56 6	1 7	4 4	347 6	255 9
External ınterest receıvable and sımılar ıncome	14 3	11 5	2 5	2 1	3 7	3 7	2 6	2 8	–	–	23 1	20 1
Inter-segment ınterest (payable)/receıvable	(23 9)	(4 2)	20 4	6 2	3 9	1 5	1 3	0 9	(1 7)	(4 4)	–	–
Interest receıvable and sımılar ıncome	(9 6)	7 3	22 9	8 3	7 6	5 2	3 9	3 7	(1 7)	(4 4)	23 1	20 1
Interest payable and sımılar charges	(0 4)	(0 9)	–	(0 1)	(0 1)	(0 3)	–	(0 1)	–	–	(0 5)	(1 4)
Net finance ıncome	(10 0)	6 4	22 9	8 2	7 5	4 9	3 9	3 6	(1 7)	(4 4)	22 6	18 7
Share of profit/(loss) of assocıates and joınt ventures	0 2	0 1	14 8	12 1	0 2	3 5	7 1	(0 3)	–	–	22 3	15 4
Profit before tax	70 6	67 1	205 3	138 5	30 9	24 5	85 7	59 9	–	–	392 5	290 0
Total carryıng amount of segment assets	5,499 7	3,920 4	1 826 2	1,559 9	572 1	510 2	297 6	206 2	(1 318 9)	(1 085 8)	6 876 7	5 110 9
Capıtal expendıture on segment assets	23 3	8 2	2 4	2 8	2 5	0 7	2 3	0 3	–	–	30 5	12 0

[1] See note 4

Notes to the accounts
for the year ended 31 December 2007

4. Revenues and expenses – other disclosures

	2007 £mn	2006 £mn
Included in revenues		
Property rental income	3 0	3 7
Net losses on foreign exchange[1]	(7 0)	(36 4)
Aggregate amounts receivable under finance leases	–	1 2
Net gains on financial assets and liabilities held at fair value through profit or loss	55 3	65 5
Carried interests and distributions from available-for-sale Private Equity financial assets	33 3	11 0
Other net gains on disposal of available-for-sale financial assets	6 9	13 7
Impairment of available for sale financial assets	–	(1 4)
Amounts recycled through revenues in respect of available-for-sale financial assets	40 2	23 3
Fee income arising from financial assets that are not at fair value through profit or loss	–	0 2
Interest income receivable by Private Banking subsidiaries on financial assets not at fair value through profit or loss	128 8	112 8
Interest income receivable by Private Banking subsidiaries on financial assets at fair value through profit or loss	0 9	0 8
Interest expense payable by Private Banking subsidiaries on financial liabilities not at fair value through profit or loss	(106 0)	(90 8)
Net interest income in Private Banking subsidiaries	23 7	22 8

[1] Excludes foreign exchange on forward exchange contracts Such gains and losses are included in net gains on financial assets and liabilities held at fair value through profit or loss

	2007 £mn	2006 £mn
Included in administrative expenses		
Salaries and other remuneration	357 1	299 6
Social security costs	34 6	30 1
Other pension costs (see note 5)	11 4	15 5
Employee benefits expense	403 1	345 2
Operating lease payments	26 0	25 0

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

	2007 Number	2006 Number
Full-time employees	2,516	2,338
Contract and temporary staff	289	295
	2,805	2,633
They were employed as follows (all continuing operations)		
Asset Management	2 471	2 292
Private Banking	301	314
Private Equity	24	18
Group	9	9
	2 805	2 633

Included in administrative expenses
Audit and non-audit fees

	2007			2006		
	UK £mn	**Overseas £mn**	**Total £mn**	UK £mn	Overseas £mn	Total £mn
Audit fees for the Annual Accounts	0 6	–	0 6	0 3	–	0 3
Year-end audit services to the subsidiaries of the Company	0 6	1 0	1 6	0 8	0 9	1 7
Other audit services provided pursuant to legislation	0 1	0 1	0 2	0 2	0 1	0 3
Tax services	0 2	0 4	0 6	0 1	0 2	0 3
Other services	0 2	0 1	0 3	0 2	–	0 2
	1 7	1 6	3 3	1 6	1 2	2 8

4. Revenues and expenses – other disclosures (continued)

Included in net finance income	2007 £mn	2006 £mn
Bank interest receivable	7 8	7 0
Other interest receivable on financial assets not at fair value through profit or loss	2 7	0 5
Interest on financial assets held at fair value through profit or loss	12 6	12 6
Interest receivable and similar income	23 1	20 1
Interest payable on bank loans and overdrafts	–	(0 2)
Other interest payable on financial liabilities not at fair value through profit or loss	(0 5)	(1 2)
Interest payable and similar charges	(0 5)	(1 4)

5 Retirement benefit obligations

The charge for retirement benefit costs is as follows	2007 £mn	2006 £mn
Pension costs – defined contribution plans	10 3	8 7
Pension costs – defined benefit plans	0 9	6 6
Other post-employment benefits	0 2	0 2
	11 4	15 5
The defined benefit scheme charge in respect of the UK scheme consists of		
Current service cost	9 5	12 9
Expected return on scheme assets	(35 3)	(29 2)
Interest on scheme liabilities	25 6	22 3
Total (credit)/charge in respect of the UK scheme	(0 2)	6 0
Charges in respect of other defined benefit schemes	1 1	0 6
Total defined benefit scheme charges	0 9	6 6

The principal scheme in the UK is the Schroders Retirement Benefits Scheme (the 'Scheme') which is non-contributory and administered by the Trustee It is a funded scheme comprising a defined benefit section and a defined contribution section It is open to new entrants and has 313 active members in the defined benefit section and 871 active members in the defined contribution section at 31 December 2007 (2006 357 and 776 respectively) The most recent triennial valuation of the Scheme was carried out as at 1 January 2006 and disclosed that the market value of the assets of the Scheme represented 98 per cent of the liability, calculated on the funding ratio basis applicable to the Scheme, for the benefits that had accrued to members at that date allowing for future increases in earnings and pensions

The Company paid effective contributions to the defined benefit section in 2007 of 40 8 per cent of pensionable salaries to cover the accrual of ongoing benefits until 1 June 2007 and 35 8 per cent of pensionable salaries thereafter For joiners on or after 1 June 1989, pensionable salaries for this purpose were subject to the statutory earnings cap which was in force until April 2006, after which this cap was replaced by a notional earnings cap

The pension cost under IAS 19 for the defined benefit section of the Scheme has been determined by independent qualified actuaries, Hewitt Bacon & Woodrow Limited, and is based on an assessment of the Scheme as at 1 January 2007 This assessment was carried out using the projected unit method and the principal financial assumptions set out below Assets were taken at bid value and are held by an independent custodian

Since the publication of the Group's last Annual Report and Accounts, the Group has changed the cap on inflation linked pension increases for pensions earned from 13 August 2007 Pensions earned in respect of service from this date will increase in line with price inflation capped at 2 5 per cent per annum The cap was previously set at 5 per cent per annum The effect of this change on the Group's defined benefit section charge for the period is to reduce it by £0 3 million The Group has not materially changed any of the principal financial assumptions underlying the calculation of the Scheme's net financial position, although such assumptions have been amended where applicable to reflect current market conditions and expectations

Over the year, the contributions to the defined benefit section of the Scheme totalled £18 9 million (2006 £8 4 million) The balance sheet asset at 31 December 2007 was £42 5 million (2006 £16 8 million) This asset is included within the consolidated balance sheet as the Group, via the employing companies of the Scheme, has an unconditional right to a refund of surplus assets once all members have left the Scheme

Administration expenses and the levy payable to the Pensions Protection Fund are met directly by the Group The actual return on Scheme assets was £33 9 million (2006 £43 6 million)

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

5. Retirement benefit obligations (continued)

The additional disclosures required by IAS 19 are set out below Figures shown are for the defined benefit section of the Scheme only

(a) Balance sheet assets	2007 £mn	2006 £mn
Pension benefits	42 5	16 8

(b) Income statement (credits)/charges	2007 £mn	2006 £mn
Pension benefits	(0 2)	6 0

Pension benefits The amounts recognised in the balance sheet are determined as follows	2007 £mn	2006 £mn
Present value of funded obligations	(512 8)	(500 8)
Fair value of plan assets	555 3	517 6
Net asset recognised in the balance sheet	42 5	16 8

Scheme assets do not include any of the Company's shares (2006 nil) or buildings occupied by the Group (2006 nil)

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense is a £9 3 million gain (2006 £2 7 million gain)

The expected rates of return on individual categories of Scheme assets (net of investment expenses only) are determined by reference to the following

Bonds – based on an outperformance of 0 1 per cent (2006 0 5 per cent) per annum above the yield on long-dated government bonds at the balance sheet date

Equities – based on an outperformance of 3 3 per cent (2006 3 5 per cent) per annum above the yield on long-dated government bonds at the balance sheet date

Liability-matching – based on an outperformance of 0 4 per cent (2006 0 5 per cent) per annum above the yield on long-dated government bonds at the balance sheet date

Other – based on the long-term expected return on cash implied by swaps yields (2006 based on the UK three-month deposit rate)

The movement in the present value of the defined benefit obligation during the year is as follows

	2007 £mn	2006 £mn
At 1 January	500 8	471 7
Current service cost	9 5	12 9
Interest cost	25 6	22 3
Actuarial (gains)/losses	(8 0)	8 8
Benefits paid	(15 1)	(14 9)
At 31 December	512 8	500 8

The movement in the fair value of Scheme assets during the year is as follows

	2007 £mn	2006 £mn
At 1 January	517 6	480 5
Expected return	35 3	29 2
Actuarial (losses)/gains	(1 4)	14 4
Contributions by employer	18 9	8 4
Benefits paid	(15 1)	(14 9)
At 31 December	555 3	517 6

The fair value of Scheme assets at the balance sheet date is analysed as follows

	2007 £mn	2006[1] £mn
Equity instruments[2]	274 3	264 1
Debt instruments	33 2	24 1
Liability-matching assets	202 1	171 3
Other assets[3]	45 7	58 1
	555 3	517 6

[1] Comparative amounts have been restated to present the liability-matching assets as a separate line item
[2] Includes property
[3] Includes hedge funds

5. Retirement benefit obligations (continued)

During 2005, the Scheme's investment policy was reviewed with the aim of ensuring that the Group's ability to meet its benefit payments was better matched to its assets, both currently and in the future

A new investment strategy was implemented in March 2006 by putting 35 per cent of the Scheme's assets into liability-driven investments (including bonds and derivatives such as interest rate and inflation swaps and cash) so as to match the profile of the Scheme's liabilities The remaining 65 per cent is invested in a diversified portfolio of growth assets with an allocation of approximately 40 per cent to equities and 25 per cent to a range of other asset classes, including property, private equity, hedge funds, commodities, currency, high yield and emerging market bonds The combination and the spread across the different asset classes has been designed to reduce risk while still generating an expected return in excess of the cost of meeting the Scheme's liabilities

The principal financial assumptions used were as follows

	2007 %	2006 %
Discount rate	5 7	5 2
Inflation rate	3 1	2 9
Future salary increases	4 6	4 4
Future pension increases (for benefits earned before 13 August 2007)	3 1	2 9
Future pension increases (for benefits earned after 13 August 2007)	2 3	2 3
Expected return on Scheme assets analysed as[1]		
Equities	7 8	8 3
Bonds	4 6	5 0
Liability-matching assets	4 9	5 0
Other assets	5 3	5 4
Number of years a current pensioner is expected to live beyond age 60		
Men	28	26
Women	30	29
Number of years future pensioners currently aged 45 are expected to live beyond age 60		
Men	30	27
Women	31	30

[1] Comparative amounts have been restated to present the liability matching assets as a separate line item

The history of the Scheme is as follows

	2007 £mn	2006 £mn	2005 £mn	2004 £mn
Present value of defined benefit obligation	(512 8)	(500 8)	(471 7)	(419 5)
Fair value of Scheme assets	555 3	517 6	480 5	388 6
Surplus/(deficit) in the Scheme	42 5	16 8	8 8	(30 9)
Experience adjustments on Scheme liabilities	(0 6)	(1 0)	10 1	(1 4)
Experience adjustments on Scheme assets	(1 4)	14 4	34 8	8 1

The amounts under IAS 19 that have been recognised in the statement of recognised income and expense ('SORIE') are set out below

	2007		2006	
	£mn	**%**	£mn	%
Actual return less expected return on Scheme assets	(1 4)		14 4	
% of year end market value of assets		(0 3)		2 8
Experience gains and losses arising on Scheme liabilities	(0 6)		(1 0)	
% of year end present value of Scheme liabilities		(0 1)		(0 2)
Changes in assumptions underlying the present value of the Scheme liabilities	8 6		(7 8)	
% of year end present value of Scheme liabilities		1 7		(1 6)
Actuarial gains recognised in SORIE	6 6		5 6	
% of year end present value of Scheme liabilities		1 3		1 1

5. Retirement benefit obligations (continued)

The sensitivity of the 2007 pension liabilities to changes in assumptions are as follows

Assumption	Assumption change	Estimated reduction in pension liabilities £mn	Estimated reduction in pension liabilities %
Discount rate	Increase by 0 5% per annum	48 4	9 4
Expected rate of salary increases	Reduce by 0 5% per annum	3 2	0 6
Expected rate of pension increases in payment	Reduce by 0 5% per annum	31 5	6 1
Life expectancy	Reduce by one year	11 8	2 3

Membership details as at 31 December 2007 are as follows

Active workers	313
Total pensionable salary roll	£23 1 million per annum
Average age (active)	43
Average service in plan	10 5 years
Number of deferred members	1 482
Total deferred pensions (at date of leaving Scheme)	£9 6 million per annum
Average age (deferred)	45
Number of pensioners	591
Average age (pensioner)	67
Total pensions in payment	£12 9 million per annum

The Group expects to make contributions totalling approximately £11 9 million to the Scheme in 2008 Contributions to cover the accrual of ongoing benefits in the Scheme are made on a monthly basis

6. Directors

(a) Total emoluments
The aggregate emoluments of the Directors amounted to £10 1 million (2006 £7 4 million) The aggregate of employer contributions to defined contribution arrangements in respect of the Directors during the year was £0 1 million (2006 £0 2 million) Details of retirement benefits accruing under defined contribution arrangements and under the defined benefit section of the Scheme are provided in the remuneration report on pages 33 and 34 The emoluments of the highest paid Director during the year amounted to £3 3 million (2006 £2 5 million) There were 230,063 (2006 156,185) market value share options exercised during 2007 resulting in a gain of £1 1million (2006 £0 5 million) There were 16,294 (2006 64,826) nil cost options exercised during 2007, resulting in a gain of £0 2 million (2006, £0 7 million) There are no severance payments included in the emoluments for 2007 (2006 £nil) Further details relating to emoluments paid to Directors are given in the remuneration report on pages 27 to 37

(b) Rights to deferred cash and shares
Details of Directors' rights to deferred cash and shares are provided in the remuneration report on pages 34 and 36

(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 31 December 2007 (2006 nil) to Directors which need to be disclosed pursuant to the Act

7. Tax expense

(a) Analysis of charge in the year	2007 £mn	2006 £mn
Current tax		
UK corporation tax on profits of the year	69 4	38 7
Double tax relief	(41 3)	(20 8)
	28 1	17 9
Adjustments in respect of prior years	0 4	(6 2)
	28 5	11 7
Foreign tax – current	57 1	47 1
Foreign tax – adjustments in respect of prior years	0 4	(0 8)
Total current tax	86 0	58 0
Deferred tax – origination and reversal of temporary differences	0 5	6 5
Adjustments in respect of prior years	(0 5)	3 6
Effect of changes in corporation tax rates	2 8	–
Total tax charge for the year	88 8	68 1

(b) Analysis of credit to equity	2007 £mn	2006 £mn
Current income tax on Equity Compensation Plan and share option awards	3 9	6 1
Deferred tax on Equity Compensation Plan and share option awards – current year	1 5	2 5
Deferred tax on Equity Compensation Plan and share option awards – prior year	–	(0 3)
Deferred tax on actuarial gains and losses on defined benefit pension schemes	(2 0)	(1 7)
Effect of changes in corporation tax rates	(0 8)	–
Tax credit reported in equity	2 6	6 6

(c) Factors affecting tax charge for the year

The tax charge for the year is lower (2006 lower) than the UK standard rate of corporation tax (30 per cent) The differences are explained below

	2007 £mn	2006 £mn
Profit before tax	392 5	290 0
Profit before tax multiplied by corporation tax at the UK standard rate of 30% (2006 30%)	117 8	87 0
Effects of		
Impact of profits/losses arising in jurisdictions with higher tax rates	1 4	7 0
Impact of profits/losses arising in jurisdictions with lower tax rates	(36 2)	(24 6)
Non taxable income net of disallowable expenses	(1 6)	(4 7)
Movement in unrecognised deferred tax – current year	(2 4)	2 9
UK tax on profits of overseas entities after double tax relief	6 0	4 0
Overseas tax on profits of UK entities after double tax relief	0 7	–
Deferred tax adjustments in respect of change in corporation tax rates	2 8	–
Prior year adjustments		
UK prior year – current	0 4	(6 3)
Foreign tax prior year – current	0 4	(0 8)
Deferred tax prior year	(0 5)	3 6
Total tax charge for the year	88 8	68 1

8. Dividends

	2007		2006	
	£mn	Pence per share	£mn	Pence per share
Declared and paid in year				
Final dividend paid	49 5	17 5	42 0	14 5
Interim dividend paid	25 4	9 0	21 4	7 5
	74 9	26 5	63 4	22 0
Proposed for approval at AGM				
Final dividend for 2007	59 4	21 0		

Dividends of £2 9 million (2006 £2 2 million) on shares held by the employee trusts have been waived

Notes to the accounts
for the year ended 31 December 2007

9. Earnings per share

Basic earnings per share is calculated by dividing the profit for the financial year attributable to equity holders of the parent of £299 7 million (2006 £221 3 million) by the weighted average number of ordinary shares in issue during the year, less the weighted average number of own shares

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

There is no difference between the profit for the financial year attributable to equity holders of the parent used in the basic and diluted earnings per share calculations

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

	2007 Number	2006 Number
Weighted average number of ordinary shares used in calculation of basic earnings per share	285 824 617	287 844 376
Effect of dilutive potential ordinary shares – share options	3,318 475	3 251,161
Effect of dilutive potential ordinary shares – contingently issuable shares	1 104,262	944 844
Weighted average number of ordinary shares used in calculation of diluted earnings per share	290 247,354	292 040,381

There have been no material transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements

10. Goodwill

	2007 £mn	2006 £mn
At 1 January	65 3	24 6
Exchange translation adjustments	0 3	(2 9)
Additions	29 6	43 6
At 31 December	95 2	65 3

Of the increase in goodwill during the year, £18 6 million is attributable to contingent consideration relating to the 2006 acquisition of NewFinance Capital Holdings Limited The purchase agreement for the acquisition stated that an additional payment would become due should certain stringent performance criteria be met in 2008 and 2009 The Directors now consider that it is probable the recognition criteria as set out in IFRS 3 will be met and the additional consideration has therefore been provided for The balance of the additional goodwill, being £11 0 million, is attributable to the acquisition of Aareal Asset Management GmbH ('AAM') on 28 February 2007 (see note 40)

The goodwill acquired during the year represents the value assigned on acquisition to the future benefits which the Group expects to achieve from the acquired businesses where these benefits are not capable of being individually identified and separately recognised as either tangible or intangible assets

Goodwill acquired in a business combination is allocated to the cash generating units ('CGUs') that are expected to benefit from that business combination For all relevant acquisitions, the lowest level of CGU the Group is able to use to determine impairment is segment level

The carrying amount of goodwill has been allocated as follows

	2007 £mn	**2006 £mn**
Asset Management	90 2	60 3
Private Banking	5 0	5 0
	95 2	65 3

The recoverable amounts of the CGUs are determined from value-in-use calculations The key assumptions on which management have based their five-year cash flow projections to arrive at the value-in-use are those regarding the market growth rates (based on the Group's view of anticipated future market movements), a pre-tax discount rate of 12 1 per cent , expected fund flows (based on the aggregation of local expectations of country heads worldwide) and expected changes to margins (based on an analysis of the current fee structure flexed to take into account expected changes in product mix and the proportion of rebates payable to external distributors)

The sensitivity of the carrying amounts of goodwill to the methods and assumptions used in the estimation of the recoverable amounts of the CGUs is small due to the amount of goodwill on the Group's balance sheet relative to the size of the Group's estimations of future profitability within the business segments to which that goodwill has been allocated The effect of an increase/decrease of 1 per cent in the pre-tax discount rate used would be £nil

11 Intangible assets

	2007			2006		
	Fund management contracts £mn	Software £mn	Total £mn	Fund management contracts £mn	Software £mn	Total £mn
Cost						
At 1 January	9 9	23 8	33 7	–	27 5	27 5
Exchange translation adjustments	–	0 5	0 5	(0 6)	(0 3)	(0 9)
Additions	2 6	12 2	14 8	10 5	4 6	15 1
Disposals	–	(0 1)	(0 1)	–	(8 0)	(8 0)
At 31 December	12 5	36 4	48 9	9 9	23 8	33 7
Amortisation						
At 1 January	(1 0)	(17 7)	(18 7)	–	(21 9)	(21 9)
Exchange translation adjustments	–	(0 4)	(0 4)	–	0 3	0 3
Amortisation for the year	(1 7)	(3 1)	(4 8)	(1 0)	(4 1)	(5 1)
Disposals	–	0 1	0 1	–	8 0	8 0
At 31 December	(2 7)	(21 1)	(23 8)	(1 0)	(17 7)	(18 7)
Carrying amount at 31 December	9 8	15 3	25 1	8 9	6 1	15 0

The increase in intangible assets during the year in respect of fund management contracts comprises the customer contracts and relationships acquired by the Group on the purchase of AAM (see note 40)

Fund management contracts are amortised over their useful lives of five to seven and a half years The amortisation charge for the year was £1 7 million (2006 £1 0 million) and is recorded within 'Cost of sales'

The software assets included above are amortised over their useful lives

The Group has future commitments to purchase software with a value of £0 3 million (31 December 2006 £2 2 million) None of the Group's intangible assets are internally generated

12. Property, plant and equipment

	2007			2006		
	Office equipment, computers and cars £mn	Long leasehold premises and leasehold improvements[1] £mn	Total £mn	Office equipment, computers and cars £mn	Long leasehold premises and leasehold improvements[1] £mn	Total £mn
Cost						
At 1 January	17 5	31 7	49 2	17 9	28 3	46 2
Exchange translation adjustments	0 9	0 5	1 4	(0 6)	(0 6)	(1 2)
Additions	4 0	14 3	18 3	2 3	5 1	7 4
Disposals	(1 1)	(1 9)	(3 0)	(2 1)	(1 1)	(3 2)
At 31 December	21 3	44 6	65 9	17 5	31 7	49 2
Depreciation						
At 1 January	(13 6)	(22 9)	(36 5)	(14 2)	(22 6)	(36 8)
Exchange translation adjustments	(0 7)	(0 5)	(1 2)	0 5	0 4	0 9
Depreciation charge for the year	(2 2)	(3 4)	(5 6)	(2 0)	(1 4)	(3 4)
Disposals	1 1	1 9	3 0	2 1	0 7	2 8
At 31 December	(15 4)	(24 9)	(40 3)	(13 6)	(22 9)	(36 5)
Net book value at 31 December	5 9	19 7	25 6	3 9	8 8	12 7

[1] Includes lease deposits of £1 0 million (2006 £1 0 million)

Property, plant and equipment are depreciated over their useful lives The net loss on disposal of property, plant and equipment for the year was £nil (2006 £nil)

At 31 December 2007 and 2006, none of the above assets were held under finance leases The Group has future commitments to purchase property, plant and equipment with a value of £0 1 million (31 December 2006 £9 7 million)

Notes to the accounts
for the year ended 31 December 2007

13. Associates and joint ventures

	2007 £mn	2006 £mn
Associates	16 8	21 7
Joint ventures	15 4	3 6
Associates and joint ventures	32 2	25 3

The interest in associates comprised.

	Equity £mn	Group's share of post-acquisition reserves £mn	Total £mn
At 1 January 2007	6 6	15 1	21 7
Capital redemptions	(0 9)	(19 1)	(20 0)
Profit for the year after tax	–	15 1	15 1
At 31 December 2007	5 7	11 1	16 8

The principal associate, Schroder Ventures Investments Limited ('SVIL'), is unlisted and engaged in private equity investment Its results included in these accounts are shown below, together with the Group's percentage interest therein at 31 December 2007 It is incorporated and operates in Guernsey

Particulars of issued share and loan capital of the principal associate at 31 December 2007 are

	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	50
	Redeemable preference shares	2,677 200	£2 677	50
	'B' redeemable preference shares	556,874	£556,874	–
	'C' redeemable preference shares	2,187,138	£1,606	–

The financial statements of SVIL are prepared to 30 June each year Accounts are prepared to this date so that the company's year end is coterminous with those of its major investments For the purposes of applying the equity method of accounting, the interim financial statements of SVIL have been used

When equity accounting for the investment in SVIL, the Group does not recognise its share of the unrealised gains or losses arising on SVIL's own investments, except to the extent that such unrealised reserves fall below zero The Group's share of SVIL's profit for 2007 does not equate to SVIL's profit for the year multiplied by the Group's percentage ownership

Summarised financial information in respect of the Group's associates is set out below

	2007			2006		
	SVIL £mn	Other associates £mn	Total £mn	SVIL £mn	Other associates £mn	Total £mn
Total assets	66 1	0 3	66 4	71 4	2 8	74 2
Total liabilities	(9 2)	(0 1)	(9 3)	(18 9)	–	(18 9)
Net assets	56 9	0 2	57 1	52 5	2 8	55 3
Group's share of associates' net assets	16 7	0 1	16 8	20 7	1 0	21 7
Revenue	33 4	0 8	34 2	20 1	10 1	30 2
Profit for the year	32 7	0 8	33 5	18 1	10 2	28 3
Group's share of associates' profit for the year	14 9	0 2	15 1	12 0	3 6	15 6

The Group has a contractual commitment to the further purchase of share capital in SVIL of £6 6 million, subject to call

13. Associates and joint ventures (continued)

Joint ventures

The Group's principal joint venture is a 30 per cent interest in the ordinary share capital of the Bank of Communications Schroder Fund Management Co Ltd, which is involved in the management of funds in China

The Group accounts for its holdings in joint ventures using the equity method The Group's share of the assets, liabilities, revenue and expenses of the joint ventures are as follows

	2007			2006		
	China joint venture £mn	**Other joint ventures £mn**	**Total £mn**	China joint venture £mn	Other joint ventures £mn	Total £mn
Non-current assets	1 0	1 6[1]	2 6	-	-	-
Current assets	17 4	0 2	17 6	4 6	0 2	4 8
Non-current liabilities	(0 9)	–	(0 9)	-	–	–
Current liabilities	(3 7)	(0 2)	(3 9)	(1 1)	(0 1)	(1 2)
Total equity	13 8	1 6	15 4	3 5	0 1	3 6
Revenue	14 4	0 4	14 8	3 3	0 4	3 7
Expenses	(7 3)	(0 3)	(7 6)	(3 6)	(0 3)	(3 9)
Group's share of joint ventures' profit/(loss) for the year	7 1	0 1	7 2	(0 3)	0 1	(0 2)

[1] Includes £1 5 million of goodwill acquired on the purchase of a joint venture during the year

14. Assets backing insurance unit-linked liabilities and insurance unit-linked liabilities

Reconciliation of investments in authorised unit trusts to liability linked to life company investments

	2007 £mn	2006 £mn
Investments in authorised unit trusts	1,818 6	1,307 4
Other financial assets[1]	907 8	211 7
Cash and cash equivalents[1]	1 4	12 9
Insurance unit-linked liabilities	2,727 8	1 532 0

[1] Represents the assets of underlying funds in which the life company invests where the life company is in a position to be able to exercise control over those funds

The above insurance assets and unit-linked liabilities arise within the Group's wholly-owned entity, Schroder Pension Management Limited ('the life company'), which purchases units in open-ended authorised unit trusts on behalf of clients seeking to invest in unit trusts with a life assurance wrapper

The life company may liquidate its investments on demand The Group has negligible exposure to credit risk in relation to the investments of the life company as the risks and rewards associated with its investments are borne by the investors in the life company's funds and not by the life company itself

As is common practice in the industry, the life company has granted floating charges over its long-term insurance assets to its reinsured policy holders The floating charges convert into fixed charges in the event of the insolvency of the life company The charge ensures that such policy holders rank equally with direct policy holders in the event of the insolvency or winding-up of the life company

Notes to the accounts
for the year ended 31 December 2007

15. Non-current financial assets

	2007			
	Held to maturity £mn	**Fair value through profit or loss £mn**	**Available-for-sale £mn**	**Total £mn**
Equities – listed	–	5 4	18 2	23 6
Equities – unlisted	–	14 1	81 2	95 3
Debt securities – listed	88 6	–	–	88 6
Other – unlisted	–	0 1	0 5	0 6
Investments	88 6	19 6	99 9	208 1
Derivative contracts (see note 27)	–	12 7	–	12 7
	88 6	32 3	99 9	220 8

	2006			
	Held to maturity £mn	Fair value through profit or loss £mn	Available-for sale £mn	Total £mn
Equities – listed	–	5 2	13 3	18 5
Equities – unlisted	–	18 7	102 8	121 5
Debt securities – listed	57 3	–	–	57 3
Other – unlisted	–	1 3	–	1 3
Investments	57 3	25 2	116 1	198 6
Derivative contracts (see note 27)	–	17 0	–	17 0
	57 3	42 2	116 1	215 6

The Group's held to maturity financial assets are held within the Group's Private Banking operations as part of their banking book

Financial assets at fair value through profit or loss are held for trading, except for £7 8 million (2006 £13 7 million) in respect of unlisted equities which are designated at fair value through profit or loss in order to significantly reduce a measurement inconsistency that would otherwise arise from measuring this asset and its related liability on a different basis The liability is linked to the fair value of this financial asset

16. Trade and other receivables

	2007			2006		
	Current £mn	**Non-current £mn**	**Total £mn**	Current £mn	Non-current £mn	Total £mn
Trade and other receivables held at amortised cost						
Fee debtors	52 6	–	52 6	46 1	–	46 1
Settlement accounts	52 4	–	52 4	54 3	–	54 3
Accrued income	151 3	4 7	156 0	141 5	6 6	148 1
Other debtors	37 6	2 6	40 2	20 6	3 0	23 6
Leasing receivables (see note 19)	–	–	–	1 7	5 2	6 9
	293 9	7 3	301 2	264 2	14 8	279 0
Non financial instruments						
Prepayments	6 8	–	6 8	6 8	–	6 8
Other debtors	4 5	–	4 5	12 1	0 1	12 2
	305 2	7 3	312 5	283 1	14 9	298 0

Detailed risk information on leasing receivables can be found in note 19 All other trade and other receivables listed above are non-interest bearing The carrying amount of the non-interest bearing trade and other receivables approximates their fair value

17 Current financial assets

	2007				
	Held to maturity £mn	Fair value through profit or loss £mn	Available-for-sale £mn	Hedge of net investments in foreign operations £mn	Total £mn
Equities – listed	–	405 1	53 9	–	459 0
Equities – unlisted	–	291 7	4 2	–	295 9
Debt securities – listed	35 4	302 8	–	–	338 2
Debt securities – unlisted	820 4	25 4	–	–	845 8
Investments	855 8	1 025 0	58 1	–	1 938 9
Derivative contracts (see note 27)	–	29 7	–	–	29 7
	855 8	1,054 7	58 1	–	1,968 6

	2006				
	Held to maturity £mn	Fair value through profit or loss £mn	Available-for-sale £mn	Hedge of net investments in foreign operations £mn	Total £mn
Equities – listed	–	190 8	59 9	–	250 7
Equities – unlisted	–	180 4	6 0	–	186 4
Debt securities – listed	16 7	262 9	–	–	279 6
Debt securities – unlisted	940 6	6 7	–	–	947 3
Investments	957 3	640 8	65 9	–	1 664 0
Derivative contracts (see note 27)	–	15 8	–	1 9	17 7
	957 3	656 6	65 9	1 9	1,681 7

The Group's held to maturity investments are held within the Group's Private Banking operations as part of their banking book

Financial assets at fair value through profit or loss are held for trading, except for £7 8 million (2006 £6 9 million) in respect of unlisted equities which are designated at fair value through profit or loss in order to significantly reduce a measurement inconsistency that would otherwise arise from measuring this asset and its related liability on a different basis The liability is linked to the fair value of this financial asset

18. Loans and advances to customers of Private Banking subsidiaries

	2007 £mn	2006 £mn
Loans and advances to customers of Private Banking subsidiaries	623 0	688 3

	2007			2006		
	Gross £mn	Provisions £mn	Net £mn	Gross £mn	Provisions £mn	Net £mn
Maturing/repricing (whichever is earlier) in						
Less than 1 year	267 2	(0 3)	266 9	316 6	(0 4)	316 2
1 – 2 years	21 2	–	21 2	19 5	–	19 5
2 – 3 years	129 9	–	129 9	39 0	–	39 0
3 – 4 years	67 6	–	67 6	134 6	–	134 6
4 – 5 years	39 7	–	39 7	76 0	–	76 0
More than 5 years	97 7	–	97 7	103 0	–	103 0
	356 1	–	356 1	372 1	–	372 1
	623 3	(0 3)	623 0	688 7	(0 4)	688 3

A reversal of impairment of £0 1 million (2006 impairment charge of £0 2 million) has been credited to the income statement in relation to loans and advances to customers of Private Banking subsidiaries Factors considered in determining whether impairment has taken place include how many days past the due date a receivable is, deterioration in the credit quality of a counterparty, and knowledge of specific events that could influence a debtor's ability to repay an amount due

19. Leasing receivables

	2007			2006		
	Minimum lease payments £mn	**Unearned finance income £mn**	**Present value of minimum lease payments £mn**	Minimum lease payments £mn	Unearned finance income £mn	Present value of minimum lease payments £mn
Maturing in						
Less than 1 year	–	–	–	1 9	(0 2)	1 7
1-5 years	–	–	–	2 8	(0 9)	1 9
More than 5 years	–	–	–	3 5	(0 2)	3 3
	–	–	–	6 3	(1 1)	5 2
	–	–	–	8 2	(1 3)	6 9

Until its remaining leases were sold during the year, the Group provided leasing facilities through the use of finance leases The majority of leases held during the year related to refrigeration equipment, commercial vehicles and film leases

20. Cash and cash equivalents

	2007 £mn	2006 £mn
Cash at bank and in hand	633 9	376 7
Cash equivalents	81 6	62 5
	715 5	439 2

The book value of cash and cash equivalents approximates their fair value

21. Non-current assets held for sale

From time to time, Group companies inject capital into funds operated by the Group (seed capital) Where the Group holds more than 50 per cent of the fund in which it is investing and where voting rights are attached to the holding, the Group technically controls the fund and it becomes a subsidiary of the Group Where the Group is actively seeking to reduce its holding, the fund is classified as being held for sale as it is considered highly probable that the fund will not remain under the control of the Group one year after the original investment is made

If the Group still retains control of the fund after this time, the fund ceases to be classified as held for sale and is consolidated

	2007 £mn	2006 £mn
Seed capital classified as being held for sale	37 5	60 1

At 31 December 2007, the fair value of non-current assets held for sale was £38 0 million (2006 £61 7 million)

In the year to 31 December 2007, eight investments in funds were classified as non-current assets held for sale The eight funds in which the Group held seed capital investments at the start of the year ceased to be classified as non-current assets held for sale as they no longer met the conditions within IFRS 5 regarding such classifications Investments cease to be classified as held for sale when they are no longer controlled by the Group This may happen either through sale of the investment and/or dilution of the Group's holding

The effect of reclassifying these funds on the results of operations is to increase revenue by £1 1 million in 2007 (2006 decrease of £0 9 million)

£1 0 million (2006 £nil) has been charged to the income statement in relation to non-current assets held for sale

The Group's exposure to credit risk is represented by the carrying amount of the assets

22. Financial liabilities

	2007 Current £mn	2007 Non-current £mn	2007 Total £mn	2006 Current £mn	2006 Non-current £mn	2006 Total £mn
Deferred consideration payable on acquisitions	8 1	7 9	16 0	6 9	13 7	20 6
Floating rate unsecured loan notes 2007	-	–	–	0 3	–	0 3
	8 1	7 9	16 0	7 2	13 7	20 9
Derivative contracts (see note 26)	51 4	12 4	63 8	10 7	17 0	27 7
	59 5	20 3	79 8	17 9	30 7	48 6

All financial liabilities, with the exception of the unsecured loan notes, which were redeemed during the year and which were held at amortised cost, are held at fair value through profit or loss The derivative contracts are held for trading The deferred consideration, the value of which is linked to the fair value of certain unlisted equities held by the Group as an economic hedge, is designated at fair value through profit or loss to significantly reduce a measurement inconsistency that would otherwise arise from measuring this liability and the related asset on different bases

Included in current derivative contracts are forward foreign exchange contracts with a fair value of £6 1 million (2006 £nil) held to hedge net investments in foreign operations

	2007 £mn	2006 £mn
Maturing/repricing (whichever is earlier) of financial liabilities (excluding derivatives) in		
Less than 1 year	8 1	7 2
1 – 2 years	7 9	6 9
2 – 3 years	-	6 8
	7 9	13 7
	16 0	20 9

23. Deferred tax

(a) Deferred tax liabilities

Deferred tax liabilities represent temporary differences, including bonuses

	2007 £mn	2006 £mn
At 1 January	(2 4)	(2 8)
Exchange translation adjustments	(0 2)	0 1
Income statement expense	(1 0)	-
Transfers	0 9	0 3
At 31 December	(2 7)	(2 4)

(b) Deferred tax assets

2007	Accelerated capital allowances £mn	Temporary differences including bonuses £mn	Tax losses carried forward £mn	Total £mn
At 1 January	6 1	37 1	1 2	44 4
Exchange translation adjustments	-	0 7	–	0 7
Changes in timing differences – income statement (expense)/credit	(1 3)	0 7	1 6	1 0
Effect of changes in tax rates – income statement expense	(0 3)	(1 2)	(1 3)	(2 8)
Debit taken to equity	–	(0 5)	–	(0 5)
Effect of changes in tax rates – debit taken to equity	–	(0 8)	–	(0 8)
Acquisitions	–	1 7	–	1 7
Transfers	–	(0 9)	–	(0 9)
At 31 December	4 5	36 8	1 5	42 8

23. Deferred tax (continued)

	2006			
	Accelerated capital allowances £mn	Temporary differences including bonuses £mn	Tax losses carried forward £mn	Total £mn
At 1 January	8 5	43 8	2 6	54 9
Exchange translation adjustments	-	(0 6)	–	(0 6)
Income statement credit/(expense)	(2 4)	(6 3)	(1 4)	(10 1)
Credit taken to equity	–	0 5	–	0 5
Transfers	–	(0 3)	-	(0 3)
At 31 December	6 1	37 1	1 2	44 4

A legislative change in the UK has reduced the main corporation tax rate from 30 per cent to 28 per cent , with effect from 1 April 2008 The effect of this is that the value of UK deferred tax assets has reduced, resulting in a tax charge in the current period

Included in deferred tax assets relating to temporary differences including bonuses is an asset relating to UK tax deductions for share-based remuneration which are dependent on the prices of Schroders' ordinary and non-voting ordinary shares at the time the awards are exercised These have been recognised based on the share prices as at 31 December 2007 Subsequent to the end of the period, Schroders share prices have fallen If the assets were recognised at the share price on 10 March 2008, the deferred tax assets would be reduced by £12 5 million

A deferred tax asset of £16 3 million (2006 £10 4 million) relating to realised and unrealised capital losses has not been recognised as there is insufficient evidence that there will be sufficient taxable gains in the future against which the deferred tax asset could be utilised

A deferred tax asset of £21 4 million (2006 £20 5 million) relating to losses and other temporary differences has not been recognised as there is insufficient evidence that there will be sufficient taxable profit against which these losses and temporary differences can be utilised This unrecognised deferred tax includes an amount of £15 1 million (2006 £13 9 million) relating to US losses of £33 5 million (2006 £30 3 million), which are subject to a minimum expiry period of 13 years

The aggregate amount of gross temporary differences regarding investments in subsidiaries is £164 3 million (2006 £230 6 million) Deferred tax has not been provided as the relevant parent company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future

A deferred tax asset of £5 6 million (2006 £5 0 million) relating to Excess Unrelieved Foreign Tax has not been recognised as there is insufficient evidence that there will be sufficient taxable profit in the future against which the deferred tax asset could be utilised

24. Provisions

	Legal £mn	Surplus space and other £mn	Total £mn
At 1 January 2007	5 9	18 8	24 7
Exchange translation adjustments	(0 1)	–	(0 1)
Unwinding of discounts	–	0 2	0 2
Provisions utilised	(2 1)	(4 2)	(6 3)
Additional provisions charged in the year	0 1	–	0 1
Unused amounts reversed in the year	(1 2)	(4 5)	(5 7)
At 31 December 2007	2 6	10 3	12 9
Current – 2007	2 6	1 8	4 4
Non-current – 2007	–	8 5	8 5
	2 6	10 3	12 9
Current – 2006	5 9	8 0	13 9
Non-current – 2006	–	10 8	10 8
	5 9	18 8	24 7

24. Provisions (continued)

The Group's provisions are expected to mature in the following time periods

	2007 £mn	2006 £mn
Less than 1 year	4 4	14 6
Effect of discounting	–	(0 7)
	4 4	13 9
1 – 2 years	1 6	2 5
2 – 3 years	1 4	2 6
3 – 4 years	1 4	1 3
4 – 5 years	1 5	1 3
More than 5 years	4 3	5 7
Effect of discounting	(1 7)	(2 6)
	8 5	10 8
	12 9	24 7

Legal
The amount predominantly represents the balance of a provision in respect of matters covered by indemnification obligations under the terms of the sale of the investment banking business in 2000 Details are not given as the Directors feel that to do so may prejudice the Group The timing of resolution of legal claims is subject to uncertainty, but it is possible that those matters will have been resolved by 31 December 2008

Surplus space
Provisions of £9 7 million (2006 £16 9 million) 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 5 2 per cent (2006 4 7 per cent) It is envisaged that the provisions will be utilised on an even basis until 2015

The calculation of the surplus space provisions involves two principal assumptions an estimation of the time value of money to the Group, and the mitigating effects of sub-letting income receivable Cash outflows are predominantly contractually agreed fixed amounts The effect on the provisions of an increase/decrease of 1 per cent in the discount rate used in the calculation would be +/– £0 4 million, whilst an increase/decrease of 10 per cent in expected future sub-letting income receivable would produce a decrease/increase in the provisions of £1 2 million The sensitivity of the carrying amounts of surplus space provisions to the methods and assumptions used in their estimation is therefore not considered to be significant

25. Trade and other payables

	2007			2006		
	Current £mn	**Non-current £mn**	**Total £mn**	Current £mn	Non-current £mn	Total £mn
Financial liabilities at amortised cost						
Settlement accounts	128 9	–	128 9	93 1	–	93 1
Trade creditors	23 3	–	23 3	14 8	–	14 8
Social security	19 7	16 9	36 6	17 7	9 8	27 5
Accruals	238 1	30 0	268 1	162 2	20 9	183 1
Other liabilities	14 9	28 1	43 0	16 3	11 6	27 9
	424 9	75 0	499 9	304 1	42 3	346 4
Non financial instruments						
Deferred income	9 4	13 0	22 4	11 7	16 6	28 3
Other liabilities	16 0	1 0	17 0	5 8	14 2	20 0
Retirement benefit obligations	–	4 5	4 5	–	3 1	3 1
Non-equity minority interests (see note 34)	23 8	–	23 8	1 2	–	1 2
	474 1	93 5	567 6	322 8	76 2	399 0

Notes to the accounts

for the year ended 31 December 2007

25 Trade and other payables (continued)

The carrying amount of the financial liabilities at amortised cost approximates their fair value

Non-equity minority interests arise where non-current assets previously classified as being held for sale (see note 21) are consolidated When this occurs, the Group acquires a liability in respect of minority interests in the funds of which the Group has control Such minority interests are distinguished from equity minority interests in that the Group does not hold an equity stake in such funds

The Group's financial liabilities at amortised cost are expected to mature in the following time periods

	2007 **£mn**	2006 £mn
Less than 1 year	424 9	304 1
1 – 2 years	35 2	15 9
2 – 3 years	30 1	15 8
3 – 4 years	1 4	2 6
4 – 5 years	2 0	2 5
More than 5 years	6 3	5 5
	75 0	42 3
	499 9	346 4

26. Deposits by customers and banks

	2007 **£mn**	2006 £mn
Customer accounts	1,503 0	1,459 5
Deposits by banks	229 7	169 2
	1 732 7	1 628 7

	2007			2006		
	Customer accounts £mn	**Deposits by banks £mn**	**Total £mn**	Customer accounts £mn	Deposits by banks £mn	Total £mn
Maturing/repricing (whichever is earlier) in						
Less than 1 year	1,295 8	229 7	1,525 5	1,241 3	169 1	1,410 4
1 – 2 years	48 8	–	48 8	31 0	0 1	31 1
2 – 3 years	95 7	–	95 7	47 3	–	47 3
3 – 4 years	46 6	–	46 6	87 1	–	87 1
4 – 5 years	7 4	–	7 4	51 7	–	51 7
More than 5 years	8 7	–	8 7	1 1	–	1 1
	207 2	–	207 2	218 2	0 1	218 3
	1,503 0	229 7	1 732 7	1 459 5	169 2	1 628 7

27. Derivative contracts

(a) Why the Group uses derivatives

The Group holds derivatives for risk management and customer facilitation purposes only The Group does not hold derivatives for trading or other speculative purposes

Risk management the Group actively seeks to limit and manage its exposures to risk where that exposure is not desired by the Group This may take the form of unwanted exposures to a particular currency, type of interest rate or other price risk By purchasing or selling derivative contracts, the Group is able to mitigate or eliminate such exposures The principal risk the Group faces through such use of derivative contracts is one of credit risk only For details of how the Group manages its exposures to credit risk, see (b) below and note 28

Customer facilitation The Group's Private Banking entities are involved in providing portfolio management, banking and investment advisory services, primarily to private clients In carrying out this business they transact as agent and principal in financial assets and liabilities in order to meet customer facilitation requirements The Group's policy is to hedge, as appropriate, exchange rate and interest rate risk on its customer facilitation positions using foreign exchange and interest rate contracts This hedging of equal and opposite risks eliminates any market risk, but does not eliminate the possibility of credit risk For details of how the Group manages its exposures to credit risk, see (b) below and note 28

27. Derivative contracts (continued)

(b) What kind of derivatives the Group uses
Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market For customer facilitation contracts, the credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange For other contracts, the maximum exposure to credit risk is represented by the fair value of the contracts Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount

	2007			2006		
	Notional amount £mn	**Assets £mn**	**Liabilities £mn**	Notional amount £mn	Assets £mn	Liabilities £mn
Interest rate contracts	5,921 1	6 6	(6 4)	1,475 0	3 3	(3 2)
Forward foreign exchange contracts	6 898 4	11 7	(33 6)	960 2	13 9	(6 6)
Equity contracts	197 7	21 1	(20 1)	228 3	15 4	(15 8)
Commodity contracts	37 6	3 0	(3 7)	47 5	2 1	(2 1)
	13,054 8	42 4	(63 8)	2,711 0	34 7	(27 7)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, indices or foreign exchange rates relative to their terms The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time

	2007		2006	
	Assets £mn	**Liabilities £mn**	Assets £mn	Liabilities £mn
Net-settled interest rate contracts maturing/repricing[1] in				
Less than 1 year	5 4	(5 5)	3 3	(3 2)
4 – 5 years	1 2	(0 9)	–	–
	6 6	(6 4)	3 3	(3 2)
Gross settled forward foreign exchange contracts in Private Banks maturing/repricing[1] in				
Less than 1 year				
Gross inflows	6 826 8	6,817 9	564 7	559 8
Gross outflows	(6 818 2)	(6,827 7)	(559 7)	(564 8)
	8 6	(9 8)	5 0	(5 0)
1 – 2 years				
Gross inflows	17 6	17 6	–	–
Gross outflows	(17 6)	(17 6)	–	–
	–	–	–	–
2 - 3 years				
Gross inflows	55 6	53 3	1 7	1 7
Gross outflows	(53 3)	(55 6)	(1 7)	(1 7)
	2 3	(2 3)	–	–
Gross settled forward foreign exchange contracts in the rest of the Group maturing/repricing[1] in				
Less than 1 year				
Gross inflows	54 5	823 0	531 1	136 8
Gross outflows	(53 3)	(842 6)	(523 0)	(137 6)
	1 2	(19 6)	8 1	(0 8)
Net-settled equity contracts maturing/repricing[1] in				
Less than 1 year	14 0	(13 0)	0 5	(0 9)
1 – 2 years	4 1	(4 1)	5 9	(5 9)
2 – 3 years	2 2	(2 2)	8 3	(8 3)
3 – 4 years	0 8	(0 8)	–	–
4 – 5 years	–	–	0 7	(0 7)
	21 1	(20 1)	15 4	(15 8)
Net-settled commodity contracts maturing/repricing[1] in				
Less than 1 year	0 9	(1 6)	–	–
1 – 2 years	1 1	(1 1)	0 8	(0 8)
2 – 3 years	1 0	(1 0)	0 6	(0 6)
3 – 4 years	–	–	0 7	(0 7)
	3 0	(3 7)	2 1	(2 1)
	42 8	(61 9)	33 9	(26 9)

[1] Whichever is earlier

Notes to the accounts
for the year ended 31 December 2007

27. Derivative contracts (continued)

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for its lending activities.

Foreign currency, equity and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchase in consideration for the assumption of foreign exchange, equity or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (OTC). The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

28. Financial instrument risk management

The Group is subject to market risk throughout its business as discussed in the business review. In addition, operational, liquidity and credit risk exposures exist within the business. The effectiveness of the Group's risk management process is, therefore, critical to its soundness and profitability and considerable resources are dedicated to this area. Risk management is the direct responsibility of the Group's senior management. The Schroder Group Risk and Compliance functions are responsible for monitoring the overall risk environment. The Group has established a control environment that ensures risks are reviewed regularly and that all risk controls operating throughout the Group are in accordance with regulatory requirements. In addition, an independent assessment of the risk management process and the fundamental risk assumptions is provided by Schroder Group Internal Audit.

Credit risk

The Group has exposure to credit risk from its normal activities where the risk is that a counterparty will be unable to pay in full amounts when due. The Group, through the Principal Risk Committee ('PRC'), carefully manages its exposure to credit risk by approving lending policies including types of acceptable collateral and minimal lending margins, setting limits for individual exposures and sectors and security.

All individual facility requests are presented to the PRC and exposures against limits are monitored daily. The Group's maximum exposure to credit risk is represented by the carrying value of its financial assets less the collateral held on its loans and advances to customers.

Loans and receivables at amortised cost

Financial assets at amortised cost principally comprise loans and advances to customers, fee debtors, settlement accounts and cash and cash equivalents.

Loans and advances to customers are fully secured on a range of assets including property (both residential and commercial), cash, client portfolios and insurance policies. It is the policy of the Group's Private Banking entities not to advance client facilities on an unsecured basis.

Fee debtors arise principally within the Group's institutional business and amounts are monitored regularly by local offices. Historically, default levels have been insignificant, and, unless a client has withdrawn funds, there is an ongoing relationship between the Group and the client. Although the Group is usually managing client cash representing a large multiple of the amount owed to the Group by the client, the Group does not hold any of the assets it invests on behalf of its clients as collateral.

The Group's fee debtors that are past due but are not considered to be impaired as at 31 December are presented below. Factors considered in determining whether impairment has taken place include how many days past the due date a receivable is, deterioration in the credit quality of a counterparty, and knowledge of specific events that could influence a debtor's ability to repay an amount due.

	2007 £mn	2006 £mn
Not older than 30 days	3.0	1.9
Older than 30 days not older than 45 days	1.0	0.5
Older than 45 days not older than 60 days	2.7	0.8
Older than 60 days not older than 90 days	1.4	1.3
Older than 90 days not older than 120 days	1.2	1.4
Older than 120 days not older than 180 days	0.9	2.0
Older than 180 days	1.5	2.0
	11.7	9.9

28. Financial instrument risk management (continued)

The credit risk attributable to settlement accounts is 100 per cent of the nominal amount involved However, the period of exposure is very short and the majority of the counterparties are unit trusts managed by the Group In other markets, it is expected (as experience has shown) that market co-operation and official intervention would prevent loss

The Group's cash and cash equivalents are concentrated principally in its Private Banking entities and fall within their treasury portfolios (see the 'Held to maturity financial assets' section below) The remainder of the Group's cash and cash equivalents is invested primarily in current accounts with well-rated UK and overseas banks

Held to maturity financial assets
All assets within the Private Banks' treasury book are classified as held to maturity financial assets and are unsecured Policies and limits are set by the PRC and monitored daily 100 per cent of the treasury portfolio is rated A or better The portfolio has no exposures to emerging markets, sub-investment grade assets or any asset backed securities

The Private Banks take a conservative approach to their treasury investments which are concentrated in terms of industrial sectors purely to well-rated UK and overseas banks and government securities All assets within the treasury book are unsecured

No held to maturity financial assets or loans and advances to banks were impaired during the year (2006 nil) or are past due as at 31 December 2007 (2006 nil)

Breakdown per investment grade as at 31 December

	2007	2006
Credit rating[1]		
AA+	27%	19%
AA	7%	21%
AA-	27%	34%
A+	29%	12%
A	10%	14%
	100%	100%

[1] Fitch ratings

Financial assets held at fair value
Such assets comprise investments in equities, debt securities and derivative instruments with positive fair values

Substantially all of the Group's investments in equities at fair value are in listed companies or in unlisted funds managed by the Group The Group also has investments in unlisted private equity funds All investments are unsecured For each type of equity and debt security investment, the maximum credit risk is the carrying value

Breakdown of debt securities per investment grade as at 31 December

	2007	2006
Credit rating[2]		
Sovereign	12%	9%
AAA	54%	65%
AA+	–	1%
AA	4%	3%
A+	17%	9%
A	5%	5%
A	–	1%
BBB+	–	1%
BBB	–	1%
Non-investment grade	8%	5%
	100%	100%

[2] Standard & Poor ratings/Moody ratings

28 Financial instrument risk management (continued)

Liquidity risk
Liquidity risk is the risk that Schroders cannot meet its obligations as they fall due or can only do so at a cost The principal liquidity risk the Group faces concerns its Private Banking liabilities The liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain the solvency of the Private Banks as well as the rest of the Group

This is maintained through the management of the Private Banks' treasury against limits set and monitored daily For details of maturity analyses, see notes 18, 24, 25, 26 and 27, although, in practice, customer deposits tend to be repaid later than on the earliest date on which repayment can be required

In terms of non Private Banking liquidity, the Group has investment capital which is invested in fixed income and money market portfolios Liquidity in these portfolios is monitored by the Group on a regular basis

Schroders has no committed standby lines (2006 £nil)

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates

In the Private Banks, interest rates are monitored daily against policies and limits set by the PRC

Schroders' treasury policy is to hedge fixed rated assets and liabilities back to the floating rate as much as possible and therefore outright interest rate risk arises mainly from the decision to allow a limited amount of mismatch between the cash flows

Within the Private Banks, two methods are used for monitoring interest rate risk

Sensitivity analysis (PV01) – this assesses the impact on Schroders' current net worth against a one basis point parallel rise in interest rates and is calculated daily for each currency (although the main risk is from Sterling positions) and then in aggregate

Stress testing (PV200) – this is calculated in the same way as the PV01, but against the much more severe change of a 200 basis point movement both up and down in interest rates

Interest rate risk in the Private Bank is limited due to the short-term nature of the Private Bank's financial assets In the case of changes in market interest rates, the Private Bank's treasurer can reprice the assets within an average of three months

Cash held by the operating companies is not normally expected to be placed on deposit for longer than a month and much is invested in short-term liquidity funds with virtually no interest rate risk The Group's capital includes investments in fixed income and money market portfolios, funds managed by the Group's fixed income fund managers and short-term liquidity funds These investments are managed to a maximum average duration of 18 months The fund managers may reduce the average duration with the use of futures contracts at their discretion

At 31 December 2007, if interest rates had been 200 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been £8 2 million (2006 £4 9 million) higher/lower, mainly as a result of higher/lower interest income on the Group's floating rate debt securities and cash, other components of equity would have been unaffected

The following are underlying assumptions made in the model used to calculate the effect on post-tax profits in the Private Banks
- the fair values of assets and liabilities will not be affected by a change in interest rates
- within the Private Bank, the fixed rate financial assets will be repriced to the higher/lower market interest rates
- the average term for repricing is three months

The following are underlying assumptions made in the model used to calculate the effect on post-tax profits in the rest of the Group
- the fair values of assets and liabilities will not be affected by a change in interest rates
- funds would be reinvested in similar variable interest bearing debt securities on maturity

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates

In the Private Banks, some loans and advances to clients as well as a proportion of the treasury activities are undertaken in foreign currencies, however, this is hedged on a daily basis to reduce currency exposures to low levels Limits regarding the amount of foreign currency risk that the Group is exposed to are set by the PRC and monitored daily

Given the low level of currency mismatch within the Group, the FSA's Basic Methodology for calculating the exposure is used

The Group's policy in relation to revenue and expenditure currency exposure is not to hedge, as the Group's revenue is earned and expenditure incurred in many currencies and the resulting exposure is considered part of the business

28. Financial instrument risk management (continued)

The Group hedges some of its investments in foreign operations using forward foreign exchange contracts with third parties to mitigate exposure to currency movements where it is considered that the Sterling values of such amounts are at risk The use of such instruments is limited and is subject to the approval of the Group Capital Committee

At 31 December 2007, if the US dollar had strengthened/weakened by 10 per cent against Sterling with all other variables held constant, post-tax profit for the year would increase/decrease by £13 0 million/£10 6 million respectively (2006 £6 3 million/£5 2 million) principally as a result of the increase/decrease in assets and liabilities denominated in foreign currencies, other components of equity would increase/decrease by £9 8 million/£8 0 million (2006 £9 3 million/£7 6 million), principally as a result of the unhedged portion of net investment in foreign operations

At 31 December 2007, if the Euro had strengthened/weakened by 10 per cent against Sterling with all other variables held constant, post-tax profit for the year would increase/decrease by £5 1 million/£4 1 million respectively (2006 £4 6 million/£3 8 million) principally as a result of the increase/decrease in assets and liabilities denominated in foreign currencies, other components of equity would increase/decrease by £15 2 million/£12 4 million (2006 £9 3 million/£7 6 million), principally as a result of the unhedged portion of net investment in foreign operations

Pricing risk
Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of market changes

The Group holds equity investments in its seed capital portfolio Equity market exposure is hedged where it is considered that the amount at risk is material and an effective hedge is available The Group also holds debt security investments in its fixed income and money market portfolios Pricing risk of these investments is partially mitigated by their short term nature

At 31 December 2007, if the FTSE All Share Index had been 20 per cent higher/lower with all other variables held constant, the effect on post-tax profit would be an increase/decrease of £105 9 million/£69 4 million respectively (2006 £81 5 million/£71 3 million respectively), principally as a result of an increase/decrease in management and performance fees receivable and in the fair values of equities held at fair value through profit or loss, other components of equity would increase/decrease by £26 9 million (2006 £30 6 million), principally as a result of the increase/decrease in fair values of available-for-sale investments

The following are underlying assumptions made in the model used to calculate the effect on post-tax profits and other components of equity

- changes in the FTSE All Share Index correlate to changes in the Group's equity funds
- performance fees, being principally based on returns relative to specific indices, would be unaffected by changes in the index
- the Group's investments in debt securities and hedge funds are assumed to have no correlation to the FTSE All Share Index
- the Group's Private Equity investments are assumed to have perfect correlation to the FTSE All Share Index for all but property investments, which are assumed to have no correlation

Capital management
Investment capital is the Group's capital that is not required for the regulatory and working capital requirements of the business It is invested in the following areas

- Fixed income and money market portfolios
- Seed capital
- Private equity
- Third party hedge funds
- Other investments, such as property, warehousing and legacy investments

The investment capital is held to assist existing products and businesses and to accelerate their development, to support the organic development of new businesses which fit with the existing asset management franchise, and to respond to other investment and growth opportunities, such as acquisitions that will accelerate the development of the business, as they arise

The investments in seed capital, property funds, warehousing and non-legacy private equity are primarily to support the business

The remainder of the investment capital is invested in fixed income securities and a portfolio of third party hedge funds The objectives are to maintain liquidity and to optimise the return on investments while minimising the risk of capital losses

Other structural considerations underlying the way in which investment capital is deployed are to avoid or hedge exposure to markets so as not to increase the Group's operational gearing and to minimise currency exposure by hedging into Sterling

Notes to the accounts
for the year ended 31 December 2007

29 Additional disclosures on financial instruments

2007	At amortised cost £mn	Held to maturity £mn	Held for trading £mn	Designated as at fair value through profit or loss £mn	Available-for-sale £mn	Held for sale £mn	Non-financial instruments £mn	Total £mn
Assets								
Goodwill	–	–	–	–	–	–	95 2	95 2
Intangible assets	–	–	–	–	–	–	25 1	25 1
Property plant and equipment	–	–	–	–	–	–	25 6	25 6
Associates and joint ventures	–	–	–	–	–	–	32 2	32 2
Financial assets	–	944 4	1,087 0	–	158 0	–	–	2 189 4
Loans and advances to customers	623 0	–	–	–	–	–	–	623 0
Deferred tax	–	–	–	–	–	–	42 8	42 8
Retirement benefit scheme assets	–	–	–	–	–	–	42 5	42 5
Current tax	–	–	–	–	–	–	7 6	7 6
Trade and other receivables	301 2	–	–	–	–	–	11 3	312 5
Cash and cash equivalents	715 5	–	–	–	–	–	–	715 5
Non current assets held for sale	–	–	–	–	–	37 5	–	37 5
Assets backing insurance unit-linked liabilities	1 4	–	–	2,726 4	–	–	–	2,727 8
	1,641 1	944 4	1,087 0	2 726 4	158 0	37 5	282 3	6 876 7
Liabilities								
Financial liabilities	–	–	63 8	16 0	–	–	–	79 8
Deposits by customers and banks	1,732 7	–	–	–	–	–	–	1,732 7
Deferred tax	–	–	–	–	–	–	2 7	2 7
Provisions	12 9	–	–	–	–	–	–	12 9
Current tax	–	–	–	–	–	–	57 0	57 0
Trade and other payables	499 9	–	–	–	–	–	67 7	567 6
Insurance unit linked liabilities	–	–	–	2 727 8	–	–	–	2,727 8
	2 245 5	–	63 8	2,743 8	–	–	127 4	5,180 5

2006	At amortised cost £mn	Held to maturity £mn	Held for trading £mn	Designated as at fair value through profit or loss £mn	Available-for-sale £mn	Held for sale £mn	Non-financial instruments £mn	Total £mn
Assets								
Goodwill	–	–	–	–	–	–	65 3	65 3
Intangible assets	–	–	–	–	–	–	15 0	15 0
Property, plant and equipment	–	–	–	–	–	–	12 7	12 7
Associates and joint ventures	–	–	–	–	–	–	25 3	25 3
Financial assets	–	1,014 6	700 7	–	182 0	–	–	1,897 3
Loans and advances to customers	688 3	–	–	–	–	–	–	688 3
Deferred tax	–	–	–	–	–	–	44 4	44 4
Retirement benefit scheme assets	–	–	–	–	–	–	16 8	16 8
Current tax	–	–	–	–	–	–	16 5	16 5
Trade and other receivables	279 0	–	–	–	–	–	19 0	298 0
Cash and cash equivalents	439 2	–	–	–	–	–	–	439 2
Non-current assets held for sale	–	–	–	–	–	60 1	–	60 1
Assets backing insurance unit-linked liabilities	12 9	–	–	1,519 1	–	–	–	1,532 0
	1 419 4	1 014 6	700 7	1,519 1	182 0	60 1	215 0	5 110 9
Liabilities								
Financial liabilities	0 3	–	27 7	20 6	–	–	–	48 6
Deposits by customers and banks	1,628 7	–	–	–	–	–	–	1,628 7
Deferred tax	–	–	–	–	–	–	2 4	2 4
Provisions	24 7	–	–	–	–	–	–	24 7
Current tax	–	–	–	–	–	–	31 9	31 9
Trade and other payables	346 4	–	–	–	–	–	52 6	399 0
Insurance unit-linked liabilities	–	–	–	1,532 0	–	–	–	1,532 0
	2,000 1	–	27 7	1 552 6	–	–	86 9	3,667 3

For all financial instruments, carrying value approximates fair value Details of differences between the carrying and fair values of non-current assets held for sale can be found in note 21

30. Share capital

	Number of shares Units	Ordinary shares £mn	Non-voting ordinary shares £mn	Total shares £mn	Share premium £mn
At 1 January 2007	293 875 873	226 0	67 9	293 9	36 4
Shares issued	3 866 560	–	3 9	3 9	24 8
Shares cancelled	(3 243 590)	–	(3 3)	(3 3)	(3 1)
At 31 December 2007	294,498,843	226 0	68 5	294 5	58 1

	Number of shares Units	Ordinary shares £mn	Non-voting ordinary shares £mn	Total shares £mn	Share premium £mn
At 1 January 2006	298,471,751	226 0	72 5	298 5	32 1
Shares issued	4,154,782	–	4 2	4 2	23 6
Shares cancelled	(8,750,660)	–	(8 8)	(8 8)	(19 3)
At 31 December 2006	293,875,873	226 0	67 9	293 9	36 4

	2007 Number	2006 Number	2007 £mn	2006 £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
	339,999,998	339 999 998	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	68 476 443	67,853,473	68 5	67 9
	294,498,843	293,875 873	294 5	293 9

The difference between the share classes

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

31. Own shares

Employee trusts have been established for the purposes of satisfying certain share-based awards At 31 December 2007, the trusts held 5,636,875 (2006 8,444,416) non-voting ordinary shares costing £50 6 million (2006 £73 9 million), with a market value of £65 8 million (2006 £88 3 million) In addition, the trusts held 4,948,846 (2006 3,494,308) ordinary shares costing £52 4 million (2006 £35 1 million), with a market value of £64 4 million (2006 £39 0 million) Dividends on shares held by the trusts are waived.

Movements during the year were as follows

	2007 £mn	2006 £mn
At 1 January	(90 9)	(45 7)
Own shares purchased	(21 5)	(90 8)
Own shares disposed through sale to third parties	15 9	33 5
Own shares disposed through vesting[1]	21 0	12 1
At 31 December	(75 5)	(90 9)

[1] On vesting, own shares balances are transferred to the profit and loss reserve insofar as they relate to share-based payments and to the shares to be issued reserve insofar as they relate to certain contractual obligations to issue shares (for example, as part of the consideration for an acquisition) Any profit or loss made on disposal is recorded directly in the profit and loss reserve

	2007			2006		
	Number of shares Units	Cost £mn	Market value £mn	Number of shares Units	Cost £mn	Market value £mn
Group						
Shares funded by employing companies	3,115,287	27 5	36 4	1 989,639	18 1	20 8
Own shares	7 470 434	75 5	93 8	9,949,085	90 9	106 5
	10 585 721	103 0	130 2	11,938 724	109 0	127 3
Company						
Own shares	5,837,357	58 3	74 1	7,938,934	71 9	85 3

32. Other reserves

	Shares to be issued[1] £mn	Capital reserves £mn	Own shares held £mn	Net exchange differences £mn	Total £mn
At 1 January 2007	15 1	156 3	(90 9)	(53 7)	26 8
Exchange differences on translation of foreign operations	–	–	–	25 4	25 4
Net income and expense recognised directly in equity	–	–	–	25 4	25 4
Shares cancelled	–	2 7	–	–	2 7
Consideration paid in the form of shares	(5 0)	–	4 9	–	(0 1)
Own shares purchased	–	–	(21 5)	–	(21 5)
Own shares disposed through sale to third parties	–	–	15 9	–	15 9
Transfers	–	2 8	16 1	–	18 9
At 31 December 2007	10 1	161 8	(75 5)	(28 3)	68 1

	Shares to be issued[1] £mn	Capital reserves £mn	Own shares held £mn	Net exchange differences £mn	Total £mn
At 1 January 2006	–	185 5	(45 7)	12 2	152 0
Exchange differences on translation of foreign operations	–	–	–	(65 9)	(65 9)
Net income and expense recognised directly in equity	–	–	–	(65 9)	(65 9)
Shares cancelled	–	5 2	–	–	5 2
Consideration payable in the form of shares	15 1	–	–	–	15 1
Own shares purchased	–	–	(90 8)	–	(90 8)
Own shares disposed through sale to third parties	–	–	33 5	–	33 5
Transfers	–	(34 4)	12 1	–	(22 3)
At 31 December 2006	15 1	156 3	(90 9)	(53 7)	26 8

[1] Shares to be issued represent outstanding deferred consideration in respect of the 2006 acquisition of NewFinance Capital Holdings Limited

33. Retained profits reserve

	Associates reserve £mn	Fair value reserve £mn	Hedging reserve £mn	Profit and loss reserve £mn	Retained profits £mn
At 1 January 2007	14 9	124 0	5 3	942 1	1,086 3
Net losses on hedges recognised directly in equity	–	–	(9 4)	–	(9 4)
Actuarial gains on defined benefit pension schemes	–	–	–	5 5	5 5
Net gains on available-for sale financial assets	2 7	15 6	–	–	18 3
Amounts recycled through the income statement	–	(40 2)	–	–	(40 2)
Tax on items taken directly to equity	–	–	–	2 6	2 6
Net income and expense recognised directly in equity	2 7	(24 6)	(9 4)	8 1	(23 2)
Profit for the year	22 3	–	–	277 4	299 7
Total recognised income and expense for the year	25 0	(24 6)	(9 4)	285 5	276 5
Shares cancelled	–	–	–	(30 4)	(30 4)
Net gains on disposals of own shares	–	–	–	3 5	3 5
Share-based payments	–	–	–	32 9	32 9
Dividends	–	–	–	(74 9)	(74 9)
Transfers	(19 1)	–	–	0 2	(18 9)
At 31 December 2007	20 8	99 4	(4 1)	1 158 9	1,275 0

33. Retained profits reserve (continued)

	Associates reserve £mn	Fair value reserve £mn	Hedging reserve £mn	Profit and loss reserve £mn	Retained profits £mn
At 1 January 2006	24 0	83 6	(26 9)	779 5	860 2
Net gains on hedges recognised directly in equity	–	–	32 2	–	32 2
Actuarial gains on defined benefit pension schemes	–	–	–	5 5	5 5
Net gains on available-for-sale financial assets	1 5	63 7	–	–	65 2
Amounts recycled through the income statement	(3 5)	(23 3)	–	–	(26 8)
Tax on items taken directly to equity	–	–	–	6 6	6 6
Net income and expense recognised directly in equity	(2 0)	40 4	32 2	12 1	82 7
Profit for the year	15 4	–	–	205 9	221 3
Total recognised income and expense for the year	13 4	40 4	32 2	218 0	304 0
Shares cancelled	–	–	–	(61 4)	(61 4)
Net losses on disposals of own shares	–	–	–	(2 9)	(2 9)
Share-based payments	–	–	–	27 5	27 5
Dividends	–	–	–	(63 4)	(63 4)
Transfers	(22 5)	–	–	44 8	22 3
At 31 December 2006	14 9	124 0	5 3	942 1	1 086 3

34. Minority interests

	2007			2006		
	Non-equity minority interests £mn	**Equity minority interests £mn**	**Total £mn**	Non equity minority interests £mn	Equity minority interests £mn	Total £mn
At 1 January	1 2	0 2	1 4	13 3	0 3	13 6
Exchange translation adjustments	–	–	–	(1 4)	–	(1 4)
Additions (see notes 40 and 41)	38 4	0 1	38 5	28 7	–	28 7
Disposals (see note 41)	(19 4)	–	(19 4)	(40 1)	–	(40 1)
Profit retained for the year	3 6	0 4	4 0	0 7	(0 1)	0 6
Distributions made	–	(0 2)	(0 2)	–	–	–
At 31 December	23 8	0 5	24 3	1 2	0 2	1 4

Non-equity minority interests arise when funds previously classified as non-current assets held for sale are consolidated (see notes 21, 25 and 41) and where the Group holds less than 100 per cent of the investment in those funds

Notes to the accounts
for the year ended 31 December 2007

35. Reconciliation of net cash from operating activities

	2007 £mn	2006 £mn
Operating profit	347 6	255 9
Adjustments for		
Depreciation and amortisation of software	8 7	7 5
Amortisation of fund management contracts	1 7	1 0
Impairment of available for-sale financial assets recycled through the income statement	–	1 4
Other amounts recycled through the income statement in respect of financial assets	(40 2)	(24 7)
Decrease/(increase) in trade and other receivables	72 6	(241 2)
Increase in trade and other payables and provisions	231 5	195 1
Increase in insurance unit linked liabilities	1 195 8	1 532 0
Net decrease in financial liabilities	–	(15 9)
Net (release of)/charge for provisions	(5 4)	5 8
Net gains on financial assets and liabilities held at fair value through profit or loss[1]	(46 2)	(30 3)
Share based payments expensed	32 9	27 5
Other non-cash movements	1 6	52 0
Payments made to defined benefit schemes	(19 9)	(9 3)
UK corporation tax (paid)/recovered	(9 3)	5 1
Overseas tax paid	(58 2)	(36 2)
Interest received	0 5	10 6
Interest paid	(0 5)	(1 4)
Net purchase of assets backing insurance unit-linked liabilities	(1,207 3)	(1,519 1)
Net proceeds/(outflow) from current financial assets	114 9	(6 6)
Net cash from operating activities	620 8	209 2

[1] Excludes gains and losses on all derivative assets and liabilities

36. Commitments and contingent liabilities

(a) Commitments

	2007 £mn	2006 £mn
Documentary credits	13 8	3 6
Undrawn loan facilities	107 5	100 6
Investment call commitments	17 2	55 6
Other commitments	6 6	6 6
	145 1	166 4

(b) Contingent liabilities

	2007 £mn	2006 £mn
Assets pledged as collateral security	26 1	21 1
Guarantees and irrevocable letters of credit	66 6	38 0
	92 7	59 1

(c) Future capital expenditure
At 31 December 2007, there was £0 4 million (2006 £11 9 million) 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) (i) Operating leases – as lessee
At 31 December, the Group's commitments under non-cancellable operating leases were

	2007		2006	
	Offices £m	**Office equipment £m**	Offices £m	Office equipment £m
Commitment expiring in				
Less than 1 year	25 4	0 5	22 1	0 5
1-5 years	90 8	0 7	89 0	0 9
More than 5 years	70 9	–	57 1	–
	187 1	1 2	168 2	1 4

Leases in respect of office properties are negotiated for an average term of 3 4 years (2006 3 6 years) and rentals are fixed for an average of 2 8 years (2006 2 7 years) Leases in respect of office equipment are negotiated for an average term of 1 6 years (2006 2 8 years) and rentals are fixed for an average of 1 5 years (2006 2 5 years)

36. Commitments and contingent liabilities (continued)

(ii) Operating leases – as lessor
The Group sublets certain of its properties around the world At 31 December, the future minimum lease payments under non-cancellable operating leases were

	2007	2006
	Offices £mn	Offices £mn
Commitment expiring in		
Less than 1 year	2 5	2 8
1 5 years	11 3	6 6
More than 5 years	12 0	2 2
	25 8	11 6

Subleases in respect of office properties are negotiated for an average term of 5 0 years (2006 4 9 years) and rentals are fixed for an average of 3 3 years (2006 4 9 years)

(f) Other
The Group has a contractual obligation to reinstate certain leasehold premises before expiry of the lease in 2018 The Directors believe that this obligation cannot be provided for because it 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

37. Awards to employees of rights to share-based payments

The Group has the following share-based payment arrangements

Share Option Plan 2000[1] Under this Plan, the Group grants market value share options over non-voting ordinary shares to executive Directors and other key employees 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, in line with market practice, is that the Company's earnings per share growth (defined as the earnings per ordinary share before any exceptional items, as derived from the Company's Annual Report and Accounts) must be at least four per cent per annum above the increase in the Retail Price Index over the initial three-year period

Senior Executive Share Option Scheme 1986 and the Share Option Plan 1999[1] Options over non-voting ordinary shares were granted to executive Directors and other key employees 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, was 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 The Group no longer grants awards under these former plans

Equity Compensation Plan 2000[1] Under this Plan, executive Directors and other key employees receive deferred bonus awards over either ordinary or non-voting ordinary shares, normally structured as rights to acquire shares at nil cost These awards are subject to forfeiture and will vest on the third anniversary provided the participant continues to be employed within the Group Further details are given in the remuneration report on page 30

All of the above share-based payment arrangements involve a maximum term of ten years for each option granted and are settled through the transfer of assets of the Company, being the equity instruments of its ultimate parent, Schroders plc, to its employees

Share Incentive Plan Under this scheme approved by HM Revenue & Customs, eligible employees can purchase shares in the Company each month up to £1,500 per taxation year from their gross salary In April 2006, the Group began to match employee share purchases up to £50 per month These matching shares are effectively free shares awarded to the employee subject to their remaining in employment for one year

[1] Certain employees have been awarded cash-settled equivalents to these share-based awards The fair value of these awards is determined using the same methods and models used to value the equivalent equity settled awards The fair value of the liability is remeasured at each balance sheet date and at settlement date

Notes to the accounts
for the year ended 31 December 2007

37. Awards to employees of rights to share-based payments (continued)

(a) Share option plans
Movements in the number of share options outstanding and their relative weighted average exercise prices are as follows

	2007		2006	
	Weighted average exercise price per share	**Options**	Weighted average exercise price per share	Options
At 1 January	726p	11,056 393	715p	16,318,802
Granted	–	–	1085p	36,866
Forfeited	–	–	492p	(38 079)
Exercised	740p	(3 866 560)	668p	(4,154 782)
Lapsed	856p	(33,878)	805p	(1 106,414)
At 31 December	718p	7,155,955	726p	11,056,393
Outstanding options immediately exercisable	716p	6,968,956	714p	8 833,078

The weighted average share price, at exercise date, of options exercised during the year was £11 73 (2006 £10 78)

At 31 December 2007 options to subscribe for non-voting ordinary shares, with the weighted average contractual life remaining of 4 0 years (2006 4 9 years), were outstanding

(i) Under the terms of the Share Option Plan 1999·

Exercise periods	**Exercise price per share**	**2007 Number**	2006 Number
7 May 2004 to 6 May 2009	822p	84 719	133 426
13 March 2005 to 12 March 2010	800p	784,779	1 684,286
		869,498	1 817,712

(ii) Under the terms of the Share Option Plan 2000·

Exercise periods	**Exercise price per share**	**2007 Number**	2006 Number
13 March 2006 to 12 March 2011	987p	1,330,223	2,075,862
12 November 2006 to 11 November 2011	706p	500 000	500,000
22 April 2005 to 21 April 2012	800p	1,825 000	2,798,350
3 May 2005 to 2 May 2012	756p	–	50 000
6 November 2005 to 30 April 2009	453p	300,000	300 000
6 November 2005 to 5 November 2012	541p	842,500	1,427,500
9 December 2005 to 8 December 2012	483p	250,000	250,000
10 March 2006 to 9 March 2013	398p	891 000	1,364,500
6 October 2006 to 5 October 2013	660p	–	15 000
27 October 2006 to 26 October 2013	665p	15,000	15 000
8 March 2007 to 7 March 2014	655p	108 000	165,000
7 June 2007 to 6 June 2014	547p	–	15,000
17 August 2007 to 16 August 2014	530p	37,735	75,470
7 March 2008 to 6 March 2015	709p	137,833	137 833
15 July 2008 to 14 July 2015	736p	7 000	7,000
18 August 2008 to 17 August 2015	802p	5,300	5,300
6 March 2009 to 5 March 2016	1085p	36 866	36,866
		6 286 457	9 238 681

There were no options granted during the year

The fair value of options granted during the prior year, determined using the stochastic valuation model, was £0 1 million and the weighted average fair value was £2 51 per option

(b) Equity Compensation Plan
Under the Equity Compensation Plan, rights over 3,478,055 (2006 3,555,225) ordinary and 24,468 (2006 40,853) non-voting ordinary shares were granted during the year ended 31 December 2007 The weighted average fair value of £10 30 (2006 £9 99) per ordinary and £9 49 (2006 £9 47) per non-voting ordinary share was calculated using the market value of the shares at the grant date, discounted for dividends forgone over the average holding period of the award

37. Awards to employees of rights to share-based payments (continued)

(c) Cash-settled share-based awards
The Group issues to certain employees cash-settled share-based awards that require the Group to pay the intrinsic value of the award to the employee on the date of exercise At 31 December 2007, the total carrying amount of liabilities arising from cash-settled share-based awards at the balance sheet date was £1 4 million (2006 £3 4 million) The total intrinsic value at 31 December 2007 of liabilities for which the counterparty's right to cash or other assets had vested by that date was £1 0 million (2006 £1 2 million)

(d) Share Incentive Plan
The employee monthly share purchase plan is open to most employees and provides free shares from the Group to match the employee purchase up to a maximum of £50 per month Pursuant to these plans the Group purchased 26,487 ordinary shares in 2007 (2006 20,371), at a weighted average share price of £11 46 (2006 £9 91) A charge of £0 3 million (2006 £0 2 million) will be expensed over a vesting period of one year

The Group recognised total expenses of £34 3 million (2006 £28 6 million) arising from share-based payment transactions during the year of which £32 9 million (2006 £27 5 million) were equity-settled share-based payment transactions

38. Events after the balance sheet date

No events requiring disclosure under IAS 10 occurred after the balance sheet date

39. Related party transactions

(a) Transactions between related parties
Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note Details of transactions between the Group and other related parties, excluding compensation, are disclosed below

	2007				
	Revenues £mn	Interest receivable £mn	Expenses £mn	Amounts owed by related parties £mn	Amounts owed to related parties £mn
Associates	2 2	–	(0 5)	0 5	–
Key management personnel	–	–	(0 1)	–	(4 3)

	2006				
	Revenues £mn	Interest receivable £mn	Expenses £mn	Amounts owed by related parties £mn	Amounts owed to related parties £mn
Associates	1 0	–	(0 3)	–	–
Key management personnel	0 1	–	(1 0)	–	(1 2)

Transactions with related parties were made at market rates The amounts outstanding are unsecured and will be settled in cash No guarantees have been given or received No expense for bad or doubtful debts has been recognised in the year in respect of the amounts owed by related parties

(b) Key management personnel compensation
The remuneration of key management personnel during the year was as follows

	2007 £mn	2006 £mn
Short-term employee benefits	17 5	12 7
Post-employment benefits	0 3	0 6
Other long term benefits	4 2	3 3
Share-based payments	6 4	5 7
	28 4	22 3

The remuneration of key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market rates The remuneration policy is described in more detail in the remuneration report on pages 27 and 28

Notes to the accounts
for the year ended 31 December 2007

40. Acquisitions

On 28 February 2007, the Group acquired 99 7 per cent of the issued share capital of Aareal Asset Management GmbH ('AAM') for a consideration of £27 7 million This transaction has been accounted for using the purchase method of accounting

The net assets acquired in the transaction, and the goodwill arising, are as follows

	Carrying value immediately prior to acquisition £mn	Fair value adjustments £mn	Provisional fair value £mn
Net assets acquired			
Goodwill	4 9	(4 9)	–
Intangible assets	0 3	–	0 3
Property, plant and equipment	0 3	–	0 3
Deferred tax	0 1	1 6	1 7
Current financial assets	16 1	–	16 1
Cash at bank	6 2	–	6 2
Trade and other receivables	4 5	–	4 5
Current financial liabilities	(12 4)	–	(12 4)
Trade and other payables	(2 1)	–	(2 1)
Taxation	(0 4)	–	(0 4)
Less Minority interests	(0 1)	–	(0 1)
	17 4	(3 3)	14 1
Goodwill			11 0
Intangible assets			2 6
			27 7
Satisfied by[1]			
Cash			27 7
Total consideration			27 7

[1] Includes acquisition costs of £0 9 million

The goodwill arising on the acquisition of AAM is attributable to the anticipated profitability of the property fund business acquired The intangible assets represent values attributed to existing contractual arrangements between AAM and the funds it manages (see note 11)

The result contributed by AAM and its subsidiaries in the period between the date of acquisition and the balance sheet date was a loss of £0 5 million before tax

If the acquisition had been completed on 1 January 2007, an aggregation of the Group's gross profit for the year and that of the acquiree would have been £960 6 million, and the profit before tax for the year on the same basis would have been unchanged at £392 5 million These figures include a deduction for the additional amortisation charge of £0 1 million that would have arisen had the acquisition taken place at that date

41. Acquisitions and disposals of consolidated funds

As described in note 1(b), the Group is in a position whereby it could control a number of its own funds in which it has seed capital investments These funds are consolidated unless they are designated as being held for sale During the year, a number of funds fell under the control of the Group and were consolidated as acquisitions Similarly, a number of funds ceased to be controlled by the Group in the year and were deconsolidated as they were either deemed to be disposals as a result of the dilution of the Group's existing holdings or the investments were sold

Net assets acquired on the acquisition of a controlled fund impact on the Group's balance sheet to the extent that the Group consolidates the net assets of the minority interests and records a non-equity minority interest creditor equal to this value The net assets acquired in the table below therefore represent those assets acquired attributable to minority interests

Net assets disposed of when a previously consolidated fund ceases to be controlled by the Group represent either the disposal for cash of an existing investment or the deemed disposal through dilution of those net assets formerly attributable to minority interests of the Group

Details of such assets and liabilities acquired and disposed of during the year are as follows

	Acquisitions £mn	Disposals £mn	Net £mn
Cash	2 8	(0 9)	1 9
Debt securities	6 9	(1 9)	5 0
Equities	28 7	(16 6)	12 1
Non-equity minority interests (see note 34)	38 4	(19 4)	19 0

The acquisitions give rise to an initial cash outflow representing the purchase of the investments Such cash flows are recorded within net purchases of/proceeds from current asset investments for the purposes of the Group's consolidated cash flow statement Disposals only have a related cash flow effect where the Group sells its investment in a fund Such cash flows are recorded within net purchases of/proceeds from current asset investments In the majority of cases, there will be a deemed disposal the Group will not sell its investment, but will cease to have control of a fund as a result of other investors' holdings exceeding that of the Group

Details of cash flows in the year arising from the acquisition and disposal of controlled funds are as follows

	£mn
Acquisitions of controlled funds	45 4
Disposals of controlled funds	(1 2)
Net purchase of controlled funds	44 2

The effect on the income statement of disposals of controlled funds is £nil in respect of retained profits

Schroders plc balance sheet

31 December 2007

	Notes	2007 £mn	2006 £mn
Non-current assets			
Investments in subsidiaries	47	2,585 0	2,585 0
Deferred tax	51	1 5	5 9
Retirement benefit scheme assets	5	42 5	16 8
		2,629 0	2,607 7
Current assets			
Financial assets	48	0 1	–
Trade and other receivables	49	45 7	75 1
Cash and cash equivalents	50	8 7	4 8
		54 5	79 9
Total assets		2,683 5	2,687 6
Equity			
Called-up share capital	57	294 5	293 9
Share premium account	57	58 1	36 4
Other reserves	59	1,350 7	1,334 5
Retained profits	60	855 0	670 4
Equity attributable to equity holders of the Company		2,558 3	2,335 2
Non-current liabilities			
Deferred tax	51	1 7	–
Trade and other payables	54	11 9	6 1
		13 6	6 1
Current liabilities			
Financial liabilities	52	–	0 4
Provisions	53	2 5	3 9
Trade and other payables	54	109 1	342 0
		111 6	346 3
Total equity and liabilities		2,683 5	2,687 6

Approved by the Board of Directors on 10 March 2008

Michael Dobson } Directors

Bruno Schroder

Schroders plc statement of recognised income and expense for the year ended 31 December 2007

	Notes	**2007 £mn**	2006 £mn
Actuarial gains on defined benefit pension scheme	60	6 6	5 6
Tax on items taken directly to equity	45(b), 60	(1 0)	0 7
Net income and expense recognised directly in equity		5 6	6 3
Profit/(loss) for the year		264 6	(20 6)
Total recognised income and expense for the year attributable to equity holders of the Company		270 2	(14 3)

Schroders plc cash flow statement

for the year ended 31 December 2007

		2007 £mn	2006 £mn
Operating profit/(loss)		273 6	(15 8)
Adjustments for:			
Decrease in trade and other receivables		62 7	1 1
(Decrease)/increase in trade and other payables		(234 4)	175 3
Decrease in financial liabilities		(0 4)	(3 9)
Increase in financial assets		(0 1)	-
Defined benefit scheme credit		(19 1)	(2 4)
Share-based payments expensed		2 0	2 8
Amounts received in respect of group tax relief		10 2	9 2
Interest paid		(14 5)	(8 5)
Interest received		1 7	1 6
Net cash from operating activities		81 7	159 4
Financing activities			
Proceeds from issue of share capital		28 7	27 8
Acquisition of own shares		(16 7)	(72 8)
Disposal of own shares		19 2	37 3
Disposal of ordinary share capital		(34 1)	(84 3)
Dividends paid		(74 9)	(63 4)
Net cash from financing		(77 8)	(155 4)
Net increase in cash and cash equivalents		3 9	4 0
Opening cash and cash equivalents		4 8	0 8
Net increase in cash and cash equivalents		3 9	4 0
Closing cash and cash equivalents	50	8 7	4 8

42. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 1985 As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards which comprise standards and interpretations approved by either the International Accounting Standards Board or the International Financial Reporting Interpretations Committee or their predecessors, which had been approved by the European Commission as at 31 December 2007

The financial statements have been prepared on the historical cost basis except for the measurement at fair value of financial assets and liabilities that are held at fair value through profit or loss This valuation is in accordance with IAS 39 Financial Instruments Recognition and Measurement The Company has taken advantage of the exemption in section 230 of the Act not to present its own income statement The principal accounting policies adopted are the same as those set out in note 1 'Summary of accounting policies' except as noted below

Investments in subsidiaries
Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment

43. Revenues and expenses

	2007 £mn	2006 £mn
Included in revenues		
Net gains/(losses) on financial assets and liabilities held at fair value through profit or loss	0 1	(0 1)
Net losses on foreign exchange	(0 1)	(0 4)
Included in administrative expenses		
Salaries and other remuneration	14 7	10 7
Social security costs	2 5	2 7
Other pension (income)/costs (see note 44)	(0 2)	6 0
Employee benefits expense	17 0	19 4

The average number of employees employed by the Company during the year was

	Average	
	2007 Number	2006 Number
Full-time employees	12	12

The auditors' remuneration for audit services to the Company was £0 6 million (2006 £0 3 million) Fees relating to further assurance services were £nil in the year (2006 £nil)

	2007 £mn	2006 £mn
Included in net finance income		
Interest receivable on loans to subsidiaries not at fair value through profit or loss	1 1	1 9
Bank interest receivable not at fair value through profit or loss	0 1	–
Other interest receivable on financial assets not at fair value through profit or loss	0 5	–
Interest receivable and similar income	1 7	1 9
Interest payable on loans from subsidiaries not at fair value through profit or loss	(14 5)	(13 1)
Interest payable on bank overdrafts	–	(0 1)
Other interest payable on financial liabilities not at fair value through profit or loss	(0 1)	–
Interest payable and similar charges	(14 6)	(13 2)

44 Retirement benefit obligations

The expense borne for pension costs represents the charge for the year in respect of the Schroders Retirement Benefits Scheme Full details of the Scheme can be found in note 5

Schroders plc Notes to the accounts
for the year ended 31 December 2007

45. Tax (income)/expense

(a) Analysis of tax credit in year

	2007 £mn	2006 £mn
Current tax		
Current income tax credit – group relief	(8 6)	(8 2)
Adjustments in respect of prior years – group relief	(0 2)	0 1
Total current tax	(8 8)	(8 1)
Deferred tax credit:		
Origination and reversal of temporary differences	5 0	1 9
Adjustments in respect of prior years	(0 6)	(0 3)
Effect of changes in UK corporation tax rate	0 3	–
Total tax credit for the year	(4 1)	(6 5)

(b) Analysis of charge/(credit) to equity

	2007 £mn	2006 £mn
Current income tax on Equity Compensation Plan and share option awards	(0 4)	(2 0)
Deferred tax on actuarial gains and losses on defined benefit pension scheme	2 0	1 7
Deferred tax on Equity Compensation Plan and share option awards – current year	(0 8)	(0 4)
Deferred tax effect of changes in UK corporation tax rate	0 2	
Tax charge/(credit) reported in equity	1 0	(0 7)

(c) Factors affecting tax credit for the year

The current tax credit for the year is lower (2006 lower) than the standard rate of corporation tax in the UK (30 per cent) The differences are explained below

	2007 £mn	2006 £mn
Profit/(loss) before tax	260 8	(27 1)
Profit/(loss) before tax multiplied by corporation tax at the UK standard rate of 30% (2006 30%)	78 2	(8 1)
Effects of		
Non taxable income net of disallowable expenses	(83 1)	1 8
Prior year adjustments	(0 7)	(0 2)
Movements in unrecognised deferred tax	(0 5)	–
UK tax on profits of overseas entities after double tax relief	1 7	–
Deferred tax adjustments in respect of changes in UK tax rate	0 3	–
Total tax credit for year	(4 1)	(6 5)

46. Dividends

Details of the Company's dividends paid and proposed for approval at Annual General Meeting can be found in note 8

47. Investments in subsidiaries

	£mn
At 1 January and 31 December 2007	2,585 0

48 Financial assets

	2007 Fair value through profit or loss £mn	2006 Fair value through profit or loss £mn
Forward foreign exchange contracts maturing in less than 1 year (see note 55)	0 1	–

49 Trade and other receivables

	2007 Current £mn	2006 Current £mn
Trade and other receivables held at amortised cost		
Loans and advances to subsidiaries	45 7	75 1

The carrying amount of the trade and other receivables approximates their fair value

50. Cash and cash equivalents

	2007 £mn	2006 £mn
Cash at bank and in hand	8 7	4 8

The book value of cash and cash equivalents approximates their fair value

51. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28 per cent , reflecting the rate expected to be applicable at the time the net deferred tax liability is realised (2006 30 per cent)

The movement on the net deferred tax account is as shown below

	2007 £mn	2006 £mn
At 1 January	5 9	8 8
Income statement expense	(4 4)	(1 6)
Charge taken to equity	(1 2)	(1 3)
Effect of changes in UK tax rates – income statement expense	(0 3)	–
Effect of changes in UK tax rates – taken to equity	(0 2)	–
At 31 December	(0 2)	5 9

(a) Deferred tax assets	Temporary differences including bonuses and pension costs £mn	Tax losses carried forward £mn	Total £mn
At 1 January 2007	4 7	1 2	5 9
Income statement credit/(expense)	(5 1)	0 3	(4 8)
Charge taken to equity	(1 3)	–	(1 3)
Transfer to deferred tax liabilities	1,7	–	1 7
At 31 December 2007	**–**	**1.5**	**1 5**
At 1 January 2006	9 0	2 4	11 4
Income statement expense	(0 5)	(1 4)	(1 9)
Charge taken to equity	(1 3)	–	(1 3)
Transfer from deferred tax liabilities	(2 6)	–	(2 6)
Prior year adjustments	0 1	0 2	0 3
At 31 December 2006	**4 7**	**1.2**	**5 9**

51. Deferred tax (continued)

(b) Deferred tax liabilities	Temporary differences including bonuses £mn	Total £mn
At 1 January 2007	–	–
Transfer from deferred tax assets	(1 7)	(1 7)
At 31 December 2007	**(1 7)**	**(1 7)**
At 1 January 2006	(2 6)	(2 6)
Transfer to deferred tax assets	2 6	2 6
At 31 December 2006	**–**	**–**

All of the deferred tax assets were available for offset against deferred tax liabilities The net deferred tax provision at 31 December 2007 was a liability £0 2 million (2006 asset £5 9 million)

52. Financial liabilities

	2007 Fair value through profit or loss £mn	2006 Fair value through profit or loss £mn
Forward foreign exchange contracts maturing less than 1 year (see note 55)	–	0 1
Debt securities in issue	–	0 3

53. Provisions

	Total £mn
At 1 January 2007	3 9
Provisions utilised	(1 4)
At 31 December 2007	2 5

The amount represents the balance of a provision in respect of matters covered by indemnification obligations under the terms of the sale of the investment banking business in 2000 Details are not given as the Directors feel that to do so may prejudice the Company The timing of resolution of legal claims is subject to uncertainty, but it is possible that those matters will have been resolved by 31 December 2008

54. Trade and other payables

	2007			2006		
	Current £mn	**Non-current £mn**	**Total £mn**	Current £mn	Non current £mn	Total £mn
Financial liabilities at amortised cost						
Social security	1 0	5 1	6 1	2 1	2 5	4 6
Accruals	8 9	6 8	15 7	6 8	3 6	10 4
Amounts owed to subsidiaries	98 9	–	98 9	333 1	–	333 1
Other liabilities	0 3	–	0 3	–	–	–
	109 1	**11 9**	**121 0**	342 0	6 1	348 1

The carrying amount of the financial liabilities at amortised cost approximates their fair value

	2007 £mn	2006 £mn
Maturing/repricing (whichever is earlier) in		
Less than one year	109 1	342 0
1 – 2 years	5 9	3 1
2 – 3 years	6 0	3 0
	11 9	6 1
	121 0	348 1

55. Derivative contracts

	2007			2006		
	Notional amount £mn	Assets £mn	Liabilities £mn	Notional amount £mn	Assets £mn	Liabilities £mn
Forward foreign exchange contracts maturing in less than 1 year	3 4	0 1	–	3 7	–	0 1

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, indices or foreign exchange rates relative to their terms The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time

The Company holds derivatives for risk management purposes only The Company does not hold derivatives for trading or other speculative purposes

The Company holds currency forwards which represent commitments to purchase foreign and domestic currency, including undelivered spot transactions The maximum exposure to credit risk is represented by the fair value of the contracts

The contracts are being used to hedge provisions that are held both at a Group level and within the Company These provisions are denominated in US dollars The carrying amounts of the Company's derivative contracts are denominated in US dollars

56. Financial instrument risk management

The risk management processes of the Company are aligned with those of the Group as a whole Details of the Group's risk management processes are outlined in 'Risk management and internal control' within the Governance section on page 41 and in note 28 The Company's specific risk exposures are explained below

Credit risk
The Company has exposure to credit risk from its normal activities where the risk is that a counterparty will be unable to pay in full amounts when due The Company's counterparties are predominately its subsidiaries and therefore there is no external credit risk exposure

The Company's cash and cash equivalents is invested in accounts with well-rated UK and overseas banks

Liquidity risk
Liquidity risk is the risk that the Company cannot meet its obligations as they fall due or can only do so at a cost The Group's liquidity policy is to maintain sufficient liquidity to cover any cash flow funding, meet all obligations as they fall due and maintain solvency The Group has investment capital which is invested in fixed income and money market portfolios Liquidity in these portfolios is monitored by the Group on a regular basis The Company manages its liquidity risk by utilising this surplus through intergroup loans when they are required to meet current liabilities

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates

The Company's interest rate risk is limited Assets and liabilities attracting interest rates are cash balances and intercompany loans, both of which are at floating rate, therefore outright interest rate risks arises mainly from the decision to allow a mismatch between the cash flows

At 31 December 2007, if Bank of England interest rates had been 200 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been £1 3 million lower/higher (2006 £3 9 million lower/higher), mainly as a result of higher/lower interest on intercompany loans and cash balances, other components of equity would have been unaffected

The following underlying assumption was made in the model used to calculate the effect on post-tax profits
- the fair values of assets and liabilities will not be affected by a change in interest rates

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates The Company's exposure to foreign exchange risk has been hedged using currency forwards as detailed in note 55

Pricing risk
Pricing risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices The Company has no exposure in this area

57. Share capital

Details of the Company's share capital can be found in note 30 to the accounts

58. Own shares

Employee trusts have been established for the purposes of satisfying certain share-based awards At 31 December 2007, the trusts held 4,367,479 (2006 6,610,454) non-voting ordinary shares costing £38 1 million (2006 £56 9 million), with a market value of £51 0 million (2006 £69 1 million) In addition, the trusts held 4,443,217 (2006 3,224,308) ordinary shares costing £46 4 million (2006 £32 6 million), with a market value of £57 9 million (2006 £36 0 million) Dividends on shares held by the trusts are waived

Movements during the year were as follows

	2007 £mn	2006 £mn
At 1 January 2007	(71 9)	(44 0)
Own shares purchased	(16 7)	(72 8)
Own shares disposed	30 2	44 9
At 31 December 2007	**(58 4)**	(71 9)

	2007			2006		
	Number of shares	**Cost £mn**	**Market value £mn**	Number of shares	Cost £mn	Market value £mn
Shares funded by employing companies	2,973 339	26 1	34 8	1,895,828	17 6	19 8
Own shares	5,837 357	58 4	74 1	7,938 934	71 9	85 3
	8,810,696	**84 5**	**108 9**	9,834,762	89 5	105 1

59. Other reserves

	Own shares held £mn	**Capital reserves £mn**	**Total £mn**
At 1 January 2007	(71 9)	1,406 4	1,334 5
Shares cancelled	–	2 7	2 7
Own shares purchased	(16 7)	–	(16 7)
Own shares disposed through sale to third parties	15 9	–	15 9
Transfers	14 3	–	14 3
At 31 December 2007	**(58 4)**	**1,409 1**	**1,350 7**

	Own shares held £mn	Capital reserves £mn	Total £mn
At 1 January 2006	(44 0)	1 401 2	1,357 2
Shares cancelled	–	5 2	5 2
Own shares purchased	(72 8)	–	(72 8)
Own shares disposed through sale to third parties	34 1	–	34 1
Transfers	10 8	–	10 8
At 31 December 2006	**(71 9)**	**1,406 4**	**1,334 5**

60 Retained profits reserve

	2007 £mn	2006 £mn
At 1 January	670 4	800 8
Profit/(loss) after tax	264 6	(20 6)
Dividends	(74 9)	(63 4)
Retained profit/(loss) for the year after dividends	189 7	(84 0)
Actuarial gains on defined benefit pension scheme	6 6	5 6
Tax on items taken directly to equity	(1 0)	0 7
Net income recognised directly in equity	5 6	6 3
Share-based payments	30 8	22 0
Cancellation of non voting ordinary shares	(30 4)	(61 4)
Net gains/(losses) on disposals of own shares	3 2	(2 5)
Transfers	(14 3)	(10 8)
At 31 December	855.0	670 4

61 Awards to employees of rights to share-based payments

Details of the Company's awards to employees of rights to share-based payments can be found in note 37

62. Related party transactions

(a) Transactions between related parties

Details of transactions between the Company and its subsidiaries, which are related parties of the Company, and transactions between the Company and other related parties, excluding compensation, are disclosed below

2007	Interest receivable £mn	Interest payable £mn	Expenses £mn	Amounts owed by related parties £mn	Amounts owed to related parties £mn
Subsidiaries of the Company	1 1	(14 5)	–	45 7	(98 9)
Key management personnel	–	–	(0 1)	–	(4 1)

2006	Interest receivable £mn	Interest payable £mn	Expenses £mn	Amounts owed by related parties £mn	Amounts owed to related parties £mn
Subsidiaries of the Company	1 9	(13 1)	–	41 9	(333 1)
Key management personnel	–	–	(0 3)	–	(0 9)

Transactions with related parties were made at market rates The amounts outstanding are unsecured and will be settled in cash No guarantees have been given or received No expense for bad or doubtful debts has been recognised in the year in respect of the amounts owed by related parties

(b) Key management personnel compensation

The remuneration of key management personnel during the year was as follows

	2007 £mn	2006 £mn
Short-term employee benefits	10 2	8 6
Post-employment benefits	0 1	0 2
Other long-term benefits	2 9	2 7
Share-based payments	4 2	4 2
	17 4	15 7

The remuneration policy is described in more detail in the remuneration report on pages 27 and 28

63. 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 Company 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, private banking or private equity or are holding companies

England
New Finance Capital LLP
NewFinance Capital Partners Limited
Schroder Administration Limited*
Schroder & Co Limited
Schroder Financial Services Limited
Schroder International Holdings Limited
Schroder Investment Company Limited
Schroder Investment Management Limited
Schroder Investment Management North America Limited
Schroder Investments Limited
Schroder Property Investment Management Limited
Schroder Unit Trusts Limited
Schroder Pension Management Limited
Leadenhall Securities Corporation Limited
Schroder Middle East Limited
Schroder Ventures Holdings Limited
Schroder Ventures Investment Company Limited

Argentina
Schroder Investment Management S A

Australia
Schroders Australia Holdings Pty Limited
Preference shares

Bermuda
Schroder Finance (Bermuda) Limited
Schroder International Holdings (Bermuda) Limited
Schroder Venture Managers Inc
Schroders (Bermuda) Limited
Schroder Investments (Bermuda) Limited

Brazil
Schroder Investment Management Brazil DTVM S A

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

Denmark
Schroder Investment Management Fondsmaeglerselskab A/S

Germany
Schroder Investment Management GmbH
Schroder Property Investment Management GmbH

Hong Kong SAR
Schroder Investment Management (Hong Kong) Limited
Preference shares

Indonesia
PT Schroder Investment Management Indonesia – 99 0 per cent

Italy
Schroders Italy SIM S p A

Japan
Schroder Investment Management (Japan) Limited

Korea
Schroders Korea Limited

Luxembourg
Schroder Investment Management (Luxembourg) S A

Mexico
Schroder Investment Management, S A
de c v Sociedad Operadora de Sociedadas de Inversion

Netherlands
Schroder International Finance B V
Schroder Investment Management Benelux N V

Singapore
Schroder Investment Management (Singapore) Limited
Schroder Investments (Singapore) Pte Limited
Schroder Capital Investments (Singapore) Limited

Switzerland
Schroder & Co Bank AG

United States of America
Internet Finance Partners L P – 68 3 per cent
Schroder Investment Management North America Inc
Schroder US Holdings Inc

A full list of subsidiary undertakings, joint ventures and associates will be annexed to the next annual return of Schroders plc to be filed with the Registrar of companies

* Held directly by the Company

Five-year consolidated financial summary

	Prepared under IFRS				Prepared under UK GAAP[6]	
	2007	2006	2005	2004	2004	2003[4]
	£mn	£mn	£mn	£mn	£mn	£mn
Profit before tax	392 5	290 0	250 7	211 6	191 0	65 0
Tax	(88 8)	(68 1)	(57 4)	(40 3)	(41 4)	(16 4)
Profit after tax before minority interests	303 7	221 9	193 3	171 3	149 6	48 6
Minority interests	(4 0)	(0 6)	(2 0)	(15 6)	(15 6)	–
Profit for the year	299 7	221 3	191 3	155 7	134 0	48 6

	Prepared under IFRS				Prepared under UK GAAP[6]	
	2007	2006	2005	2004	2004	2003[4]
Earnings per share	**Pence**	Pence	Pence	Pence	Pence	Pence
Basic earnings per share[1]	104 8	76 9	65 7	53 5	46 0	16 5
Diluted earnings per share[1]	103 2	75 7	65 1	53 1	45 7	16 4

	Prepared under IFRS				Prepared under UK GAAP[6]	
Dividends	**2007**	2006	2005	2004	2004	2003
Cost (£mn)	74 9	63 4	59 5	56 4	57 8	53 7
Pence per share[2]	26 5	22 0	20 5	19 5	20 0	18 5
Total equity (£mn)	1,696 2	1 443 6	1 343 1	1,130 6	1 114 1	1 029 2
Net assets per share (pence)[3]	576	491	450	381	375	350

Group employees at year end						
31 December	**2007[5]**	2006[5]	2005[5]	2004[5]	2004[5]	2003
	Number	Number	Number	Number	Number	Number
Europe	2,000	1,865	1,796	1 675	1,675	1,571
Americas	257	225	205	181	181	164
Asia Pacific	634	585	538	515	515	485
	2,891	2 675	2 539	2 371	2,371	2,220

[1] See note 9 for the basis of this calculation
[2] Dividends per share are those amounts approved by the shareholders to be paid within the year on a per share basis to the shareholders on the register at the specified dates
[3] Net assets per share are calculated by using the actual number of shares in issue at the balance sheet date (see note 30)
[4] Restated post adoption of UITF Abstract 38 under UK GAAP
[5] In contrast to prior years, headcount is stated including short-term temporary staff and without netting off known future redundancies
[6] The main adjustments necessary that would make this information comply with IFRS are those concerned with the measurement of share-based payments, dividends, leases employee benefits, intangible assets (including goodwill), revenue and non-current assets classified as being held for sale

Exchange rates					
31 December	**2007**	2006	2005	2004	2003
Sterling					
Euro	1 36	1 48	1 45	1 42	1 42
US dollar	1 99	1 96	1 72	1 93	1 79
Swiss franc	2 25	2 39	2 26	2 19	2 21
Australian dollar	2 27	2 48	2 35	2 48	2 38
Hong Kong dollar	15 52	15 22	13 36	15 01	13 86
Japanese yen	222 38	233 20	202 39	197 87	190 86
Singaporean dollar	2 87	3 00	2 86	3 15	3 03

Notice of Annual General Meeting

Important information

This notice of meeting contains important information and requires your attention If you are in any doubt as to what action to take you should consult with an appropriate adviser

Notice is hereby given that the 2008 Annual General Meeting of Schroders plc will be held at 31 Gresham Street, London EC2V 7QA on Thursday, 24 April 2008 at 11 30 a m to transact the following business

Resolutions

To consider and, if thought fit, to pass resolutions numbered 1 to 15 as Ordinary Resolutions (requiring a majority of more than 50 per cent) and resolutions 16 and 17 as Special Resolutions (requiring a majority of not less than 75 per cent)

In the opinion of the Directors, all of the resolutions proposed are in the best interests of shareholders and consequently the Directors recommend that shareholders vote in favour of each resolution

Report and Accounts

1 That the Directors' report and the Accounts of the Company for the year ended 31 December 2007 be received and adopted

For each financial year the Directors are required to present the Directors' report and the Accounts of the Company for adoption by shareholders Accordingly, the Report and Accounts for the year ended 31 December 2007 are now presented and proposed for adoption

Final dividend

2 That a final dividend of 21 0 pence per share on the ordinary shares and on the non-voting ordinary shares as recommended by the Directors be declared payable on 30 April 2008 to shareholders on the register on 14 March 2008

The payment of the final dividend of 21 0 pence per share in respect of the year ended 31 December 2007, which is recommended by the Board, requires the approval of shareholders in general meeting

Remuneration report

3 That the remuneration report for the year ended 31 December 2007 be approved

Under section 234B of the Companies Act 1985 (as amended), the Directors must prepare an annual report detailing the remuneration of the Directors and the Company's remuneration policy for Directors The Act also requires that a resolution be put to shareholders each year for their approval of that report The Directors' remuneration report can be found on pages 27 to 37 This notice therefore contains a resolution to approve the remuneration report for the year ended 31 December 2007 The result of this resolution is advisory only

Re-election of Directors no later than the third Annual General Meeting following last election or re-election (resolutions 4 to 8)

4 That Michael Dobson, who retires in accordance with Article 87, be re-elected as a Director of the Company

5 That Jonathan Asquith, who retires in accordance with Article 87, be re-elected as a Director of the Company

6 That Massimo Tosato, who retires in accordance with Article 87, be re-elected as a Director of the Company

7 That Andrew Beeson, who retires in accordance with Article 87, be re-elected as a Director of the Company

8 That Sir Peter Job, who retires in accordance with Article 87, be re-elected as a Director of the Company

Under Article 87 of the Company's Articles of Association, Directors must retire and may offer themselves for re-election not later than the third Annual General Meeting following his or her election or last re-election to the Board Michael Dobson, Jonathan Asquith, Massimo Tosato, Andrew Beeson and Sir Peter Job are retiring from office under this Article and offer themselves for re-election A profile of each Director is contained on pages 20 and 21 The Board supports the re-election of these Directors

Re-election of Directors having served more than nine years on the Board (resolutions 9 and 10)

9 That George Mallinckrodt, who retires having served more than nine years as a Director, be re-elected as a Director of the Company

10 That Bruno Schroder, who retires having served more than nine years as a Director, be re-elected as a Director of the Company

In accordance with the Company's Corporate Governance Guidelines, which reflect the provisions of the Combined Code on Corporate Governance, non-executive Directors must retire and may offer themselves for re-election annually once they have served nine or more years on the board This applies to George Mallinckrodt and Bruno Schroder and they each offer themselves for re-election A profile of each Director is contained on page 21 The Board supports the re election of George Mallinckrodt in view of his many years' of international business experience The Board also believes that it is appropriate for Bruno Schroder, as the representative of the Company's principal shareholder group, to be re-elected

The Chairman confirms that, following the completion of the Board performance evaluation process for 2007, the performance of each of the Directors standing for re-election continues to be effective and demonstrates commitment to his respective role Accordingly, the re-election of each of these Directors is recommended

Auditors (resolutions 11 and 12)

11 That PricewaterhouseCoopers LLP be reappointed as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company in accordance with section 241 of the Companies Act 1985

12 That the Directors be authorised to fix the remuneration of PricewaterhouseCoopers LLP as auditors of the Company

The Company's auditors must offer themselves for reappointment at each Annual General Meeting at which accounts are presented Accordingly, the Board, on the recommendation of the Audit Committee, proposes the reappointment of PricewaterhouseCoopers LLP as the Company's auditors Resolution 12 authorises the Directors to agree the remuneration of PricewaterhouseCoopers LLP for their services as auditors

Authority to allot shares

13 That the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities up to an aggregate nominal amount of £5,000,000, which authority shall expire on 1 May 2009 or at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (whichever is earlier) (unless previously revoked or varied by the Company in general meeting), save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may

allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired For the purposes of this authority, the expression 'relevant securities' shall mean relevant securities as defined in section 80 of the Companies Act 1985 (as amended), but shall not in any circumstances include ordinary shares (as defined in the Company's Articles of Association) or any right to subscribe for, or to convert any security into, ordinary shares

Under the Companies Act, the Directors may not allot unissued shares in the Company without the authority of shareholders in general meeting, except for the issue of shares under the Company's share or share option plans If approved by shareholders, this resolution would renew the authority given by shareholders at the 2007 Annual General Meeting and permit the Directors to issue non-voting ordinary shares or rights to subscribe for, or convert securities into, non-voting ordinary shares up to an aggregate nominal amount of £5,000,000 The authority would not permit the Directors to issue ordinary shares or to grant rights to subscribe for, or convert securities into, ordinary shares The maximum amount of the authority is equal to approximately 1 7 per cent of the Company's total issued share capital and approximately 7 5 per cent of its issued non voting ordinary share capital, in each case as at 10 March, being the latest practicable date prior to the publication of this document The Company does not currently hold any shares in treasury

The authority given in this resolution would expire on the earlier of 1 May 2009 and the conclusion of the next Annual General Meeting of the Company Except for the issue of non-voting ordinary shares under the Company's share or share option plans, the Directors do not presently intend to allot any unissued shares The Directors do, however, consider that it would be appropriate to have the flexibility to make limited issues of non-voting ordinary shares or to grant rights to subscribe for, or convert securities into, non-voting ordinary shares This flexibility could be required, for example, should the Company wish to use non-voting ordinary shares as consideration for possible acquisitions

Political donations and expenditure

14 That pursuant to section 366 of the Companies Act 2006 the Company and all companies that are subsidiaries of it at any time during the period for which this resolution shall have effect be and are hereby authorised to

(a) make political donations to political parties or independent election candidates not exceeding £50,000 in total,

(b) make political donations to political organisations other than political parties not exceeding £50,000 in total, and

(c) incur political expenditure not exceeding £50,000 in total,

provided that the aggregate amount of any such donations and expenditure shall not exceed £50,000 during the period beginning with the date of the passing of this resolution and ending on 24 April 2012 or, if sooner, at the conclusion of the Annual General Meeting of the Company to be held in 2012

For the purpose of this resolution the terms 'political donations', 'independent election candidates', 'political organisations' and 'political expenditure' have the meanings set out in sections 363 to 365 of the Companies Act 2006

These resolutions concern Part 14 of the Companies Act 2006 (the 'Act') The authorities granted in 2004 under equivalent provisions of the Companies Act 1985 expire shortly before the 2008 Annual General Meeting Any donations to political organisations in excess of an aggregate of £5,000 or any political expenditure by the Company and its 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 do not intend to do so in the current one, the resolutions are intended to authorise normal expenditure which, in view of the wider definitions under Part 14 of the Act, 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 Companies Act 1985 or the Act

Equity Compensation Plan

15 That the proposed amendments to the Schroders Equity Compensation Plan 2000 marked on the copy of the rules of the Plan initialled by the Chairman for the purposes of identification be approved and the Directors be authorised to do all such things as are necessary to carry them into effect

This resolution seeks shareholders' approval to a change in the Company's Equity Compensation Plan 2000 (the 'ECP') and to the terms of existing unexercised awards The ECP was approved by shareholders at an extraordinary general meeting held on 30 November 2000 following the disposal of the Group's investment banking business More details about the ECP can be found in the Remuneration Report on page 30

Currently, subject to continued employment, awards under the ECP over the Company's shares may normally be exercised between three and ten years after grant Entitlement to the full award arises on the fifth anniversary As there is neither any addition to the original award after the fifth anniversary (see page 30 of the remuneration report) nor any entitlement to dividends, there is a disincentive for employees to retain shares in the ECP after that date It is therefore proposed that each award should be adjusted to reflect the value of dividends paid on shares during the period starting with the fifth anniversary and ending on the date of exercise The Directors believe the proposed change, which is in accordance with the guidelines of the Association of British Insurers, will better align participants' interests with those of shareholders and encourage longer term share ownership by employees This proposed change, if approved, is not expected to result in any material additional cost to the Company

The adjustment will be made by assuming that the dividends and the associated tax credits paid on shares on and after the date this resolution is passed have been reinvested in purchasing additional shares at or about each dividend payment date and adding such shares to the award (as adjusted) If the Remuneration Committee so decides it may on exercise of an award pay the participant the cash equivalent of the additional shares

Notice of Annual General Meeting

Authority to purchase own shares

16 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 14,650,000 Shares,

(b) in the case of purchases made otherwise than by tender offer, the maximum price, exclusive of expenses, at which Shares may be purchased is the higher of

(i) 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, and

(ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange at the time the purchase is carried out,

(c) in the case of a tender offer, the maximum price, exclusive of expenses, 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 on which the tender offer is announced,

(d) the minimum price at which Shares may be purchased is £1 per share, exclusive of expenses, and

(e) 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 which would or might be completed or executed wholly or partly after its expiry and may make a purchase of Shares in pursuance of any such contract

If passed, this resolution would renew the Company's general authority to make purchases of its non-voting ordinary shares This authority relates to 14,650,000 shares, representing approximately 5 per cent of the Company's total issued share capital and 21 8 per cent of its 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) market purchases by tender offer to all shareholders

Since the previous authority was renewed at the last Annual General Meeting on 24 April 2007, 2,517,561 non-voting ordinary shares have been purchased and cancelled at a total cost of £25,612,125 As at the date of this notice of meeting there were 7,141,915 options outstanding over non-voting ordinary shares This represented 2 4 per cent of the total issued share capital and 10 6 per cent of the issued non-voting ordinary share capital at that date and would represent 2 6 per cent of the total issued share capital and 13 6 per cent of the issued non-voting ordinary share capital if the Company were to purchase the maximum number of shares allowed under this general authority

In recent years, this authority has been used with a view to maintaining the ratio of ordinary shares to non-voting ordinary shares over the medium term, taking into account the issue of non-voting ordinary shares under the Company's share or share option plans This policy was extended in 2007 to take into account the issue of any non-voting ordinary shares pursuant to the authority contained in resolution 13 In addition, purchases may also be undertaken at the Directors' discretion, where they consider them to be otherwise appropriate Purchases under this authority 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, and 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) If the Company were to purchase any non-voting ordinary shares pursuant to this authority, the Directors would consider whether to cancel those shares or (subject to the limits allowed by company law) hold them as treasury shares

Amendments to Articles of Association

17 That the Articles of Association of the Company be amended by the adoption of the amendments to Articles 7, 8, 57, 60, 65, 67, 75, 78, 79, 97, 108, 130, 134, 140, 142 and 144, the deletion of Articles 3, 49, 50, 51, 53, 56, 72, 99, 133 and 143, and the adoption of new Articles 92, 93, 94, 95, 96 and 140, together with consequential re-numbering and cross-referencing amendments, highlighted in the revised print of the Articles of Association initialled by the Chairman for the purposes of identification

The Company's Articles of Association were adopted in 2000 and last amended in April 2007 It is proposed to amend the Articles of Association primarily to take account of changes in company law brought about by the provisions of the Act As the Act is being implemented in stages, it is likely that the Company will need to propose further amendments to the Articles of Association at the 2009 Annual General Meeting in order to take account of the changes in the law that are expected to come into force on 1 October 2009

The principal changes in the Articles of Association are described below References below to Article numbers are, except where stated, to the relevant Article in the current Articles Certain other changes of a minor, technical or clarifying nature and also some minor changes that merely reflect changes made by the Act are not noted below as they are not considered material A copy of the amended Articles of Association, showing all of the changes proposed, is available for inspection, as noted on page 108

Form of resolution
It is proposed to delete Article 3 in its entirety as the concept of extraordinary resolutions has not been retained under the Act and public companies can no longer pass written resolutions As the remainder of the provision is reflected in full in the Act, the Article can be removed in its entirety References to extraordinary resolutions in Articles 7, 8, 56 and 65 are also being removed or amended

Convening of meetings
It is proposed to delete Articles 49, 50, 51 and 53, which deal with the convening of general meetings and the length of notice required, in their entirety as the relevant matters covered by these Articles are provided for in the Act In particular an extraordinary general meeting to consider a special resolution can now be convened on 14 days' notice whereas previously 21 days' notice was required

The opportunity has also been taken to remove the distinction between special and ordinary business by the deletion of Article 56

Votes of members
Under the Act, proxies are now entitled to vote on a show of hands whereas under the current Articles proxies of individual members are only entitled to vote on a poll Under the Act, multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder Articles 57, 67, 72, 75 and 78 have been amended to reflect these new provisions

Indemnification of directors
Articles 97 and 144 were amended in 2007 (when the relevant provisions of the Act were not yet in force) to reflect the fact that the Act has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors It is now proposed to make some further amendments to Articles 97 and 144 to refer more generally to the relevant provisions and also to make clear that the receipt of an indemnity or the provision of Directors' and officers' liability insurance are permitted benefits The indemnities given to Directors and the Company Secretary following the Company's Annual General Meeting in 2007 will be unaffected by these changes

Conflicts of interest
It is proposed to delete Article 99 and add new Articles 92, 93, 94, 95, and 96 to reflect new provisions in the Act regarding conflicts of interest The Act sets out Directors' general duties and largely codify the existing law, but with some changes From 1 October 2008 a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests The requirement is very broad and could apply, for example, if a Director becomes a Director of another company or a trustee of another organisation The Act allows Directors of public companies to authorise conflicts and potential conflicts where the Articles of Association contain a provision to this effect It is therefore proposed that the Articles of Association give the Directors explicit authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position

The Company already has processes for dealing with potential and actual conflicts These safeguards will continue to apply when Directors decide whether to authorise a conflict or potential conflict First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate

It is also proposed that the Articles of Association should contain provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director from being in breach of duty if a conflict of interest or potential conflict of interest arises These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors The Board will report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed

Notice of Board meetings
Under the Company's Articles of Association, when a Director is abroad he can request that notice of Directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away It is proposed to remove this provision from Article 108, as modern communications methods mean that there are no particular obstacle to giving notice to a Director who is abroad

Records to be kept
The provisions in Article 133 requiring the Board to keep accounting records and the provision in Article 134 stating where these records are to be kept can be removed as these requirements are now contained in the Act

Email and web communications
Article 140 currently provides that any notice or document sent by the Company using electronic communications is treated as having been received on the day after the day on which it was sent The Article also provides that a notice or other document placed on the Company's website is treated as having been received on the day after the day on which a notice of availability was sent It is proposed to amend these provisions in order to conform them with current best practice guidance from the Institute of Chartered Secretaries and Administrators Under the amended Article, where a notice or document is sent by email, the email is deemed to be delivered on the day that it is sent The amended Article also provides that where a notice or document is sent or supplied by means of a website it is treated as having been received by the intended recipient (a) when the material was first made available on the website, or (b) if later, when the recipient received (or is treated as having received) notice of the fact that the material was available on the website

Governing law
It is also proposed to amend the Articles by inserting an express provision that the governing law applicable to the Articles is English law

Proxy forms
A proxy form is enclosed to enable shareholders unable to attend the meeting to cast their votes at the Annual General Meeting by post or online, or by appointing someone else to attend, speak and vote on their behalf

By Order of the Board

Graham Staples
Company Secretary
Registered office
31 Gresham Street
London EC2V 7QA

10 March 2008

Notice of Annual General Meeting

Notes

1 Ordinary shareholders entitled to attend and vote at the meeting are entitled to appoint a proxy to exercise all or any of their rights to attend and to vote on their behalf at the meeting An ordinary shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder A proxy need not be a shareholder of the Company A proxy form for ordinary shareholders which may be used to make such appointment and give proxy instructions accompanies this notice Non-voting ordinary shareholders have no right to attend or vote at the Annual General Meeting

2 To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the Company's registrar Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZL no later than 48 hours before the time fixed for the meeting

3 Ordinary shareholders who prefer to register the appointment of their proxy electronically via the internet can do so at www shareview 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 ordinary shareholders who have already registered with Equiniti s Shareview service 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 email address other than those provided or if received after 11 30 a m on 22 April 2008 Any communication found to contain a computer virus will not be accepted

4 The return of a completed proxy form other such instrument or any CREST Proxy Instruction (as described in paragraph 10 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so

5 Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting If a Nominated Person has no such proxy appointment right or does not wish to exercise it he/she may under any such agreement have a right to give instructions to the shareholder as to the exercise of voting rights

6 The statement of the rights of ordinary shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons The rights described in these paragraphs can only be exercised by ordinary shareholders of the Company

7 To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast) ordinary shareholders must be registered in the Register of Members of the Company at 6 00 p m on 22 April 2008 (or in the event of any adjournment 6 00 p m on the date which is two days before the time of the adjourned meeting) Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting

8 As at 10 March 2008 (being the last business day prior to the publication of this Notice) the Company s issued share capital consists of 226 022 400 ordinary shares carrying one vote each and 67 075 921 non voting ordinary shares in issue No shares are held in treasury Therefore, the total voting rights in the Company as at 10 March 2008 are 226 022,400

9 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so 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 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

10 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 Euroclear s specifications, and must contain the information required for such instruction as described in the CREST Manual The message, regardless of whether it constitutes the appointment of a proxy or is 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 11 30 a m on 22 April 2008 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 Application 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

11 CREST members and, where applicable their CREST sponsors, or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message 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 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 system providers are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings

12 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

13 In order to facilitate voting by corporate representatives at the meeting arrangements will be put in place at the meeting so that

(i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions and

(ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative a designated corporate representative will be nominated, from those corporate representatives who attend who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www icsa org uk) for further details of this procedure The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above

14 Profiles of each of the Directors offering themselves for election or re-election are on pages 20 and 21 of this report The profiles include where appropriate, membership of Board Committees

15 The following documents are available for inspection at the Company's registered office during normal business hours on weekdays and will be available for inspection at least 15 minutes prior to and during the meeting Articles of Association proposed amendments to the Articles of Association (see resolution 17) and Directors' service contracts or letters of appointment

16 In the event that you have sold or transferred your shares in the Company, you should pass this Annual Report and Accounts to the person through whom the sale or transfer was made for transmission to the purchaser or transferee

Shareholder information

Schroders plc
Registered in England and Wales
Company No 3909886

Registered office
Schroders plc
31 Gresham Street
London EC2V 7QA
Tel +44 (0)20 7658 6000
Fax +44 (0)20 7658 3977
www schroders com

Company Secretary
Graham Staples
Schroders plc
31 Gresham Street
London EC2V 7QA
Tel +44 (0)20 7658 6000
Fax +44 (0)20 7658 6965
Email company secretary@schroders com

Financial calendar

Ex-dividend date	12 March 2008
Record date	14 March 2008
Annual General Meeting	24 April 2008
Final dividend payment date	30 April 2008
Interim Management Statement	29 April 2008
Interim results announcement	8 Aug 2008
Interim dividend paid	Sept 2008*
Interim Management Statement	Oct 2008*

* Dates to be confirmed

Investor information
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

The Company's governance reports, corporate governance guidelines, the terms of reference of the Board Committees and our results' presentations can be found at www schroders com

Registrar
Equiniti
(formerly Lloyds TSB Registrars)
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA

UK shareholder helpline
Freephone 0800 169 1199
International shareholder helpline
+44 121 415 7192
Fax +44 (0)871 384 2100

Equiniti is the new name for the business that manages the Schroders share register, following the sale of Lloyds TSB Registrars You will receive information about your shares from Equiniti However, you do not need to take any action as a result of this change and you will continue to be able to manage your shareholdings at Equiniti's Shareview website www shareview co uk Shareholders can access their shareholdings, including balance movements, indicative share prices, information on recent dividends and portfolio valuation, and update their details at www shareview co uk

Shareholder documents such as the annual report are available electronically on the Company's website or by email This has the advantage of reducing the cost to the environment of printing and enables shareholders to access such documents more quickly If you would like to receive a notification by email that such documents are available on the website, you should register your email address at www shareview co uk If you wish to receive hard copies of shareholder documents, please write to the Registrar

In addition, shareholders can register the appointment of their proxy electronically via the internet 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 when registering online

Dealing services
Shareview Dealing is a shareholder service offered by the Registrar It is a simple way to buy or sell shares via the internet or telephone with quick settlement For further information visit www shareview co uk/dealing or call 08456 037 037

JPMorgan Cazenove Ltd, the Company's broker, also operates a postal dealing service in the Company's shares Further information is available from
JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA
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Sharegift
If you only have a small number of shares whose value makes them uneconomic to sell, you may wish to consider donating to charity through Sharegift, an independent charity share donation scheme For further information, please contact either the Registrar or Sharegift on +44 (0)20 7337 0501, or see the website at www sharegift org

Shareholder information

Share information

Both the ordinary shares and the non-voting ordinary shares are listed on the London Stock Exchange

	ISIN Number	SEDOL Number	EPIC Code
Ordinary shares	GB0002405495	0240549	SDR
Non-voting ordinary shares	GB0002395811	0239581	SDRC

Share price information can be found on the website at www schroders com, in newspapers such as The Financial Times and The Times or through your broker The Financial Times Cityline service (telephone 0906 843 0000) also provides FTSE updates and share price information with calls charged at 60p per minute When you dial this number you will be asked to input a four-digit code for the relevant share class

Ordinary shares	3939
Non-voting ordinary shares	3941

Dividend mandates

We recommend that all dividend payments are made directly into a bank or building society account This provides tighter security and access to funds more quickly To apply for a dividend mandate contact the Registrar or call the shareholder helpline on 0800 169 1199

Dividend reinvestment plan

The Company operates a Dividend Reinvestment Plan ('DRIP') which provides shareholders with a cost efficient way of increasing their shareholding in the Company by reinvesting their dividends If you have not already signed up for this service and wish to do so in respect of the April 2008 dividend, you should send your DRIP application to the Registrar, to be received by 9 April 2008 For a copy of the DRIP information pack and application form please contact the Registrars on 0871 384 2268 (Calls to this number are charged at 8p per minute from a BT landline, other telephone providers may vary)

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 our Registrar

Overseas dividend mandates

Schroders offers a service to our overseas shareholders in participating countries which enables shareholders to receive their dividends in local currencies If you are eligible, and have not yet taken advantage of this mandating process, you should already have received a letter informing you of this and a mandate form You can check your eligibility and/or request a mandate form if applicable via the shareholder helpline on 0800 169 1199

Identity theft – protecting your investments

There is a growing trend for criminals to target personal information which may put your shareholding at risk In order to protect yourself, you should consider the following precautions

- Ensure all your certificates are kept in a safe place or hold your shares electronically in CREST via a nominee company,
- Keep any correspondence from the Registrar containing your shareholder reference number in a safe place, or destroy this information by shredding it Shareholders who have their dividends mandated to their bank accounts should take particular care with the tax vouchers as these contain details of their bank account number and sort code,
- If you move house, please inform the Registrar If you receive a letter from the Registrar regarding a change of address and you have not moved house, please contact the Registrar immediately You may be a victim of identity theft, and
- Ensure that you know when your dividends are being paid If you have not already arranged to do this, you should consider having your dividends paid directly into your bank account to reduce the risk of your dividend cheque being intercepted or lost in the post

Capital Gains Tax

Capital gains tax values at 31 March 1982 and values relating to the disposal of the investment banking business in 2000 can be found at www schroders com or can be obtained from the Company Secretary at the registered office

Glossary

Term	
Above benchmark	In respect of Retail funds, defined as being in the 1st or 2nd quartile versus our peer group In respect of institutional funds the comparator is defined as the contractually agreed target return
Active asset management	The management of assets with the objective of achieving returns over and above those normally associated with a given level of risk
Asset Management cost gross profit	Total Asset Management costs divided by Asset Management gross profit
Asset Management costs on average funds under management	Asset Management costs divided by Asset Management average funds under management
Assets under management ('AUM')	The total value of financial assets under the management of the Group
Basis points ('bps')	One one-hundredth of a percentage point (0 01%)
Compensation costs	Total employee benefits expense
ECP	Equity Compensation Plan
Funds under management ('FUM')	The aggregate value of funds managed on behalf of clients In Private Banking this also includes assets held in custody where execution-only services are provided
Gross profit	Revenue less cost of sales
Gross profit margins	Asset Management plus Private Banking gross profit divided by total average funds under management
High-yield instruments	Instruments such as stocks or bonds that pay a high rate of income, including dividends or coupons, in comparison to their price
IAS	International Accounting Standard(s)
IFRS	International Financial Reporting Standard(s)
Income	The sum of • gross profit, • net finance income, • share of profit of associates and joint ventures
Instividual	A member of a group of individual investors who, collectively, seek and/or are offered products and terms of business traditionally associated with institutions
Mutual funds	Collective investments where a group of investors pool their money (buying shares or a portion of the mutual fund) with a predetermined investment objective
Operating revenues	Gross profit for the Asset Management and Private Banking business segments
QDII ('Qualified Domestic Institutional Investors') status	The status required by a financial institution in order to be able to invest in foreign-based securities
QFII ('Qualified Foreign Institutional Investors') status	The status required by a foreign investor in order to be able to purchase 'A' shares in entities listed on the Shanghai Stock Exchange
Rights to shares	The entitlements of employees, including executive Directors, to Company shares until vesting conditions have been satisfied and the awards exercised
Total costs operating revenues ratio	Total Group costs divided by operating revenues
Total compensation cost to operating revenues ratio	Compensation costs divided by operating revenues

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