Schroders plc
Annual Report
and Accounts 2014

Schroders

About us

At Schroders, asset management is our only business and our goals are completely aligned with those of our clients – the creation of long-term value to assist them in meeting their future financial requirements.

We manage £300.0 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 active strategies across equities, fixed income, multi-asset, alternatives and real estate.

We employ more than 3,500 talented people worldwide operating from 37 offices in 27 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 drives our approach to investing, building client relationships and growing our business.

Highlights

Assets under management

£300.0bn

(2013: £262.9 billion)

Net new business

£24.8bn

(2013: £7.9 billion)

Profit before tax and exceptional items*

£565.2m

(2013: £507.8 million)

Profit before tax

£517.1m

(2013: £447.5 million)

Shareholders' equity

£2.5bn

(2013: £2.3 billion)

Basic earnings per share

152.7p

(2013: 130.6 pence)

Total dividend per share

78.0p

(2013: 58.0 pence)

* See note 1(c) on page 94 for details of exceptional items.

Cover image
This has been taken from a Schroders marketing campaign that denotes our trusted heritage and advanced thinking.

Annual General Meeting
Our Annual General Meeting will be held at 11.30 a.m. on 30 April 2015 at 31 Gresham Street, London EC2V 7QA.

Dividend
The Board is recommending a final dividend of 54.0 pence, payable on 6 May 2015. This brings the total dividend payable for the year to 78.0 pence.

Contents

Strategic report

These sections, along with our Financial review contained within the Financial report section (pages 81 to 91), form our Strategic report.

Overview

An overview of our business and a statement from our Chairman.

Strategy

The Chief Executive's statement; the developments in our markets; and our strategy and business model.

Business review

Our operating review; our approach to risk management and the key risks we face; and corporate responsibility.

Governance

The responsibilities of the Board, the Group Management Committee and the Company Secretary; and our approach to governance and remuneration.

Financial report

The Financial review is presented alongside the related financial statements and notes to the financial statements.

Shareholder information

Further shareholder information, including a glossary of terms used throughout this report and a five-year financial summary.

You can find more information about Schroders on our website www.schroders.com/ir or by downloading our investor relations app.

Available on the App Store

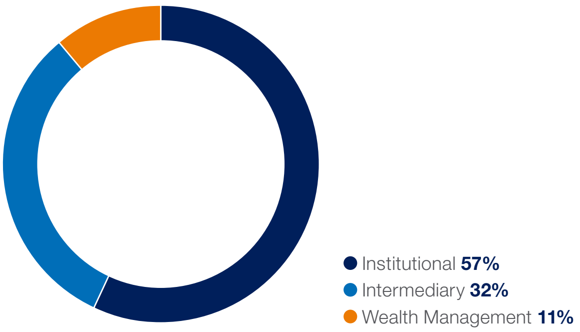
We have built a diversified business across client channels, asset classes and regions.

We are diverse by:

Clients

We manage assets on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world. No single client accounts for more than two per cent. of revenues.

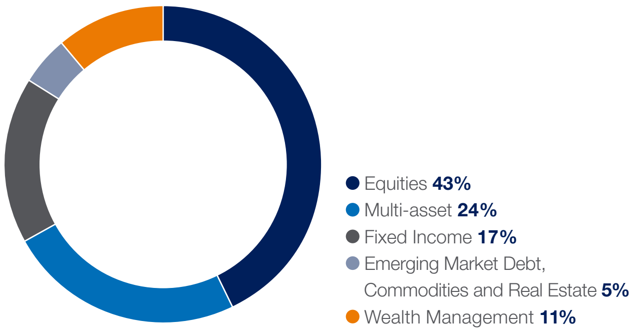
Assets under management



Assets

We invest in a broad range of asset classes across equities, fixed income, multi-asset and emerging market debt, commodities and real estate. In addition to institutional segregated mandates, we manage over 580 funds in 19 countries.

Assets under management



A long-term focus

Creating enduring client relationships
We seek to build long-term relationships with our clients and to gain a deep understanding of their investment objectives.

Investing in innovation
We develop investment products and solutions to meet the changing needs of our clients. We also invest our own capital in building a track record in new investment strategies.

Growing our business
We focus on the long term as we invest in future growth opportunities for our business.

A strong financial position

At 31 December 2014, shareholders' equity was £2.5 billion. Maintaining a strong financial position enables us to take a long-term view of growth opportunities. We have no debt and hold capital significantly in excess of regulatory requirements.

Investment capital is the capital held in excess of operating and regulatory requirements. It allows us to invest in both organic and inorganic growth opportunities. Investment capital increased to £725 million in 2014, following the decline in 2013 to fund the acquisitions of Cazenove Capital and STW.

We have a 'Highest Standards' Asset Manager Rating from the independent ratings agency, Fitch. This is the highest possible rating for an asset manager and recognises our long history, diversified business model and financial stability.

Investment capital*

* Restated to exclude seed capital which is disclosed separately; see page 86.

Shareholders' equity
£2.5bn
(2013: £2.3 billion)

Award highlights of 2014

Editor's Choice Award, 2014 Awards for Excellence in Asset Management; *Financial News*

Investment Group of the Year, Fund Manager of the Year Awards 2014/2015; *InvestmentEurope*

Britain's Most Admired Companies 2014; *Management Today*

2014 Special Commendation for European Asset Management Company (AUM over €20bn); *Funds Europe Awards*

Readers' Choice Award, Fund Awards 2014; *Portfolio Adviser*

Best Wealth Manager, Charities 2014; *Wealth Adviser*

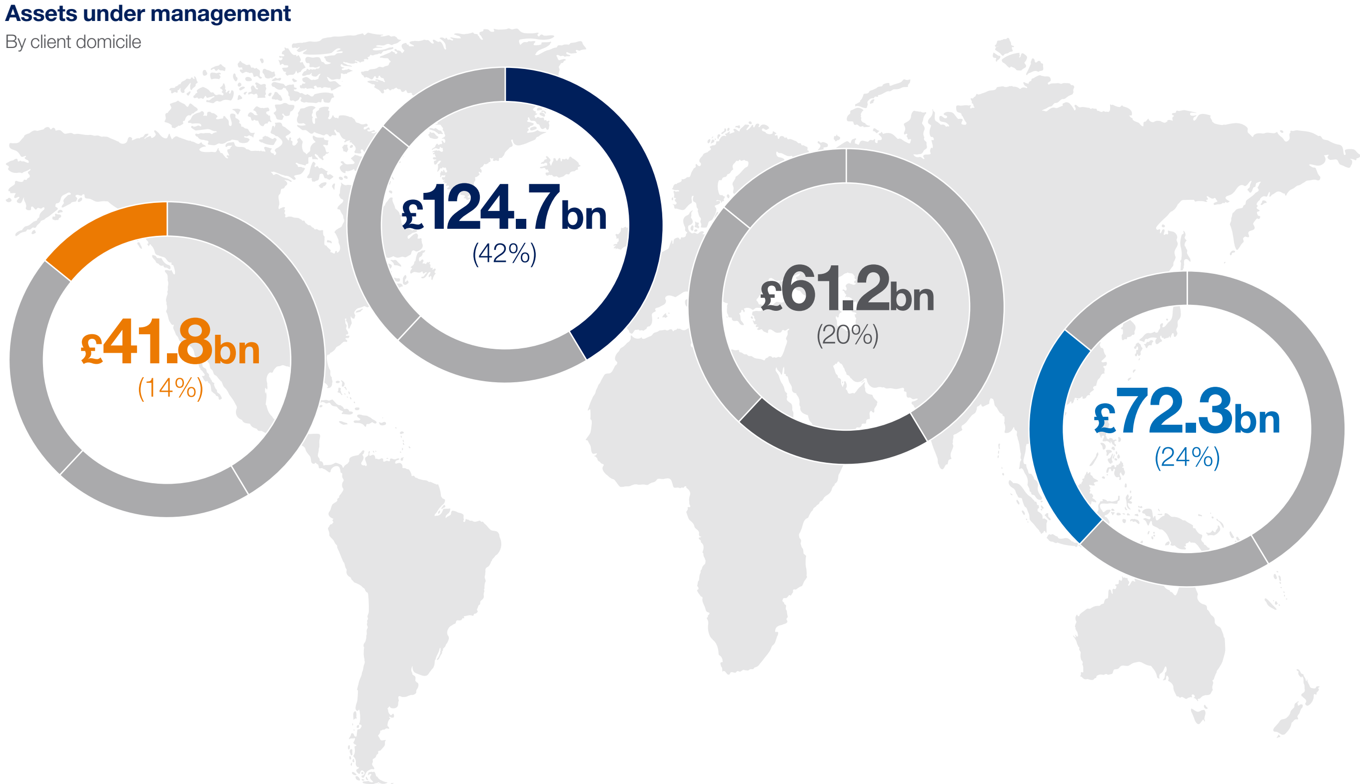
Best Fund House Larger Equity 2014 (UK, Spain, Germany, Austria and Luxembourg); *Morningstar*

Geography

We operate from 37 offices in 27 different countries, managing local and international investment products for local and international clients.

Assets under management

By client domicile



Americas

We had net outflows of £0.3 billion (2013: inflows of £0.3 billion) in the US, Canada and Latin America, principally due to challenging market conditions for commodities and the closure of our commodities fund of hedge funds business.

Growing our presence in the US is a strategic priority for Schroders.

Offices

Bermuda, Buenos Aires*, Cayman Islands†, Mexico City, New York*, Philadelphia*, Santiago, São Paulo*

UK

We had net inflows in the UK of £13.8 billion (2013: £0.8 billion), with strong performance in Institutional.

All asset classes generated net inflows in the year.

In Wealth Management, we completed the integration of Cazenove Capital.

Offices

London*†, Chester†, Edinburgh†, Guernsey*†, Jersey†, Oxford†

Europe and Middle East

We had net inflows in continental Europe and the Middle East of £5.9 billion (2013: £2.2 billion).

There was strong demand for income products from intermediary clients across a range of different asset classes, including multi-asset income, dividend maximiser and European fixed income funds.

Offices

Amsterdam, Copenhagen, Dubai*, Frankfurt*†, Geneva*†, Gibraltar†, Luxembourg, Madrid†, Milan*†, Paris, Rome, Stockholm, Zurich*†

Asia Pacific

We had net inflows of £5.4 billion in Asia Pacific (2013: £4.6 billion).

Multi-asset attracted good net inflows in both Institutional and Intermediary.

Retail investors continued to be attracted to our Asian Asset Income and Global Multi-Asset Income funds.

Offices

Beijing, Hong Kong*†, Jakarta*, Mumbai*, Seoul*, Shanghai*, Singapore*†, Sydney*, Taipei*, Tokyo*

* Investment offices.
† Wealth Management offices.

We are focused on delivering for our clients and shareholders over the long term.

Profit before tax and exceptional items

£565.2m

(2013: £507.8 million)

Total dividend per share

78.0p

(2013: 58.0 pence)

Market sentiment was shaped by several factors in 2014, including geopolitical concerns, a sharp decline in energy prices and doubts about the global economic recovery. Central banks took actions to support growth but economic performance diverged as deflationary pressures weighed on economies in Europe and Japan, while the US and UK economies strengthened. Against this uncertain background we saw heightened volatility across a number of asset classes.

Schroders delivered record results in 2014. Profit before tax and exceptional items increased 11 per cent. to £565.2 million (2013: £507.8 million) and assets under management ended the year up 14 per cent. at £300.0 billion (2013: £262.9 billion). New business wins of £24.8 billion (2013: £7.9 billion) demonstrated the strength of our highly diversified international business with all channels generating net inflows.

Dividend

Our policy is to increase dividends progressively over the long term in line with the trend in profitability and to target a dividend payout ratio of 45 to 50 per cent.

In line with this, the Board will recommend to shareholders at the Annual General Meeting an increase in the final dividend of 29 per cent., taking the final dividend to 54.0 pence (2013: 42.0 pence). This follows a 50 per cent. increase in the interim dividend to 24.0p (2013: 16.0p), which reflected a rebalancing towards the interim dividend following greater increases in the final dividend in recent years as well as the higher payout ratio target. This will bring the total dividend for the year to 78.0 pence (2013: 58.0 pence), an increase of 34 per cent. The final dividend will be paid on 6 May 2015 to shareholders on the register at 27 March 2015.

Total dividend per share

	pence per share
2010	37
2011	39
2012	43
2013	58
2014	**78**

The Board

Peter Harrison was appointed Head of Investment and joined the Board in May 2014.

After nine years on the Board, Luc Bertrand, our Senior Independent Director, will stand down at the 2015 Annual General Meeting. Since he joined the Board in 2006 we have seen unprecedented turmoil in financial markets, during which time we have benefited greatly from Luc's contribution to the Board's deliberations. He leaves with our thanks and best wishes for the future. Lord Howard will succeed Luc as Senior Independent Director.

Our people

Our people are our greatest asset. We are focused on retaining and developing a deep pool of diversified talent with a shared commitment to the firm's core values and strategic goals.

On behalf of the Board, I would like to thank everyone at Schroders for their hard work in 2014 and for helping to deliver another year of record results.

Andrew Beeson
Chairman

“We believe that active management can generate significant long-term incremental value for clients.”

Our role as asset managers

As one of the largest investment firms in Europe, Schroders plays an important role in helping a broad range of investors meet their financial goals as they provide for retirement, seek to offset future liabilities or build pools of capital to fund the investment needs of the future. Since 2009, Schroders has assisted clients in generating more than £75 billion of investment gains.

We also play an important role in actively channelling capital to companies to support them in investing for growth. Since 2009 we have participated in more than 4,000 new capital raisings.

We believe that active management can generate significant incremental value over the long term by compounding returns in excess of what can be achieved by matching a benchmark index. In making investment decisions, our starting point is to think long term, to gain a deep understanding of a company's strategy and to support management, where possible, in the delivery of their strategy. High standards of governance and corporate and social responsibility are important to us and we believe they are likely to lead to outperformance in the long term. We therefore engage actively with the companies in which we invest and in 2014 we voted on resolutions at more than 5,000 company meetings.

We welcome the fact that regulatory focus on delivering the right outcomes for clients has increased in recent years. We support the need for better industry regulation where it improves trust, enhances market stability or leads to better outcomes for clients. In 2014 we took further steps to reinforce the good conduct and client-centric behaviour that are inherent in our values and culture.

Strategy

The Company's Strategic report is set out on pages 2 to 43 of the Annual Report, and is comprised of the Overview on pages 2 to 5; Strategy on pages 6 to 25; and Business review on pages 26 to 43; together with our Financial review which is contained within the Financial report section on pages 81 to 91.

The Strategic report outlines our performance against our strategic goals, operational highlights for 2014, our financial position and our future outlook.

The Strategic report was approved by the Board on 4 March 2015 and signed on its behalf by:

Michael Dobson
Chief Executive

Schroders delivered strong results in 2014 with record revenues, earnings and assets under management.

Net inflows

£24.8bn

(2013: £7.9 billion)

Earnings per share

	pence per share
2010	111.8
2011	115.9
2012	104.7
2013*	130.6
2014*	**152.7**

* After exceptional items

Assets under management

£300.0bn

(2013: £262.9 billion)

2014 was a strong year for Schroders with high levels of net new business and increased profit, as we benefited from the diversity of our business across a broad range of asset classes, client channels and regions. Net revenue increased by 9 per cent. to £1,531.2 million (2013: £1,407.6 million) and profit before tax and exceptional items increased by 11 per cent. to £565.2 million (2013: £507.8 million). We won net new business of £24.8 billion (2013: £7.9 billion) and assets under management were up 14 per cent. to £300.0 billion (2013: £262.9 billion).

Asset Management

Asset Management net revenue increased 5 per cent. to £1,303.5 million (2013: £1,247.2 million) despite lower performance fees of £34.2 million compared to an unusually high level of performance fees in 2013 at £80.2 million. Net revenue margins, excluding performance fees, were marginally down at 52 basis points (2013: 53 basis points) which was caused by business mix changes during the year. Profit before tax and exceptional items was up 7 per cent. at £499.3 million (2013: £468.6 million). Exceptional items of £17.6 million (2013: £13.5 million) related principally to the amortisation of the value of client relationships acquired with Cazenove Capital and STW and integration costs arising from those two acquisitions.

Our depth of investment talent in the UK and internationally across portfolio management and research, disciplined investment processes and a programme of active engagement with the companies in which we invest, led to competitive investment performance with 78 per cent. of assets under management outperforming benchmark or peer group over three years to the end of 2014. We generated £24.3 billion (2013: £9.4 billion) of net new business during the year as a result of good investment performance, a broad product range across asset classes and a proven distribution capability.

In addition to £13.3 billion of net inflows in the UK we saw the strength of our international network with net inflows of £6.0 billion in continental Europe and £5.3 billion in Asia Pacific. By asset class, we had net inflows of £16.9 billion in Multi-asset, £4.7 billion in Fixed Income and £4.5 billion in Equities, with net outflows in Commodities stemming from the challenging environment in this asset class.

In Institutional, we won net new business of £17.6 billion (2013: £4.6 billion), including a £12.0 billion mandate in Multi-asset and Equities from Friends Life. Assets under management in Institutional ended the year at £171.1 billion (2013: £144.3 billion).

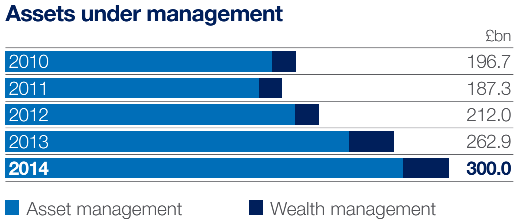
> "We believe our focus on building a diversified business across a broad range of investment strategies will continue to deliver value for clients and shareholders over the long term."

Assets under management outperforming over three years*

78%

(2013: 69%)

Assets under management



We also had a strong year in Intermediary with net inflows of £6.7 billion (2013: £4.8 billion) and high levels of demand in continental Europe and Asia Pacific. Income products continued to be an important theme behind investor demand. Assets under management in Intermediary ended the year at £97.8 billion (2013: £88.5 billion).

Wealth Management

Our Wealth Management business generated significantly higher revenues and profit in 2014, benefiting from a full year of contribution from Cazenove Capital. Net revenue increased 42 per cent. to £213.5 million (2013: £150.0 million), including performance fees of £2.9 million (2013: £0.4 million) and a release of £6.1 million of loan loss provisions. Profit before tax and exceptional items was up 80 per cent. to £61.7 million (2013: £34.3 million). Exceptional items of £20.4 million (2013: £30.9 million) related principally to integration costs and the amortisation of the value of client relationships acquired with Cazenove Capital.

Our focus in 2014 was on ensuring a successful integration of Cazenove Capital with minimal disruption to clients, but we nevertheless generated net inflows of £0.5 billion (2013: net outflows £1.5 billion) as the strength of our wealth management proposition was widely recognised. Assets under management ended the year at £31.1 billion (2013: £30.1 billion).

Group

The Group segment comprises returns on investment capital and seed capital deployed in building a track record in new investment strategies, and central costs. Profit before tax and exceptional items was £4.2 million (2013: £4.9 million). Exceptional items of £10.1 million (2013: £15.9 million) comprised costs relating to the acquisitions of Cazenove Capital and STW.

Shareholders' equity at the end of 2014 was £2.5 billion (2013: £2.3 billion).

Outlook

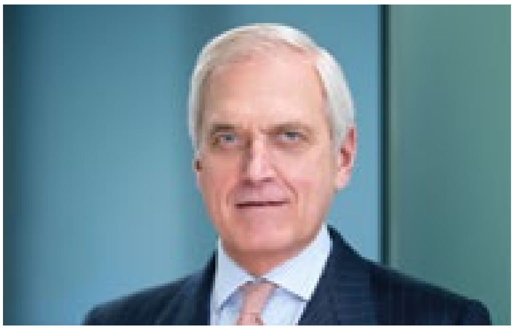
In an extraordinarily low interest rate environment financial markets have been resilient despite numerous macro-economic uncertainties. This may continue for some time although we expect to see greater volatility in markets and therefore in investor demand in 2015.

Our focus remains on the long term where we see a wide range of growth opportunities in the UK and internationally. We believe that our strategy of building a business which is highly diversified across different clients, asset classes and regions will continue to deliver value for clients and shareholders.

Michael Dobson
Chief Executive

* See Glossary for definition of investment performance.

Schroders is well placed to capitalise on long-term growth opportunities.



Massimo Tosato
Executive Vice-Chairman

Longer-term trends in Asset Management

We have identified a number of key market trends that are expected to grow in importance over the coming years.

Changes in client needs and demand

Client demand is undergoing a progressive shift towards outcome-orientated strategies, particularly from retail clients. To meet this changing pattern of demand, asset managers need to focus on developing solutions that address specific client needs, for example income, inflation protection or wealth preservation. This represents a cultural shift for much of our industry since asset managers have historically focused on single component 'building blocks'. This shift requires asset managers to engage more with clients, build deeper relationships, and understand and serve their requirements more effectively.

At Schroders, our product offering is increasingly in thematic and outcome-orientated strategies. We have seen success with income strategies across a range of asset classes, most notably with our multi-asset income and dividend maximiser equity funds.

Retirement and the insurance channel opportunity

The retirement of the 'baby boomer' generation presents a significant opportunity for the industry to provide products that distribute wealth over a period of time. As retirees seek to finance their retirement, insurance companies, together with commercial banks, are increasingly important distribution partners. Global insurance companies continue to outsource asset management and we are targeting further growth in this area, particularly in Europe, as the insurance industry responds to Solvency II.

We have built good relationships with insurance companies in the UK, US and Japan. As we look to expand this approach globally, we have been investing in research into dedicated investment strategies and building our specialist client service and sales teams to target the insurance sector.

Maturing defined benefit pension schemes

As defined benefit (DB) pension schemes are maturing, pension scheme trustees are looking at ways to achieve a better funding and lower risk position, often using liability-driven investment (LDI) solutions. In the UK the value of the LDI market is over £500 billion and we expect this market segment to continue to grow. This theme is also developing internationally. In 2014 we won net new business of £3.1 billion in LDI.

Continued growth in defined contribution

Against this backdrop of maturing DB schemes, the industry globally continues to see a shift to defined contribution (DC) pension schemes with individual complementary personal savings also becoming increasingly important. Over 80 per cent. of DC schemes' assets in the UK are invested in a default option and this percentage is expected to grow in the coming years. We target this area in countries dominated by platforms and consultants through the development of innovative and price competitive products to improve outcomes for those invested in the default option. We already have an established presence in countries where DC is structured around institutional buying patterns, such as Australia and Chile.

The growth of passive products

Passive products have grown at around four times the rate of traditional active assets in recent years. We expect to see this trend continue, particularly in North America and Europe. This will challenge active asset managers to define their capabilities better and deliver more consistent performance and outcomes to meet client objectives.

“Active asset managers who design their product offerings to meet the significant and ongoing shifts in client demand will have a key strategic advantage over the next decade.”

Partnerships
Building strong relationships with insurance companies has been a strategic priority. Partners include Prudential and MetLife Advisers, LLC in the US; Zurich Financial Services in the UK; and Nippon Life in Japan. In 2014, Schroders won a £12 billion multi-asset and equity mandate from Friends Life in the UK.

Active managers can also look to take advantage of opportunities in innovative areas such as outcome-orientated solutions and ‘smart’ or ‘custom beta’.

Pressure on revenue margins

The rise of passive strategies, competition, transparency and the low yield environment will continue to put downward pressure on revenue margins, as they have done for the last decade. Further pressure also comes from the response of distributors to regulatory changes, as they look to maintain margins, reduce complexity and consolidate the number of their asset manager partners. Part of this pressure may be offset by market share gains as a result of this consolidation, benefiting high quality global managers with a broad product range and a strong brand, such as Schroders.

Intermediary net revenue margins are expected to decrease in the coming years. This trend has existed for some time, although the rate of decline visible in our reported results has slowed in the last two years due to changes in our product and geographic mix.

In response to this, we are focused on improving all aspects of the scalability of our business as client demand moves from regional to global strategies. For example, our Quantitative Equity Products strategies have grown to nearly £30 billion and assets managed in Multi-asset have more than tripled since the start of 2010 to £72 billion. We will also continue to invest in our infrastructure to industrialise our processes and achieve operational efficiencies, with the support of digital innovation. This will reduce the complexity of our business and allow us to realise the benefits of scale.

Digital

Digital technology has the potential to disrupt the asset management industry, as has already happened in many other industries. Digital developments are transforming the way we build portfolios and interact with clients. In Investment, we are looking for innovative ways to analyse new and unstructured data points. The manufacture of investment products may also change as technology can be harnessed to improve volatility management and deliver more consistent results. Our client-facing web platform is also being redesigned to incorporate ‘touch’ for smart phones and tablets, and personalised content.

These changes are likely to reshape the distribution landscape as new distributors enter the market, such as online wealth managers. In 2014 we invested in Nutmeg, an online discretionary wealth manager, allowing us to engage with the digital changes that are influencing the asset management industry.

Regulatory change and complexity

The global regulatory environment remains complex as policymakers continue to work on enhancing the stability of financial markets, investor protection and how capital markets can support growth.

Conduct and culture, and managing or avoiding conflicts of interest, are abiding themes.

The focus at EU level on Capital Markets Union, and discussions about the extent to which the activities of asset managers may affect the financial system as a whole, provide important opportunities to explain the contribution that asset managers make to society and the broader economy.

Schroders is a long-term supporter of regulation that improves trust, protects clients and investors, and enhances market stability. During 2014, we created a new role of Head of Public Policy to enhance our engagement with policymakers, particularly in relation to prospective regulatory change and to promote the best outcome for our clients and the firm.

Schroders has demonstrated its capability to evolve and innovate, adapting to market changes over more than 200 years. We have a global brand and franchise, a broad product offering and talented employees that mean we are well positioned to continue to deliver growth.

Client service is a key differentiator in the wealth management sector.

"We are focused on understanding and serving the varied needs of our clients, and are well placed to grow our business following the Cazenove Capital acquisition."

Philip Mallinckrodt
Group Head of Wealth Management

Our approach to wealth management
Our focus is on preserving capital and delivering strong risk-adjusted returns. We access investment talent from the whole of the market, which includes products that are managed by Schroders. We take care to avoid bias to internally-managed funds; both Schroders and third-party funds are subject to the same selection process and levels of scrutiny.

The needs and expectations of clients are changing in response to a number of factors, including the economic environment, demographic shifts and technological advances.

Clients emphasise the importance of high quality advice, service excellence, transparency and integrity. We believe that we are well placed to meet these requirements, with our long-term view, heritage, experienced professionals and integrated service offering.

Investment trends
After sustained low interest rates and periods of market volatility, clients are increasingly looking for tailored outcomes rather than relative returns. We develop a deep understanding of our clients, allowing us to define and regularly review their objectives, and we take the time to construct portfolios which achieve our clients' objectives with appropriate risk-adjusted returns. We draw on the global investment expertise of Schroders in equities, fixed income and multi-manager fund selection as well as the firm's experience in socially responsible investing, while also offering clients access to investments from the whole of the market.

Technological trends
Technological advances in everyday life have led clients to expect more from wealth managers. New technologies are facilitating the speed and clarity of client access to information on their portfolios. We have developed our 'eServices' offering in recent years, allowing clients to access portfolio information and valuations in a secure manner at any time, and we will continue to invest in building our platform to differentiate our service offering. We firmly believe that technology should be used to enhance the client experience but not to replace traditional relationship management.

Regulatory trends
The extent and pace of global regulatory change has provided challenges and increased costs for the wealth management industry. We seek to have open and cooperative relationships with all our regulators and make the required investment to meet fully our obligations. Encouragingly, we are now seeing increasing regulatory consistency across jurisdictions.

New and enhanced regulations continue to be introduced covering 'know your customer', anti-money laundering and counter-terrorist financing; suitability of portfolios and conduct; prudential regulation of capital and liquidity of private banks such as our Wealth Management business; and internationally transparent tax reporting.

It is increasingly important for wealth managers to have sufficient scale and resources to meet client needs, invest in technology and implement new regulatory requirements. The acquisition of Cazenove Capital in 2013 was strategically important and gave us scale, particularly in the UK, and an enhanced range of services to meet client needs, covering wealth planning, investment management, deposit taking and lending.

Investors faced many challenges in 2014. Uncertainty remains but global growth should gradually improve.

"Our wide product offering and ability to deliver innovative solutions means that we are well placed to deliver for our clients."

Peter Harrison
Head of Investment

A consistent investment process
We work with data analysis firms to enhance the consistency of our fund managers' decisions through objective analysis, helping individuals understand their decision making processes and behavioural biases.

Investors had to contend with a number of factors in 2014 including a sharp dip in US activity at the start of the year, concerns about deflation in the Eurozone, renewed recession in Japan and a collapse in energy prices. There was also a host of geopolitical concerns across the globe. These risks often translated into sharp, sudden falls in emerging market currencies and contributed to doubts about the ability of the world economy to achieve sustainable growth after the global financial crisis.

Central banks' actions were critical in this environment as they stood ready to support economic activity. In the US, the Federal Reserve judged that the economy was strong enough to be able to end its quantitative easing programme and signal monetary tightening in 2015. This, along with the outperformance of the US economy, helped to drive the US dollar up against most major currencies. The European Central Bank loosened monetary policy and after considerable debate announced a sovereign quantitative easing programme at the start of 2015. The Bank of Japan surprised many investors in October by increasing its target for asset purchases. The economy had gone back into recession and this more aggressive quantitative and qualitative easing programme caused the Japanese yen to fall further. Having signalled the possibility of higher interest rates in the UK during the summer, the Bank of England became more dovish in the face of lower than expected inflation towards the end of the year. Meanwhile, the People's Bank of China began to ease policy in response to weaker activity.

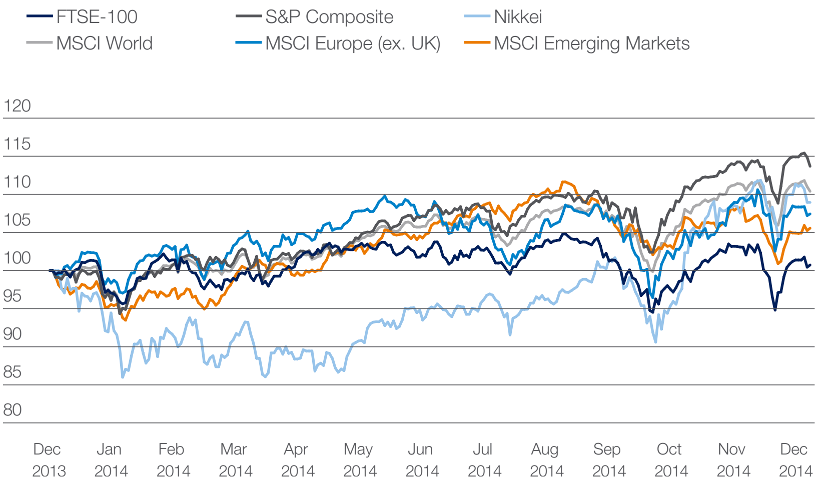
Central banks' willingness to support economic growth was enhanced by the fall in energy prices that drove global inflation down. Accommodative supply and weaker demand pushed oil prices some 50 per cent. lower in 2014. Whilst lower oil and energy costs act like a tax cut to consumers, financial markets reacted more cautiously on concerns that the world was headed in a deflationary direction. In addition, markets have focused on corporate and country risk as energy companies and oil states such as Russia, Nigeria and Venezuela had to cut expenditure sharply.

Equity markets

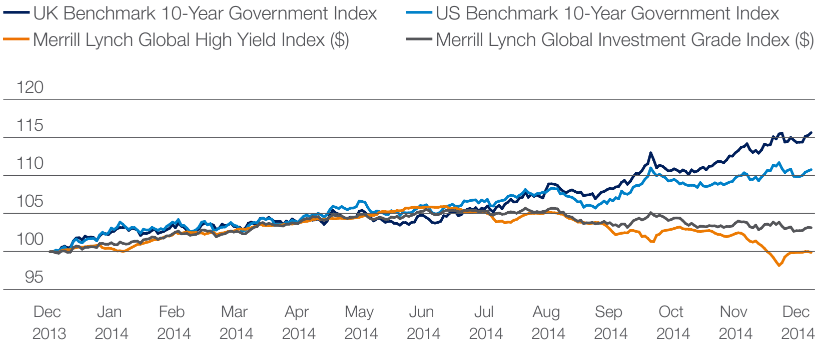
In equity markets, the performance of global indices varied considerably. After reaching record highs at the end of 2013, the S&P Composite had another strong year, returning 13.7 per cent. in 2014. In the UK, the FTSE-100 struggled given its large exposure to commodities, with a total return of 0.7 per cent. Eurozone shares were mixed on the back of macroeconomic weakness and political uncertainty, but were supported by expectations of central bank action. The MSCI Europe (ex. UK) index gained 7.4 per cent. in 2014. At a country level, returns were mixed, with positive returns skewed towards countries that enjoyed stronger economic growth. In the emerging markets, equities struggled with weaker growth in China and the fall in commodity prices.

Politics were also a key driver: events in Ukraine weighed on European emerging markets with the MSCI Emerging Markets Europe index declining 4.4 per cent. Meanwhile, elections in India and Indonesia prompted hopes of reforms leading to 32.9 per cent. and 22.3 per cent. increases in these markets respectively, a reminder that positives from

Equities – world indices performance



Fixed income performance
%



geopolitical risk also exist. By contrast, Brazil underperformed, declining by 2.9 per cent. after the re-election of President Rousseff disappointed market participants who had hoped for a pro-reform candidate to win.

A number of new and interesting companies floated during 2014 and we were encouraged by the growth agenda in many of our portfolio companies. Corporate balance sheets remain strong and management teams are looking to increase capital expenditure as the economic outlook improves.

Fixed income markets
Government bonds reversed the trend seen in 2013 and outperformed investment grade and high yield credit. Rather than signalling economic weakness, the strong performance in longer maturity US Treasuries was due to supply and demand dynamics. Tight spending plans limited new issuance and Federal Reserve purchases reduced the available supply even further. US 10-year Treasury bonds generated a total return of 10.7 per cent., to the surprise of many investors.

Global investment grade credit had a reasonable year, generating 3.1 per cent. returns in US dollar terms. Global high yield bonds performed broadly in-line with investment grade bonds for much of the year. This was until the sharp fall in oil prices caused investors to worry about the default risk of high yield corporates in the energy sector. The high yield market returned –0.1 per cent. in 2014 in US dollar terms.

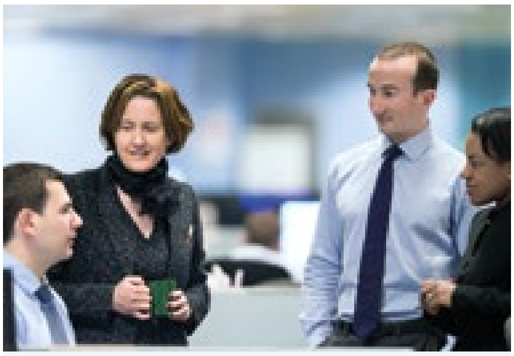
Commodities
The worst performing broad asset class was commodities, largely driven by falls in energy prices, in particular oil. The significant decline is unusual as it has not coincided with a global recession and is the result of relatively small falls in demand and increases in supply. Gold ended the year down 1.8 per cent. despite being up over 14 per cent. by mid-March.

Real estate
The UK commercial real estate market had a strong year, achieving unleveraged total returns of close to 20 per cent. driven by a return to rental growth in certain locations and a fall in yields. In continental Europe, the market recovery has lagged the UK but many cities are now seeing a return to employment growth and are expected to experience a sustainable recovery from this point in the cycle.

Outlook

In the near term the world economy is experiencing the adverse effects of lower oil prices through weaker capital spending in the energy sector. However, we expect global demand to benefit as consumer spending strengthens in response to lower energy costs. Global growth should gradually pick up, particularly in the oil consuming developed economies.

For the US this is expected to enhance the recovery that is already becoming well-established as firms increase employment, supporting consumer incomes and expenditure. For the Eurozone and Japan, lower oil prices provide a boost to economies which are struggling to achieve a sustainable upswing. These economies should also benefit from the depreciation of their currencies against the US dollar and an easing in fiscal austerity in 2015. The Eurozone is also expected to gain as the contraction in bank balance sheets turns to a modest expansion as lending resumes. We expect the UK to continue to be one of the better performing economies, but growth is likely to slow in response to a cooling in the housing market, election uncertainty and the prospect of further fiscal tightening.



Demand for income

Our Multi-asset business is aligned with clients' investment goals: wealth preservation, risk-controlled growth, income, inflation protection and risk mitigation.

During 2014, we saw increasing investor demand for products that can provide income in an environment of moderate economic growth and low interest rates. Our Global Multi-Asset Income and Asian Asset Income funds, which aim to provide sustainable income in monthly or quarterly instalments, generated net inflows of £2.7 billion during the year.

For the emerging economies, the picture is more mixed as growth in China continues to moderate and energy producers cut back on expenditure. For those who benefit from lower oil prices, 2015 should be a better year, particularly in countries which can ease monetary policy.

Against this backdrop we expect the US to begin to raise interest rates which is likely to bring some volatility to financial markets. Emerging economies may be vulnerable in this environment, but we expect markets to discriminate between those who have reduced their dependency on foreign capital and those who have failed to reform.

Critically, the overall global liquidity picture should remain supportive as the European Central Bank and Bank of Japan step up their bond buying programmes. We also expect to see a further easing of monetary policy by the People's Bank of China and the Reserve Bank of India to support activity as inflation stays low.

For investors, growth concerns are likely to remain significant until oil prices stabilise and there is evidence that consumer demand is improving. Timing this turn and the easing of deflation fears will be important for performance in 2015. We expect the search for yield to intensify particularly amongst European and Japanese investors who have seen yields collapse in their sovereign bond markets. The shortage of high quality assets at attractive prices will become even more acute this year and remains a major test for the asset management industry.

Looking further ahead, the significant imbalances in the global economy remain a concern. As yields in fixed income markets normalise and surplus liquidity is withdrawn from the global economy, asset values are likely to suffer a period of significant volatility.

For Schroders, our wide product offering and ability to deliver innovative solutions means that we are well placed to help our clients meet this challenge. We have a long-term investment focus, and in volatile markets it will be particularly important for us to engage with the companies in which we invest and support their growth.

Our goals are aligned with those of our clients and shareholders – to create sustainable value over the long term.

We deliver long-term value by:	Measurable by:	Benefits:
Delivering consistent and above-average performance through disciplined investment processes and active engagement with the companies in which we invest	– Targeting at least 60 per cent. of assets under management to outperform benchmark or peer group over rolling three-year periods.	Consistent and superior investment performance* is a driver of growth in net new business.
Building close relationships with clients	– Levels of gross sales; and – Levels of net new business.*	Developing the investment products and solutions which meet our clients' needs will lead to increased new business opportunities and greater longevity of client relationships.
Ensuring operational efficiency	– Targeting a cost:net revenue ratio of 65 per cent.; and – Targeting a compensation cost:net revenue ratio of between 45 and 49 per cent. depending on market conditions.	We will generate high levels of profit after tax enabling increased dividends and continued organic investment in our business.
Retaining and developing a deep pool of talent	– Developing our employees; and – Retaining employees performing ahead of expectations.	Retaining and developing talent and investing in new talent is key to organisational stability and long-term success.
Investing in future growth opportunities	– Investment in both organic growth and acquisition opportunities; and – Seed capital deployed to support the development of new investment strategies.	The long-term creation of shareholder value.

* See Glossary.

Risks:	Results:		Our expectations for 2015:
Short-term performance can fall short of targets.	**78%** **The percentage of assets under management that outperformed over three years to 31 December*** (2013: 68%) (see 1, overleaf)		Markets were challenging in 2014 with a shortage of high quality assets at attractive prices. Over 12 months to 31 December, 59 per cent. of assets were outperforming benchmark or peer group. This may impact our performance statistics for the three years to 31 December 2015.
Products that do not meet their objectives can put client relationships at risk.	**£92.0bn** **Gross sales** (2013: £75.6bn)	**£24.8bn** **Net new business** (2013: £7.9bn) (see 2, overleaf)	Net new business in 2014 benefited from the £12.0 billion Friends Life win and was close to the 2010 record. In 2015, net new business will be significantly influenced by market conditions, but with a broad product range and strong three-year performance, we expect to generate net inflows in all channels.
In weaker markets the ratios may be higher than our long-term target.	**64%** **Cost:net revenue ratio** (2013: 65%) (see 5, overleaf)	**45%** **Compensation cost:net revenue ratio** (2013: 46%) (see 6, overleaf)	We are budgeting a 45 per cent. compensation to net revenue ratio in 2015.
Talented people are frequently targeted by competitors seeking to build their business.	**94%** **Employee retention (outperformers)** (2013: 95%)	**7,109** **Employee training (number of sessions)** (2013: 11,648)	Retention has been high in recent years and could be affected if competitors recruit more actively.
In the short term, particularly during periods of market weakness, profitability can be adversely affected.	**£725m** **Investment capital** (2013: £515m)	**£163m** **Seed capital investments** (2013: £182m)	We expect seed capital deployed in seeding new investment strategies to increase in 2015.

* See Glossary for definition of investment performance.

We use a number of key performance indicators to measure our performance.

Our objective:	How we performed:	Long-term performance:

1. Investment performance*

Our objective: We target at least 60 per cent. of assets under management to outperform benchmark or peer group over rolling three-year periods.

How we performed: Three-year investment performance was strong in 2014 and has been above our target over the last five years.

Long-term performance:

	%
2010	81
2011	70
2012	71
2013	68
2014	**78**

2. Net new business*

Our objective: We seek to generate positive net new business in Institutional, Intermediary and Wealth Management.

How we performed: We generated net inflows in each of Institutional (£17.6 billion), Intermediary (£6.7 billion) and Wealth Management (£0.5 billion).

With £24.8 billion of net inflows across the business, this was our second highest ever level of net inflows.

Long-term performance:

	£bn
2010	27.1
2011	3.2
2012	9.4
2013	7.9
2014	**24.8**

3. Assets under management (at 31 December)

Our objective: An important influence on assets under management is the level of markets, but we aim to grow assets under management over time in excess of market growth, through positive investment performance and net new business.

How we performed: Assets under management ended 2014 at a record level as a result of net inflows, good investment performance and higher market levels.

Long-term performance:

	£bn
2010	196.7
2011	187.3
2012	212.0
2013	262.9
2014	**300.0**

4. Net revenue margins (excluding performance fees)

Our objective: As a key driver of revenue, we focus on net revenue margins by product and by channel. As Institutional, Multi-asset and Fixed Income have grown, net revenue margins have declined but we benefit from the greater diversity of our business.

How we performed: Net revenue margins reduced slightly to 53 basis points.

We expect net revenue margins to decline slightly in 2015, reflecting changes to business mix.

Long-term performance:

	basis points
2010	60
2011	57
2012	55
2013	54
2014	**53**

* See Glossary.

Our objective:	How we performed:	Long-term performance:

5. Cost:net revenue ratio

Our objective: We target a 65 per cent. cost:net revenue ratio, recognising that in weaker markets the ratio may be higher than our long-term target.

How we performed: In 2014 this ratio was ahead of our target, as revenues reached record levels and we managed our cost base.

Long-term performance:

	%
2010	67
2011	66
2012	70
2013	65†
2014	**64†**

† Before exceptional items

6. Compensation cost:net revenue ratio

Our objective: By targeting a compensation cost:net revenue ratio over a market cycle, we align the interests of shareholders and employees.

We aim for a compensation cost:net revenue ratio of between 45 and 49 per cent. depending on market conditions.

How we performed: This ratio was in line with the bottom end of our target range in 2014.

Long-term performance:

	%
2010	43
2011	44
2012	48
2013	46†
2014	**45†**

† Before exceptional items

7. Basic earnings per share

Our objective: We aim to grow earnings per share consistently, recognising the impact of market volatility on our operating businesses and Group investments.

How we performed: In 2014, earnings per share increased by 17 per cent.

Long-term performance:

	pence per share
2010	111.8
2011	115.9
2012	104.7
2013	130.6‡
2014	**152.7‡**

‡ After exceptional items

8. Dividend per share (in respect of the year)

Our objective: Our policy is to increase the dividend progressively, in line with the trend in profitability. We target a dividend payout ratio* of 45 to 50 per cent.

How we performed: The Board is recommending a final dividend of 54 pence per share, bringing the total dividend for the year to 78 pence per share, an increase of 34 per cent. This represents a payout ratio of 47 per cent.

Long-term performance:

	pence per share
2010	37
2011	39
2012	43
2013	58
2014	**78**

* See Glossary.

Our diversified business supports sustainable returns for clients and shareholders.

Our business model

	Asset Management	Wealth Management

Our objective

Our objective is to generate investment returns for clients which meet their financial goals.
We have a long-term approach to investing, building client relationships and growing our business.

Our clients

Institutional clients:
- Corporate pension plans
- Local authority pension funds
- Defined contribution pension plans
- Endowments
- Insurance companies
- Sovereign wealth funds

Intermediary clients:
- Banks
- Independent financial advisers
- Insurance companies
- Online platforms
- Private banks
- Private wealth managers

Wealth Management clients:
- High net worth individuals
- Family offices
- Charities
- Intermediaries

Our geographic diversity

We have clients around the world: see 'Location by client domicile' on page 23.
We service our clients through our 37 worldwide offices in 27 different countries: see Schroders at a glance on page 3 for a list of our global office locations.
We position ourselves close to our clients to better understand their needs.

Delivering for clients

We develop innovative products and solutions to meet the needs of our clients.

Asset Management: We offer a broad range of products and solutions that meet investor demand at different phases of the economic and market cycle. See 'Product range by asset class' on page 22.

Wealth Management: We offer clients an integrated service to address their needs: portfolio management; wealth planning; deposit taking and cash management; custody and execution; and specialised lending.

Generating returns

Our success is linked inextricably to the success of our clients. It is only by meeting their objectives that we will grow assets under management and attract new business.

Asset Management: We earn management fees charged as a percentage of assets under management. We may also charge performance fees and transaction-related fees on certain products. See 'Asset Management revenue and costs' on page 23.

Wealth Management: We earn fees charged as a percentage of assets under management, transaction-related fees, net interest income and fees for specialist banking services. See 'Wealth Management revenue and costs' on page 24.

Delivering for shareholders

Investing in long-term growth opportunities	Paying progressive, sustainable dividends to our shareholders	Maintaining a strong capital position to ensure long-term stability

Putting our clients at the centre of what we do has always been a key part of our culture.

Our business segments

Asset Management

(see page 22)

2,952 employees

£268.9bn assets under management

Investment	Distribution
Equities	Product development
Fixed Income	Product specialist sales resources
Multi-asset	Sales specialists, client servicing, marketing and communications
Emerging Market Debt, Commodities and Real Estate	

Client service through 32 worldwide offices

Institutional clients | **Intermediary clients**

Wealth Management

(see page 24)

594 employees

£31.1bn assets under management

- Tier 1 capital ratio of 26 per cent.
- Highly personalised wealth management service
- Customised investment solutions geared to client-specific financial goals

Portfolio management and wealth planning capability

Deposit taking and cash management

Custody and execution

Specialised lending

Wealth Management in 15 locations

Wealth Management clients

Infrastructure

(see page 24)

Information technology, operations, finance, risk management, human resources, legal, compliance and internal audit support the business to deliver superior investment performance and client service.

Group

(see page 24)

£725m Investment capital

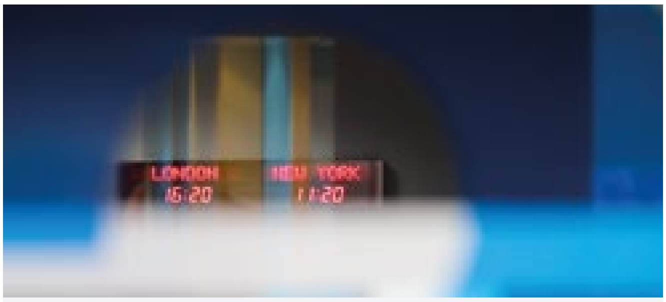
£163m Seed capital

The Group segment is focused on capital management, governance and corporate management. The Group allocates capital to seed new investment strategies before bringing them to the institutional or intermediary market.

Asset Management assets under management

£268.9bn

(2013: £232.8 billion)



Our global footprint covers 27 countries across the world, with a diverse and talented workforce which operates out of 37 offices. Our close proximity to clients is a key strength which helps us gain a deep understanding of our clients' needs.

Asset Management

Investment

The Investment division comprises portfolio management, research and dealing functions across Equities, Fixed Income, Multi-asset and Emerging Market Debt, Commodities and Real Estate. We have a broad range of products and solutions that meet investor demand at different phases of the economic and market cycle.

All investment activities are managed with the aim of delivering performance that meets or exceeds client objectives within specific risk parameters. We primarily assess investment performance relative to benchmark and peer group over a rolling three-year period.

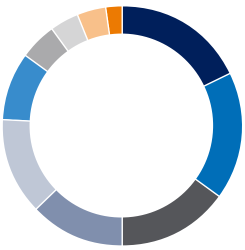
Product range by asset class

Equities

Equities includes single country, regional and global funds, small and mid-cap funds, growth, value and quantitative strategies, and defensive strategies to reduce market risk.

£129.6bn

(2013: £119.6 billion)



- Asia Pacific **18%**
- Quantitative equities **17%**
- UK **15%**
- Emerging markets **13%**
- Global **13%**
- Europe **9%**
- Australia **5%**
- Japan **4%**
- US **4%**
- Other **2%**

Investment capabilities

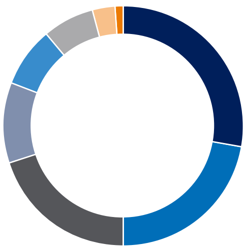
- Asia Pacific
- Australia
- Emerging markets
- Europe
- Global
- Japan
- Small and mid-cap
- Quantitative equities
- UK
- US

Fixed Income

Fixed Income employs fundamental and quantitative approaches and is based on research-intensive, globally-integrated credit and macro capabilities.

£51.1bn

(2013: £43.4 billion)



- Americas **28%**
- Global **22%**
- Europe **20%**
- UK **11%**
- Australia **8%**
- Asia Pacific **7%**
- Convertibles **3%**
- Insurance-linked **1%**

Investment capabilities

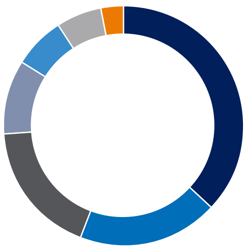
- Aggregate and multi-strategy
- Cash/liquidity
- Convertibles
- Credit
- Emerging market debt relative return
- Global
- Government
- High yield
- Insurance-linked securities
- Tax-exempt

Multi-asset

Multi-asset offers a comprehensive range of customised solutions, pooled products and advisory services. We specialise in providing a consultative, solutions-based approach for clients.

£72.0bn

(2013: £52.0 billion)



- UK **37%**
- LDI **19%**
- Asia Pacific **18%**
- Americas **10%**
- Australia **7%**
- Europe **6%**
- GAIA range **3%**

Investment capabilities

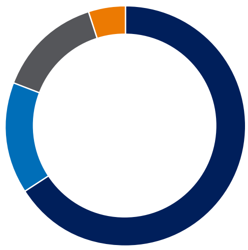
- Customised solutions
- Liability-driven investments
- Multi-asset strategies
- Structured investments

Emerging Market Debt, Commodities and Real Estate

We manage emerging market debt, commodities and agriculture funds. Our Real Estate business manages a wide range of open and closed-end funds.

£16.2bn

(2013: £17.8 billion)



- Real estate **66%**
- Emerging market debt **15%**
- Agriculture and commodities **14%**
- Private equity **5%**

Investment capabilities

- Agriculture
- Commodities
- Currencies
- Direct real estate
- Emerging market debt absolute return
- Gold and precious metals
- Private equity funds of funds
- Real estate securities

19 countries
operate fund ranges

more than 580
funds

In 2014 we hired a Head of North American Institutional. We are committed to becoming a strategic investment partner to North American institutions and are looking to grow core strategies such as global Equities, Multi-asset and multi-sector Fixed Income.

Distribution

Distribution employs over 600 people globally, specialising in sales, client service, marketing, product development and product management, serving both the Institutional and Intermediary sales channels.

Distribution works closely with Investment and is responsible for the development of our investment products, focusing particularly on the risk and reward features that deliver the intended results and meet the needs of our clients. We monitor gaps in our product range, launching new products and retiring products that are no longer in demand.

The majority of our assets in fund ranges are in Luxembourg and UK funds. Domestic ranges in other countries are designed to address local tax, regulatory or client requirements.

Institutional clients
We manage segregated accounts for institutional clients involving diverse strategies across equities, fixed income, multi-asset, emerging market debt, commodities and real estate.

Intermediary clients
We manage collective investment vehicles encompassing a wide range of investment strategies across equities, fixed income, multi-asset, emerging market debt, commodities and real estate for distributors to offer to their retail investment clients.

Location by client domicile

- Americas **17%**
- Asia Pacific **26%**
- Europe **15%**
- UK **42%**

Location by client domicile

- Americas **12%**
- Asia Pacific **28%**
- Europe **31%**
- UK **29%**

Asset Management revenue and costs
Asset Management revenue primarily comprises fees charged as a percentage of assets under management. The level of assets under management changes as a result of net new business, investment performance and market levels. Revenue is also earned from performance fees and from transaction-related fees.

The revenue margin on assets under management is affected by the business mix with, for example, higher fees typically earned on equity mandates and lower fees earned on fixed income and multi-asset mandates, and with fees in Intermediary generally exceeding those in Institutional.

Costs include fixed and variable remuneration and non-staff related costs such as office accommodation, information technology, operations, compliance, legal and audit.

In 2014, Asset Management generated net revenue of £1,303.5 million (2013: £1,247.2 million) and profit before tax and exceptional items of £499.3 million (2013: £468.6 million).

For more information on the financial performance of Asset Management, see page 90.

Wealth Management assets under management
£31.1bn
(2013: £30.1 billion)

Wealth Management

Wealth Management offers portfolio management, wealth planning and specialist banking services, including liquidity management and lending services, to high net worth individuals, family offices, intermediaries and charities.

Our largest business is in the UK and we have three principal international operations in the Channel Islands, Switzerland and Singapore. We also have a presence in the Cayman Islands, Frankfurt, Gibraltar, Milan, Madrid and Hong Kong. As the global mobility of high net worth individuals increases, this model allows us to ensure we can meet the service expectations of our clients.

We are one of the UK market leaders in investment management services for charities, with a specialist team in this area. We provide a personal service tailored to meet the needs of charities and charitable trusts.

Client service proposition

Dedicated relationship management is core to our proposition, matching our service to clients' individual needs. Each client has a portfolio manager, with an average of nearly 20 years' experience, which allows us to build close relationships with our clients and to ensure that their investment objectives are well understood.

Our investment proposition has a consistent focus on delivering strong risk-adjusted returns. It draws on Schroders' global investment expertise and that of third-party managers.

We take an active approach to portfolio management and, as part of our wealth planning capability, seek to take into account the changing personal and financial circumstances of our clients when making decisions for the longer term. Our banking and treasury services enable us to provide a range of finance and lending facilities to clients to assist in the overall management of their financial affairs.

Wealth Management revenue and costs

Wealth Management revenue comprises fees charged as a percentage of assets under management, transaction-related fees, net interest income and fees for specialist banking services. Wealth Management costs include fixed and variable remuneration and non-staff related costs such as office accommodation, information technology, operations, legal, compliance, risk and audit.

Wealth Management achieved net revenue of £213.5 million (2013: £150.0 million), including performance fees of £2.9 million (2013: £0.4 million) and a release of £6.1 million of loan loss provisions. Profit before tax and exceptional items was £61.7 million (2013: £34.3 million) in 2014. This increase principally reflects the full-year impact of the acquisition of Cazenove Capital in July 2013.

For more information on the financial performance of Wealth Management, see page 90.

Group

The Group segment includes the offices of the Chairman, Chief Executive and Chief Financial Officer, as well as employees involved in the management of the Group's investment capital and liquidity.

Group capital comprises operating capital required for regulatory and operating purposes and investment capital surplus to operating requirements.

Investment capital is managed with the objective of a cash plus 2 per cent. return with low volatility. Individual investments are diversified across asset classes and are subject to limits approved by the Board.

Group segment revenue and costs

Revenue comprises income and net gains on investment capital. Costs relate to the offices of the Chairman, Chief Executive and Chief Financial Officer; Group investment capital and treasury; the Board; and other costs, including those associated with governance, corporate management and insurance arrangements.

The Group segment net revenue in 2014 was £11.4 million (2013: £10.4 million) and costs were £23.5 million (2013: £19.1 million). After taking account of interest income of £11.6 million (2013: £12.1 million) and profit from associates of £4.7 million (2013: £1.5 million), the segment generated a profit before tax and exceptional items of £4.2 million (2013: £4.9 million).

Infrastructure

Infrastructure operates across the firm and employs over 1,500 people in information technology, operations, finance, risk management, human resources, legal, compliance and internal audit. We are investing substantial sums to support our investors' evolving needs, enhance our client service capabilities, advance our risk management processes, meet new regulatory requirements and increase the effectiveness and efficiency of our processes.

For more information on the financial performance of the Group segment, see page 91.

We are committed to acting responsibly, supporting our clients and making a wider contribution to society.

– We help a broad range of investors meet their financial goals.

– We channel capital to companies to support them in investing for growth.

– We have a long-term approach to investing, building client relationships and growing our business.

– We engage actively with the companies in which we invest.

Supporting clients

Schroders runs Trustee Training sessions throughout the UK on a range of topics to support trustees and scheme managers in understanding and fulfilling their duties.

'Schroders Navigator' helps intermediary clients deepen their knowledge and understanding of the economic environment, investment markets and investment products. The training is accredited by the Chartered Insurance Institute for structured, continued professional development.

Delivering for clients

We are focused on delivering innovative solutions for clients to address their needs.

In a low interest rate environment, we have been a leader in developing income solutions for clients. Our income offering spans a variety of asset classes, with solutions tailored to suit different stages of a client's financial lifecycle.

Two years ago, we launched Schroders 'Flight Path Swift', a new solution to allow smaller pension schemes to access de-risking strategies in an affordable and straightforward way. Due to the high cost, these tailored strategies had previously only been available to larger defined benefit schemes.

Engaging with companies to support growth

Engagement with company management is an integral part of our role as an active investor in managing, protecting and enhancing the value of our clients' investments.

We have helped a significant number of companies to raise capital, enabling them to invest for growth.

Our engagement with and long-term support for companies are important for the broader economy. For example in the house building sector, our support of companies such as Taylor Wimpey and Bovis during the 2008-10 period facilitated employment growth and boosted new housing at a time of economic uncertainty.

Acting responsibly

We create value for society by acting as good stewards of capital, using our influence as a shareholder to encourage businesses to act responsibly.

At Schroders we embed Environmental, Social and Governance (ESG) principles into our investment processes.

We are actively involved in a number of industry forums and initiatives, including:
– The Carbon Disclosure Project which works to reduce climate change and protect natural resources;
– The Access to Medicines Index which encourages pharmaceutical companies to improve access to medicines; and
– The International Corporate Governance Network which promotes effective standards of corporate governance.

Business review

2014 was a record year for Schroders in terms of revenue, profit and assets under management.

Net inflows in 2014

£24.8bn

(2013: £7.9 billion)

2014 overview

We achieved record results in 2014, reflecting the success of our strategy of investing for growth over the long term. We have built a highly diversified business and the benefits of this were evident in 2014 as we generated our second highest ever level of net inflows, achieved across a range of channels, regions and asset classes.

Client-focused

Our success is linked inextricably to the success of our clients. Our long-term objective is to create value for our clients and it is only in meeting our clients' objectives that our business will prosper.

The conduct of financial services firms has come under scrutiny in recent years and this has contributed to a loss of confidence in many areas, including asset management. Integrity is embedded in our culture and, together with our focus on the long term, provides us with a competitive advantage that is recognised by our clients.

Building scale and maintaining good cost control

We have made considerable progress in building further scale, keeping costs under control and creating efficiencies. Our assets under management increased by 14 per cent. in 2014 to a record £300.0 billion.

We are focused on building scalable strategies, in addition to capacity constrained areas where growth is more limited. Since 2010, we have generated net inflows of £39 billion in Multi-asset, including close to £17 billion in 2014. Going into 2015, we continue to see good opportunities in this area. We have also invested to establish a world class fixed income capability and assets under management now exceed £50 billion. As a number of key products near three-year track records, we believe we can leverage the team's strong performance and continue to build scale in this asset class.

Strong demand for Japanese equities

Schroders celebrated its 40th anniversary in Japan in 2014. We generated net inflows of £0.8 billion into our Japanese equities range as the market responded positively to the Japanese Government's actions to stimulate growth.

We have made a number of changes to our Investment Operations team during 2014 to enhance collaboration between asset classes.

Integration of Cazenove Capital

The integration of Cazenove Capital was a key focus during the year.

In Asset Management, Cazenove Capital's UK funds were rebranded and migrated onto Schroders' platform, while Cazenove Capital's funds registered in Ireland and the Cayman Islands were rebranded and moved to Schroders' Luxembourg platform.

In Wealth Management, the integration of the Cazenove Capital business is complete. Client portfolios were successfully migrated onto our core IT and operations platform. Clients are now benefiting from the broader client service offering of the combined business.

We have achieved an estimated £18 million of annual pre-tax cost synergies, compared to a range of £12 million to £15 million announced at the time of the acquisition.

2015 priorities

In 2015, we will continue to prioritise putting clients first in everything that we do.

We will remain focused on developing scalable asset classes and reducing the complexity of our business to realise the benefits of scale and to become more efficient.

With the integration of Cazenove Capital now complete, the priority for the UK Wealth Management business is to build on its leadership position in this market. We believe that our integrated service covering wealth planning, portfolio management, deposit taking and specialised lending, gives us a competitive advantage and that we are well placed to meet the needs of clients.

“Our highly diversified business enables us to offer our clients the investment strategies and solutions that they need in different market conditions.”

Three-year investment performance

● Above benchmark or peer group **78%**
● Below benchmark or peer group **22%**

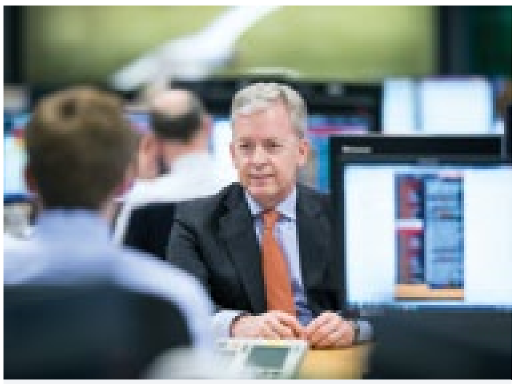
Investment performance*
We focus on investment performance over a three-year rolling period, consistent with our aim to create value for clients over the long term, and over the three years to 31 December 2014, 78 per cent. of assets under management outperformed their benchmark or peer group.

Product management and development
Building our presence in the US is a key priority. We launched US mutual fund versions of our successful Global Multi-Asset Income and Global Strategic Bond funds in the second quarter of 2014 to expand our product range in the branded US Intermediary channel, offering investors a broader set of global solutions. The funds were seeded with investment capital to develop a three-year local track record. The Group’s ability to seed new funds and investment strategies is a key strength and at 31 December 2014, £163 million of seed capital was deployed.

At the end of 2014, we launched a UK domiciled version of our Global Multi-Asset Income fund for investors seeking income as they enter retirement. We also launched the Life Flexible Retirement fund which will target the defined contribution pre-retirement market, giving members the flexibility to make different choices at retirement. In addition to our income products, we are well positioned to benefit from the changes to annuities announced in the UK Budget during 2014.

We had an active year in emerging markets equities products, launching the Global Emerging Markets Smaller Companies fund in Luxembourg and the QEP Global Emerging Markets fund in the UK. Although there was a degree of risk aversion in emerging markets in 2014, across our broader emerging markets equities product range, Schroders generated net inflows of £1.6 billion, principally from institutional investors.

We monitor the capacity of our investment products closely to avoid assets in a specific strategy reaching levels which could inhibit performance. This sometimes causes us to soft close or hard close* a product to new flows, which in turn can lead to net outflows as clients are no longer able to invest additional funds in closed strategies. For example, in the third quarter of 2014, we soft closed our Frontier Markets Equity fund after strong demand in the first half of the year. In the fourth quarter, we were able to re-open the UK Dynamic Smaller Companies fund which had been hard closed in January 2014.



Investing in technology
Meeting the requirements of our clients, business partners and regulators is central to Schroders’ long-term growth strategy. We invest approximately 25 per cent. of our annual technology budget to advance the functionality, reliability, efficiency and security of our global operating platforms.

* See Glossary.

Strengthening Investment
In 2014, we created the new role of Chief Operating Officer for Investment, allowing more effective prioritisation and resource allocation across all investment areas.

£300.0bn
Assets under management ended 2014 at a record level, up 14 per cent. on 2013.

New Head of Public Policy appointed
Schroders has always supported regulation which improves trust, protects clients and enhances market stability. In 2014 we created a new role of Head of Public Policy to enhance our engagement on regulatory change and promote the best outcome for our clients and the firm.

People and Infrastructure

At the end of December 2014, we employed over 3,500 people.

We continue to invest in talent and in 2014 we made some important additions to our existing talent pool in several key areas, including Equities, Wealth Management and Distribution.

Retaining and developing a deep pool of talent is a strategic priority and in 2014 retention of top performing employees remained high at 94 per cent.

New business flows

Total assets under management

At 31 December 2014, assets under management reached a record high of £300.0 billion, an increase of 14 per cent. compared to the start of the year.

Our strong investment performance, broad product range and proven distribution capability led to net inflows of £24.8 billion (2013: £7.9 billion). We continued to benefit from our global presence with strong sales internationally, across a broad range of multi-asset, equities and fixed income products.

Net inflows include £12.0 billion from Friends Life. By asset class, this comprises £7.8 billion in Multi-asset, £3.7 billion in Equities and £0.5 billion in Fixed Income.

Multi-asset net inflows were £16.9 billion, reflecting strong demand from institutional clients, including £3.1 billion in liability-driven investment products. In Intermediary, there was continued demand for multi-asset income strategies in Asia Pacific and continental Europe.

Fixed Income also performed well with £4.7 billion of net inflows in 2014 and particular success in European bonds in the Intermediary channel. In the Institutional channel, demand was broader across Global, European and UK bonds.

We had net inflows of £4.5 billion in Equities, with net inflows in our dividend maximiser range and UK large cap, European and emerging markets equities offset by outflows from intermediary clients in UK small and mid-cap equities and European specialist equities.

Investment returns

Investment returns for clients were overall positive in 2014, increasing assets under management by £12.3 billion.

Asset Management

Total net new business in Asset Management was £24.3 billion (2013: £9.4 billion) consisting of £17.6 billion in Institutional and £6.7 billion in Intermediary.

“Our competitive investment performance and strong distribution were key to our success in 2014.”

Assets under management – 2014 flows

	Total £bn	Institutional £bn	Intermediary £bn	Wealth Management £bn
1 January 2014	**262.9**	**144.3**	**88.5**	**30.1**
Gross inflows	92.0	38.1	47.0	6.9
Gross outflows	(67.2)	(20.5)	(40.3)	(6.4)
Net flows	**24.8**	**17.6**	**6.7**	**0.5**
Investment returns	**12.3**	**9.2**	**2.6**	**0.5**
31 December 2014	**300.0**	**171.1**	**97.8**	**31.1**

Gross inflows were £38.1 billion in Institutional (2013: £28.2 billion), heavily weighted to the fourth quarter following the £12.0 billion Friends Life mandate. We generated net inflows across all asset classes in Institutional, with the exception of commodities, an asset class which was particularly challenged in 2014. Assets under management in Institutional ended the year at £171.1 billion (2013: £144.3 billion).

In Intermediary, gross inflows increased 12 per cent. to £47.0 billion (2013: £42.0 billion) in 2014. We saw strong demand for income products, principally from Asian and European retail clients. Our income strategies cover a number of different asset classes, and include multi-asset income, our dividend maximiser range within Equities and a number of Fixed Income products. Assets under management in Intermediary ended the year at £97.8 billion (2013: £88.5 billion).

Wealth Management

Assets under management increased from £30.1 billion to £31.1 billion at the end of 2014, as a result of net inflows of £0.5 billion and positive investment returns for clients.

Demand for emerging markets

Despite challenging market conditions, we saw strong demand for emerging markets, generating net inflows of £1.6 billion, as Institutional investors took a long-term view of the opportunity in this asset class. In particular, our Frontier Markets Equity fund performed strongly and had net inflows of £0.8 billion in 2014. This fund gives investors access to some of the most dynamic and fast-growing economies in the world.

Integrity and good conduct are central to our culture and approach to risk management.

We recently appointed a new Group Head of Risk. Group Risk is a critical second line of defence in managing and mitigating risks across our business.

This section explains how we control and manage the risks in our business. It outlines key risks, how we mitigate them and our assessment of their potential impact on our business in the context of the current environment.

Managing risk

The Board is accountable for risk and the oversight of the risk management process. It considers the most significant risks facing the Group and uses quantitative exposure measures, such as stress tests, where appropriate. Non-executive oversight of the risk management process is exercised through the Audit and Risk Committee with respect to standards of integrity, financial reporting, risk management and internal control.

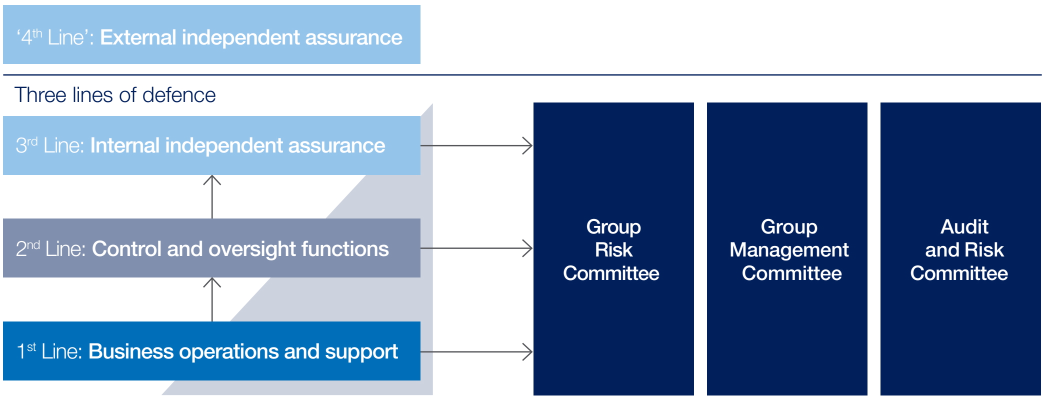
It is the responsibility of all employees to uphold the control culture of Schroders. We therefore embed risk management within all areas of the business. Members of the GMC have risk management responsibility for their respective business areas and we expect individual behaviours to mirror the culture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

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

The executive oversight of risk is delegated by the Chief Executive to the Chief Financial Officer. The Chief Financial Officer has responsibility for the risk and control framework of the Group and the independent monitoring and reporting of risks and controls.

The Chief Financial Officer is supported by the Group Head of Risk and chairs the Group Risk Committee (GRC), which meets ten times a year, and more frequently if required, and is attended by the heads of the control functions, being Group Risk, Finance, Compliance, Legal and Internal Audit, the Chief Operating Officer, the Head of Investment and senior managers from Distribution and Wealth Management. The GRC supports the Chief Financial Officer and the GMC in discharging their risk responsibilities. The GRC reviews and monitors the adequacy and effectiveness of the Group's risk management

Lines of defence
Overview



Our Compliance team forms part of our second line of defence against undesirable outcomes. The compliance monitoring programme reviews the effective operation of our processes in meeting regulatory requirements.

framework, including relevant policies and limits. It also reviews trends and exceptions in the most significant risk exposures. The GRC and the newly formed Wealth Management Audit and Risk Committee receive reports in respect of risk from the Wealth Management Executive Committee.

Lines of defence

The first line of defence against undesirable outcomes is the business function and the respective line managers, across Investment, Distribution, Wealth Management and Infrastructure. Business heads take the lead role with respect to implementing and maintaining appropriate controls. Line management is supplemented by oversight functions, such as Group Risk, Finance, Compliance and Legal, which constitute the second line of defence. The compliance monitoring programme reviews the effective operation of our processes in meeting regulatory requirements.

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

Schroders also maintains comprehensive insurance cover.

2014 developments

Upholding high standards of conduct and focusing on clients' interests and outcomes is fundamental to our business. We have reviewed and formalised our approach in this regard, taking into account the increasing expectations of clients and regulators. We have also taken steps to enhance our client-centric processes and communications, building on our established culture and values.

In 2013, we implemented a new operational risk system to support our firm-wide risk and control assessments and in 2014 we continued to invest in technology to enhance our risk management capabilities and manage our investment risks.

Information security has been an area of specific attention in response to the increasing prevalence of cyber-crime and related fraud within our industry.

Following the integration of Cazenove Capital, our Wealth Management division is now substantially larger. In recognition of this, we established a separate Wealth Management Audit and Risk Committee which provides reports to the Board Audit and Risk Committee, and provides non-executive oversight of the Wealth Management business.

New instruments and strategies are important for the growth of our business and we have continued to invest in investment risk management systems to reflect both the level of growth and the complexity of the strategies we use.

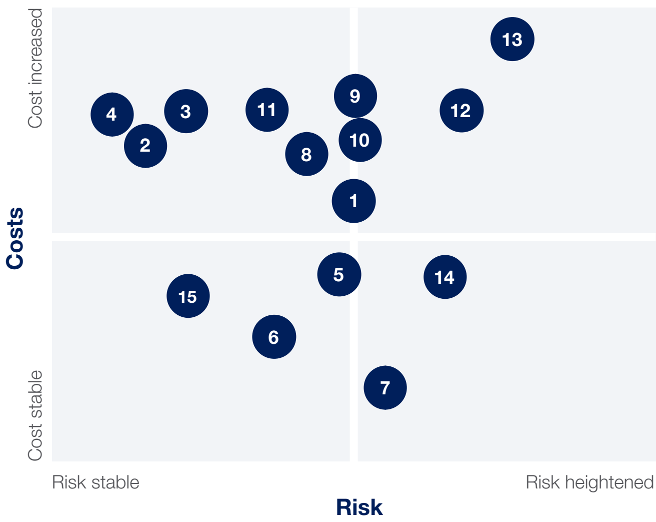
Mapping our key continuing risks

The key continuing risks outlined on pages 34 to 38 have been assessed in the light of the current environment as summarised in the adjacent diagram.

The horizontal axis shows whether the risk is stable or heightened reflecting current market conditions. The vertical axis shows the potential financial impact to the firm. The Group undertakes additional work to address those risks that it considers to be potentially heightened or more costly.

This year we have made the following changes to the presentation of our key risks:

- A new category for Business risks has been included which sets out the risks that are material to our business, but against which we are not required to hold regulatory capital;
- The Market, Investment Performance and Liquidity category has been renamed as Market, Credit and Liquidity risk;
- Distribution risk, Geographical diversity risk and Conduct risk have been renamed Business concentration risk, International business risk and Conduct and regulatory risk to align better to the nature of the risks presented;
- Integration risk has been removed as a key risk following the successful integration of Cazenove Capital; and
- Fraud risk has been separately identified given the growing focus on fraud prevention across financial services.



1. Reputational risk
2. Investment performance risk
3. Product risk
4. Business concentration risk
5. International business risk
6. Market risk
7. Credit risk
8. Liquidity risk
9. Conduct and regulatory risk
10. Legal risk
11. Process risk
12. Fraud risk
13. Technology and information security risk
14. People and employment practices risk
15. Third-party service provider risk

Reputational risk

The reputation of Schroders is of paramount importance. In the asset management industry, our reputation can be impacted by an adverse risk event of various types.

Key risk	Description	How we manage risk
1. Reputational risk	Reputational risk impacts Schroders' brand, reliability and relationship with clients and shareholders. This may arise from poor conduct or judgements, or from negative financial or operational events as a result of weaknesses in systems and controls. Reputational risk may also arise from taking on inappropriate client relationships or mandates which may have adverse implications for the Group.	High standards of conduct and a principled approach to regulatory compliance are integral to our culture and values. We consider key reputational risks when initiating changes in strategy or operating model. In addition, we have a number of controls and frameworks to address other risks that could affect our reputation including: conduct risk, financial crime, investment risk and client take-on and product development.

Business risks

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

Key risk	Description	How we manage risk
2. Investment performance risk	The management of investment performance risk is a core skill of the Group. This is the risk that portfolios will not meet their investment objectives or that there is a failure to deliver consistent and above-average performance.	We have in place clearly defined investment processes designed to meet investment targets within stated risk parameters. The Group's Investment Risk Framework provides review and challenge of investment risks, independent of our fund managers, across all asset classes. Individual portfolio performance, valuations and risk profiles are monitored by fund managers and asset class management on a regular basis, as well as by Pricing and Valuation Committees, Asset Class Risk Committees and the GMC. Recognising that products will not outperform all of the time, we offer a diversified product set which reduces our dependence on the performance of any one fund or asset class. Key to this performance is our ability to attract and retain talented people (see People and employment practices risk for further information).
3. Product risk	Product risk arises from product complexity and the risk that products do not meet their objectives.	To manage product risk we conduct quantitative analysis on a product by product basis to confirm that products are performing as expected and meeting the needs of our clients. If the results do not meet our benchmarks, we assess the qualitative aspects and, if appropriate, the product strategy is reassessed. New fund proposals are evaluated by the Product Development Committee which considers the risk management approach, potential investor profiles and distribution channel to ensure these are both suitable and commercially viable. New investment propositions and strategies are reviewed by the Product Strategy Committee.
	Product risk can also arise from capacity constraints where the size of assets under management in a particular asset class or strategy makes it more difficult to trade efficiently in the market.	We monitor potential capacity constraints and may mitigate them by hard or soft closing products to new investment. The Product Development Committee considers the interests and needs of potential investors in our funds.
4. Business concentration risk	Business concentration risk arises from concentration in a small number of distribution channels or products or when a small number of clients are concentrated in a specific product or market.	The broad range of distribution channels that we have established mitigates the concentration risk we have and the dependency on any single sales channel. No client accounts for more than two per cent. of revenues. We aim to ensure client concentrations in any particular market or channel do not become excessive.
5. International business risk	Our business is broadly diversified by region. Whilst this mitigates our aggregate risk profile it introduces additional risks in terms of operating cross-border and in multiple environments as a result of complexity, local laws, regulations, business customs and traditions.	We aim to employ people with local expertise who ensure the business and operations conform to local requirements as well as Group standards. In addition, we seek the advice of local experts (for example, in the areas of tax, regulatory and legal) where appropriate. Furthermore, our employees are trained in relation to local requirements and are able to share their knowledge through international secondments across the Group. Our international operations are regularly reviewed by Internal Audit. The GRC receives reports from line management regarding matters giving cause for concern and recommendations for appropriate remedial action.

Key risks and mitigations continued

Market, credit and liquidity risks

We face market, credit and liquidity risks from movements in the financial markets in which we operate, arising from holding investments both as principal and agent. Notes 20 and 21 to the accounts on pages 114 to 120 set out the Group's approach to the management of financial instrument risk including credit, liquidity and market risk, together with the Group's approach to hedging.

Key risk	Description	How we manage risk
6. Market risk	Market risk arises from market movements, which can cause a fall in the value of principal investments and a decline in the value of assets under management in the agency business. Operating capital, net fee income and expenses related to the Group's overseas subsidiaries are denominated in local currencies and are therefore subject to exchange rate risk.	Our geographically-diversified, broad product range enables us to provide clients with solutions in a variety of market conditions and serves to diversify individual market dependencies. The Group Capital Committee, chaired by the Chief Financial Officer, regularly reviews all principal assets held for investment or seed capital purposes. The Group's seed capital investments are usually hedged in respect of market risk and currency risk. The Wealth Management Executive Committee monitors and manages market risk in the Group's banking businesses. We use forward foreign exchange contracts to mitigate transactional and investment exposure to currency movements.
7. Credit risk	We face credit risk as a result of counterparty exposure with respect to client, principal and derivative exposures.	To manage this risk we assess counterparty creditworthiness and set appropriate limits for both our principal and agency counterparties. The creditworthiness of the counterparties and borrowers are monitored as is usage against the relevant credit limits. We seek to diversify our exposure across different counterparties.
	We also face credit risk through Wealth Management lending activities, in addition to transactional counterparty risk.	In Wealth Management, we seek to mitigate credit risk within the lending activities as appropriate through collateralisation in the form of cash, portfolio investments or real estate. Credit risk is monitored and managed against limits and collateral.
8. Liquidity risk	Liquidity risk in relation to client portfolios is the risk that funds are not readily available to meet redemptions or other obligations as they arise.	To mitigate this risk within client portfolios we seek to match, where possible, the liquidity of a portfolio's underlying investments with the anticipated redemption requirements. We pay particular attention when we offer funds with daily liquidity that the assets they hold are liquid. We actively monitor markets for indicators of a decline in liquidity. We also review products and portfolios to identify capacity constraints.
	Liquidity risk is also the risk that the Group or any of its subsidiaries cannot meet its contractual or payment obligations in a timely manner.	Each of our regulated subsidiaries, and the Group as a whole, meet regulatory capital requirements. In addition, we maintain sufficient liquidity for our anticipated needs, taking account of the risks we face. In Wealth Management in London, we operate an Individual Liquidity Adequacy Assessment (ILAA) process.

Operational risks

Operational risk arises in our investment management and banking activities, distribution activities, product development and in our IT and operational infrastructure. Line management is responsible for operational risk controls. The second line of defence teams develop and deploy the risk framework and monitor its implementation and operation.

Key risk	Description	How we manage risk
9. Conduct and regulatory risk	The risks of client detriment arising from inappropriate conduct, practice or behaviour and failing to meet client needs, interests or expected outcomes. The risks of money laundering, bribery, fraud or market abuse shortcomings on the part of fund investors, clients or our employees. The risk of fines, penalties, censure or other sanctions arising from failure to identify or meet regulatory requirements. The risk that new regulation or changes to existing interpretation has a material effect on the Group's operations or cost base.	We promote a strong compliance culture and we value good relationships with our regulators. Our Compliance function supports management in identifying and meeting our regulatory obligations with relevant training and procedures. Compliance with relevant regulatory requirements is monitored in accordance with a risk-based programme. Our approach to encouraging appropriate conduct is set out in our conduct risk framework, and is built on culture and values, supported by appropriate governance and reporting. This includes: – A culture in which all employees are encouraged and supported to 'do the right thing'; – A long-term approach to creating value and good outcomes for our clients, fund investors and shareholders; – A focus on products that meet the needs of our clients and investors; and – Strong controls, governance, training and risk management processes. Regulatory and legal change is monitored by the compliance, legal and public policy teams. Key regulatory and tax risks are identified on page 39. We engage with our regulators and participate in representative industry organisations so that we are informed about, and involved in, potential changes.
10. Legal risk	The risk that Schroders or its counterparties, clients or suppliers with whom we contract fail to meet their legal obligations and the risk of legal proceedings and loss. The risk that client expectations and obligations with respect to our own and third-party responsibilities under investment management and other agreements will not be met, with a revenue or contingent liability impact.	We rely on our employees, with support from our Legal function, to consider the obligations we assume across the Group and our compliance with them. Our policies and procedures across the Group are developed having regard to recognised legal risks. Confirmations are obtained from representatives around the Group that actual or potential disputes or claims have been brought promptly to the attention of the General Counsel. We have an escalation process for areas of identified material risk.

Operational risks continued

Key risk	Description	How we manage risk
11. Process risk	The risk of failure of significant business processes, including for example mandate compliance, client suitability checks and asset pricing.	Risk and Control Assessments are used to identify and assess key operational risks. Associated controls are assessed with regard to their design and performance. Where required, processes and controls are enhanced to improve the control environment. We manage risk events through identification, reporting and resolution with the aim of preventing risk events from recurring.
12. Fraud risk	Fraud could arise from either internal or external parties who attempt to defraud the firm or our clients by circumventing our processes and controls.	We operate a system of processes and controls to aid prevention and detection of attempted fraud. In addition, we have a governance framework through which all types of fraud, including cyber-crime, are monitored. The framework includes the use of fraud risk assessments to identify potential risks and to ensure appropriate controls are in place.
13. Technology and information security risk	Technology and information security risk relates to the risk that our technology systems and support are inadequate or fail to adapt to changing requirements; that our systems are penetrated by third parties; and that data is held insecurely.	Schroders actively engages with regulators and intelligence services to understand and take action against potential cyber threats. An information security strategy has been established and is overseen by the Information Security Council which provides executive oversight. We maintain explicit cover for cyber-crime as part of the Group's insurance protection.
14. People and employment practices risk	Talented people may be targeted by competitors seeking to build their businesses.	We have competitive remuneration and retention plans, with appropriate deferred benefits targeted at key employees. We seek to build strength in depth and to put in place sustainable succession and development plans. We also operate from many international centres, which reduces our reliance on single pools of talent. Clear objectives are set for employees and success is measured in the annual review process, allowing us to identify motivational development initiatives.
	In addition, people and employment practices risk relates to the risk that our employment practices do not comply with local legislation, such as equal opportunities, human rights or the safety and wellbeing of employees when at work.	We have policies and procedures in place to manage employment issues appropriately and handle them consistently, fairly and in compliance with local legislation.
15. Third-party service provider risk	We have a number of outsourced supplier relationships as part of our business model, particularly in respect of information technology, fund administration and transfer agency services. Third-party service provider risk relates to the risk that suppliers may not be able to meet their agreed service level terms.	Our outsourcing policy sets out key considerations when appointing and managing a third-party service provider, including due diligence and regular reviews of providers' performance against agreed service levels. Exit plans are considered prior to appointment and provide a framework for transitioning business from one service provider to another should the quality fall below the agreed service level. On an annual basis, the GRC reviews all outsourced relationships covered by the Group Policy, focusing on significant aspects such as service quality and risks.

Mapping key emerging risks

Emerging risks are those with uncertain impact, probability and time frame that could impact the Group. These are the hardest to define. We analyse each risk and, if needed, develop and apply mitigation and management plans. The external emerging risks that are currently our focus of attention are set out below. The diagram indicates our assessment of the likelihood and potential timing of these risks. The estimated likelihood may change as circumstances evolve and mitigation plans are developed. Regulatory and tax related risks are mapped below.

1. Eurozone crisis
2. Major bank failure
3. Market liquidity crisis
4. Margin pressure
5. Geopolitical events (for example Ukraine, Middle East, oil price)
6. Clearing house failure
7. Cyber-crime
8. Terrorism
9. UK exit from the European Union

Mapping key regulatory and tax related risks

The extent of regulatory and tax change facing our industry has increased significantly. This poses both risks and opportunities for our business. The diagram opposite combines known and emerging regulatory and tax change initiatives, to identify both the likely timing and estimated impact of regulatory change on our business. New initiatives which arose during 2014 are highlighted in orange.

1. Strengthening accountability in UK banking: the new regulatory framework
2. Markets in Financial Instruments Directive II (MiFID II) and Regulation (MiFIR) implementation
3. Undertakings for Collective Investments in Transferable Securities (UCITS) Directive V implementation
4. Anti-money laundering, bribery and corruption developments
5. UK Client Assets rules revision
6. Market Abuse Directive II (MAD II) and Regulation (MAR) implementation
7. Remuneration and employee incentivisation reform
8. Derivatives clearing and reporting globally
9. EU money market funds proposals
10. EU Recovery and Resolution Directive implementation
11. Data and privacy protection reform
12. EU Solvency Directive II implementation
13. EU Packaged Retail and Insurance based Investment Products Regulation
14. Regulatory scrutiny of systemic risks in asset management
15. EU Shareholder Rights proposal
16. European Long Term Investment Funds
17. EU Capital Markets Union proposals
18. Asian mutual fund recognition initiatives
19. SEC focus on US mutual funds
20. UK Fair and Effective Markets Review
21. Review of EU Capital Requirements Directive IV implementation
22. FATCA reporting
23. OECD base erosion and profit sharing tax initiative
24. EU VAT changes
25. OECD common tax reporting standard
26. EU Financial Transaction Tax

Corporate responsibility is important to our sustainable, long-term success.

Our approach to CR covers four areas:

Marketplace
- Being transparent in our operations and reporting
- Encouraging and supporting our CR principles in the companies in which we invest

People
- Developing and retaining a deep pool of talent

Environment
- Minimising our environmental footprint

Community
- Supporting the communities in which we operate

At Schroders, our values of excellence, innovation, teamwork, passion and integrity provide a framework within which our business operates, ensuring that we do the right thing for our clients. These values define our reputation, determine the behaviours we expect of our employees and are integral to everything that we do.

We look to build close relationships with all our stakeholders and our approach to corporate responsibility (CR) is built around four areas – marketplace, people, environment and community. Philip Mallinckrodt, an executive Director, chairs our CR Committee to ensure that CR is addressed at the highest level.

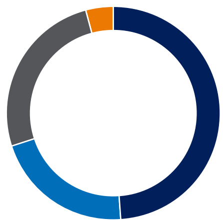
Our economic contribution

Schroders is committed to conducting its tax affairs in an open and transparent way. In 2014, we paid corporate income taxes of £106.2 million (2013: £93.9 million). Payroll taxes for the year payable by Schroders were £59.4 million (2013: £63.8 million) and irrecoverable indirect taxes were £17.4 million (2013: £14.4 million). A regional breakdown of total taxes and corporate income tax paid in 2014 is shown opposite.

Total taxes by region

- UK **57%** (2013: 49%)
- Europe **21%** (2013: 27%)
- Asia Pacific **18%** (2013: 17%)
- Americas **4%** (2013: 7%)

Corporate income tax by region



- UK **49%** (2013: 32%)
- Europe **21%** (2013: 33%)
- Asia Pacific **26%** (2013: 26%)
- Americas **4%** (2013: 9%)

Further information on corporate income tax can be found in our financial statements on page 98 and on our website at www.schroders.com/cr. We are committed to complying with our tax obligations worldwide and to maintaining a good reputation with tax authorities in the jurisdictions in which we operate.

We are a signatory of the Code of Practice on Taxation for Banks and comply with its requirements. We also follow the Confederation of British Industry's (CBI) tax principles for our UK business, which is consistent with our approach internationally.

Our Values

We strive for

Excellence
We want to be the best at what we do. We continually strive for better.

We work with

Innovation
We have an entrepreneurial spirit. We intelligently challenge how things are done and anticipate what is ahead.

Teamwork
We work as one team to deliver excellent client service. We value the contribution of individuals and encourage healthy debate.

We have

Passion
We share a deep rooted belief in and enthusiasm for what we do. We demonstrate this through the dedication and energy we bring to our clients.

Integrity
To deliver for our clients, we build strong relationships based on honesty, trust and confidentiality.

"As one of the largest asset managers in Europe, we recognise that we deliver value to society by encouraging businesses to act responsibly."

Our approach to ESG
Schroders has a market-leading capability for ESG analysis. We integrate ESG factors into financial analysis as we recognise that many of these factors can influence the long-term financial performance of companies. Our ethical assets under management increased to £27.8 billion in 2014 (2013: £25.3 billion).

Marketplace

As one of the largest asset managers in Europe, we take our stewardship responsibilities seriously. With £300.0 billion of assets under management, we recognise that we have significant impact on, and can deliver value to, society.

We monitor the activities of the companies in which we invest and use our influence as a shareholder to encourage these businesses to act responsibly.

In 2014, our Environmental, Social and Governance (ESG) team expanded to eight individuals, overseen by the Global Head of Stewardship. 2014 saw an increased focus on joint research between the specialist ESG team and Schroders' investment analysts and fund managers.

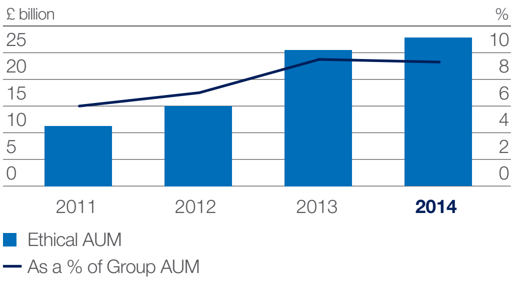
We believe that companies with good ESG management often perform better and deliver superior returns over time. Engaging with companies to understand how they approach ESG management is an integral part of our investment process.

Corporate engagement allows us to understand the sustainable value of the companies in which we invest on behalf of our clients. Our ESG team tracks long-term sustainability trends such as climate change, global population changes and changing diets, and analyses the impact of these themes on our investments.

Company resolutions voted on

	%
2012	90
2013	96
2014	**97**

Group ethical AUM



During 2014, our fund managers and analysts held over 16,500 discussions with companies around issues such as strategy, management, governance and financial performance. Over the year, 125 specialist ESG engagements also took place.

Our ESG policy outlines our approach to voting. We will engage and normally vote on any issue affecting the long-term sustainable value of a company in which we invest. During the year, we voted on resolutions at 5,616 company meetings. We aim to vote at all company meetings where we have a shareholding and will vote on all resolutions except where there are onerous conditions attached to voting.

Voting reports are provided quarterly to UK institutional clients and we also publish details of our voting record on our website. This is done after a suitable period so the publication of our voting record does not unduly influence the outcome of discussions with the company. We believe that effective engagement with management should normally remain confidential since publicity can frequently entrench positions rather than resolve issues.

Schroders is committed to the UK Stewardship Code, published by the Financial Reporting Council in 2012. Information about how we comply with the code can be found on our website www.schroders.com/ri.

Ethical screening is also becoming an increasingly important area for our clients. We have several years of experience integrating ethical screening into fund management, and our ethical assets under management increased to £27.8 billion in 2014 (2013: £25.3 billion). Our strength in this area is evidenced through the mandate win from Friends Life in 2014 to manage its Stewardship funds, the UK's oldest range of ethical funds.

"The diversity of our people around the world is a key strength and helps us gain a deep understanding of our clients' needs."

Investment 2020
Schroders supports the Investment 2020 programme that provides opportunities for school leavers and graduates in asset management. As part of this programme, we recruited across Distribution, Wealth Management and Infrastructure in 2014. Nichola Pease, a non-executive Director of the Group, is chairman of Investment 2020.

People

Identifying, retaining and developing a deep pool of talent is a key part of our strategy.

Good communication is essential to ensure that employees are engaged and committed to Schroders and our strategic goals. We communicate regularly through a variety of channels, including management briefings, an in-house magazine and TV channel, and online news articles. Employees have access to a range of learning and development programmes in order to maintain and increase technical competence in their roles, with the aim of aligning their behaviours with our corporate values.

Annual employee meetings are held with senior management to discuss the progress made by the Group. In the UK, an Employee Forum provides an additional channel for representing employee views to management.

Competitive remuneration is key to retaining and attracting talented people. Our approach is explained in the Remuneration report on page 64.

High ethical standards

We promote high ethical standards and have an internal whistleblowing policy, whereby employees can raise concerns about behaviour or decisions that could indicate potential wrongdoing. Personal securities trading by employees is subject to clearly defined internal policies.

Employees are not permitted to solicit or accept any inducements that are likely to conflict with their duties. Training is provided in relation to anti-bribery, anti-money laundering, terrorist finance, market integrity, data protection and treating customers fairly.

Equal opportunities

We are committed to providing equal employment opportunities and avoiding unlawful discrimination. We expect our workforce to reflect the diversity of the many communities in which we operate. Where possible, we monitor the ethnicity, age and gender composition of our existing workforce and those applying for jobs.

Our policy is to give fair consideration to all employment applications, including from disabled people, considering particular aptitudes and abilities. If employees become disabled, employment continues wherever possible, with retraining given if necessary. For the purposes of training, career development and progression, all employees are treated equally.

The Group is committed to creating a work environment free of harassment and bullying, where everyone is treated with dignity and respect. We have a policy in place to assist in treating everyone fairly regardless of their age, gender, race, sexual orientation, disability, religion or beliefs. The effectiveness of this policy is monitored periodically.

Human rights

We comply fully with appropriate human rights legislation in the countries in which we operate. Our business is undertaken predominantly in countries that have strong legislation in this area. We also encourage our business partners to adopt the same standards.

Managing diversity

We take a proactive and coordinated approach to attracting, retaining and developing a diverse workforce. Schroders is highly diverse in terms of the nationalities employed in our local offices globally. This is a key strength that provides us with local market knowledge and a deep understanding of our clients' needs.

Appointments to roles are based on merit, experience and performance and we do not support quotas. The gender diversity within the Group is shown below.

Gender diversity

2014 (2013)	Female	Male
Directors	**1 (1)**	**11 (10)**
Senior managers	167 (138)	459 (426)
Subsidiary directors	9 (11)	26 (52)
Total senior management	**176 (149)**	**485 (478)**
All employees	**1,473 (1,487)**	**2,083 (2,041)**
	41% (42%)	59% (58%)

Our Human Resources team supports the business in attracting, retaining and developing a diverse workforce. We expect our workforce to reflect the diversity of the many communities in which we operate and we employ people from more than 30 different countries worldwide.

London to Paris cycle
Our approach to charitable giving focuses on employee choice. We support and encourage employees to raise money for the charities which matter most to them. In 2014, 14 employees from across the business cycled from London to Paris in aid of Leukaemia & Lymphoma Research. The team raised more than £60,000 including matching from Schroders. In recognition of this achievement, they received the Corporate Team of the Year Award from the charity.

Environment

We are committed to minimising the environmental impact of our operations and to delivering continuous improvement in our environmental performance.

We use DEFRA's conversion factors each year to calculate our CO_2e emissions for all office locations. The total CO_2e emissions data is consistent with our Carbon Disclosure Project submission which will be externally verified later this year.

Our total recorded carbon output has increased by 18 per cent. this year. This increase reflects enhancements to the data capture methodology, as well as the full-year impact of our 2013 acquisitions and increased global mobility. More information on other environmental performance can be found on our website www.schroders.com/cr.

Total CO_2e emissions

	Combustion of fuel and operation of facilities	Electricity, heat, steam and cooling purchased	tonnes
2012	9,353	7,273	16,626
2013	7,656	7,025	14,681
2014	9,516	7,840	**17,356**

■ Combustion of fuel and operation of facilities (gas, oil, all travel)

■ Electricity, heat, steam and cooling purchased for own use (electricity only)

CO_2e emissions per employee

	tonnes
2012	5.5
2013	4.2
2014	**4.9**

Community

We support the communities in which we operate and encourage our employees to do the same.

In 2014, we donated £1.1 million (2013: £1.0 million) to charitable causes around the world, which included discretionary donations of £0.3 million to charities involved with social welfare.

Payroll giving is encouraged by Schroders and we match up to £2,400 of donations per employee each year. We are increasing our discretionary matching donations in 2015, as part of our continued focus on employee-led charitable giving.

We offer payroll-giving schemes in a number of our international offices. In the UK, 25 per cent. (2013: 25 per cent.) of employees donated in this way in 2014, and the firm made charitable matching donations of £372,000 (2013: £311,000). For the third year running, we received the Payroll Giving Quality Mark Platinum Award from the Charities Aid Foundation which recognises our efforts in this area.

Employees in many of our offices can also take up to 15 hours of paid volunteering leave each year at a registered charity. For volunteering which takes place outside of working hours, we offer 'volunteer time matching' as a donation to the charity, up to £1,200 per employee, per year. This underpins our focus on employee involvement in the community and employee choice in charitable giving.

More information can be found on our website www.schroders.com/cr.

We are recipients of the Payroll Giving Quality Mark Platinum Award.

We are a member of the London Benchmarking Group (LBG).

We are included in the Dow Jones Sustainability Indices (DJSI).

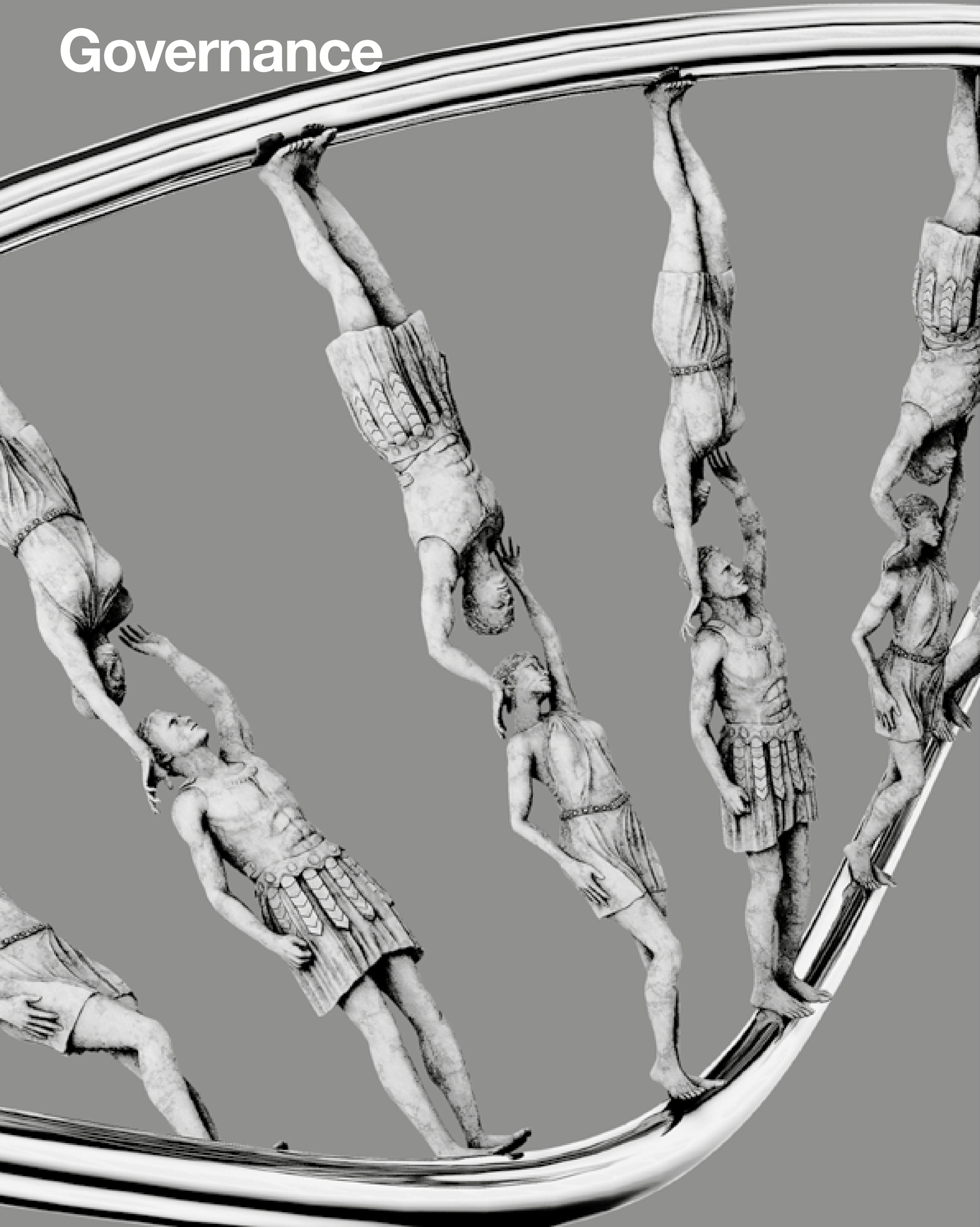
We are included in the FTSE4GOOD Index series.

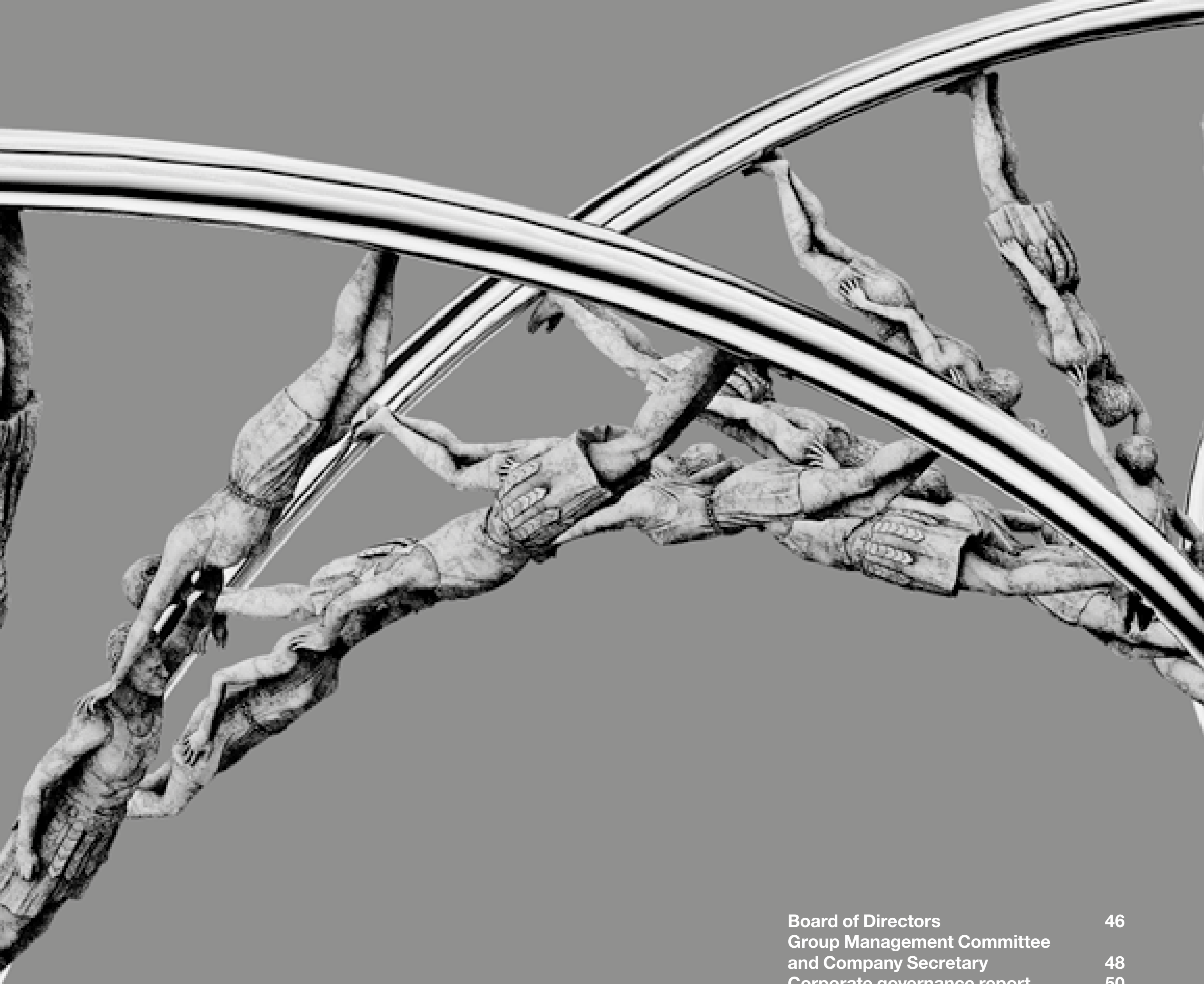
We are a member of Heart of the City's alumni programme.

We participate in the Carbon Disclosure Project (CDP) climate change program.

We are an accredited London Living Wage Employer.

Governance





Chairman and executive Directors

The Board is accountable to shareholders for the creation and delivery of strong, sustainable, financial performance and long-term shareholder value. It is responsible for the oversight of the management of the business and for ensuring high standards of corporate governance.

Andrew Beeson
Chairman (70)

Appointed Chairman in May 2012, having been a non-executive Director since October 2004 and the Senior Independent Director from May 2010 to May 2012.

Experience: He was the founder and Chief Executive of the Beeson Gregory Group and subsequently Chairman of Evolution Group plc, following its merger with Beeson Gregory. He was a founder Director of IP Group plc, and also founded what is now known as the Quoted Companies Alliance.

External appointments: Trustee of the MCC.

Committee membership: Chairman of the Nominations Committee.

Michael Dobson
Chief Executive (62)

Chief Executive since November 2001, having joined the Board as a non-executive Director in April 2001.

Experience: He was previously Chief Executive of Morgan Grenfell Group and a member of the Board of Managing Directors of Deutsche Bank AG.

External appointments: Member of the FCA Practitioner Panel and the President's Committee of the Confederation of British Industry.

Richard Keers
Chief Financial Officer (51)

Appointed a Director and Chief Financial Officer in May 2013.

Experience: He is a chartered accountant and was a Senior Audit Partner of PricewaterhouseCoopers LLP (PwC) until May 2013. He became a partner of PwC in 1997 and has 25 years' experience in the audits of global financial services groups. His experience includes time spent in PwC's New York, Sydney, Edinburgh and London offices.

External appointments: None.

Peter Harrison
Head of Investment (48)

Appointed Head of Investment and a Director in May 2014. He will stand for election at the 2015 Annual General Meeting.

Experience: He began his career at Schroders in 1988 and subsequently held roles at Newton Investment Management as Portfolio Manager, JP Morgan Asset Management as Head of Global Equities and Multi-asset and at Deutsche Asset Management as Global Chief Investment Officer. He was Chairman and Chief Executive of RWC Partners before re-joining Schroders as Global Head of Equities in March 2013.

External appointments: Non-executive Chairman of RWC Partners.

Philip Mallinckrodt
Group Head of Wealth Management (52)

Appointed a Director in January 2009, having joined Schroders in 1994.

Experience: He started his career with Credit Suisse First Boston. He joined Schroders in 1994, and then worked for Citigroup from 2000 to 2002. He rejoined Schroders in 2002.

External appointments: Member of the International Advisory Council of the Brookings Institution.

Massimo Tosato
Executive Vice-Chairman and Global Head of Distribution (60)

Appointed a Director in August 2001, having joined Schroders in 1995.

Experience: He was a founding partner and Chief Executive Officer of Cominvest SpA. and a partner and Managing Director of Euromercantile SpA. He was Vice President of the European Fund and Asset Management Association from 2011 until 2013.

External appointments: Member of the Board of Overseers at Columbia Business School, Trustee of the Parasol Unit Foundation for Contemporary Art, London and a non-executive Director of Nutmeg Saving and Investment Limited. He is also a member of the Forum of European Asset Managers.

Non-executive Directors

Luc Bertrand
Senior Independent Director (64)

Appointed Senior Independent Director in May 2012, having been a non-executive Director since March 2006. He will step down as a Director at the conclusion of the 2015 Annual General Meeting.

Experience: He started his career with Bankers Trust and held various corporate finance positions in New York, London and Amsterdam (1974-1980).

External appointments: He is Chief Executive of Ackermans & van Haaren N.V., an Independent Director of ING Belgium and a number of not-for-profit companies; Chairman of the Guberna Belgian Institute; Member of the Advisory Council of INSEAD Belgium; and Director of KU Leuven (University of Leuven).

Committee membership: Member of the Nominations and the Remuneration Committees.

Ashley Almanza
Independent non-executive Director (51)

Appointed a non-executive Director in August 2011.

Experience: He held a number of executive positions at BG Group including Executive Vice President UK, Europe and Central Asia and Chief Financial Officer from 2002 to 2011. He is a chartered accountant and holds an MBA (London Business School).

External appointments: He is Chief Executive Officer of G4S plc and a non-executive Director of Noble Corporation.

Committee membership: Chairman of the Audit and Risk Committee and a member of the Nominations Committee. He stepped down from the Remuneration Committee on 1 October 2014.

Robin Buchanan
Independent non-executive Director (62)

Appointed a non-executive Director in March 2010.

Experience: He served as the Senior Partner of Bain & Company Inc. in the UK for 12 years and remains a senior adviser. He was Dean and President of London Business School. He is a chartered accountant and holds an MBA (Harvard Business School).

External appointments: Chairman of Michael Page International plc and a non-executive Director of LyondellBasell Industries N.V. He is Chairman of the Investment Committee of Access Industries, and a senior adviser to Coller Capital Ltd.

Committee membership: Member of the Remuneration, Nominations and Audit and Risk Committees.

Lord Howard of Penrith
Independent non-executive Director (69)

Appointed a non-executive Director in November 2008.

Experience: He was previously the Deputy to the Chairman of Lehman in Europe until 1998 and was the Partner in charge of international fixed income at Phillips & Drew. He was also Chairman of Tarchon Capital Management LLP from 1998 until March 2013.

External appointments: Chief Investment Officer at Beazley plc.

Committee membership: Chairman of the Remuneration Committee. Member of the Nominations and Audit and Risk Committees.

Nichola Pease
Independent non-executive Director (53)

Appointed a non-executive Director in September 2012.

Experience: She has over 30 years' experience in the asset management and stock broking industries. She was the Chief Executive and then Deputy Chairman of J O Hambro Capital Management Ltd from 1998 until 2008. She was a Trustee and Chairman of the Investment Committee and Member of the Audit Committee of Guy's and St. Thomas' Charity.

External appointments: Non-executive Member of the Executive Committee of the Army Board and Chairman of the Army Independent Assurance Committee, Chairman of Investment 2020 and a Member of the Eton College Investment Committee.

Committee membership: Member of the Remuneration, Nominations and Audit and Risk Committees.

Bruno Schroder
Non-executive Director (82)

Appointed a Director in January 1963.

Experience: He is the great-great-grandson of John Henry Schroder, co-founder of the Schroders businesses in 1804. He joined the Schroder Group in London where he worked in the Commercial Banking and Corporate Finance divisions of J. Henry Schroder Wagg & Co Ltd, London.

External appointments: Director of a number of private limited companies.

Committee membership: Member of the Nominations Committee.

Group Management Committee and Company Secretary

Michael Dobson
Chief Executive (62)

Responsible for the management of the overall business and the strategic development of the Group.

Richard Keers
Chief Financial Officer (51)

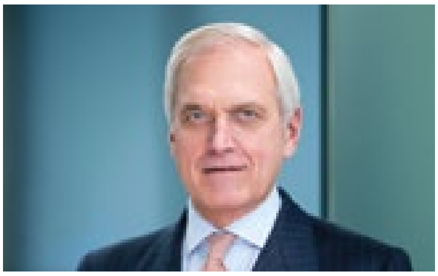
Responsible for financial management, risk management, tax, capital and treasury, corporate development, human resources and corporate services.

Peter Harrison
Head of Investment (48)

Responsible for the Group's global Investment division.

Philip Mallinckrodt
Group Head of Wealth Management (52)

Responsible for the Group's Wealth Management business, Real Estate Investment team and corporate responsibility.



Massimo Tosato
Executive Vice-Chairman and Global Head of Distribution (60)

Responsible for the Group's global Distribution function, including sales, marketing, product development and product management.

Company Secretary

Graham Staples
Company Secretary (53)

Experience: He joined Schroders in 2004. Previously, he held senior company secretarial, compliance and business development roles at NatWest, Barclays, TSB and Computershare.

Responsibilities: Secretary to the Board of Schroders plc and the GMC. He is responsible for the Group's governance, advising the Board and GMC on all governance matters.

Geoff Blanning
Head of Emerging Market Debt and Commodities (52)

Experience: He joined Schroders in 1998 and developed the Commodity and Currency investment teams. He previously managed Global Bond Funds at N M Rothschild and Bankers Trust before developing and managing Morgan Grenfell's first Emerging Market Debt Fund in 1993.

Responsibilities: He is responsible for the investment performance of the Emerging Market Debt, Commodities and Currencies team within the Investment division.

Karl Dasher
Head of North America and Co-Head of Fixed Income (45)

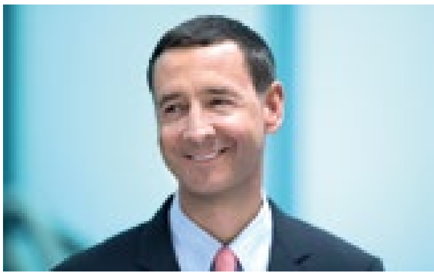
Experience: He joined Schroders in 2007 as Global Head of Product and became Head of Fixed Income in October 2008. He previously worked at SEI Investments in various investment roles, including Chief Investment Officer between 2004 and 2007.

Responsibilities: He is responsible for the Group's operations in North America and is also Co-Head of Fixed Income.

Philippe Lespinard
Co-Head of Fixed Income (51)

Experience: He joined Schroders in 2010 as Chief Investment Officer for Fixed Income. He was previously a partner at Brevan Howard and Chief Investment Officer at BNP Paribas Asset Management.

Responsibilities: Within the Investment division, he is jointly responsible for Fixed Income.



Nico Marais
Head of Multi-asset and Portfolio Solutions (51)

Experience: He joined Schroders in March 2011 from BlackRock, where he was Head of Global Active Portfolio Management in the Multi-asset client solutions group in London. His investment career began in 1989 at the South African Reserve Bank before joining the World Bank in 1994. He joined Barclays Global Investors in 2000 and held various investment roles.

Responsibilities: He is responsible for the Multi-asset and Portfolio Solutions business within the Investment division.

Richard Mountford
Head of Asia Pacific (56)

Experience: He joined Schroders in 1980 as a UK equities analyst and held a number of investment roles before becoming Regional Managing Director for South East Asia in 1991. In 2004, he was appointed Head of UK Distribution and in 2008 became Global Head of Intermediary Sales.

Responsibilities: He is responsible for the Group's operations in the Asia Pacific region.

Nicky Richards
Global Head of Equities (48)

Experience: She began her investment career at Schroders in 1987 as an assistant fund manager. She went on to hold a number of senior roles in the firm including Head of Australia and Head of Hong Kong. She was subsequently Group Investment Officer of Fidelity International and Chief Executive and Chief Investment Officer of MLC Investment Management in Australia. She re-joined Schroders in 2014 as Global Head of Equities and was appointed to the GMC.

Responsibilities: She is responsible for Equities within the Investment division.

Markus Ruetimann
Chief Operating Officer (56)

Experience: He joined Schroders in 2004 from UBS Global Asset Management where he was Global Head of Technology and Portfolio Services. Prior to that he was Chief Operating Officer for Phillips & Drew in London from 1988 to 1998.

Responsibilities: He has global responsibility for Institutional Portfolio Services, Fund Services, Information Technology and Change and Project Management.

John Troiano
Global Head of Institutional (56)

Experience: He joined Schroders in 1981 as an investment analyst and became Head of the US equity team in 1988. He established Schroders' emerging market equity capability in 1991. He was appointed Global Head of Institutional in 2003 and became Deputy Head of Distribution in September 2012.

Responsibilities: He is responsible for the Group's global Institutional business within Distribution. As Deputy Head of Distribution, he shares responsibility for the Distribution division, including sales, marketing, product development and product management.

Howard Trust
General Counsel (60)

Experience: He joined Schroders in 2003 from Barclays where he held various roles including Group General Counsel and Board Secretary. He qualified as a solicitor with Lovell, White & King, before joining Morgan Grenfell in 1985.

Responsibilities: He is responsible for the Group's Compliance, Legal and Governance/Corporate Secretariat functions.

Our focus is on the long term, supported by a robust and effective governance framework.

The Board is responsible for the oversight of the management of the Group and for ensuring high standards of conduct throughout the business. In overseeing the business, the Board's focus is on the long term and this focus is supported by a robust and effective governance framework. In preparing the Annual Report and Accounts, the Board and its principal Committees have considered the provisions of the UK Corporate Governance Code, changes to legislation, regulation and best practice corporate reporting and, where appropriate, guidance issued by stakeholder representative bodies. As one of Europe's largest listed asset management companies, Schroders takes its conduct and stewardship responsibilities seriously. We aim to apply the same high standards of corporate governance as we expect from the companies in which we invest.

Following the acquisitions of Cazenove Capital and STW in 2013, one of our key areas of focus in 2014 was on the integration of these businesses. This included ensuring our culture and values remained constant across the enlarged business.

Governance framework

Schroders' Corporate Governance Guidelines set out the expectations and responsibilities of the Board, its Committees and the Directors. With continuing change in governance best practice and regulatory expectations, the Guidelines and the Group's other core governance documents (which include the Schedule of Matters Reserved to the Board and the terms of reference of the Board Committees) are reviewed regularly. They are available on our website.

The Group's governance framework was subject to an internal audit during the year. The findings of this audit reaffirmed the strength of our governance framework, which supports both short and long-term decision making throughout the firm.

The global regulatory and governance environment continues to evolve and while the Board is confident that the Group's governance arrangements continue to be effective this will continue to be an area of focus for the foreseeable future.

Andrew Beeson
Chairman
4 March 2015

This report is intended to give shareholders a clear and comprehensive picture of the Group's governance arrangements and how they operated during the year.

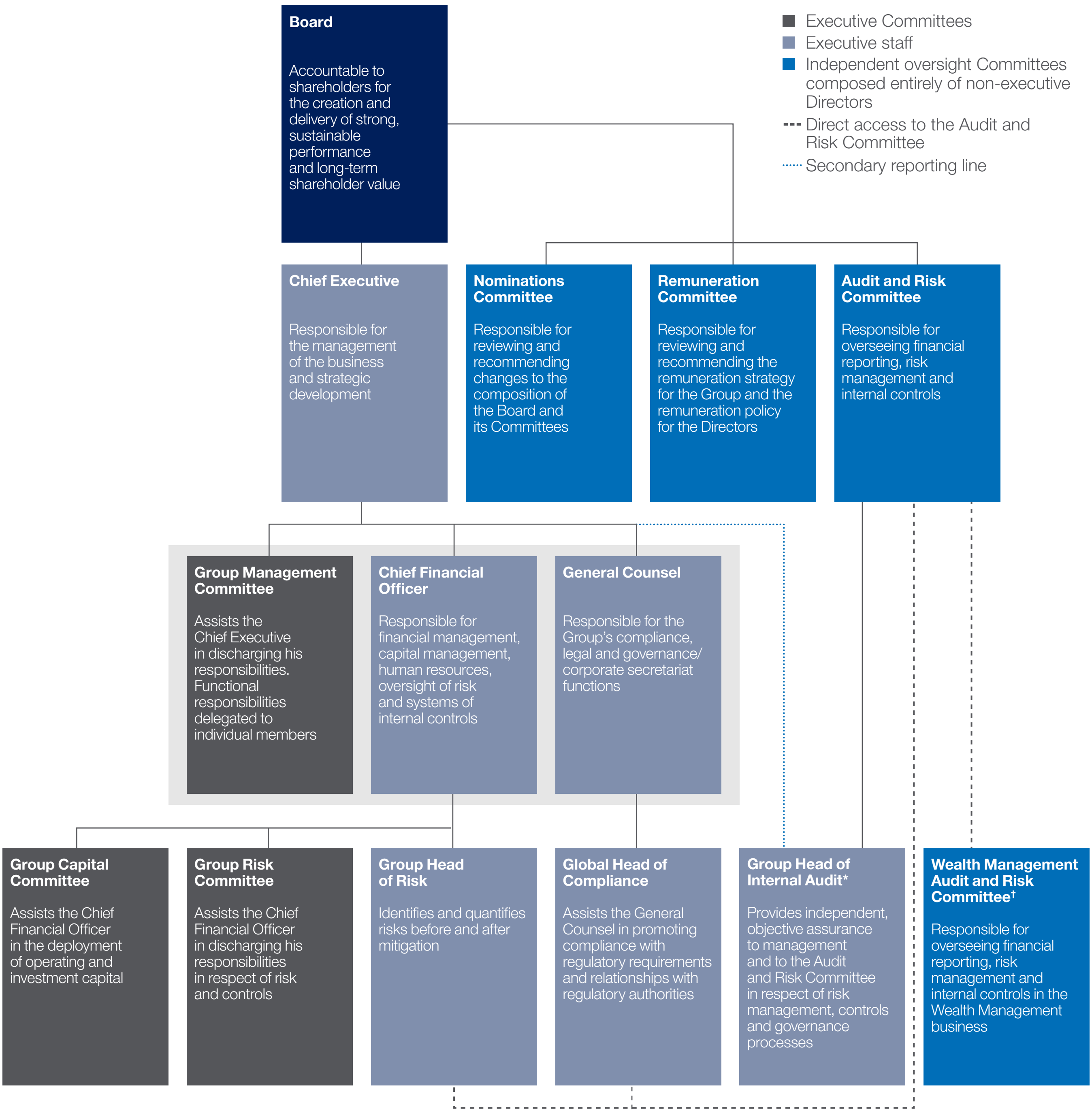
The report structure is as follows:

Responsibilities of the Board and its Committees

The diagram below illustrates the Group's core governance framework, how authority is delegated from the Board and how independent oversight at Board level is organised.

The Board is authorised to manage the business of the Company in accordance with the Company's Articles of Association. The Articles of Association may be amended by special resolution of shareholders, unless the Articles specify otherwise. The Board is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Board seeks to achieve this through its own decision-making, by delegating responsibilities to Board Committees and by delegating authority to manage the business to the Chief Executive within the constraints set by the Board. Some decisions can only be taken by the Board, including the Group's overall strategy, significant new business activities and the strategy for the management of the Group's investment capital. The full Schedule of Matters Reserved to the Board can be found on our website www.schroders.com/ir. The principal Board Committees comprise the Nominations Committee, the Audit and Risk Committee and the Remuneration Committee. Reports from each of these Committees follow.

Governance framework



* Reports to the Chairman of the Audit and Risk Committee.
† Composed of independent non-executive Directors of Schroder & Co Limited.

Chairman's Committee

In addition to the principal Board Committees, the Chairman's Committee, whose membership is comprised of the non-executive Directors only, provides the Directors with an opportunity to discuss matters without management present. This is not a formal Committee of the Board.

Responsibilities of the Group Management Committee

The Chief Executive delegates specific responsibilities to members of the Group Management Committee (GMC). They manage the day-to-day operations of the Group and support the Chief Executive in the delivery of his and the Board's objectives. The GMC meets fortnightly and is chaired by the Chief Executive. The members and their areas of responsibility are shown on pages 48 and 49.

Board effectiveness

The Board is committed to operating effectively. Three important elements which support Board effectiveness are its composition; how it keeps abreast of developments affecting the business; and how it monitors its own performance. Details of the Board's succession planning arrangements are set out in the Nominations Committee report on page 54. Details of the Board's development arrangements, which include induction, training, ongoing briefing sessions and performance evaluation, are set out opposite.

Details of Board and Committee membership and attendance at Board and Committee meetings by the members in 2014 are set out below. Details of Directors' experience are set out on pages 46 and 47.

Members' attendance in 2014	Board	Nominations Committee	Audit & Risk Committee	Remuneration Committee
Andrew Beeson, Chairman	5/5	2/2	–	–
Executive Directors				
Michael Dobson	5/5	–	–	–
Peter Harrison	4/4	–	–	–
Richard Keers	5/5	–	–	–
Philip Mallinckrodt	5/5	–	–	–
Massimo Tosato	5/5	–	–	–
Non-executive Directors				
Ashley Almanza	5/5	2/2	5/5	2/2
Luc Bertrand	5/5	2/2	–	3/4
Robin Buchanan	5/5	2/2	5/5	2/2
Lord Howard	5/5	2/2	5/5	4/4
Nichola Pease	5/5	2/2	5/5	2/2
Bruno Schroder	5/5	2/2	–	–

Board focus during 2014

During the five scheduled Board meetings, the Board considered reports from the Chief Executive on the performance of the business, including Investment, Distribution, Wealth Management, Infrastructure and the progress on integration of the two acquisitions made in 2013, Cazenove Capital and STW; the Chief Financial Officer's review of the Group's financial performance, including investment capital and liquidity; and reports on matters considered by the Remuneration, Audit and Risk and Nominations Committees.

One Board meeting was held in Zurich and focused on our Wealth Management business globally. The Board also reviewed our Swiss asset management business.

During the year, the Board considered the longer-term strategic challenges and opportunities for the Group and oversight of significant parts of the business including:

- Our Equities, Fixed Income and Multi-asset businesses;
- North America;
- Investment performance;
- The potential impact of political, regulatory and consumer pressures;
- Technology, the digital world and the impact of the digital revolution;
- Talent, development and succession;
- Risk matters including the Group's capital requirements and ICAAP;
- Governance and regulatory developments, including Board effectiveness and our conduct framework;
- Non-executive Directors' fees;
- Entering into a relationship agreement with certain shareholders; and
- The provision of external audit services.

Further information on how Schroders is responding to longer-term growth opportunities is set out on page 10.

Induction training

New Directors receive a personalised induction programme to familiarise them with their duties and the Group's businesses, operations, risks and governance arrangements.

The Company Secretary develops an induction programme in consultation with the new Director, the Chairman and the Chief Executive. The programme usually involves meeting Board members and senior members of the management team covering the full spectrum of our business. In addition, Directors receive information on the Group's strategy, material projects under consideration or which have been considered recently and the Group's history, culture and values. The induction programme also covers the Directors' statutory and regulatory responsibilities.

Robin Buchanan and Nichola Pease joined the Remuneration Committee on 1 October 2014. A tailored induction was provided that focused on relevant technical matters including Schroders' remuneration policies and plans; remuneration regulations and governance for asset management firms and financial services companies more broadly; remuneration regulations and governance for UK listed companies; and remuneration disclosure requirements.

Briefing sessions for Board members

Briefing sessions are held to inform Directors of developments in the business, the asset management and wealth management industries and other external factors, including changes to regulation. The effectiveness of briefing sessions is kept under review and Directors are asked to identify any specific development needs as part of the Board evaluation process. The sessions are conducted by management or external advisers. In 2014, briefings were provided on our official institutions and Real Estate businesses; how we service our major clients; and how the Wealth Management service centre in Zurich supports our Wealth Management business globally.

Board evaluation

The 2014 evaluation process was undertaken internally through the use of a questionnaire and discussions between the Chairman and individual Directors.

Luc Bertrand, as Senior Independent Director, led the evaluation of the Chairman at a meeting with the non-executive Directors and the Chief Executive. The key points arising from the evaluation were documented and discussed with the Chairman.

The 2014 evaluation process confirmed that we continued to make progress in addressing the issues identified in previous evaluations, particularly with respect to the use of unstructured discussions outside Board meetings and the enhancement of strategy discussions through more analysis of the external landscape.

Reflecting the Board's approach to long-term thinking, the principal finding from the 2014 evaluation was that Directors were acutely aware of the need to keep focusing on our long-term strategy and in particular the potential impact the external environment might have on our strategy. Succession at both the executive and non-executive level was also seen as a key area of focus going forward. The Chairman discussed the findings of the evaluation with the Board at the March 2015 meeting and both of these principal issues will be kept under review throughout the year.

The performance of the Chief Executive in managing the business was considered by the Chairman and the non-executive Directors. The Chairman provided feedback to the Chief Executive.

Our objective is to maintain a Board comprising a diverse range of skills and experience which is able to provide constructive challenge to management.

In 2014 we appointed Peter Harrison to the Board and commenced a search for an independent non-executive Director to replace Luc Bertrand when he steps down from the Board in May 2015. This was part of our continuing focus on medium-term succession planning including the structure and composition of the Board. During the year the Committee also considered the composition of the Board Committees and changes were made to the membership of the Remuneration Committee.

Andrew Beeson
Chairman of the Nominations Committee
4 March 2015

Committee membership and attendance at Committee meetings during 2014 are shown on page 52. Details of members' experience are set out on pages 46 and 47.

The Chief Executive is usually invited to attend Committee meetings.

Responsibilities

The role of the Committee is to make recommendations to the Board in relation to the composition of the Board and its Committees and to ensure appropriate succession plans are in place.

Activities

Following our review of succession plans and Board skills in 2013, we commenced a search for a new non-executive Director to replace Luc Bertrand, who will step down from the Board at the 2015 Annual General Meeting. We have made good progress with this search. We have considered a wide range of high quality candidates and we expect to make an appointment by the time Mr Bertrand retires from the Board, or shortly thereafter. In appointing a new non-executive Director, our objective will be to maintain a Board comprising a diverse range of skills and experience which is able to provide constructive challenge to management.

The Committee also focuses on the executive members of the Board. Peter Harrison joined Schroders in March 2013 as Head of Equities and was appointed Head of Investment in May 2014. Reflecting the contribution Mr Harrison made during his first year and his appointment as Head of Investment, the Committee recommended he join the Board. Following his appointment, the Board was no longer

The key areas of the Committee's work cover:

- Reviewing the size and composition of the Board and its Committees;
- Board succession planning including identifying and recommending, for the approval of the Board, candidates to fill Board and Committee vacancies;
- Making recommendations to the Board with respect to the role, capabilities and time commitment for each appointment, giving due consideration to the balance of skills, experience and knowledge on the Board and the benefits of diversity;
- The procedure for the appointment of new Directors;
- Developing and recommending appropriate criteria for Director independence;
- Reviewing the terms of appointment for non-executive Directors; and
- Conducting an annual review of the Committee's performance.

fully compliant with the UK Corporate Governance Code requirements regarding the composition of company boards with five executive Directors, five independent non-executive Directors, Bruno Schroder, a non-executive but not deemed independent, and the Chairman who was deemed to be independent on appointment. The Committee is fully aware of this and is confident that the skills, quality and diversity of our five independent non-executive Directors ensure that the interests of shareholders are appropriately represented at all times. Mindful of the requirements of the UK Corporate Governance Code and the benefits of having a Board that is not too large in number to be effective, the Committee is considering the longer term structure and composition of the Board.

The Committee regularly reviews the time commitment required for Directors to discharge their responsibilities effectively and had no concerns regarding the time commitment of any Director. Ashley Almanza stepped down from the Remuneration Committee but continues to chair the Audit and Risk Committee. Robin Buchanan and Nichola Pease joined the Remuneration Committee.

Luc Bertrand joined the Board in March 2006. Having served for nine years he will stand down as a Director and the Senior Independent Director at the conclusion of the 2015 Annual General Meeting. On the recommendation of the Committee, Lord Howard will take on the role of Senior Independent Director at the conclusion of the 2015 Annual General Meeting.

Diversity

The Board recognises the importance of diversity and that diversity is a wider issue than gender. Members of the Board should collectively possess the diverse range of skills, expertise, industry knowledge and business and other experience necessary for the effective oversight of the Group. The Board believes in the value and importance of diversity throughout the Group and has not considered it appropriate, or in the interests of the Company or its shareholders, to set prescriptive, quantitative diversity targets.

Fundamental to increasing diversity is the development of a pipeline of talented and diverse employees within the business. More information on our approach to diversity can be found on page 42 in the Corporate responsibility section.

The Nominations Committee considers diversity, including the balance of skills, experience, gender and nationality amongst many other factors when reviewing the appointment of new Directors.

Annual General Meeting

The Committee reviewed the Directors standing for election or re-election at the Annual General Meeting, taking into account their effectiveness and commitment. The Committee reviewed the independence of the non-executive Directors and concluded that all were independent, other than Bruno Schroder due to his relationship with the principal shareholder group and because he has served on the Board for more than nine years. With the exception of Lord Howard, all continuing independent non-executive Directors have served less than six years on the Board. As Lord Howard has served more than six years with the Company, his proposal for re-election was given particular consideration. The Committee agreed that all non-executive Directors continued to make an effective contribution to the Board's deliberations. In addition, the Board reviewed actual or potential conflicts of interest for each Director and all Directors standing for election or re-election are recommended by the Committee and the Board. Following changes to the Listing Rules which took effect in May 2014, the appointment of independent directors must be approved by a simple majority of all shareholders and by a simple majority of the independent shareholders. Further details are set out in the 2015 Notice of Annual General Meeting.

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 and Odgers Berndtson, who are independent of Schroders, have been used in the search for a new non-executive Director. The Group also used Odgers Berndtson for senior management search assignments during the year. No other advisers were engaged by the Committee.

Evaluating the performance of the Committee

The annual evaluation of the Committee's effectiveness was undertaken as part of the overall Board evaluation process and the findings relating to the Nominations Committee were discussed and reviewed by the Committee.

Andrew Beeson
Chairman of the Nominations Committee
4 March 2015

Schroders' control environment is underpinned by a strong, positive combination of culture, standards and systems.

A significant proportion of the Committee's time was spent reviewing the Group's system of risk management and internal control; the integrity of financial reporting; and the effectiveness of the Group's third and fourth lines of defence, internal and external audit.

During the year the Committee's focus was on the continuing appropriateness of the Group's financial reporting. In particular this included the significant financial judgements taken in 2013, and the ongoing assessment of risks faced by the business and management's response to these risks.

Schroders' control environment is underpinned by a strong, positive combination of culture, standards and systems. This is invaluable in delivering long-term success for clients and shareholders.

Ashley Almanza
Chairman of the Audit and Risk Committee
4 March 2015

Committee membership and attendance at Committee meetings during 2014 are shown on page 52. Details of members' experience is set out on page 47.

At the invitation of the Chairman of the Committee, the Chairman, Chief Executive, Chief Financial Officer and Bruno Schroder attended most meetings. Other regular attendees who advised the Committee were the Group Financial Controller, the heads of Compliance, Risk and Internal Audit and the General Counsel. Other members of senior management were also invited to attend as appropriate. Representatives from the Group's auditor, PwC, attended all of the Committee's scheduled meetings.

During 2014, two private meetings were held with PwC without management present. Private meetings were also held with the Chief Financial Officer and the heads of the Compliance, Risk and Internal Audit functions. These meetings provided an opportunity for matters to be raised confidentially.

Responsibilities and activities

The Committee seeks to encourage and safeguard high standards of integrity and conduct, financial reporting, risk management and internal controls. Its activities cover audit and operational 'business as usual' issues and risks as well as emerging and thematic risks.

The principal areas of the Committee's work in 2014 are summarised below.

The key areas of the Committee's work cover:

Financial Reporting, Financial Controls and Audit

- The content and integrity of financial reporting;
- The appropriateness of accounting judgements;
- The effectiveness of the external auditors; and
- Recommending to the Board the appointment of external auditors.

Risk and Internal Controls

- The Group's risk and control framework, including the Group's whistleblowing procedures;
- The Group's regulatory processes and procedures and its relationships with regulators, including money laundering officers' reports;
- The Group's internal audit function; and
- Emerging and thematic risks which may have a material impact on the Group's operations in the future.

Financial Reporting, Financial Controls and Audit

The Committee reviews the half-year and annual results and the Annual Report, before recommending them to the Board for approval. The Committee reviews whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements, including those in respect of financial assets, goodwill and intangible assets, consolidation of funds, provisions, contingent liabilities and retirement benefit obligations.

During the year, the Committee also received reports from Finance on the operation of the controls over the financial reporting process including the Group's consolidated accounts and key processes for revenue and rebates, expenses and financial assets. This outlined the financial reporting control framework, including the operation of a Group-wide general ledger, consolidation system and preventative and detective controls, and key resources responsible for their operation. On revenue, including performance fees, and rebates the Committee discussed enhancements to operational processes and findings from PwC in these areas. Key controls in Finance are subject to external audit as well as being periodically tested by Internal Audit.

The Committee also considers reports from PwC providing an independent assessment of financial reporting, an audit opinion on the Annual Report and an independent report on the half-year results.

In the case of the Annual Report the Committee also considers whether it can recommend to the Board that the Annual Report and Accounts when taken as a whole is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy. To support the Committee in making this recommendation it assessed the key messages being communicated in the Annual Report and, when forming its opinion, the Committee considered the information it had received and its discussions throughout the year. Following its review, the Committee agreed the 2014 Annual Report is representative of the year and the Annual Report was recommended to the Board for approval.

The Committee is required to report to shareholders on the process it follows in its review of 'significant' judgemental issues it has considered during the year. These significant issues are set out below:

Significant financial judgements and financial reporting for 2014	**How these were addressed**
The key judgements used in determining the provisions and contingent liabilities where there is uncertainty over the timing of settlement or amount. See note 19 to the accounts.	Detailed reports were prepared by Finance, addressing judgemental issues and estimates which included actual or potential claims against the Group. These outlined the assumptions used in determining the level of provisions. These judgements were considered with management and were also discussed in detail with PwC. As part of this regular review, the Committee considered the value of the provision made in 2013, in accordance with International Financial Reporting Standards, for the Group's Swiss bank's voluntary participation in the US Department of Justice programme that applies industry wide to Swiss banks. The Committee considered and discussed with management and PwC the work performed to confirm the value of the provision, the main areas of uncertainty and the appropriateness of the related disclosures contained within this Annual Report and Accounts. The Committee considers that the judgements made by management in respect of all of the provisions and contingent liabilities are reasonable and that appropriate disclosures have been included in the accounts.
Risk of impairment in goodwill and intangible assets acquired through business combinations and exceptional items. See notes 1(c) and 14 to the accounts.	The Committee considered reports prepared by Finance that set out the considerations in assessing potential indicators of impairment and the work performed by management in establishing key assumptions and forming judgements in support of their final conclusions. The Committee's review included specific discussions with management and PwC in relation to the acquisitions made in 2013 and the performance of the acquired business since acquisition. Having considered the supporting information, the Committee was satisfied with management's conclusions that no impairment was required. The Committee also considered the continued presentation of exceptional items within a separate column in the consolidated income statement. This presentation is considered appropriate as it provides a transparent view of certain items and the underlying performance of the business. For 2014 those exceptional items principally comprise amortisation of acquired intangible assets, deferred compensation and integration costs arising from the 2013 acquisitions.

External audit

The Committee places great importance on the quality and effectiveness of the external audit process.

Each year, at the conclusion of the audit, the Committee evaluates the performance of the external auditors. This includes an assessment through a questionnaire completed by Directors and senior management across the Group. In 2014, PwC was assessed on independence, effectiveness and cost. Audit effectiveness is also assessed throughout the year using a number of measures, including:

- Reviewing the quality and scope of the proposed audit plan and progress against the plan;
- Responsiveness to changes in our business;
- Monitoring the independence and transparency of the audit and the auditor; and
- Reviewing the Financial Reporting Council's Audit Quality Review (AQR) reports for the 'Big Four' audit firms.

There were no significant adverse findings from the 2014 evaluation and the Committee concluded that PwC continued to provide a high quality audit. The assessment of the auditors' effectiveness forms part of the Committee's annual consideration of whether the auditors should be recommended to the Board for reappointment or whether the external audit appointment should be subject to tender.

There are no contractual or similar obligations restricting the Group's choice of external auditors.

PwC, or its predecessor firms, have been the Company's auditors since Schroders became a listed company in 1959. In line with the new EU audit regulation requirements the Company will be required to replace PwC as statutory auditor by 2020. This regulation will then require Schroders to undertake a formal tender process at least every ten years. The last formal tender process was undertaken in 2012 and resulted in the reappointment of PwC with a new lead engagement partner. The lead engagement partner is required to be replaced every five years in accordance with existing regulation and his tenure will therefore conclude on completion of the audit of the 2017 Annual Report.

In order to help safeguard the independence and objectivity of the auditors, the Committee maintains a policy on the engagement of the external auditors to provide non-audit services. This precludes the provision of services that might lead to a conflict of interest and contains rules regarding the approval of permitted non-audit services.

The Committee has delegated authority to management to consider and approve the provision of permitted non-audit services by the auditor with a value for each engagement below £100,000. Any engagement at or above this level or where total fees for non-audit services are expected to exceed certain thresholds, requires prior approval from the Chairman of the Committee. In addition, the Committee approves all proposed taxation services to be provided by the external auditor. Prior to undertaking any non-audit service, PwC also completes its own independence confirmation processes which are approved by the senior statutory auditor. To provide the Committee with oversight in this area, it receives six-monthly reports on the non-audit services provided by PwC.

During the year the total fees paid to PwC were:

	2014 £m	2013 £m
Audit	2.9	3.0
Audit-related	0.3	0.2
Non-audit related		
– Assurance services	0.6	0.7
– Tax advisory services	0.4	0.7
– Tax compliance services	0.4	0.5
– Other non-audit services	0.3	1.5
Total non-audit related	1.7	3.4
Total	**4.9**	**6.6**
Percentage of audit and audit-related fees to total fees	65%	48%

The Committee was satisfied that the quantity and type of non-audit work undertaken did not impair PwC's independence or objectivity and that their appointments were in the best interests of shareholders due to PwC's pre-existing knowledge of the Group's operations and practices. The Group's overall approach is only to use PwC where there is a strong case to do so in preference to obtaining the services from an alternative supplier. In anticipation of new regulatory restrictions on the use of statutory auditors for non-audit work, the Group has continued to seek to diversify its supplier base, particularly for human resources and certain tax-related services, to reduce the level of non-audit services fees paid to PwC. In doing so, firms outside the 'Big 4' audit firms have been invited to tender for certain services.

The Committee is also responsible for the policy on the employment of former employees of the external auditors and the policy that restricts Finance employees from entering into personal contractual arrangements with the external auditors. These policies were reviewed and approved by the Committee during the year.

Risk and internal controls

The Board has overall responsibility for the Company's system of internal controls, the ongoing monitoring of risk and internal control systems and for reporting on any significant failing or weaknesses.

The system of control is designed to manage rather than eliminate the risk of failure to achieve our strategic goals and can only provide reasonable assurance against material misstatement or loss. The Board has delegated to the Committee responsibility for reviewing the effectiveness and monitoring of the risk and internal controls framework.

On behalf of the Board, the Committee carried out the annual assessment of the effectiveness of internal controls during 2014, including those related to the financial reporting process. In addition, the Committee considered the adequacy of the Group's risk management arrangements in the context of the Group's business and strategy. In carrying out its assessment the Committee considered reports from the Group Financial Controller and the heads of Compliance, Risk and Internal Audit and also from PwC which enabled an evaluation of the effectiveness of the Group's internal controls, and no significant failings or weaknesses were identified.

The Committee keeps under review the Group's risk management arrangements and internal controls through quarterly reports.

Compliance reports describe the status of our relationships and dealings with our principal global regulators and material changes in the regulatory environment in which the Group operates. The reports also outline key compliance issues, and the planning and execution of the compliance monitoring programme. Reports on the compliance monitoring programme highlight matters arising from reviews of key compliance issues or thematic areas selected on a risk prioritised basis, including any recommendations for enhancement of regulatory risk mitigation.

Risk reports set out changes in the level or nature of the risks faced by the Group, developments in risk management and operational events, including significant errors and omissions. Separate reports allowed the Committee to consider the key risks faced by the Group and assessments of risk tolerance, as well as the construction, output and stress testing of the ICAAP. The Group's Pillar 3 disclosures, which are available on our website, were also reviewed by the Committee. Key topics discussed by the Committee included operational, investment, regulatory, legal, counterparty credit, acquisition integration and technology risks, contingent liabilities and internal controls.

Internal Audit reports review progress against a rolling plan of audits approved by the Committee, and include significant findings from audits and their subsequent remediation, and recommendations to improve the control environment. The Committee has authority to appoint or remove the Group Head of Internal Audit, who reports directly to the Chairman of the Committee. The Chairman of the Committee is accountable for setting the objectives of the Group Head of Internal Audit, appraising his performance against those objectives and for recommending his remuneration to the Remuneration Committee, with advice from the Chief Executive. The Committee also has responsibility for approving the Internal Audit budget and being satisfied that the Internal Audit function has appropriate resources and continues to be effective.

The Group's three lines of defence model, as set out on pages 32 and 33, provides an ongoing process for identifying, evaluating and mitigating risks faced by the Group. The model together with the most significant developments in the risk profile of the business and a description of how we control and manage risks are set out on pages 32 to 39.

During 2014 we established an independent Audit and Risk Committee for the Wealth Management business, chaired by an independent non-executive Director of Schroder & Co. Limited. The Committee receives reports from the Wealth Management Audit and Risk Committee at each meeting and the Chairman of the Wealth Management Audit and Risk Committee will attend a meeting of the Committee at least once each year.

Lessons learned from operational events, together with the ongoing development of the control functions and general market practice, mean there are often matters that are monitored through specific reports and periodic updates. Where appropriate, these are assessed against a targeted timescale for delivery.

The Committee is responsible for reviewing the Group's whistleblowing arrangements by which employees may, in confidence, raise concerns about behaviour or decisions that could indicate potential wrongdoing or possible improprieties in matters of financial reporting or any other matter relating to the Group's operations. The Committee also oversees arrangements for the proportionate and independent investigation of such matters and for appropriate follow-up action. During the year, the Committee reviewed the Group's arrangements and determined that they continued to be appropriate.

The Committee also considers emerging and thematic risks that may have a material impact on the Group. During the year, the Committee considered information security and the threat posed by cyber-crime; the implementation of the US Foreign Account Tax Compliance Act; a review of the controls environment in Wealth Management; conduct; a review of business critical applications including spreadsheets; and how the Group manages regulatory change.

The Group's overall approach to corporate income tax is reviewed annually. In addition to receiving an assessment from management, the Group's approach to corporate income tax is discussed with the external auditors. More details on our approach to corporate income tax are set out on pages 40 and 98.

The Committee was content with the effectiveness of the Group's processes governing financial and regulatory reporting, its ethical standards and its relationships with regulators. The Committee was satisfied with the appropriateness and adequacy of the Group's risk management arrangements as well as the supporting risk management systems including the risk monitoring processes, internal controls framework and three lines of defence model.

Evaluating the performance of the Committee

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 and Risk Committee were discussed with the Committee Chairman.

Ashley Almanza
Chairman of the Audit and Risk Committee
4 March 2015

Compliance with the UK Corporate Governance Code 2012

UK Corporate Governance Code 2012 ('the Code')
Throughout the year, the Company has applied the main principles of the Code. With the exception of provision B.1.2 regarding the composition of the Board, the Company has complied with all the provisions of the Code, as set out below.

Copies of the Code can be obtained from the UK Financial Reporting Council's website at www.frc.org.uk.

A: Leadership

A.1 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 has adopted Corporate Governance Guidelines which explain how the Company is directed and controlled through the operation of the Board and its Committees. The guidelines are designed to enable the Board and Executive Management to operate within a clear governance framework. A copy of the guidelines can be found on our website www.schroders.com/ir.

The Board meets formally on a regular basis to review performance and strategy against its objectives and there is a clear schedule of matters reserved for the Board.

A.2 Division of responsibilities
The separate roles of the Chairman and Chief Executive are set out in writing and have been agreed by the Board. The Chairman is responsible for the leadership and effectiveness of the Board. The Board delegates some responsibilities to Board Committees and the authority to manage the business to the Chief Executive. The Chief Executive is responsible for the executive management and strategic development of the Group and its businesses.

A.3 Role of the Chairman
The Chairman, who was independent on appointment, is responsible for leading the Board, ensuring its effectiveness, setting agendas for meetings, and promoting a culture of openness and constructive debate. As Chairman of the Nominations Committee, the Chairman also oversees the Board's succession planning.

A.4 Role of the non-executive Directors
Non-executive Directors are expected to monitor and challenge the performance of management in meeting agreed objectives while satisfying themselves on the integrity of financial information, and that financial controls and risk management systems are robust and appropriate.

The non-executive Directors participate fully in open and constructive Board and Committee meetings and their views are actively sought, particularly when setting strategy. During the year the Chairman and non-executive Directors also met, as the Chairman's Committee, on two occasions prior to Board meetings. Matters discussed included strategy, succession planning and feedback from the 2013 Board evaluation.

B: Effectiveness

B.1 Composition of the Board
The Board believes that it operates most effectively with an appropriate balance of executive Directors, independent non-executive Directors and Directors who have a connection with the Company's principal shareholder group. No individual or group of individuals should be in a position to dominate the Board's decision making.

With the appointment of Peter Harrison as an executive Director in May 2015 the Board's composition is not compliant with the Code. The Nominations Committee report on page 54 sets out how the Committee has reviewed the Board's composition and is continuing its search for a new non-executive Director. Biographies provided on pages 46 and 47 identify the experience that each Director brings to the Board. Bruno Schroder does not meet the test for independence under the Code in view of his relationship with the principal shareholder group and because he has served on the Board for more than nine years. No-one other than Committee members is entitled to attend Committee meetings.

B.2 Appointments to the Board
The Nominations Committee, which comprises all the non-executive Directors, leads the process for Board appointments and makes recommendations to the Board. The Nominations Committee report on page 54 describes the role of the Committee. The rules providing for the appointment, election, re-election and removal of Directors are contained in the Company's Articles of Association.

B.3 Time commitments
Directors' terms of appointment set out that Directors are expected to commit sufficient time to discharge their duties. The Board considers the time commitments of all Directors standing for election or re-election before making a recommendation to shareholders. The Board has adopted a policy that does not allow executive Directors normally to take up more than one non-executive directorship. Non-executive Directors are required to notify the Chairman before taking on any additional appointments. Details of external appointments are set out on pages 46 and 47. Letters of appointment and service contracts are available for shareholders to view at the Company's registered office on business days between the hours of 9 a.m. and 5 p.m. and will be available at the Annual General Meeting.

B.4 Development
Details of the Board's approach to development, including induction and training, are set on page 53.

B.5 Information and support
The Company Secretary ensures that appropriate and timely information is provided to the Board and its Committees and that there are good information flows between senior management and non-executive Directors. The Company Secretary is responsible for advising and supporting the Chairman and the Board on all governance matters. All Directors have access to the advice and services of the Company Secretary and can arrange through him to receive professional advice independently of the Company, at the Company's expense.

B.6 Evaluation
Details of the Board's approach to the evaluation of its effectiveness are set out on page 53.

B.7 Re-election of Directors
The Company has decided that all Directors should retire and stand for re-election by shareholders annually. All Directors stood for election or re-election at the 2014 Annual General Meeting. Accordingly, other than Luc Bertrand, who will retire from the Board on 30 April 2015 at the conclusion of the Annual General Meeting, all Directors will stand for election or re-election at the 2015 Annual General Meeting. The Notice of Annual General Meeting sets out relevant information to enable shareholders to make an informed decision on the election and re-election of Directors.

C: Accountability

C.1 Financial and business reporting
The Directors' statement of responsibilities for the preparation of the Annual Report and Accounts, which, when taken as a whole, is considered fair, balanced and understandable and as providing the information necessary for shareholders to assess the Company's performance, business model and strategy, is set out on page 77. The going concern statement can be found on page 63. The Strategic report is on pages 2 to 43 and 81 to 91.

Ashley Almanza, Chairman of the Audit and Risk Committee and who is a chartered accountant and was chief financial officer of BG Group plc until March 2011, is considered by the Board to have recent and relevant financial experience.

C.2 Risk management and internal control

The Board determines the nature and extent of the principal risks it is willing to take in achieving its strategic goals and maintains sound risk management and internal control systems that are reviewed annually. The activities of the Audit and Risk Committee, which supports the Board in discharging this responsibility, are set out on page 59. Key risks that would threaten the business model or future performance, solvency and liquidity together with their mitigations are set out on pages 34 to 39. Control processes can provide only reasonable and not absolute assurance against material financial misstatement or loss and are designed to mitigate, not eliminate, risk. The responsibilities in respect of risk and internal control do not extend to the Group's joint ventures and associates.

C.3 Audit Committee and auditors

The Audit and Risk Committee report on pages 56 to 59 describes the responsibilities of the Committee and how it ensures the auditor's objectivity, effectiveness and continued independence.

D: Remuneration

D.1 Level and components of remuneration

Details on Directors' remuneration and how the Company promotes the alignment of interests between Directors, clients and shareholders by linking reward to performance are explained in the Remuneration report on page 64.

D.2 Procedure for developing policy on executive remuneration

The Group's approach to setting remuneration policy is set out in the Remuneration report on page 67. The current policy was approved by shareholders at the 2014 Annual General Meeting.

E: Relations with shareholders

E.1 Dialogue with shareholders

The Board ensures that the Company maintains its relationship with shareholders through a regular programme of presentations and meetings to inform institutional investors, analysts and prospective shareholders, attended by the Chief Executive, Chief Financial Officer and other senior executives. The Company holds in excess of 100 such meetings each year. Information about significant developments, financial statements and other corporate information is available on our website. Feedback from shareholders is reported to the Board.

The Senior Independent Director is available to shareholders as an alternative means of communication with the Board should they have concerns that cannot be resolved by discussions with the Chairman or executive Directors.

E.2 Constructive use of the AGM

The Annual General Meeting provides shareholders with an opportunity to question the Board. The Chief Executive provides a review of the Group's performance and informs shareholders of the first quarter results. The Annual Report and Accounts and the Notice of Annual General Meeting are available to shareholders at least 20 working days before the meeting. All Directors are available to attend the Annual General Meeting and the results of the poll on the resolutions proposed are published on the Company's website as soon after the meeting as practicable.

Ownership, capital structure and voting rights

Ownership, capital structure and voting rights

Schroders has developed under stable ownership for more than 200 years and has been a public company listed on the London Stock Exchange since 1959. The Schroder family interests are in shares owned directly or indirectly by trustees of various trusts settled by family individuals, in shares owned by family individuals, and in shares owned by a family charitable trust. If aggregated, these interests amount to 108,323,711 ordinary shares (47.93 per cent.) of the Company's ordinary shares. These interests include the shares subject to relevant statutory and regulatory disclosures, being shares held by the trustees, and which are set out in the table below.

Following changes made to the UK Listing Rules in May 2014, companies with a shareholder or shareholders who could, when acting in concert, exercise 30 per cent. or more of the voting rights of a company at a general meeting, are required to enter into a binding agreement with that shareholder or shareholders. This is intended to ensure that the parties to the agreement comply with certain independence provisions as set out in the Listing Rules. Accordingly, on 14 November 2014, the Company entered into such an agreement (the 'Relationship Agreement') with a number of shareholders who own or control the ordinary shares (and associated voting rights) referred to above.

In accordance with Listing Rule 9.8.4(14), the Board confirms that, since entering into the Relationship Agreement on 14 November 2014 until 31 December 2014:

(i) the Company has complied with the independence provisions included in the Relationship Agreement; and

(ii) so far as the Company is aware, the independence provisions included in the Relationship Agreement have been complied with by the other parties to the Relationship Agreement and their associates.

The Company's share capital is comprised of ordinary shares of £1 each and non-voting ordinary shares of £1 each. Both are listed on the London Stock Exchange.

226,022,400 ordinary shares (80 per cent. of the total issued share capital) were in issue throughout the year. The Company has no authority to issue or buy back any ordinary shares. Each ordinary share carries the right to attend and vote at general meetings of the Company.

The non-voting ordinary shares were created in 1986 to facilitate the operation of an employee share plan without diluting the voting rights of ordinary shareholders. The non-voting ordinary shares carry the same rights as ordinary shares except that they do not provide the right to attend and vote at general meetings of the Company and that, on a capitalisation issue, they carry the right to receive non-voting ordinary shares rather than ordinary shares.

When the non-voting ordinary shares were created the ratio of ordinary shares to non-voting ordinary shares was 4:1. The Company has at times issued non-voting ordinary shares, principally in connection with the Group's employee share plans. The Company has not intended and does not intend to increase the issued non-voting ordinary share capital over the medium term and therefore has, at times, bought back non-voting ordinary shares.

At the 2014 Annual General Meeting shareholders gave approval for the Company to buy back up to 14,100,000 non-voting ordinary shares. Shareholders also renewed the Directors' authority to issue non-voting ordinary shares up to an aggregate nominal value of £5,000,000 in order to provide the Directors with the flexibility to issue non-voting ordinary shares or to grant rights to subscribe for, or convert securities into, non-voting ordinary shares. Renewal of these authorities will be sought at the 2015 Annual General Meeting. The 2015 Annual General Meeting will be held at 11.30 a.m. on 30 April 2015. The deadline for appointing a proxy is 11.30 a.m. on 28 April 2015.

At the start of the year there were 56,695,070 non-voting ordinary shares in issue. During the year no non-voting ordinary shares were issued and 189,470 non-voting ordinary shares (0.33 per cent. of the non-voting ordinary shares in issue at that time) were bought back and cancelled. As at 31 December 2014, 56,505,600 non-voting ordinary shares (20 per cent. of the total issued share capital) were in issue, none of which were held in treasury, thereby restoring the ratio of ordinary shares to non-voting ordinary shares in issue to 4:1.

No further transactions were undertaken between 1 January 2015 and 3 March 2015 inclusive, being the latest practicable date before the publication of this Annual Report and Accounts.

Under the terms of the Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust, the trustees may vote in any way they think fit. In doing so, they may consider the financial and non-financial interests of the beneficiaries and their dependents. As at 3 March 2015, being the latest practicable date before the publication of this Annual Report, the Schroders Employee Benefit Trust and the Schroder US Holdings Inc. Grantor Trust held 11,482,727 ordinary shares and 329,291 non-voting ordinary shares respectively.

Under the terms of the Restricted Growth Share Plan and the Share Incentive Plan (see page 76), shares are held in trust on behalf of plan participants. At the participants' direction, the trustees can exercise the voting rights in respect of their share entitlements.

There are no restrictions on the transfer of the Company's shares save for:
- restrictions imposed by laws and regulations;
- restrictions on the transfer of shares imposed under the Company's Articles of Association or under Part 22 of the UK Companies Act 2006, in either case following a failure to supply information required to be disclosed following service of a request under section 793 of the UK Companies Act 2006; and
- restrictions on the transfer of shares held under certain employee share plans while they remain subject to the plan.

The Company is not aware of any agreement between shareholders which may restrict the transfer of securities or voting rights.

Substantial shareholdings

As at 31 December 2014, the Company had received notifications, in accordance with rule 5.1.2R of the Disclosure and Transparency Rules, of interests in three per cent. or more of the voting rights attaching to the Company's issued share capital, as set out in the table below.

There had been no changes to these notifications as at the date of this report.

Notifier	Class of shares	No. of voting rights held indirectly	% of voting rights held indirectly
Vincitas Limited[1]	Ordinary	60,724,609	26.87
Veritas Limited[1]	Ordinary	36,795,041	16.28
Flavida Limited[2]	Ordinary	60,951,886	26.97
Fervida Limited[2]	Ordinary	40,188,706	17.78
Harris Associates L.P.[3]	Ordinary	15,969,200	7.07

1 Vincitas Limited and Veritas Limited act as trustees of certain settlements made by members of the Schroder family and are party to the Relationship Agreement.
2 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. Flavida Limited and Fervida Limited are party to the Relationship Agreement.
3 Harris Associates L.P. is not party to the Relationship Agreement.

Directors' report

The information contained in the sections of this Annual Report and Accounts identified below forms part of this Directors' report:

- Strategic report (which includes the separate shaded sections contained within the Financial report identified as the Financial review);
- Board of Directors;
- Corporate governance report, including the Nominations Committee report and the Audit and Risk Committee report; and
- the Statement of Directors' responsibilities.

Dividends

The Directors are recommending a final dividend of 54.0 pence per share which, if approved by shareholders at the Annual General Meeting, will be paid on 6 May 2015 to shareholders on the register of members at the close of business on 27 March 2015. Dividends payable in respect of the year, subject to this approval, along with prior year payments, are set out below.

The Schroders Employee Benefit Trust, the Schroder US Holdings Inc. Grantor Trust and the Cazenove Employee Benefit Trust have waived their rights to dividends paid on both the ordinary and non-voting ordinary shares in respect of 2014 and future periods. See notes 9 and 23 to the accounts.

Directors' share interests

The interests in the securities of the Company of the Directors who were on the Board in 2014 can be found in the Remuneration report on page 74.

Corporate responsibility

Details of the Company's employment practices, including diversity and employee involvement, and of CO_2e emissions can be found in the Corporate responsibility section of the Strategic report on pages 40 to 43.

Indemnities and Insurance

At the 2007 Annual General Meeting, shareholders authorised the Company to provide indemnities to, and to fund defence costs for, Directors in certain circumstances. All Directors at the time shareholder approval was received were granted specific deeds of indemnity and any Director appointed subsequently has been granted such an indemnity. This means that on their appointment, new Directors are granted an indemnity as defined in the Companies Act 2006 in respect of any third-party liabilities which they may incur as a result of their service on the Board. All Directors' indemnities were in place during the year and remain in force.

Directors' and Officers' Liability Insurance is maintained by the Company for all Directors.

As part of the integration of Cazenove Capital, the Cazenove Capital Management Limited Pension Scheme was merged with the Schroders Retirement Benefits Scheme with effect from 31 December 2014. Pursuant to that merger, a qualifying pension scheme indemnity (as defined in section 235 of the Companies Act 2006) provided for the benefit of the directors of Cazenove Capital Management Pension Trustee Limited, a subsidiary of Schroders, remains in force. This indemnity provision covers, to the extent permitted by law, certain losses or liabilities incurred by the directors of Cazenove Capital Management Pension Trustee Limited in connection with that company's activities as trustee of the Cazenove Capital Management Limited Pension Scheme.

Change of control

Directors' and employees' employment contracts do not normally provide for compensation for loss of office or employment as a result of a change of control. However, the provisions of the Company's employee share schemes may cause awards granted to employees under such schemes to vest on a change of control.

Political donations

No political donations or contributions were made or expenditure incurred by the Company or its subsidiaries during the year (2013: nil) and there is no intention to make or incur any in the current year.

UK Listing Authority Listing Rules ('LR') – compliance with rule 9.8.4C

The majority of the disclosures required under LR 9.8.4 are not applicable to Schroders. The table below sets out the location of the disclosures for those requirements that are applicable:

Applicable sub-paragraph within LR 9.8.4	Disclosure provided
(12) Details of any arrangements under which a shareholder has waived or agreed to waive any dividends	See page 63
(13) Where a shareholder has agreed to waive future dividends, details of such waiver together with those relating to dividends which are payable during the period under review.	See pages 63, 99 and 122
(14) A statement made by the Board that the Company has entered into an agreement under LR 9.2.2A, that the Company has, and, as far as it is aware, the other parties to the agreement have, complied with the provisions in the agreement.	See page 62

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. In addition, the financial statements include information on the Group's approach to managing its capital and financial risk; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

The Group has considerable financial resources, a broad range of products and a geographically diversified business. As a consequence, the Directors believe that the Group is well placed to manage its business risks in the context of the current economic outlook.

Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis in preparing the Annual Report and Accounts.

By Order of the Board

Graham Staples
Company Secretary
4 March 2015

Dividends

	2014		2013		2012		2011		2010	
Ordinary shares and non-voting ordinary shares	**pence**	**£m**	pence	£m	pence	£m	pence	£m	pence	£m
Interim	24.0	64.7	16.0	43.1	13.0	34.7	13.0	34.7	11.0	29.8
Final	54.0*	146.0	42.0	113.0	30.0	80.4	26.0	69.4	26.0	70.7
Total	78.0	210.7	58.0	156.1	43.0	115.1	39.0	104.1	37.0	100.5

* Subject to approval by shareholders at the 2015 Annual General Meeting.

Our approach to remuneration reflects the culture and values of Schroders and our focus on the long term.

At Schroders, we recognise that our success depends on helping our clients to meet their long-term financial goals. This is inherent in our approach to remuneration. We pay for performance, with clear alignment to client and shareholder interests through significant deferrals into Fund and Share awards.

Schroders in 2014 has again delivered record results. Profit before tax and exceptional items was up 11 per cent. to £565.2 million. Investment performance* for clients remains strong with 78 per cent. of funds outperforming over the three years to the end of 2014. This, together with a strong distribution capability, has been key to growing our assets under management to £300.0 billion, including net new business wins of £24.8 billion in 2014. This success has translated into a 34 per cent. increase in the total dividend per share for the year.

The compensation to net revenue ratio and profit share ratio are two of our key measures, which cap compensation for all employees, including Directors, and align it with financial performance (see page 69). We target a compensation to net revenue ratio of 45 to 49 per cent. depending on market conditions. For 2014, the Board originally targeted a ratio of 47 per cent., up from 46 per cent. in 2013 when performance fees were unusually high. The record revenues in 2014 have allowed us to reduce this ratio to 45 per cent., at the bottom of our target range. The profit share ratio was reduced to 37 per cent. (2013: 38 per cent.).

Variable compensation for executive Directors reflects the Company's results relative to key performance indicators and the Company's performance against its strategic objectives, as well as personal performance. Last year, we introduced clawback terms to all our deferred compensation plans. This year we have added clawback terms to the cash element of each Director's annual bonus for 2015 performance onwards.

The Committee has again reviewed the merits of capping variable remuneration at an individual level. We continue to believe that our approach to remuneration is in the best interests of shareholders.

* See Glossary.

Structure of the Remuneration report

It allows us to attract, retain and motivate the best talent, who know that good performance and behaviour in line with our values will be rewarded. It also allows us to keep base salaries relatively low, controlling the fixed cost base when times are challenging.

In March 2015, the Long Term Incentive Plan (LTIP) awards made in 2011 vested at 50 per cent. of the original awards. The earnings per share target was not met, despite the very strong performance of the Group, generating EPS growth of 45 per cent. over the performance period, as well as £45.3 billion of net new business. This supports the Committee's view that the performance conditions for the LTIP are highly demanding.

In March 2014, we increased executive Directors' salaries for the first time since 2007. Non-executive Directors' fees were also reviewed during 2014, having been unchanged since July 2011, and fees were increased from July 2014 where appropriate (see page 68).

In 2014 we discontinued our formulaic sales incentive programmes in Europe and Asia. The employees who participated in them now participate in the firm-wide discretionary bonus scheme, which allows for a wider range of qualitative performance metrics to be considered when setting variable compensation. The Committee also approved the wider use of Fund awards as part of deferred compensation, aligning compensation with client outcomes for more employees.

We have paid in line with the remuneration policy approved by shareholders last year. Each year, the Committee reviews how shareholders voted on remuneration, together with any feedback received. Our remuneration policy received significant support from shareholders at the 2014 Annual General Meeting, with 92 per cent. of votes cast in favour. We have summarised the policy on pages 67 and 68 and the full policy is on our website www.schroders.com/ir.

The Board and Committee continue to monitor the regulatory environment closely in order to assess the potential implications for the Group's remuneration policies.

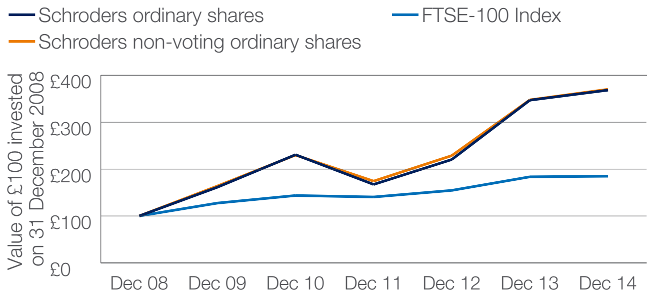
I hope we will receive your support for our Remuneration report at the Annual General Meeting.

Lord Howard of Penrith
Chairman of the Remuneration Committee
4 March 2015

How we performed – pages 69 and 71 provide more information

Key performance indicator	Target	2014 actual	2013 actual
Three-year investment performance*	At least 60 per cent. of AUM to outperform benchmark	78%	68%
Net new business	Positive net new business	£24.8bn	£7.9bn
Cost:net revenue ratio	65 per cent.	64%	65%
Compensation cost:net revenue ratio	45 to 49 per cent. depending on market conditions	45%	46%

Performance of Schroders plc shares against the FTSE-100 Index



Executive Directors' remuneration and shareholdings – pages 70 to 72 and 75 provide more information

The left-hand chart compares each executive Director's single total remuneration figures for 2014 and 2013. The right-hand chart compares each executive Director's shareholdings as at 3 March 2015 with the level of shareholding required under the personal shareholding policy.

Executive Director	Year	Single total remuneration figure (£'000): Fixed / Annual Bonus / LTIP	Total	Value of shareholding vs shareholding policy (% of salary)	
Michael Dobson Chief Executive	2014	7% / 85% / 8%	8,155	Policy	300
	2013	6% / 76% / 18%	8,414	Actual	4,361
Peter Harrison[1] Head of Investment	2014	9% / 91%	4,169	Policy	300
	2013			Actual	356
Richard Keers[2] Chief Financial Officer	2014	16% / 84%	2,664	Policy	300
	2013	14% / 86%	1,578	Actual	221
Philip Mallinckrodt[3] Group Head of Wealth Management	2014	16% / 74% / 10%	2,600	Policy	300
	2013	13% / 66% / 21%	2,670	Actual	1,865
Massimo Tosato Executive Vice-Chairman and Global Head of Distribution	2014	11% / 84% / 5%	4,770	Policy	300
	2013	11% / 77% / 12%	4,688	Actual	1,694

■ Fixed ■ Annual Bonus ■ LTIP

1 Peter Harrison was appointed to the Board on 21 May 2014. The left-hand chart above represents his full-year remuneration in respect of 2014.
2 Richard Keers joined Schroders and was appointed to the Board on 5 May 2013.
3 Philip Mallinckrodt's shareholding above is his holding derived from employment. It does not include his other share interests. See page 74.

Executive Directors' remuneration policy overview – page 67 provides more information

Components of executive Directors' remuneration.

Base salary: To reflect the executive Directors' roles and responsibilities. Salaries are kept relatively low by industry standards and adjusted only infrequently.

Benefits: To enable the executive Directors to undertake their role by supporting their health and wellbeing. Benefits are relatively low by industry standards for executive Directors.

Pension: To enable provision of retirement benefits. Pension benefits are relatively low by industry standards for executive Directors.

Annual bonus award: To drive the achievement of business priorities for the financial year, to align pay with performance and promote the long-term success of the Company. Approximately 50 per cent. is deferred to align Directors' interests with those of shareholders and clients.

Long Term Incentive Plan (LTIP): To incentivise long-term performance and the achievement of strategic priorities. The performance hurdles are highly demanding.

* See Glossary.

Responsibilities of the Remuneration Committee

The responsibilities of the Committee include:
- Reviewing the Group's remuneration strategy and recommending the Directors' remuneration policy to the Board;
- Determining the remuneration of executive Directors;
- Determining the remuneration of the Company Secretary, reviewing the remuneration of the heads of Compliance, Internal Audit, Risk and the General Counsel, monitoring the level and structure of remuneration for other senior employees, and overseeing employee compensation more broadly across the Group;
- Recommending to the Board the annual spend on fixed and variable compensation;
- Reviewing the design and operation of share-based remuneration and other deferred remuneration plans;
- Overseeing any major change in the employee benefits structure throughout the Group;
- Reviewing the remuneration disclosures required and ensuring compliance with those requirements; and
- Receiving and considering feedback from shareholders and representative shareholder bodies.

The Board amended the terms of reference for the Committee in March 2015 to reflect the new UK Corporate Governance Code. This is available at **www.schroders.com/ir**.

Committee membership and attendance at Committee meetings during 2014 are shown on page 52. Lord Howard was Chairman of the Committee and Luc Bertrand was a member throughout 2014. Robin Buchanan and Nichola Pease joined as members of the Committee on 1 October 2014, when Ashley Almanza stepped down. Details of members' experience are set out on page 47.

At the invitation of the Committee Chairman, the Chief Executive and Chief Financial Officer attended four meetings. Bruno Schroder attended two meetings and Andrew Beeson attended one meeting. The Chief Executive and Chief Financial Officer were not present during discussions relating to their own remuneration.

The Group Head of Risk, the Global Head of Compliance and the General Counsel also advised the Committee on matters that could influence remuneration decisions. The Global Head of Human Resources and the Head of Compensation and Benefits attended meetings to provide advice and to support the Committee with secretarial services.

Remuneration principles

The Committee has developed the remuneration policy with a number of principles in mind. The overall policy is designed to promote the long-term success of the Group. It should be:

Competitive	Employees receive a competitive compensation and benefits package, which is reviewed annually and benchmarked by reference to the external market.
Aligned with shareholders	A significant proportion of variable remuneration is delivered in the form of deferred awards over Schroders shares, thereby aligning the interests of employees and shareholders. In addition, executive Directors and other members of the GMC are required, over time, to acquire and retain a holding of Schroders shares or rights to shares equivalent in value to 300 per cent. of annual base salary (see page 75).
Aligned with clients	A proportion of key employees' deferred remuneration is delivered as Fund awards, which are notional investments in funds managed by the Group, thereby aligning the interests of employees and clients.
Aligned with financial performance	Total variable compensation is managed as a percentage of pre-bonus profit before tax and exceptional items, determined by the Committee and recommended to the Board. The total spend on compensation is managed as a percentage of net revenue. This approach aligns compensation with financial performance.
Designed to encourage retention	Deferred variable compensation does not give rise to any immediate entitlement. Awards normally require the participant to be employed continuously by the Group until at least the third anniversary of grant in order to vest in full.

Directors' remuneration policy summary

The Directors' remuneration policy is summarised on pages 67 and 68. Shareholders approved the policy at the 2014 Annual General Meeting. It is expected to apply for three years from the date of that meeting. The full Directors' remuneration policy can be found on pages 68 to 73 of our Annual Report and Accounts 2013 which is available on our website at www.schroders.com/ir.

Summary of the remuneration policy for executive Directors

The table below summarises the key components of remuneration for executive Directors. The remuneration policy for non-executive Directors is summarised on page 68.

Component	Operation	Further information
Base salary To reflect the executive Directors' roles and responsibilities.	Base salary is paid monthly via payroll. We aim to pay base salaries comparable to other large international asset management firms, and relatively low compared to other listed financial services firms and FTSE-100 companies.	Executive Directors' base salaries are reviewed annually but adjusted infrequently. Executive Directors' salaries were increased with effect from 1 March 2014, having previously been increased in 2007.
Benefits To enable the executive Directors to undertake their role by supporting their health and wellbeing.	Executive Directors receive a cash allowance to fund their benefit elections under the UK flexible benefits plan, on the same basis as other UK employees. Benefits available include private healthcare; life assurance; accidental death, injury or sickness insurances; and the **Share Incentive Plan (SIP)**, outlined on page 76.	Massimo Tosato also benefits from additional permanent total disability cover, life assurance cover and private health care.
Pension To enable provision for retirement.	Executive Directors may participate in the UK pension arrangements, or receive cash in lieu of pension, on the same basis as other employees. Base salary up to a maximum of £250,000 is the only pensionable element of remuneration. The Group's contributions are currently 16 per cent. of pensionable salary, plus a contribution to match employee contributions up to a further two per cent. of salary.	Michael Dobson receives a fixed annual cash allowance of £46,000 in lieu of pension.
Annual bonus award To incentivise the achievement of business priorities for the financial year and to attract, motivate, retain and reward executive Directors over the medium to long term, aligning their interests with those of shareholders and clients.	Executive Directors are eligible to receive an annual bonus award. Awards in respect of each financial year are discretionary and non-pensionable. The level of each individual's award is based on Group, business area and individual performance. Of any annual bonus for executive Directors, 50 per cent. is initially deferred into awards under the **Equity Compensation Plan (ECP)**, which are released after three years. The ECP is explained in more detail below. The level of ECP award is reduced if a Long Term Incentive Plan award has been granted during the year, as outlined below.	In determining the annual bonus award for the Chief Executive and other executive Directors, the Committee takes account of a number of financial and non-financial factors intended to give a broad assessment of performance, which are stretching, transparent and rigorously applied. The Committee's assessment of performance and pay for 2014 is outlined on page 71.
Long Term Incentive Plan To incentivise long-term performance and the achievement of strategic priorities, while maximising alignment with shareholder interests.	Executive Directors are eligible to participate in the **Long Term Incentive Plan (LTIP)**. Annual LTIP awards can be up to four times salary for any individual and have a four-year performance period. Where a LTIP award has been made during the year, the level of ECP award in respect of the year is reduced by 25 per cent. of the grant value of the LTIP award. The LTIP is explained in more detail below.	Executive Directors typically receive an award under the LTIP in March each year. The Committee sets performance targets for each award. As for previous awards, performance targets for awards to be made in 2015 relate to: – Earnings per share (EPS); and – Net new business (NNB).

Further details on deferred bonuses and LTIP:

Equity Compensation Plan (ECP)

The ECP is the Group's main deferral arrangement for annual bonus awards, including for executive Directors.

ECP awards relate to the past year's performance and are not subject to any further performance conditions. In order to provide an incentive to stay at Schroders, ECP awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by the Group until the third anniversary of grant in order to vest in full.

Deferrals are delivered as a combination of ECP Share awards, which are conditional rights to acquire shares in the Company at nil cost, and ECP Fund awards, which are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds. In 2015, deferrals were generally delivered equally between ECP Share awards and ECP Fund awards, subject to a minimum Fund award of £10,000. At the Company's discretion, ECP Share awards may be settled in cash. Additional shares equivalent to the dividends and associated tax credits accrue until the award is exercised.

Long Term Incentive Plan (LTIP)

LTIP awards are only made to executive Directors. LTIP awards are conditional rights to acquire shares in the Company at nil cost. The awards do not give rise to any immediate entitlement and normally require the participant to be employed continuously by the Group until the awards may be exercised. At the end of the four-year performance period, the Committee will determine the extent to which the performance conditions have been achieved and the extent to which the awards may be exercised. LTIP awards may then be exercised within a 12-month period.

The Committee determines the performance conditions and uses its judgement to set challenging criteria that are consistent with the Group's business strategy. The performance conditions are earnings per share (EPS) growth, for 50 per cent. of each award, and net new business (NNB), for the other 50 per cent.

The LTIP performance targets are unchanged from previous years' awards, and are set out in the section on determining the vesting of prior LTIP awards on page 72. Details can be found in the full remuneration policy.

Clawback and malus terms

Deferred remuneration awards made under the ECP since May 2011 and LTIP awards made at any time may be reduced or lapsed in the event of a material misstatement of the Group's financial results or individual misconduct, known as 'malus' terms. Amounts that have been paid or released from awards made since October 2013 may be recovered for a period of 12 months from the date of payment or release in the event of individual misconduct, known as 'clawback' terms. For 2015 performance onwards, clawback terms will apply to all Directors' variable remuneration, including any cash bonus award.

Recruitment of new Directors

The Committee aims to pay executive Directors remuneration that is appropriate in level and structure to attract, motivate, retain and reward Directors of the quality required to run the Group successfully. On recruitment, the level of fixed remuneration is likely to be set at the same level as applies to other Directors, provided this is justifiable by reference to the candidate's skills and experience, and taking into account remuneration in their most recent role, internal relativities and external market rates for roles with similar responsibilities. Benefits and pension entitlements will be provided on a similar basis to those available to other employees.

New executive Directors would be eligible to be considered for annual bonus and LTIP awards in the same way as existing Directors. The Group does not award guaranteed annual bonuses to executive Directors.

Peter Harrison was appointed to the Board on 21 May 2014 as Head of Investment. On appointment, his salary was set at the same level as applied to other executive Directors other than the Chief Executive, which the Committee considered appropriate given his role and responsibilities. He receives benefits and pension provision on the same basis as other employees. He did not receive an LTIP award in March 2014 as he was not a member of the Board at that time.

New non-executive Directors receive fees and benefits in line with the policy for other non-executive Directors.

Summary of the remuneration policy for the Chairman and non-executive Directors

The table below summarises the remuneration policy for non-executive Directors.

Component	Operation	Further information
Fees To reflect the skills, experience and time required to undertake the role.	Non-executive Directors' annual fees are as follows:	Fees for the Chairman and other non-executive Directors are determined by the Board based on market information for comparable asset managers and other financial services groups and the constituent companies of the FTSE-100 Index. Non-executive Directors do not participate in decisions concerning their fees. Fees are usually reviewed biennially. The fees were reviewed during the year and the Chairman's fee and fees for the Chairmen of the Audit and Risk and Remuneration Committees were increased to the levels shown with effect from 1 July 2014 (previously £300,000, £20,000 and £15,000 respectively). No other fee changes were made. Non-executive Directors' fees had not been increased since 2011.
Benefits To enable the Chairman and non-executive Directors to undertake their roles.	Non-executive Directors may receive private use of a Company chauffeur, car parking, meals, travel costs and, in the case of Bruno Schroder, private health care and medical benefits. Non-executive Directors' benefits are principally expenses incurred in carrying out the Group's business and reflect business needs.	Schroders does not pay retirement or post employment benefits to non-executive Directors. They do not participate in any of the Group's incentive arrangements. As a former executive, Bruno Schroder has been in receipt of a pension since April 2007 but ceased accruing any further entitlement in 1993.

	£
Chairman	350,000
Board Member[1]	70,000
Senior Independent Director	10,000
Audit and Risk Committee Chairman[2]	25,000
Audit and Risk Committee Member	20,000
Nominations Committee Chairman	nil
Nominations Committee Member	nil
Remuneration Committee Chairman[2]	20,000
Remuneration Committee Member	20,000

[1] Bruno Schroder also receives an additional annual fee of £28,000 for services to the Group.
[2] In addition to the Committee membership fee.

Directors' service contracts, letters of appointment and termination arrangements

The Group's general policy is that each executive Director will have a rolling contract of employment with mutual notice periods of six months, with the exception of Michael Dobson who is entitled to 12 months' notice from the Company. Michael Dobson and Massimo Tosato have contractual rights on termination in certain circumstances, as set out in the full remuneration policy.

When an executive Director leaves the Group, the Committee will review the circumstances and apply the treatment that it believes is appropriate. Any payments will be determined in accordance with the terms of the service contract between the Group and the employee, as well as the rules of any deferred remuneration plans and the Directors' remuneration policy.

Non-executive Directors are engaged under letters of appointment. They do not have service contracts. They have a mutual notice period of six months, with the exception of Bruno Schroder who does not have a notice period. There are no contractual provisions for non-executive Directors to receive compensation upon termination.

Annual report on remuneration

Pages 69 to 75 constitute the Annual report on remuneration. Shareholders will have an advisory vote on this, together with pages 64 to 66, at the Annual General Meeting (resolution 3 contained in the Notice of Meeting). This section summarises the remuneration awarded to executive and non-executive Directors for services as Directors during the year ended 31 December 2014 and compares this to remuneration awarded for 2013. The Directors' remuneration was compliant with the policy approved by shareholders last year.

This section sets out the context for the Directors' remuneration, including some of the key performance metrics that the Committee considered when setting the overall variable compensation pool and determining executive Directors' bonus awards. It also shows the returns to shareholders over the last six years and the total remuneration of the Chief Executive over the same period. Where required, this information has been audited.

Assessing pay and performance

Group performance (audited)

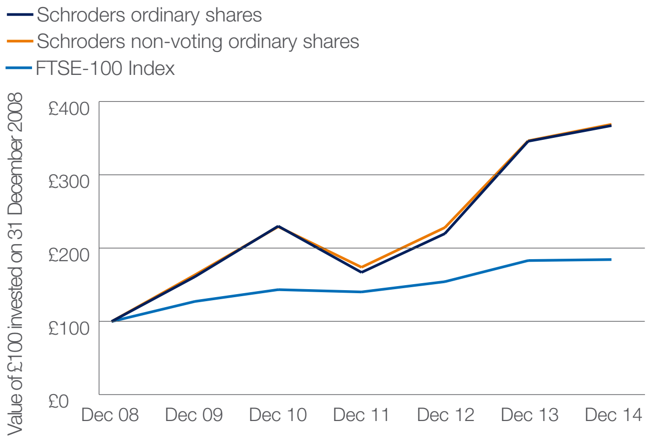
Net revenues increased 9 per cent. in 2014 reflecting continued net new business wins and positive investment returns for clients. The Group saw record profit before tax and exceptional items of £565.2 million, up 11 per cent., and earnings per share before exceptional items of 166.8 pence, up 11 per cent. The Board is recommending a 34 per cent. increase in the total dividend per share for the year.

Net new business was £24.8 billion (2013: £7.9 billion), diversified across a broad range of asset classes and geographies. Assets under management ended the year at a record high of £300.0 billion (2013: £262.9 billion) and 78 per cent. (2013: 66 per cent.) of our assets under management outperformed their benchmark or peer group in the three years to 31 December 2014.*

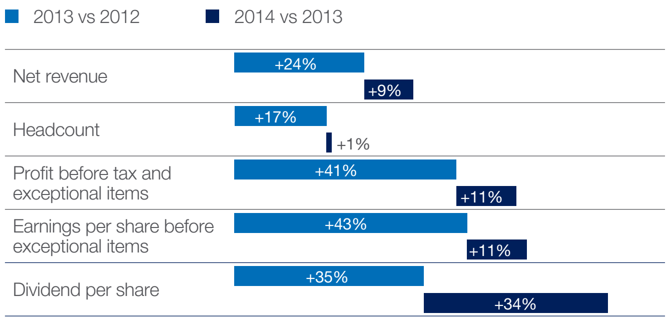
The operating and financial performance of the Group is outlined in more detail in the Strategic Report, beginning on page 2.

Performance of Schroders plc shares against the FTSE-100 Index

The graph below compares the performance of Schroders plc shares with that of the FTSE-100, of which Schroders has been a long-standing constituent. Over the last six years, the index has returned 84 per cent., compared to a 267 per cent. increase in Schroders ordinary share price.



Key metrics



Overall compensation cost across the Group

The total spend on compensation is managed via a profit share ratio, measuring the bonus charge against pre-bonus profit, and via the compensation cost to net revenue ratio. This approach ensures that the interests of employees are aligned with the Group's financial performance.

The Committee received a report from the Chief Executive on the underlying strength and sustainability of the business and reports on risk, legal and compliance matters from the heads of those areas. These were considered as part of the 2014 compensation review.

The Committee determined the variable compensation pool for the year ended 31 December 2014, based on a profit share ratio of 37 per cent. (2013: 38 per cent.) and a compensation to net revenue ratio of 45 per cent. (2013: 46 per cent.). This is at the bottom of our target compensation to net revenue range of 45 to 49 per cent. depending on market conditions.

The Chief Executive allocates the overall pool between the divisions or functions headed by GMC members, taking into consideration the objectives, both financial and non-financial, that were set at the beginning of the year. Variable compensation awards for employees, other than those determined, approved or reviewed by the Committee, are recommended to the Chief Executive by members of the GMC, taking account of individual performance against objectives, the performance of the relevant area and the levels of reward for comparable roles in the market. The Committee was satisfied that the process was rigorous and that the allocation of the pool and the individual bonus awards took account of both financial and non-financial performance, including conduct with respect to client outcomes. The operation of the deferred remuneration plans that utilise Schroders shares are non-dilutive to shareholders as shares to satisfy awards are purchased in the market.

* See Glossary for definition of investment performance.

Single total remuneration figure for each executive Director (audited)

The table that follows shows the total remuneration of each of the executive Directors for the year ended 31 December 2014 and compares with the total remuneration disclosed for them the previous year.

2014 (£'000)	Salary	Benefits	Pension	Annual bonus award	Annual remuneration	LTIP vested[1]	Total remuneration
Michael Dobson	484	27	46	6,900	7,457	698	8,155
Peter Harrison[2]	323	4	42	3,800	4,169	–	4,169
Richard Keers	363	6	45	2,250	2,664	–	2,664
Philip Mallinckrodt	363	19	40	1,925	2,347	253	2,600
Massimo Tosato	363	100	45	4,000	4,508	262	4,770

2013 (£'000)	Salary	Benefits	Pension	Annual bonus award	Annual remuneration	LTIP vested	Total remuneration
Michael Dobson	400	26	46	6,400	6,872	1,542	8,414
Richard Keers[3]	198	4	26	1,350	1,578	–	1,578
Philip Mallinckrodt	300	18	40	1,750	2,108	562	2,670
Massimo Tosato	300	93	117	3,600	4,110	578	4,688

1 Represents the vesting-date market value of shares granted under the LTIP on 11 March 2011. Between the date of grant and the vesting date, the share price, and therefore the value of the LTIP, has increased by 75 per cent. for ordinary shares and 69 per cent. for non-voting ordinary shares. These awards vested on 3 March 2015, based on performance against the performance conditions over the four financial years ended 31 December 2014.
2 Peter Harrison was appointed to the Board on 21 May 2014. His salary, benefits and pension or cash in lieu for the period from his appointment to the Board are included in the figures above, and amounted to £258,000. His bonus was awarded in respect of performance throughout 2014. In setting it the Committee did not differentiate between the periods before and after he joined the Board. A time pro-rated allocation of bonus to the period that he was a member of the Board would be £2,342,000.
3 Richard Keers began employment with Schroders and was appointed to the Board on 5 May 2013. All of his remuneration for 2013 relates to services since his appointment as a Director.

Methodology for determining the single total remuneration figure

Individual components of total remuneration include:

Salary	Represents the value of salary earned and paid during the financial year. As disclosed in the 2013 Annual Report on remuneration, the Committee increased the Chief Executive's salary to £500,000 and the salaries of the other executive Directors to £375,000 with effect from 1 March 2014. Peter Harrison's salary was increased to this level from the date of his appointment to the Board.
Benefits	Includes one or more of: private healthcare, life assurance, permanent total disability insurance, car parking, meals, private use of company chauffeur, SIP matching contributions and cash in lieu of company car or in respect of other discontinued benefits. The premiums Schroders paid for Massimo Tosato's additional permanent total disability cover, life assurance cover and private health care totalled £77,000.
Pensions	Represents cash in lieu of pension for Michael Dobson. Represents the aggregate of contributions to defined contribution pension arrangements and cash in lieu of pension for Peter Harrison, Richard Keers, Philip Mallinckrodt and Massimo Tosato. The table on page 72 shows how the pension figure above is made up for each individual.
Annual bonus award	Represents the total value of the annual bonus award for performance during the relevant financial year. Page 71 shows the breakdown of the bonus into cash paid through the payroll in February and deferred awards granted in March, following the relevant financial year end, and the basis on which annual bonus awards for 2014 were determined. The deferred element of the bonus is reduced by 25 per cent. of the grant value of the LTIP award made in March of the relevant financial year.
LTIP vested	Represents the vesting-date market value of shares awarded under the LTIP on 11 March 2011 that vested on 3 March 2015 based on performance against the performance conditions over the four financial years ended 31 December 2014. More information on the performance achieved, how vesting was determined and the value of the LTIP award at vesting is provided on page 72.

Chief Executive's total remuneration

The Chief Executive's single total remuneration figure over the past six years is shown below, as well as how variable pay plans have paid out each year. This compares to a 267 per cent. return to ordinary shareholders over the same period, which is shown in the graph on page 69.

CEO	Financial year	Single total remuneration figure £'000	Annual bonus award (actual award as a % of six-year highest bonus)[1]	LTIP (vesting as a % of maximum opportunity)[2]
Michael Dobson	2014	8,155	100%	50%
	2013	8,414	93%	100%
	2012	4,870	64%	n/a
	2011	5,570	74%	n/a
	2010	6,267	84%	n/a
	2009	2,867	35%	n/a

1 No maximum annual bonus opportunity was in place so the actual annual bonus award is shown relative to the highest actual award over the last six years.
2 Those years shown as n/a include no LTIP value as the LTIP was introduced in May 2010 and the first award vested on 5 March 2014 based on the four-year performance period ending on 31 December 2013.

Pay for performance – Annual bonus award (audited)

The table below sets out details of how the annual bonus award for each executive Director in respect of performance during 2014 was delivered. ECP awards require the participant to remain in employment with the Group until the third anniversary of grant in order to vest in full. These values are reflected in the single total remuneration figure for each executive Director.

		ECP awards				
2014 (£'000)	Cash bonus award	Share awards	Fund awards	Total ECP award[1]	Total annual bonus award	Percentage of total remuneration
Michael Dobson	3,550	1,675	1,675	3,350	6,900	85%
Peter Harrison	1,900	950	950	1,900	3,800	91%
Richard Keers	1,188	531	531	1,062	2,250	84%
Philip Mallinckrodt	1,025	450	450	900	1,925	74%
Massimo Tosato	2,062	969	969	1,938	4,000	84%

[1] The total ECP award was reduced by 25 per cent. of the face value at grant of any LTIP award made in 2014 (see page 73).

Basis for determining annual bonus awards (audited)

In determining the annual bonus award for the Chief Executive and other executive Directors, the Committee made an assessment of the overall performance of the business and of each individual, including business performance within each individual's responsibilities, as well as individual performance against annual objectives. A number of financial and non-financial factors were taken into account, without attaching a separate weighting to each factor, as follows:

Criteria	Target	Performance in 2014
The trend in profit for the year and appropriate cost control[1]	A cost:net revenue ratio of 65 per cent.	The cost:net revenue ratio was 64 per cent.
Investment performance[1,2]	Three-year outperformance to exceed 60 per cent.	Three-year investment performance above benchmark or peer group was 78 per cent. at 31 December 2014 (2013: 66 per cent.).
Net new business[1,2]	Positive net new business across all sales channels.	£24.8 billion of net new business, with positive net new business across all channels (2013: 7.9 billion).
Integration of strategic acquisitions	Complete the integration of Cazenove Capital and deliver annual synergies of £12-15 million.	The integration was completed in August 2014. Estimated annual synergies of £18 million have been delivered.
Talent retention and succession planning	Ensure that the business develops and retains key talent.	Retention of employees performing ahead of expectations remains high at 94 per cent.
The management of risks facing the Group and the Company's reputation	Ensure that the Company's values are embedded throughout the firm.	The Board and Committee believe that the culture of Schroders in protecting our clients' interests remains strong. See Award highlights of 2014 on page 3 for external recognition of the firm's performance during the year. Key developments in the risk profile of the Group were considered by the Audit and Risk Committee (see pages 56 to 59) and by the Remuneration Committee in determining the remuneration outcomes for 2014. During 2014, a review of conduct risk was undertaken, with an emphasis on identifying and mitigating material risks of poor client outcomes and managing potential conflicts of interest.
Share price performance	Deliver total shareholder value in excess of the FTSE-100 Index.	The ordinary shares have returned 6 per cent. over the last year and 267 per cent. over the last six years, ahead of the FTSE-100 Index, which has returned one per cent. over one year and 84 per cent. over six years.

[1] These are included in the key performance indicators set out in the Strategic report on pages 18 and 19, which are used to measure our performance over the long term.
[2] See Glossary.

Targets for other metrics are not disclosed due to commercial sensitivity and the risk of providing information to competitors, many of which are not subject to the same disclosure requirements. Based on its assessment of performance, the Committee applied its judgement to determine annual bonus awards, taking into account the recommendation of the Chief Executive in respect of the other executive Directors.

Determining vesting of prior LTIP awards (audited)

The LTIP awards granted on 11 March 2011, covering the 2011 to 2014 performance period, vested on 3 March 2015. The criteria for determining the extent of vesting are set out below. Despite the strong performance of Schroders since awards were made, across a broad set of metrics, only 50 per cent. of each award vested as the EPS target was not met.

Performance measure		Max % of award	Performance achieved	Vesting % of award
Earnings per share (EPS) If the growth of adjusted EPS in the fourth year compared to the year prior to grant exceeds a defined composite index by: – less than 20% – equal to 20% – between 20-40% – 40% or greater	 no vesting 12.5% vests straight-line basis 50% vests	50	The four-year growth in the MSCI All Countries Index was 41.2% and the Barclays Capital Global Aggregate Index was 8.4%. Weighting them 60% and 40% respectively, growth of the composite index was 28.1%. Four-year growth in adjusted EPS was 45.4%, which exceeds the composite index by 17.3%. More information on the composite index can be found in the full Remuneration Policy.	0
Net new business (NNB) – less than £15 billion – equal to £15 billion – between £15-25 billion – £25 billion or greater	 no vesting 12.5% vests straight-line basis 50% vests	50	The four-year cumulative NNB from 2011 to 2014 was £45.3 billion.	50
Total vested in relation to 2011-2014 performance				50

The Board Audit and Risk Committee reviewed key judgements made by management in respect of all of the provisions and contingent liabilities, to ensure these are reasonable, and when doing so considered how this should impact LTIP calculations. PwC, as external auditor, reviewed the LTIP calculation and vesting outcome and confirmed their agreement.

Value at vesting of prior LTIP awards (audited)

The following table shows, for each executive Director, the value at vesting of LTIP awards granted on 11 March 2011, based on the closing mid-market share price on the vesting date and the vesting percentage shown above. The total value that vested is reflected in the single total remuneration figure for each executive Director.

Individual	Date of grant	Grant-date face value of LTIP award £'000	Date of vesting	Vesting-date value of LTIP award shares £'000	Proportion vested in relation to 2011-2014 performance	Total value vested £'000
Michael Dobson	11 March 2011	800	3 March 2015	1,397	50 per cent.	698
Philip Mallinckrodt	11 March 2011	300	3 March 2015	506	50 per cent.	253
Massimo Tosato	11 March 2011	300	3 March 2015	524	50 per cent.	262

Total pension entitlements (audited)

The following table gives details of pensions provided to executive Directors for the year ended 31 December 2014. The figures in the employer contribution columns represent contributions paid into defined contribution pension arrangements during the year and exclude any contributions made by the Director. There has been no defined benefit accrual since 30 April 2011. Accrued defined benefit pensions are subject to actuarial reduction on early retirement and so there is no enhanced benefit entitlement in these circumstances.

£'000	**2014 Employer contributions**	**2014 cash in lieu of pension**[1]	**2014 pension total**	2013 Employer contributions	2013 cash in lieu of pension	2013 pension total	Accrued defined benefit pension at 31 December 2014	Normal retirement age[2]
Michael Dobson[3]	–	46	46	–	46	46	4	60
Peter Harrison	39	3	42	–	–	–	–	60
Richard Keers	42	3	45	26	–	26	–	60
Philip Mallinckrodt	10	30	40	40	–	40	75	60
Massimo Tosato[4]	12	33	45	117	–	117	48	60

1 Since 1 April 2014, Philip Mallinckrodt and Massimo Tosato have received cash in lieu of pension and Richard Keers and Peter Harrison have received cash in lieu of the matching element of pension.
2 Normal retirement age is the earliest age at which a Director can elect to draw their pension under the rules of the Schroders Retirement Benefits Scheme without the need to seek consent of the Company or the pension scheme trustee.
3 Michael Dobson began to draw his pension from the Scheme with effect from 13 May 2012. He has no further prospective pension benefits from the Group.
4 Following contributions made in 2013, no further payments have been or will be made under Massimo Tosato's historical arrangement for enhanced pension contributions.

Payments to former Directors (audited)

Alan Brown retired from Schroders on 30 November 2014. He stepped down from the Board in May 2012 and continued to work for Schroders part time as a Senior Adviser. He received no payment for loss of office. The Committee exercised its discretion under the rules of the ECP and LTIP to allow him to retain his unvested awards. His ECP awards relate to strong corporate and individual performance in prior years. His LTIP award made in 2011 remained subject to performance conditions and the proportion of the shares under award that will ultimately be released to him on exercise of the award will be pro-rated for the proportion of the performance period that he worked. He remains a non-executive Director and Chairman of the Investment Committee of Schroder Pension Trustee Limited.

Kevin Parry stepped down from the Board and ceased to be an employee of Schroders on 5 May 2013. As disclosed in the 2013 Remuneration report, the Committee exercised its discretion at that time to allow him to retain his unvested awards.

The LTIP is pro-rated for the proportion of the performance period that each Director worked. The value that vested on 5 March 2014 from the LTIP award made on 28 May 2010 to Alan Brown was £578,000. The value that vested on 3 March 2015 from the LTIP award made on 11 March 2011 to Alan Brown was £256,000 and the value that vested from the award made to Kevin Parry was £154,000.

ECP and LTIP awards granted during 2014 (audited)

The following awards under the ECP were granted to executive Directors on 10 March 2014, in respect of deferred bonuses for performance during 2013. No further performance conditions need to be met for awards to vest but ECP awards require the participant to remain in employment with the Group until the third anniversary of grant in order to vest in full. ECP Share awards were granted as nil cost options. ECP Fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds. These awards do not appear in the single total remuneration figure on page 70 as they were granted in respect of performance during 2013 and were included as appropriate in the single total remuneration figures disclosed last year.

		Face value at grant (£'000)				
Individual	Basis of award granted	Share awards	Fund awards	Total ECP award	Share price at grant	Performance conditions
Michael Dobson	Deferral of bonus awarded in respect of performance in 2013	1,594	1,544	3,138	£26.90	Awarded in respect of performance in 2013. No further performance conditions apply.
Peter Harrison		775	725	1,500	£26.90	
Richard Keers		363	312	675	£26.90	
Philip Mallinckrodt[1]		450	400	850	£20.48	
Massimo Tosato		913	862	1,775	£26.90	

1 For Philip Mallinckrodt, the award was made over non-voting ordinary shares. All other ECP Share awards were made over ordinary shares.

The following awards under the LTIP were granted to the executive Directors on 10 March 2014 as nil cost options. These awards do not appear in the single total remuneration figure on page 70 as they are subject to performance conditions and will not vest until 2018.

Individual	Basis of award granted as % of salary	Face value at grant £'000	Vesting maximum as % of face value	% of face value that would vest at threshold[1]	Share price at grant	End of performance period
Michael Dobson	160	800	100	25	£26.90	31 December 2017
Richard Keers	133	500	100	25	£26.90	31 December 2017
Philip Mallinckrodt[2]	133	500	100	25	£20.48	31 December 2017
Massimo Tosato	133	500	100	25	£26.90	31 December 2017

1 Performance under both the EPS and NNB performance measures at the threshold level to achieve non-zero vesting.
2 For Philip Mallinckrodt, the award was made over non-voting ordinary shares. All other LTIP awards were made over ordinary shares.

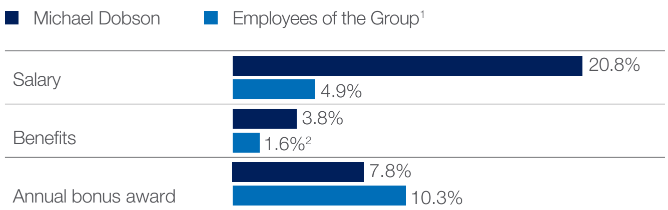
All ECP Share awards and LTIP awards were made over ordinary shares, except for the awards made to Philip Mallinckrodt, which were made over non-voting ordinary shares. The share price used to determine the number of shares under each ECP Share award and LTIP award is the mid-market closing share price on the last trading day prior to the date of grant and this is the price used to calculate the face value shown. ECP Fund awards are notionally invested in Schroders funds on the date of grant, and the value of the award tracks the value of the funds. The vesting of the LTIP awards is subject to the performance conditions set out on page 72.

Comparison of percentage change in salary, benefits and annual bonus award

The chart on the right compares the percentage change from 2013 to 2014 in salary, benefits and annual bonus award to the Chief Executive with the average year-on-year percentage change across employees of the Group taken as a whole (except where noted). Across the Group, individual annual bonus awards for 2014 compared with 2013 varied from an increase in excess of 100 per cent. to a reduction of bonus to nil, reflecting our pay for performance philosophy.

The Committee increased the Chief Executive's salary to £500,000 with effect from 1 March 2014. It was last increased in 2007. This equates to an annualised increase of 3.4 per cent. since the last time it was increased, compared to an average annualised increase for other employees who were employed by Schroders over the same period of 4.9 per cent.

Comparison of percentage change in value from 2013 to 2014



1 Other than for benefits, Employees of the Group is those who were in employment for the full year to 31 December 2014.
2 For benefits, Employees of the Group is those who were in employment in the UK for the full year to 31 December 2014.

Non-executive Directors' remuneration (audited)

The table that follows compares the total remuneration of each of the non-executive Directors for the year ended 31 December 2014 with their total remuneration the previous year.

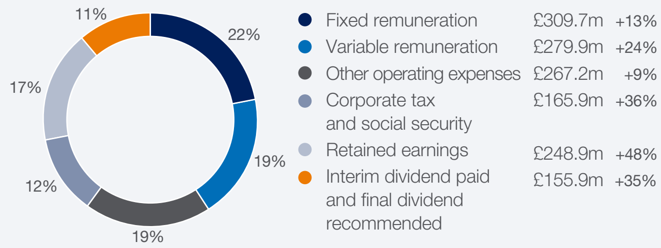
(£'000)	**Salary and fees**	**Benefits-in-kind**	**2014 Total**	Salary and fees	Benefits-in-kind	2013 Total
Andrew Beeson	325	–	325	300	–	300
Ashley Almanza	123	–	123	113	–	113
Luc Bertrand	97	3	100	95	3	98
Robin Buchanan	93	–	93	85	–	85
Lord Howard	123	–	123	115	–	115
Nichola Pease	93	–	93	80	–	80
Bruno Schroder	98	2	100	98	2	100

Non-executive Directors' fees were reviewed during the year and the Chairman's fee and fees for the Chairmen of the Audit and Risk and Remuneration Committees were increased with effect from 1 July 2014, as shown on page 68. Fees had not been increased since 2011 and the increase ensured they were appropriate relative to market rates for comparable roles. Fees are usually reviewed biennially.

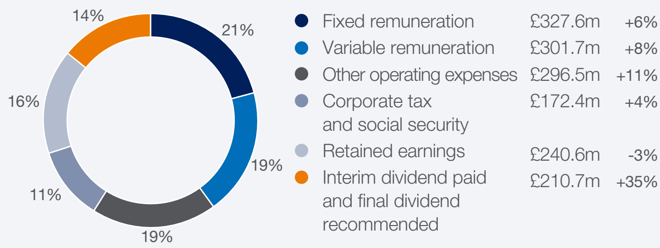
Relative spend on pay

The charts below illustrate the relative spend on pay for 2014 compared to 2013. The values are taken from the financial statements and show how remuneration costs before exceptional items compare to shareholder distributions, corporate taxes paid and earnings retained. Distributions to shareholders formed a larger part of the total as Schroders results in 2014 led to a 34 per cent. increase in the total dividend per share, while total compensation as a percentage of net revenue decreased to 45 per cent.

2013 (% vs. 2012)



2014 (% vs. 2013)



Executive Directors' rights under Share and Fund awards under deferred remuneration plans (audited)

The executive Directors had the following rights to ordinary and non-voting ordinary shares under the Group's deferred remuneration plans as at 31 December 2014. These deferred remuneration plan interests are in the form of nil-cost options.

		Number of shares at year-end				
	Type	Unvested (performance conditions)[1]	Unvested (no performance conditions)	Vested	Total	Number of shares under options that were exercised in the year[2]
Michael Dobson	Ordinary	131,135	201,770	168,594	501,499	59,523
Peter Harrison	Ordinary	18,779	51,208	–	69,987	–
Richard Keers	Ordinary	18,587	33,698	–	52,285	–
Philip Mallinckrodt	Non-voting ordinary	73,658	60,435	188,527	322,620	87,633
Massimo Tosato[3]	Ordinary	57,997	124,580	191,912	374,489	48,563

1 Includes LTIP awards granted on 11 March 2011, which were unvested as at 31 December 2014. These awards vested on 3 March 2015.
2 During the year, the aggregate gain on share options for all Directors was £4,545,000. This related to nil-cost options settled in shares or cash.
3 Massimo Tosato holds unvested nil-cost options over 16,294 shares and vested nil-cost options over 19,388 shares which will be settled in cash.

The executive Directors had the following rights under Fund awards as at 31 December 2014, based on the award values at grant:

	Awards at year-end			
	Unvested (no performance conditions) £'000	Vested awards £'000	Total £'000	Awards exercised in the year £'000
Michael Dobson	3,788	1,950	5,738	650
Peter Harrison	725	–	725	–
Richard Keers	312	–	312	–
Philip Mallinckrodt	781	338	1,119	175
Massimo Tosato	2,256	–	2,256	838

Directors' share interests (audited)

The Directors and their connected persons had the following interests in shares in the Company, as at 31 December 2014 and as at 3 March 2015:

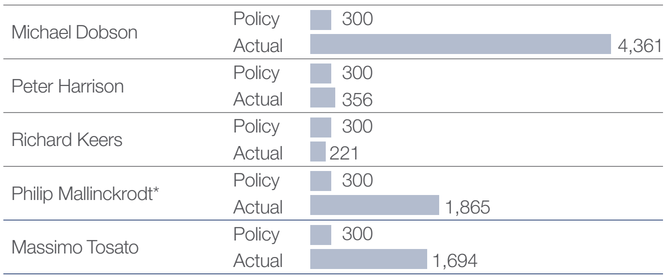
	Number of shares			
	31 December 2014[1]		3 March 2015	
	Ordinary shares	Non-voting ordinary shares	Ordinary shares	Non-voting ordinary shares
Executive Directors				
Michael Dobson	334,261	187,821	334,274	187,821
Peter Harrison	142	–	155	–
Richard Keers	132	–	148	–
Philip Mallinckrodt[1]	79,461,706	5,988,243	79,461,706	5,988,243
Massimo Tosato	2,668	–	2,681	–
Non-executive Directors				
Andrew Beeson	–	15,000	–	15,000
Ashley Almanza	–	–	–	–
Luc Bertrand	–	–	–	–
Robin Buchanan	–	7,680	–	7,913
Lord Howard	–	5,000	–	5,000
Nichola Pease	–	–	–	–
Bruno Schroder[1]	13,881,416	1,482,417	13,881,416	1,482,417

1 The interests of Philip Mallinckrodt and Bruno Schroder set out above include beneficial interests of those Directors (and of their connected persons) in their respective capacities as members of a class of potential discretionary beneficiaries under certain settlements made by members of the Schroder family.

Personal shareholding policy (audited)

In order to align the interests of senior employees with those of shareholders, the executive Directors and the other members of the GMC are required, over time, to acquire and retain a holding of Schroders shares or rights to shares equivalent to 300 per cent. of annual base salary. With the exception of Richard Keers (who joined the Board on 5 May 2013), each executive Director had achieved this target as at 3 March 2015, based upon the mid-market closing share price on that date. The Committee expects that Richard Keers will have achieved this target within two years. For these purposes, rights to shares include the estimated after-tax value of ECP Share awards, including awards due to be granted in respect of performance in 2014 (see page 71), but do not include any unvested rights to shares awarded under the LTIP as these are subject to performance conditions.

The chart below compares the value of each executive Director's shareholdings as at 3 March 2015 with the shareholding required under the personal shareholding policy, as a percentage of salary.



* Philip Mallinckrodt's shareholding above is his holding derived from employment. It does not include his other share interests. See page 74.

Compliance and risk management in remuneration

To ensure the Committee is adequately informed of risks facing the Group and the management of those risks, the Chairman of the Committee serves on the Audit and Risk Committee. The Committee also received reports from the heads of Risk, Legal and Compliance in its consideration of compensation proposals (see page 69).

At the discretion of the Committee, deferred awards made under the ECP since May 2011 and LTIP awards made at any time may be reduced or lapsed in the event of a material misstatement of the Group's financial results or misconduct by an individual, under malus terms. Clawback terms also apply to awards made since October 2013, which allow the Group to recover amounts that have been released in the event of individual misconduct. Employees are not allowed to enter into hedging transactions that undermine the intended performance-alignment of deferred awards.

The Group's remuneration policies and practices take account of applicable law and regulations, corporate governance standards, best practice and guidance issued by regulators and by representative shareholder bodies. The Committee reviewed the PRA's and FCA's Remuneration Codes, along with regulatory guidance on remuneration deferrals, clawbacks, recruitment and retention awards and restrictions to prevent employees hedging deferred remuneration outcomes, and is satisfied that the Group's approach is in line with regulatory requirements. Schroders is a Level 3 firm under the Remuneration Code 'proportionality' regime.

The Committee also reviewed the Group's regulatory disclosures in the context of the FCA's and PRA's requirements. The required remuneration disclosures were incorporated into the Group's Pillar 3 disclosures and are available at www.schroders.com/ir. Individual pay and bonus decisions were also reviewed for employees deemed to be Code Staff under the Remuneration Code.

Implementation of remuneration policy for 2015

For 2015 performance onwards, clawback terms will apply to all of executive Directors' variable remuneration, including cash bonus awards. The Committee does not anticipate making other changes to the way in which the remuneration policy is implemented during 2015. Executive Directors' bonuses will be based on broadly the same performance metrics as were considered for 2014. LTIP performance targets for awards to be made in 2015 are unchanged.

External advisers

The Committee appointed or received advice from the advisers shown in the table that follows. Advisers were selected on the recommendation of the Global Head of Human Resources and the Head of Compensation and Benefits.

	Appointed by	Appointed	Services provided to the Committee	Other services provided to the Group	Fees paid for services to the Committee during 2014 (£'000)
McLagan International Inc (McLagan)	The Committee	15 November 2013	Information on market conditions and competitive rates of pay	Information on market conditions and competitive rates of pay	15
PwC	The Company	23 April 2013	Information on emerging market practice and conditions	Advice to management on compliance with regulations	2

The Committee is satisfied that the advice received from McLagan was independent as it was factual and not judgemental. McLagan is part of Aon Hewitt, which also provides advice and services to the Company in relation to pension benefit valuations and pension actuarial advice. New Bridge Street, which is also part of Aon Hewitt, provided the Board with information in respect of market rates for non-executive Directors' fees. McLagan and New Bridge Street's fees were charged on the basis of a fixed fee for the preparation of reports setting out the information requested. PwC is the Group's external auditor. Any non-audit services provided by PwC are subject to review in accordance with arrangements for the provision of such services as described in the report of the Audit and Risk Committee. The Committee did not independently engage PwC to provide any services. PwC's fees for services provided to the Company were charged on the basis of time spent.

Shareholder voting at the 2014 AGM

At the Annual General Meeting on 1 May 2014, two resolutions were put to shareholders on remuneration: the first to approve the Remuneration report that was published in the 2013 Annual Report and Accounts; and the second to approve the Remuneration Policy. The voting results were as follows:

	To approve the Remuneration report		To approve the Remuneration Policy	
For	166,327,065	94.24%	165,335,404	92.19%
Against	10,170,892	5.76%	14,014,099	7.81%
Withheld	4,509,741	–	1,658,194	–

Remuneration policy for other senior executives

Senior executives below Board level receive the same components of remuneration as executive Directors, including:
- Base salary;
- Benefits, including the opportunity to participate in the SIP for those based in the UK;
- Pension or payment in lieu of pension; and
- Pay for performance, including annual bonus awards.

These are provided on the same basis as to executive Directors, except the basis for determining deferral of annual bonus awards under the ECP may differ. Only executive Directors are eligible for LTIP awards but other senior employees are instead eligible to be considered for awards under the **Equity Incentive Plan (EIP)**, under which a limited number of awards are made each year. EIP awards are not subject to performance conditions.

The SIP and EIP are explained in more detail on the right.

Evaluating the performance of the Committee

The annual evaluation of the Committee's effectiveness was undertaken as part of the overall Board evaluation process. The specific findings relating to the Remuneration Committee were discussed with the Committee Chairman.

Approved and signed on behalf of the Board.

Lord Howard of Penrith
Chairman of the Remuneration Committee
4 March 2015

Further details on Share and Equity Incentive Plans:

Share Incentive Plan (SIP)

The SIP, which provides potential UK tax benefits, is part of the flexible benefits programme to broaden the number of employee shareholders and increase their participation as shareholders.

Under the terms of the SIP, participating employees use their own funds to acquire shares in the Company (Partnership Shares) and in return receive awards of shares (Matching Shares) from the Company of up to £50 per month based on the market value of the shares. This will increase to £100 per month from May 2015. To qualify for maximum tax benefits, these shares must be left in the SIP for five years. Performance conditions do not apply. Participants are free to withdraw their Partnership Shares at any time but forfeit the corresponding Matching Shares if they do so or cease to be in employment within one year of acquiring the Partnership Shares, except in certain circumstances set out in the rules of the SIP.

76 per cent. of UK employees participated in the plan as at 31 December 2014 (2013: 72 per cent.).

Equity Incentive Plan (EIP)

The EIP is an additional deferred remuneration plan, used to recognise exceptional performance and potential. EIP awards do not give rise to any immediate entitlement and require the participant to be employed continuously by the Group until the fifth anniversary of grant. Malus and clawback terms apply, in a similar way to awards under the ECP. Executive Directors are not eligible to receive new EIP awards.

If a participant resigns before the fifth anniversary of grant, awards are normally forfeited in full.

EIP Share awards are conditional rights to acquire shares in the Company at nil cost. Additional shares equivalent to the dividends and associated tax credits due on the shares under the EIP award accrue until the award is exercised. EIP Fund awards are conditional rights to receive a cash sum based on the value of a notional investment in a range of Schroders funds.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Consolidated financial statements in accordance with applicable law and regulations.

The Companies Act 2006, being the applicable law in the UK, requires the Directors to prepare financial statements for each financial year. The Directors have prepared the Group and the Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:

– Select suitable accounting policies and then apply them consistently;
– Make judgements and estimates that are reasonable and prudent;
– State that the financial statements comply with IFRS as adopted by the EU, subject to any material departure disclosed and explained in the financial statements; and
– Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are also required by the Disclosure and Transparency Rules of the FCA to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Company and Group.

The Directors are responsible for keeping proper books of accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement

Each of the Directors, whose name and functions are listed in the Board of Directors section of this Annual Report and Accounts, confirms that, to the best of each person's knowledge and belief:

– The consolidated financial statements, prepared in accordance with IFRS as adopted by the EU and in accordance with the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the Group;
– The Directors' report contained in this Annual Report and Accounts which comprises the sections described on page 63, includes a fair review of the development and performance of the business and the position of the Company and the Group and a description of the principal risks and uncertainties that they face;
– So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
– The Director has taken all the steps that ought to have been taken 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 that information.

In addition, each of the Directors considers that this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the audited financial information on our website at www.schroders.com.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Forward-looking statements

This Annual Report and Accounts and the Schroders website may contain forward-looking statements with respect to the financial condition, performance and position, strategy, results of operations and businesses of the Group. Such statements and forecasts involve risk and uncertainty because they are based on current expectations and assumptions but relate to events and depend upon circumstances in the future and you should not place reliance on them. Without limitation, any statements preceded or followed by or that include the words 'targets', 'plans', 'believes', 'expects', 'aims', 'will have', 'will be', 'estimates' or 'anticipates' or the negative of these terms or other similar terms are intended to identify such forward-looking statements. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by forward-looking statements and forecasts. Forward-looking statements and forecasts are based on the Directors' current view and information known to them at the date of this Annual Report and Accounts. 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 Annual Report and Accounts should be construed as a forecast, estimate or projection of future financial performance.

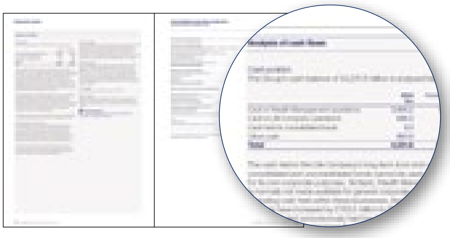
Financial report

Helping you to navigate through this section of the report

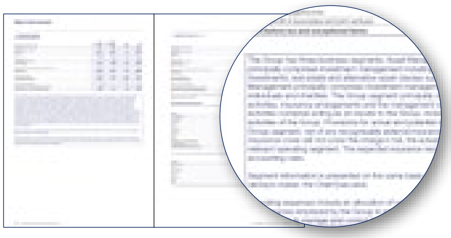
Index

The different elements of the Financial report

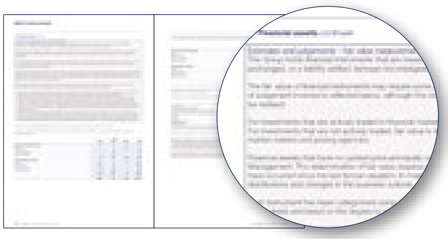
1. The Financial review is incorporated on the following pages alongside the primary statements and segmental reporting note. It is separately identified and forms part of the Strategic report. It does not form part of the financial statements of the Group and is unaudited.



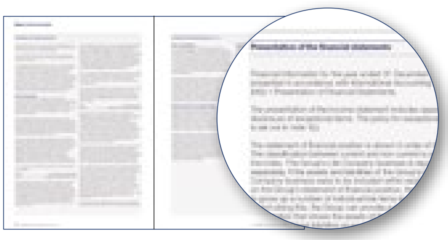
2. The blue print at the beginning of each note provides a 'plain English' description of the purpose of the note. It also incorporates accountancy requirements that serve as the accounting policy.



3. Estimates and judgements are shown separately within the notes to the financial statements and identified with the background shaded in grey.



4. Presentation of the financial statements, along with a summary of estimates and judgements, is set out on pages 134 to 135.



Financial review

We have again delivered strong results, building on the financial performance we reported last year.

It is a pleasure to present another year of record results that demonstrate clearly the success of the Group's long-term focus, organic growth strategy and the full-year contribution from the strategic acquisitions completed in 2013. Basic and diluted earnings per share (EPS) before exceptional items have increased by 11 per cent. and 12 per cent. respectively. After exceptional items, both basic and diluted EPS are up 17 per cent.

Assets under management (AUM) reached £300.0 billion for the first time in the Group's history as a result of strong flows and competitive investment performance. The growth in AUM has driven a nine per cent. increase in net revenues in 2014 despite volatile market conditions and the adverse impact of a stronger sterling for much of the year. Profit before tax and exceptional items is up 11 per cent. to £565.2 million due to good revenue growth and careful cost control. We have seen particularly strong growth in Wealth Management with pre-exceptional profits up nearly 80 per cent., benefiting from the acquisition of Cazenove Capital and the release of provisions recorded in previous years for impaired loans.

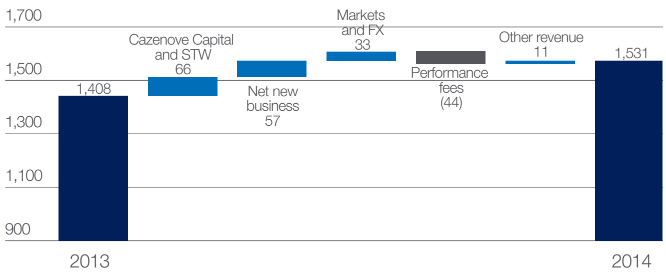
We have continued to report exceptional items separately, following the presentational change we made last year. For 2014 exceptional items mainly comprise net costs associated with the acquisitions completed in 2013. We have completed the integration of these acquired businesses in line with our plans and we are seeing the benefits in terms of revenue growth and cost synergies within these results.

There continues to be market pressure on both our net revenue margins and our cost base. We remain focussed on efficiency to maintain or exceed our long-term target cost to net revenue ratio of 65 per cent. We have performed better than this target in 2014, with strong revenue growth and close management of costs.

We have provided a more detailed commentary alongside the primary statements which looks to explain how the financial results relate to our overall strategy, business model, key performance indicators and main business developments during the year.

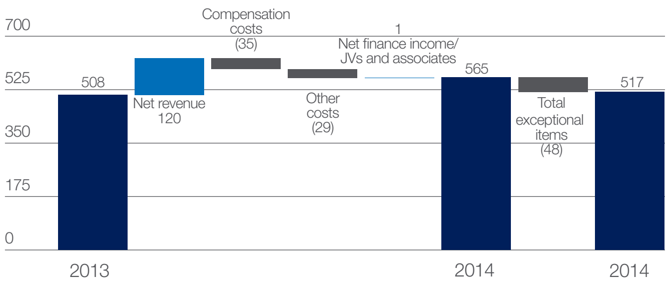
Richard Keers
Chief Financial Officer
4 March 2015

Movement in net revenue
£m



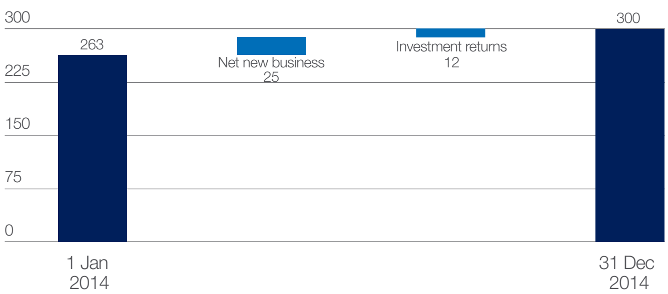
Net revenue increased by nine per cent. driven by higher AUM arising from the acquisitions made in 2013, net inflows and positive investment returns offset by a decrease in performance fees.

Movement in profit before tax
£m



2014 saw record profit before tax and exceptional items of £565.2 million and profit before tax and after exceptional items of £517.1 million.

Movement in assets under management
£bn



Net inflows and investment returns of £37.1 billion resulted in record AUM of £300.0 billion at 31 December 2014.

Financial performance

The Group's income and expenses are presented in the Income statement and the Statement of comprehensive income. Exceptional items of income and expenditure are presented separately. This provides transparency of recurring revenue and expenditure to aid understanding of the financial performance of the Group. Exceptional items are set out in note 1(c) and in 2014 mainly comprised costs associated with the acquisitions made in 2013. The integration of these acquired businesses is now complete but costs related to deferred compensation awards and amortisation of intangible assets will continue for some time.

More detailed commentary on the performance of the Group's three segments can be found on pages 90 and 91.

2014	Q1	Q2	Q3	Q4	Total
Net revenue £m[1]	358.8	369.8	393.6	406.2	1,528.4
Profit before tax £m[1]	130.7	130.8	142.9	160.8	565.2
Net new business £bn	3.8	1.0	2.2	17.8	24.8
AUM £bn	268.0	271.5	276.2	300.0	300.0

2013	Q1	Q2	Q3	Q4	Total
Net revenue £m	323.0	322.1	366.0	396.5	1,407.6
Profit before tax £m[1]	115.0	113.0	121.6	158.2	507.8
Net new business £bn	5.6	(1.1)	1.0	2.4	7.9
AUM £bn	236.5	235.7	256.7	262.9	262.9

[1] Excludes exceptional items.

Net revenue and assets under management

Net revenue before exceptional items increased by nine per cent. to £1,528.4 million. As in 2013, each quarter outperformed the same period of the previous year, reflecting higher levels of AUM offset by a reduction in performance fees and the adverse impact of foreign currency movements.

AUM increased to £300.0 billion (2013: £262.9 billion), with net inflows of £24.8 billion and investment returns of £12.3 billion. Net inflows included the £12.0 billion Friends Life mandate that funded in the fourth quarter as well as strong net inflows in European and global bonds, European equities and Multi-asset products.

Performance fee income was £37.1 million (2013: £80.6 million). The amount of performance fees varies from year to year dependent on the performance of the relevant mandates and funds. Performance fees generally represent a small portion of our net revenue and have returned to more normalised levels in 2014.

The net revenue margin on average AUM decreased to 55 bps (2013: 57 bps) with lower performance fees in 2014 contributing 2 bps compared with 3 bps in 2013. The net revenue margin excluding performance fees was 53 bps (2013: 54 bps).

Operating expenses

Operating expenses before exceptional items increased to £984.3 million (2013: £919.7 million). This reflects the full year impact of acquisitions completed in 2013 and continued investment in people and infrastructure. Although actual costs increased, reflecting the growth in the business, our two key performance indicators (KPI) relating to compensation and total costs both reduced (see page 19).

Compensation costs excluding exceptional items increased to £687.8 million (2013: £652.5 million). Compensation costs were managed by reference to the ratio of total compensation costs to net revenue. In 2014, this ratio was 45 per cent. (2013: 46 per cent.), within our target range for this KPI, and a profit share ratio of 37 per cent. (2013: 38 per cent.). This means that compensation is dependent on the Group's financial performance.

Non-compensation costs increased by £29.3 million to £296.5 million, principally due to a full year of costs, net of synergies, from the acquisitions made in 2013 and continued investment in organic growth. The cost to net revenue ratio reduced to 64 per cent., 1 percentage point below both 2013 and our long-term target. This reflects our strong net revenue growth and focus on cost control.

Profit before tax

Profit before tax and exceptional items increased by 11 per cent. to £565.2 million (2013: £507.8 million). After exceptional items of £48.1 million (2013: £60.3 million), the Group's profit before tax increased by 16 per cent. to £517.1 million (2013: £447.5 million).

Taxation

The effective tax rate decreased marginally from 20.3 per cent. to 20.2 per cent. before exceptional items and from 21.2 per cent. to 20.1 per cent. after exceptional items. The reduction mainly reflects the first-time recognition of a deferred tax asset on future deductible costs in Japan, where we are seeing good performance and higher taxable profits, and changes in the UK tax rate partially offset by the changes to the geographic mix of business. Profit after tax was £451.3 million (2013: £404.8 million) and £413.2 million (2013: £352.7 million) after exceptional items.

Earnings per share and dividends

Basic earnings per share before exceptional items was up 11 per cent. at 166.8 pence as a result of higher profit after tax. Basic earnings per share after exceptional items was 152.7 pence (2013: 130.6 pence). The IFRS dividend, comprising the 2013 final dividend and the 2014 interim dividend, is up 20 pence at 66 pence per share.

Other items of comprehensive gain or loss

Total comprehensive income was £447.5 million (2013: £321.9 million).

Net losses arising from retranslating non-sterling subsidiaries at year end rates were £1.8 million (2013: £18.6 million). These losses are driven by sterling strengthening against the Euro and Swiss franc, partially offset by net gains arising from fluctuations in US, Japanese and Indonesian currencies during the year.

Actuarial gains of £36.9 million (2013: losses of £9.8 million) reflect higher than expected actual returns on plan assets in the UK defined benefit pension schemes net of losses from changes in assumptions, principally a market driven reduction in the discount rate that is derived from corporate bond yields.

The net movement in the fair value reserve in the year was an increase of £2.7 million (2013: reduction of £1.3 million), driven by gains in the year of £10.4 million (2013: £6.0 million), partially offset by the transfer of £8.3 million (2013: £7.3 million) to the Income statement of accumulated net mark to market gains on realisation.

Consolidated income statement
for the year ended 31 December 2014

		2014			2013		
	Notes	**Before exceptional items £m**	**Exceptional items[3] £m**	**Total £m**	Before exceptional items £m	Exceptional items[3] £m	Total £m
Revenue	2	1,914.7	–	1,914.7	1,809.1	–	1,809.1
Cost of sales	3	(429.1)	–	(429.1)	(431.1)	–	(431.1)
Net gains on financial instruments and other income	4	42.8	2.8	45.6	29.6	–	29.6
Net revenue[1]		**1,528.4**	**2.8**	**1,531.2**	**1,407.6**	**–**	**1,407.6**
Operating expenses	5	(984.3)	(48.8)	(1,033.1)	(919.7)	(58.1)	(977.8)
Operating profit		**544.1**	**(46.0)**	**498.1**	**487.9**	**(58.1)**	**429.8**
Net finance income	6	10.5	–	10.5	11.7	–	11.7
Share of profit of associates and joint ventures	12	10.6	(2.1)	8.5	8.2	(2.2)	6.0
Profit before tax		**565.2**	**(48.1)**	**517.1**	**507.8**	**(60.3)**	**447.5**
Tax	7(a)	(113.9)	10.0	(103.9)	(103.0)	8.2	(94.8)
Profit after tax		**451.3**	**(38.1)**	**413.2**	**404.8**	**(52.1)**	**352.7**
Earnings per share							
Basic	8	**166.8p**	**(14.1p)**	**152.7p**	**149.9p**	**(19.3p)**	**130.6p**
Diluted	8	**161.5p**	**(13.7p)**	**147.8p**	**144.6p**	**(18.6p)**	**126.0p**
Dividends per share[2]	9			**66.0p**			**46.0p**

[1] Non-GAAP measure of performance.
[2] Interim and final dividends declared during the year.
[3] Please refer to note 1(c) for a definition and further details of exceptional items.

Consolidated statement of comprehensive income
for the year ended 31 December 2014

	Notes	**2014 £m**	2013 £m
Profit for the year		413.2	352.7
Items that may be reclassified to the income statement on fulfilment of specific conditions:			
Net exchange differences on translation of foreign operations after hedging		(1.8)	(18.6)
Net fair value movement arising from available-for-sale financial assets	4	10.4	6.0
Net fair value movement arising from available-for-sale financial assets held by associates	12	3.9	(0.9)
Tax on items taken directly to other comprehensive income	7(b)	0.6	–
		13.1	**(13.5)**
Items reclassified to the income statement:			
Net realised gains on disposal of available-for-sale financial assets	4	(8.3)	(7.3)
		(8.3)	**(7.3)**
Items that will not be reclassified to the income statement:			
Actuarial gains/(losses) on defined benefit pension schemes	26	36.9	(9.8)
Tax on items taken directly to other comprehensive income	7(b)	(7.4)	(0.2)
		29.5	**(10.0)**
Other comprehensive gains/(losses) for the year net of tax		**34.3**	**(30.8)**
Total comprehensive income for the year net of tax		**447.5**	**321.9**

Financial stability

At 31 December 2014, the Group's net assets were £2,537.8 million, an increase of £269.2 million from 2013. This increase is mainly a result of Total comprehensive income for the year of £447.5 million partially offset by dividend distributions paid of £177.7 million. Other movements in net assets are set out in the Statement of changes in equity.

Total assets increased by over £3.0 billion as a result of £2.0 billion of additional Life Company assets and an increase in cash of £1.0 billion in Wealth Management, principally due to the integration of Cazenove Capital into the UK regulated bank.

Our businesses are conducted in a number of legal forms which dictate the basis of accounting, as summarised below:

	Statement of financial position £bn	Not recorded in the Statement of financial position £bn	Total £bn
Life Company	13.7	–	13.7
Other asset management	–	255.2	255.2
Total Asset Management	13.7	255.2	268.9
Wealth Management	2.9	28.2	31.1
Total AUM	**16.6**	**283.4**	**300.0**
Other assets	3.6		
Total assets	**20.2**		

In the Asset Management business, total AUM was £268.9 billion (2013: £232.8 billion). Assets that are managed for clients are not generally owned by the Group and are not included in the Statement of financial position. Certain clients invest via life insurance policies managed by the Life Company. The assets backing those policies are owned by the Life Company and are included in the Statement of financial position. These assets are matched by an equivalent liability that represents the fair value of the investors' interest in these assets.

Wealth Management provides both investment management and banking services. The total Wealth Management AUM was £31.1 billion (2013: £30.1 billion), of which £28.2 billion (2013: £27.8 billion) was not included in the Statement of financial position. Wealth Management subsidiaries are legally responsible for the banking assets and liabilities and gross assets and liabilities relating to banking operations are therefore included in the Statement of financial position. During 2014 we integrated Cazenove Capital into the Group's UK regulated bank which resulted in over £800 million of off-balance sheet client cash balances being converted to bank deposits and subsequently being reported within the Statement of financial position, with a corresponding increase to client deposits recorded within financial liabilities.

In 2014, the principal impacts on the Group's financial position have been the retained profits of the Group, the continued growth in the Life Company and the recognition of additional client money and deposit liabilities from Cazenove Capital clients. We have restated prior year positions on the adoption of a new accounting standard which redefines control and results in more fund vehicles that are managed by the Group, and in which we have an investor interest, being treated as subsidiaries. More information on this adjustment is set out in note 28 and Presentation of the financial statements. There was no change to net assets as a result of this accounting standard but an increase in both gross assets and liabilities.

Cash and cash equivalents increased by just over £1.0 billion, mainly as a result of the transfer of Wealth Management client accounts onto the Group's Statement of financial position – see also the analysis of the Group's cash flows on page 88.

Financial assets other than in the Life Company and excluding cash and cash equivalents increased by £84.6 million. This comprised a £142.8 million increase in the value of investments and derivatives held and was partially offset by a £58.2 million reduction in Wealth Management loans and advances. The size of Wealth Management assets and liabilities is dependent on the quantity and type of client transactions. Loans and advances to clients are secured on client assets including property and portfolios of securities. The remaining increase in financial assets was mainly due to profits generated by the Group being invested in Multi-asset strategies and used to purchase fixed income securities as part of the Group's investment capital.

Financial liabilities increased by over £800 million mainly due to additional Wealth Management deposits relating to the completion of the Cazenove Capital integration.

Other notable movements include the following:

Trade and other receivables decreased by £42.9 million, reflecting lower levels of final quarter performance fee accruals compared with 2013, partially offset by higher management fee revenue accrued and not yet collected.

Trade and other payables decreased by £12.0 million, with higher accruals relating to the increase in compensation and other costs in 2014 offset by lower settlement accounts, which are dependent on the timing of client flows in respect of the UK fund range at the year end.

The surplus on the UK defined benefit pension scheme, which was merged with the Cazenove Capital scheme in 2014, has increased by £40.0 million. There was a strong return on plan assets of £160.2 million partially offset by an increase to liabilities, mainly due to the reduction in the discount rate. The UK scheme is subject to a triennial valuation in 2015.

In total, provisions were largely unchanged with increases being partially offset by utilisations in the year. The provision raised in 2013 in respect of the US Department of Justice (DOJ) programme was unchanged in the year.

Consolidated statement of financial position
31 December 2014

	Notes	2014 £m	Restated 2013 £m	Restated 2012 £m
Assets				
Cash and cash equivalents		3,535.3	2,533.5	2,547.8
Trade and other receivables	10	541.0	583.9	412.7
Financial assets	11	1,763.4	1,678.8	2,030.0
Associates and joint ventures	12	92.6	83.1	79.4
Property, plant and equipment	13	29.9	22.5	15.0
Goodwill and intangible assets	14	474.5	489.0	142.1
Deferred tax	15(a)	47.8	48.5	47.8
Retirement benefit scheme surpluses	26	103.7	63.7	67.2
		6,588.2	**5,503.0**	**5,342.0**
Assets backing unit-linked liabilities				
Cash and cash equivalents		696.3	786.9	824.3
Financial assets		12,962.1	10,899.5	8,993.3
	16	**13,658.4**	**11,686.4**	**9,817.6**
Total assets		**20,246.6**	**17,189.4**	**15,159.6**
Liabilities				
Trade and other payables	17	752.1	764.1	559.5
Financial liabilities	18	3,193.5	2,364.9	2,598.1
Current tax		44.1	46.6	40.8
Provisions	19(a)	54.0	51.2	64.0
Deferred tax	15(b)	0.4	1.7	1.9
Retirement benefit scheme deficits		6.3	5.9	7.8
		4,050.4	**3,234.4**	**3,272.1**
Unit-linked liabilities	16	**13,658.4**	**11,686.4**	**9,817.6**
Total liabilities		**17,708.8**	**14,920.8**	**13,089.7**
Net assets		**2,537.8**	**2,268.6**	**2,069.9**
Equity		**2,537.8**	**2,268.6**	**2,069.9**

Comparative information has been restated to reflect the adoption of IFRS 10 Consolidated Financial Statements – see note 28 and Presentation of the financial statements.

The financial statements were approved by the Board of Directors on 4 March 2015 and signed on its behalf by:

Richard Keers
Director

Bruno Schroder
Director

Capital strength

Group equity increased by £269.2 million during the year. This increase was due to £447.5 million of total comprehensive income partially offset by £178.3 million of net transactions with shareholders, including £177.7 million of dividends paid by Schroders plc in the year.

During the year, the Group purchased 2.0 million own shares for £64.9 million. This included 0.2 million of non-voting ordinary shares that were purchased and cancelled at a cost of £3.8 million for the purpose of maintaining the target of one non-voting ordinary share to every four ordinary shares in issue. The other own shares purchased for £61.1 million consisted of £60.1 million worth of ordinary shares and £1.0 million of non-voting ordinary shares that were both placed in employee trusts to hedge share-based awards.

We manage capital within the categories set out below:

	2014 £m	Restated 2013 £m
Regulatory capital	673	603
Other operating capital	284	311
Operating capital	**957**	**914**
Investment capital[1]	725	515
Seed capital	163	182
Other items[2]	693	658
Total capital	**2,538**	**2,269**

1 Includes RWC Partners Limited and Schroder Ventures Investments Limited associates.
2 Comprises goodwill, intangible assets, pension scheme surpluses, other associates and joint ventures, and deferred tax.

Operating capital

Operating capital comprises the minimum regulatory capital and other capital required for day-to-day operational purposes.

Schroders plc is regulated by the Prudential Regulation Authority (PRA) as a UK consolidated group. Using the capital resources requirement for a Group holding a banking licence, the Group's minimum capital requirement at 31 December 2014 was £673 million (2013: £603 million).

The operating businesses are regulated by the Financial Conduct Authority (FCA) and PRA in the UK and by local regulators in the other countries in which we operate. We monitor operating capital regularly against regulatory, liquidity and other operational requirements. Operating capital held in excess of those requirements is transferred to investment capital. Operating capital excludes interests in associates and joint ventures which are not available for the Group's general operational requirements and other similar items which are set out below.

Our minimum regulatory capital requirements have increased during the year with the growth in the business and reflecting changes to regulations following the introduction of CRD IV.

Investment capital

Investment capital is shareholders' investible equity that is held for investment return, future reinvestment in the business or for future distribution to shareholders. We manage investment capital with the aim of achieving a low-volatility absolute return. It is mainly held in government and government-guaranteed bonds, investment grade corporate bonds, and Schroders' funds.

Investment capital increased in the year as a result of the Group's return after tax that is not required for regulatory or other operating purposes, partially offset by dividends paid in the year and other capital transactions.

Seed capital

Capital may be used to develop new investment strategies. Seed capital is deployed principally to support the growth of the Asset Management business and varies based on timing of investment and withdrawal of funds. The market risk on seed capital investments is hedged where an appropriate hedge is available. Capital is deployed in accordance with limits approved by the Board.

Other items

Other capital items comprise assets that are not investible or available for the Group's general operating and regulatory requirements. It includes assets that are actually or potentially inadmissible for regulatory capital purposes, such as goodwill and intangible assets. The main movements during the year were due to an increase in pension scheme surpluses (£40.0 million) and returns from certain associates and joint ventures (£7.0 million), partially offset by a net reduction in intangible assets (£14.5 million).

Dividends

The Group's dividend policy is set out on page 19. The Board has recommended a total dividend in respect of 2014 of 78.0 pence, a 34 per cent. increase. In August 2014, the Group increased the interim dividend to 24.0 pence and the recommended final dividend is 54.0 pence. This reflects the record profitability in the year and the Board's confidence in the Group's long-term growth prospects.

Further information
The Pillar 3 report at **www.schroders.com/ir** provides further information on the calculation of regulatory capital.

Consolidated statement of changes in equity
for the year ended 31 December 2014

	Notes	Share capital £m	Share premium £m	Own shares £m	Net exchange differences £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2014		282.7	119.4	(229.9)	83.2	23.5	24.3	1,965.4	2,268.6
Profit for the year		–	–	–	–	8.5	–	404.7	413.2
Other comprehensive (losses)/income[1]		–	–	–	(1.8)	3.9	2.7	29.5	34.3
Total comprehensive income for the year		**–**	**–**	**–**	**(1.8)**	**12.4**	**2.7**	**434.2**	**447.5**
Shares cancelled	22	(0.2)	–	–	–	–	–	0.2	–
Own shares purchased	23	–	–	(64.9)	–	–	–	–	(64.9)
Share-based payments	27	–	–	–	–	–	–	60.6	60.6
Tax in respect of share schemes	7(c)	–	–	–	–	–	–	4.2	4.2
Other movements in associates and joint ventures reserve	12	–	–	–	–	(0.4)	–	–	(0.4)
Dividends attributable to shareholders	9	–	–	–	–	–	–	(177.7)	(177.7)
Dividends attributable to non-controlling interests		–	–	–	–	–	–	(0.1)	(0.1)
Transactions with shareholders		**(0.2)**	**–**	**(64.9)**	**–**	**(0.4)**	**–**	**(112.8)**	**(178.3)**
Transfers		**–**	**–**	**94.7**	**–**	**(5.9)**	**–**	**(88.8)**	**–**
At 31 December 2014		**282.5**	**119.4**	**(200.1)**	**81.4**	**29.6**	**27.0**	**2,198.0**	**2,537.8**

	Notes	Share capital £m	Share premium £m	Own shares £m	Net exchange differences £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2013		282.5	90.1	(165.1)	101.8	25.5	25.6	1,709.5	2,069.9
Profit for the year		–	–	–	–	6.0	–	346.7	352.7
Other comprehensive losses[1]		–	–	–	(18.6)	(0.9)	(1.3)	(10.0)	(30.8)
Total comprehensive income for the year		**–**	**–**	**–**	**(18.6)**	**5.1**	**(1.3)**	**336.7**	**321.9**
Shares issued	22	1.8	29.3	–	–	–	–	–	31.1
Shares cancelled	22	(1.6)	–	–	–	–	–	1.6	–
Own shares purchased	23	–	–	(142.3)	–	–	–	(0.4)	(142.7)
Share-based payments	27	–	–	–	–	–	–	56.6	56.6
Share-based payment obligations acquired in business combinations		–	–	–	–	–	–	39.0	39.0
Tax in respect of share schemes	7(c)	–	–	–	–	–	–	17.6	17.6
Other movements in associates and joint ventures reserve	12	–	–	–	–	(0.9)	–	–	(0.9)
Dividends attributable to shareholders	9	–	–	–	–	–	–	(123.5)	(123.5)
Dividends attributable to non-controlling interests		–	–	–	–	–	–	(0.4)	(0.4)
Transactions with shareholders		**0.2**	**29.3**	**(142.3)**	**–**	**(0.9)**	**–**	**(9.5)**	**(123.2)**
Transfers		**–**	**–**	**77.5**	**–**	**(6.2)**	**–**	**(71.3)**	**–**
At 31 December 2013		**282.7**	**119.4**	**(229.9)**	**83.2**	**23.5**	**24.3**	**1,965.4**	**2,268.6**

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

Analysis of cash flows

Cash position

The Group's cash balance of £4,231.6 million is analysed below:

	2014 £m	Restated 2013 £m
Cash in Wealth Management operations	2,666.2	1,824.9
Cash in Life Company operations	696.3	786.9
Cash held in consolidated funds	8.3	11.0
Other cash	860.8	697.6
Total	**4,231.6**	**3,320.4**

The cash held in the Life Company's long-term fund and within consolidated and unconsolidated funds cannot be used by the Group for its own corporate purposes. Similarly, Wealth Management cash is normally not made available for general corporate purposes. Excluding cash held within these businesses, the Group's cash holdings have increased by £163.2 million to £860.8 million in 2014. Cash generated has been partially used to fund dividend payments, purchase financial assets for investment capital purposes and to acquire own shares.

The liquidity position in Wealth Management is strong and all entities maintain liquidity ratios that are substantially in excess of those required by local regulators. Cash within Wealth Management increased by £841.3 million in the year, principally as a result of taking client cash balances on-balance sheet as part of the restructuring of the acquired Cazenove Capital business with such balances transferred to the Group's regulated banks.

In addition to its liquid assets, the Group has access to a £50 million committed banking facility which expires on 30 September 2018.

Operating cash flow (see note 24)

In 2014, net cash inflows from operating activities increased by £1,111.9 million to £1,321.9 million. This was mainly driven by an increase of £828.5 million in deposits placed with the Group's banking entities, primarily arising from the restructuring of the acquired Cazenove Capital business. Other operating cash inflows have arisen principally from the Group's operating profit (after exceptional items) of £498.1 million less tax paid of £106.2 million.

Life Company flows relate to cash that remains within the Life Company's long-term fund. Operating cash inflows from the Life Company depend on the movement of uninvested cash and are down £53.2 million from 2013 levels to £90.6 million.

Investing activities

Cash flows relating to investing activities include routine investment in property, plant and equipment and software, purchases and proceeds on the sale of liquid securities in the investment capital portfolio and the purchase and disposal of other short-term investments in the Wealth Management business. These transactions amounted to a net outflow of £114.3 million (2013: £13.4 million).

Financing activities

Cash used in financing activities was £242.7 million (2013: £236.3 million). The outflow was principally a result of the payment of dividends of £177.7 million (2013: £123.5 million) and purchasing £64.9 million (2013: £112.2 million) of own shares to hedge share-based awards and for cancellation. In 2013, purchases of own shares were significantly higher, principally as a result of hedging legacy awards transferred as part of the Cazenove Capital acquisition.

Credit quality

The Company has a credit rating of A+ from Fitch.

Going concern

Having considered the liquidity of the Group, the cash and other resources of the Group and the Group's cash requirements, the Directors consider the Group to be a going concern, as outlined on page 63.

Consolidated cash flow statement
for the year ended 31 December 2014

	Note	2014 £m	Restated 2013 £m
Net cash from operating activities	24	**1,321.9**	**210.0**
Cash flows from investing activities			
Net cash flows arising from the acquisition of subsidiaries, including loan redemptions		–	(273.2)
Net acquisition of associates and joint ventures		(1.3)	(7.8)
Net acquisition of property, plant and equipment and intangible assets		(29.5)	(25.8)
Net (acquisition)/disposal of financial assets		(100.5)	271.2
Non-banking interest received		11.1	15.7
Distributions received from associates and joint ventures		5.9	6.5
Net cash used in investing activities		**(114.3)**	**(13.4)**
Cash flows from financing activities			
Proceeds from issue of non-voting ordinary shares		–	0.6
Acquisition of own shares		(64.9)	(112.2)
Dividends paid		(177.7)	(123.5)
Other flows		(0.1)	(1.2)
Net cash used in financing activities		**(242.7)**	**(236.3)**
Net increase/(decrease) in cash and cash equivalents		**964.9**	**(39.7)**
Opening cash and cash equivalents		3,320.4	3,372.1
Net increase/(decrease) in cash and cash equivalents		964.9	(39.7)
Effect of exchange rate changes		(53.7)	(12.0)
Closing cash and cash equivalents		**4,231.6**	**3,320.4**
Closing cash and cash equivalents consists of:			
Cash backing unit-linked liabilities		696.3	786.9
Cash held in consolidated funds		8.3	11.0
Cash that the Group cannot use for its own corporate purposes		**704.6**	**797.9**
Cash		2,552.5	1,771.5
Cash equivalents		974.5	751.0
Cash and cash equivalents available for use by the Group		**3,527.0**	**2,522.5**
		4,231.6	**3,320.4**

Comparative information has been restated to reflect the adoption of IFRS 10 Consolidated Financial Statements – see note 28 and the Presentation of the financial statements.

Financial review of segmental results

The Group has three business segments: Asset Management, Wealth Management and Group. See pages 20 to 24.

Asset Management

Net revenue comprises fees based on AUM, transaction-related fees and performance fees that are dependent on the performance of particular mandates and funds.

AUM increased to £268.9 billion (2013: £232.8 billion) due to net new business of £24.3 billion and investment returns of £11.8 billion during the year.

Net revenue increased five per cent. to £1,303.5 million. The growth in management fees was partially offset by a reduction in performance fees. The net revenue margin including performance fees was 53 bps (2013: 56 bps) and the margin excluding performance fees was 52 bps (2013: 53 bps). The decrease in the margin excluding performance fees was mainly due to changes in the mix of business following strong net inflows from institutional clients into lower margin Multi-asset and Fixed Income products.

Performance fees of £34.2 million (2013: £80.2 million) were three per cent. (2013: six per cent.) of net revenue in 2014. £27.8 million (2013: £35.1 million) of these related to institutional clients and £6.4 million (2013: £45.1 million) to intermediary clients. Although we continue to have strong long-term outperformance against peer groups or benchmarks across the investment portfolio, performance fees have returned to more normalised levels in 2014.

Net revenues, including performance fees, of £582.8 million (2013: £557.2 million) were generated from the Institutional channel and £720.7 million (2013: £690.0 million) from the Intermediary channel.

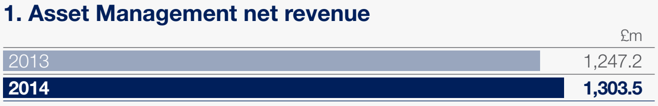
Net revenue increased in Institutional as AUM benefited from net inflows in the year of £17.6 billion and investment returns of £9.2 billion. Net inflows included £12.0 billion from Friends Life that funded in the fourth quarter. Other flows were predominantly from UK and Asia Pacific clients into Multi-asset and Fixed Income.

Intermediary revenue was also higher due to £6.7 billion of net inflows and £2.6 billion of investment returns. There was strong demand from Asia Pacific clients for Multi-asset, particularly income funds, and from clients in continental Europe, mainly into European bonds. These were partially offset by net outflows in UK equities.

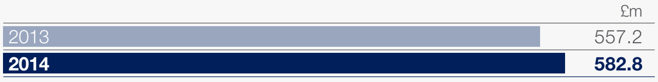
Asset Management costs increased to £809.0 million (2013: £784.9 million). This was largely driven by higher compensation and IT costs as a result of our continued investment in both people and developing our processes as well as the full-year impact of the 2013 acquisitions.

Asset Management profit before tax and exceptional items increased by seven per cent. to £499.3 million (2013: £468.6 million). Exceptional costs of £17.6 million principally comprised amortisation of acquired intangible assets. Profit before tax and after exceptional items was £481.7 million.

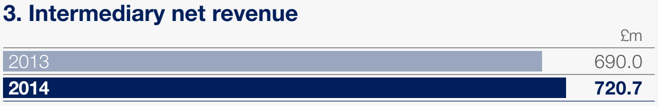
1. Asset Management net revenue



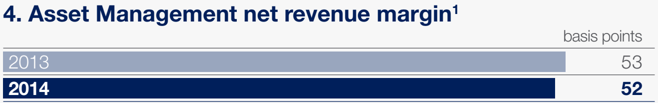
2. Institutional net revenue



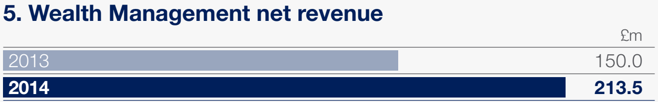
3. Intermediary net revenue



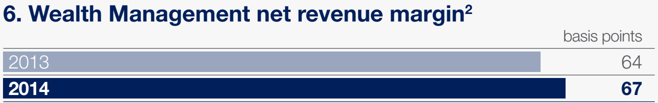
4. Asset Management net revenue margin[1]



5. Wealth Management net revenue



6. Wealth Management net revenue margin[2]



1 Excluding performance fees.
2 Excluding performance fees and net loan loss recoveries.

Wealth Management

Wealth Management net revenue increased by 42 per cent. to £213.5 million (2013: £150.0 million) and is broken down by component below:

	2014 £m	2013 £m
Management fees	154.8	109.7
Performance fees	2.9	–
Transaction fees	35.1	26.7
Net banking interest income	14.6	13.6
Net loan loss recoveries	6.1	–
Total net revenue	**213.5**	**150.0**

Management fees increased 41 per cent. to £154.8 million and transaction fees by 32 per cent. to £35.1 million. Net banking interest increased seven per cent. to £14.6 million. 2014 benefited from a full year of Cazenove Capital revenues, compared with half a year in 2013, along with growth of £1.0 billion in AUM which was split evenly between net inflows and investment returns, and higher transactional activity. Performance fees arose mainly from a single client arrangement and are not expected to continue at this level in the future.

Net revenue has increased due to the release of loan loss provisions charged in previous years. Settlements were agreed for amounts in excess of the carrying values, resulting in the recognition of £6.1 million of net revenue (2013: £nil).

The Wealth Management net revenue margin excluding performance fees has increased to 69 bps (2013: 64 bps). Excluding the current year net loan loss recoveries and performance fees, the net revenue margin has increased to 67 bps, mainly due to the impact of net new business and the impact of markets on the existing mix of business combined with the loss of two large low margin mandates in the second half of 2013.

Wealth Management operating expenses increased to £151.8 million (2013: £115.7 million), mainly due to the inclusion of a full year of costs following the acquisition of Cazenove Capital in 2013. Profit before tax and exceptional items increased by 80 per cent. to £61.7 million (2013: £34.3 million).

Exceptional costs of £20.4 million principally comprised amortisation of acquired intangible assets and costs arising from the integration of Cazenove Capital. The US Department of Justice (DOJ) provision charged in 2013 was unchanged and remains appropriate. The actual amount that may be payable will be subject to final assessment by the DOJ.*

Profit before tax and after exceptional items was £41.3 million (2013: £3.4 million).

Group segment

The returns on investment capital that are recorded in the Group segment, including investments in RWC Partners Limited and Schroder Ventures Investments Limited, are shown in the table below. Depending on the accounting classification of investment assets, returns are either recorded in the Income statement or, where investments are classified as 'available-for-sale', fair value movements are recorded in the Statement of comprehensive income.

Investment capital returned £20.9 million in 2014 (2013: £16.3 million) on average assets of £603 million (2013: £695 million). Of this return, £19.5 million (2013: £16.5 million) was recorded in the income statement, and £1.4 million (2013: £0.2 million loss) was recorded in reserves.

Seed capital return net of hedging was £2.5 million (2013: £2.6 million) on an average investment of £169 million (2013: £181 million). We hedge currency and market exposures where practical and cost effective. The gains in the portfolio represent returns that were greater than market returns and changes in unhedged market value.

Group costs increased to £23.5 million (2013: £19.1 million), primarily as a result of the net release of provisions of £0.3 million compared with a release of £5.7 million in 2013. Both these provision releases related to amounts established in 2012. Excluding this and other one-off items, underlying costs were £27.5 million (2013: £28.9 million), being the governance and general management costs of the Group.

The Group segment profit before tax was £4.2 million (2013: £4.9 million). Exceptional items comprise acquisition costs related to Cazenove Capital and STW in the form of share-based payments which are required under accounting rules to be included as an income statement charge. The loss before tax and after exceptional items is £5.9 million (2013: £11.0 million).

Group segment net income and capital returns

	Income statement £m	**Other comprehensive income £m**	**2014 £m**	Income statement £m	Other comprehensive income £m	2013 £m
Investment capital return	19.5	1.4	20.9	16.5	(0.2)	16.3
Seed capital return	1.2	1.3	2.5	3.5	(0.9)	2.6
Other returns	7.0	–	7.0	4.0	–	4.0
Total	**27.7**	**2.7**	**30.4**	**24.0**	**(1.1)**	**22.9**

* Further details of the DOJ programme can be found at www.justice.gov.

1. Segmental reporting
(a) Operating segments

Year ended 31 December 2014	Asset Management £m	Wealth Management £m	Group £m	Total £m
Fee income	1,688.6	200.1	0.4	1,889.1
Banking interest receivable	–	25.6	–	25.6
Revenue	**1,688.6**	**225.7**	**0.4**	**1,914.7**
Fee expense	(410.1)	(7.9)	(0.1)	(418.1)
Banking interest payable	–	(11.0)	–	(11.0)
Cost of sales	**(410.1)**	**(18.9)**	**(0.1)**	**(429.1)**
Net gains on financial instruments and other income	25.0	6.7	11.1	42.8
Net revenue	**1,303.5**	**213.5**	**11.4**	**1,528.4**
Operating expenses	(809.0)	(151.8)	(23.5)	(984.3)
Operating profit/(loss)	**494.5**	**61.7**	**(12.1)**	**544.1**
Net finance (charge)/income	(1.1)	–	11.6	10.5
Share of profit of associates and joint ventures	5.9	–	4.7	10.6
Profit before tax and exceptional items	**499.3**	**61.7**	**4.2**	**565.2**

The Group has three business segments: Asset Management, Wealth Management and the Group segment. Asset Management principally comprises investment management including advisory services, equity products, fixed income securities, multi-asset investments, real estate and alternative asset classes such as commodities and private equity. Wealth Management principally comprises investment management, wealth planning and banking services provided to high net worth individuals and charities. The Group segment principally comprises the Group's investment capital and treasury management activities, insurance arrangements and the management costs associated with governance and corporate management. Insurance activities comprise acting as an insurer to the Group, including the results of the captive insurer which provides reinsurance for certain activities of the Group. Provisions for actual and potential claims that are within the insurance cover are consequently recorded in the Group segment, net of any recognisable external insurance asset. If it is concluded that there is no insurance cover available or the insurance cover will not cover the charge in full, the actual or estimated cost in excess of the insurance recovery is transferred to the relevant operating segment. The expected insurance recovery may be in excess of the amount that is allowed to be recorded under accounting rules.

Segment information is presented on the same basis as that provided for internal reporting purposes to the Group's chief operating decision-maker, the Chief Executive.

Operating expenses include an allocation of costs between the individual business segments on a basis that aligns the charge with the resources employed by the Group in particular business areas. This allocation provides management information on the business performance to manage and control expenditure.

1. Segmental reporting continued

Year ended 31 December 2013	Asset Management £m	Wealth Management £m	Group £m	Total £m
Fee income	1,639.7	140.9	0.2	1,780.8
Banking interest receivable	–	28.3	–	28.3
Revenue	**1,639.7**	**169.2**	**0.2**	**1,809.1**
Fee expense	(411.4)	(4.9)	(0.1)	(416.4)
Banking interest payable	–	(14.7)	–	(14.7)
Cost of sales	**(411.4)**	**(19.6)**	**(0.1)**	**(431.1)**
Net gains on financial instruments and other income	18.9	0.4	10.3	29.6
Net revenue	**1,247.2**	**150.0**	**10.4**	**1,407.6**
Operating expenses	(784.9)	(115.7)	(19.1)	(919.7)
Operating profit/(loss)	**462.3**	**34.3**	**(8.7)**	**487.9**
Net finance (charge)/income	(0.4)	–	12.1	11.7
Share of profit of associates and joint ventures	6.7	–	1.5	8.2
Profit before tax and exceptional items	**468.6**	**34.3**	**4.9**	**507.8**

Segment assets and liabilities are not required to be presented as such information is not presented on a regular basis to the chief operating decision-maker.

(b) Geographical information

Net revenue is allocated below by country based on the location of clients:

	Net revenue	
Country	**2014 £m**	2013 £m
United Kingdom	612.9	535.6
United States	126.4	118.2
Switzerland	117.0	100.1
Australia	101.5	95.1
Italy	94.0	79.8
Hong Kong	80.2	79.7
Singapore	46.1	40.7
Germany	41.4	41.1
Japan	39.0	44.0
Other	269.9	273.3
Total before exceptional items	**1,528.4**	**1,407.6**
Exceptional items	2.8	–
Total including exceptional items	**1,531.2**	**1,407.6**

The Group's non-current assets are located in the following countries:

	Non-current assets[1]	
Country	**2014 £m**	2013 £m
United Kingdom	434.8	442.1
China	43.8	37.3
United States	28.2	29.4
Switzerland	25.2	26.7
India	19.0	18.0
Singapore	8.4	7.9
Other	37.8	33.5
Total	**597.2**	**594.9**

[1] Comprises the following non-current assets: property, plant and equipment, goodwill and intangible assets, associates and joint ventures and prepayments.

1. Segmental reporting continued

(c) Exceptional items

Exceptional items are significant items of income and expenditure that have been separately presented by virtue of their nature to enable a better understanding of the Group's financial performance. Exceptional items relate principally to acquisitions made by the Group in 2013, including costs of acquisition and integration, amortisation of acquired intangible assets and deferred compensation. In 2013 exceptional items also included a provision in the Swiss bank in connection with the US Department of Justice programme (see note 19).

Year ended 31 December 2014	Asset Management £m	Wealth Management £m	Group £m	Total £m
Profit before tax and exceptional items	**499.3**	**61.7**	**4.2**	**565.2**
Exceptional items within net revenue:				
Reversal of contingent consideration payable	–	–	2.8	2.8
Exceptional items within operating expenses:				
Restructuring and integration costs	(3.7)	(8.3)	–	(12.0)
Amortisation of acquired intangible assets	(11.8)	(9.2)	–	(21.0)
Deferred compensation arising directly from acquisitions	–	–	(12.9)	(12.9)
Provisions and related costs	–	(2.9)	–	(2.9)
	(15.5)	**(20.4)**	**(12.9)**	**(48.8)**
Exceptional items within share of profit of associates and joint ventures:				
Amortisation of acquired intangible assets	(2.1)	–	–	(2.1)
Profit/(loss) before tax and after exceptional items	**481.7**	**41.3**	**(5.9)**	**517.1**

Year ended 31 December 2013	Asset Management £m	Wealth Management £m	Group £m	Total £m
Profit before tax and exceptional items	**468.6**	**34.3**	**4.9**	**507.8**
Exceptional items within operating expenses:				
Acquisition costs	–	–	(4.2)	(4.2)
Integration costs	(4.0)	(7.2)	–	(11.2)
Amortisation of acquired intangible assets	(7.3)	(6.0)	–	(13.3)
Deferred compensation arising directly from acquisitions	–	–	(11.7)	(11.7)
Provisions and related costs	–	(17.7)	–	(17.7)
	(11.3)	**(30.9)**	**(15.9)**	**(58.1)**
Exceptional items within share of profit of associates and joint ventures:				
Amortisation of acquired intangible assets	(2.2)	–	–	(2.2)
Profit/(loss) before tax and after exceptional items	**455.1**	**3.4**	**(11.0)**	**447.5**

(d) Non-cash items

Year ended 31 December 2014	Asset Management £m	Wealth Management £m	Group £m	Total £m
Operating expenses include the following non-cash items:				
Share-based payments	(44.6)	(2.6)	(13.4)	(60.6)
Depreciation and amortisation	(26.7)	(10.3)	–	(37.0)
Provisions (charged)/reversed, net of insurance recovery	(3.5)	(4.2)	0.9	(6.8)

Where applicable, exceptional items are included in the non-cash items above.

Year ended 31 December 2013	Asset Management £m	Wealth Management £m	Group £m	Total £m
Operating expenses include the following non-cash items:				
Share-based payments	(44.1)	(2.0)	(10.5)	(56.6)
Depreciation and amortisation	(19.1)	(6.7)	–	(25.8)
Provisions (charged)/reversed, net of insurance recovery	(1.6)	(17.1)	0.1	(18.6)

Where applicable, exceptional items are included in the non-cash items above.

2. Revenue

The Group's primary source of revenue is fee income from investment management activities performed within both the Asset Management and Wealth Management segments. Fee income includes management fees, performance fees and transaction fees.

Management fees are generated through investment management agreements and are generally based on an agreed percentage of the valuation of AUM. The fees are recognised as the service is provided and it is probable that the fee will be received.

Performance fees are earned from some clients when contractually agreed performance levels are exceeded within specified performance measurement periods. They are only recognised at the end of these performance periods, when a reliable estimate of the fee can be made and it is almost certain that the fee will be received.

Revenue also includes other fees, principally transaction-based, which vary according to the volume of transactions. Such fees are recorded as income as the service is provided and the receipt of income is almost certain.

Within Wealth Management, earning a net interest margin is a core activity. Interest income earned as a result of placing loans and deposits with other financial institutions, advancing loans and overdrafts to clients and holding debt and other fixed income securities is recognised within revenue. Interest income is recognised as it is earned using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

Revenue comprises:

	2014 £m	2013 £m
Management fees	1,663.8	1,533.9
Performance fees	37.1	80.6
Other fees	188.2	166.3
Interest income earned by Wealth Management	25.6	28.3
	1,914.7	**1,809.1**

3. Cost of sales

Commissions, external fund manager fees and distribution fees payable to financial institutions, investment platform providers and financial advisers that distribute our products are recorded as fee expense within cost of sales. Fee expense varies primarily in proportion to AUM and is generally based on an agreed percentage of the value of the investments placed with the Group and is recognised in the income statement as the service is received.

Wealth Management pays interest to clients on deposits taken. For Wealth Management, earning a net interest margin is a core activity; interest payable in respect of these activities is therefore recorded separately from interest payable elsewhere in the business and is reported as part of cost of sales. Interest payable is recognised using the effective interest method (see note 2).

Cost of sales comprises:

	2014 £m	2013 £m
Fee expense	418.1	416.4
Interest expense incurred by Wealth Management	11.0	14.7
	429.1	**431.1**

4. Net gains on financial instruments and other income

The Group holds financial instruments as part of its operating and investment capital. Financial instruments within operating capital include low risk investments held for regulatory capital purposes in certain operating entities and an intra-day stock of units held by the UK unit trust manager to facilitate purchases and sales. The Group's investment capital is invested in a variety of financial instruments to generate a target risk-adjusted return.

Net gains and losses, principally representing market movements on financial instruments such as fixed income debt instruments, equities and certain loans and deposits in Wealth Management that are held at fair value to match the revaluation of interest rate swaps, are recognised in this line of the income statement as are any gains and losses on derivatives (which mainly arise from hedging activities).

Of the Group's investments held at fair value, just over half are carried at fair value through profit or loss (FVP) and gains and losses arising are recognised in the income statement. FVP investments are those that are initially designated as such, and those that are held for regular trading. The remainder are classified as available-for-sale. This classification is selected typically when the investment is expected to be held for the long term but not necessarily to maturity and where short-term volatility does not reflect long-term expected returns. Generally, unrealised gains and losses on available-for-sale investments are recorded in other comprehensive income, but the cumulative gains and losses are transferred to the income statement if the investment is impaired, sold or otherwise realised. The fair value reserve in the statement of changes in equity represents the difference between the cost (or, if the asset has been reclassified or impaired, the fair value at date of reclassification or impairment) and the fair value of financial assets that are classified as available-for-sale. Any impairments on loans and receivables are also included in the income statement. The Group reviews its available-for-sale investments and loans and receivables for impairment at the end of each reporting period.

Other income includes gains and losses on foreign exchange and rent receivable from subletting properties. The total return on investments also includes interest, which is included in note 6 'Net finance income'.

Net gains and losses in respect of financial assets and liabilities are:

	2014			2013		
	Income statement £m	**Other comprehensive income £m**	**Total £m**	Income statement £m	Other comprehensive income £m	Total £m
Net gains on financial instruments held at fair value through profit or loss – held for trading	14.1	–	14.1	10.2	–	10.2
Net losses on financial instruments designated as being at fair value through profit or loss upon initial recognition	(1.4)	–	(1.4)	–	–	–
Net gains on financial instruments held at fair value through profit or loss	**12.7**	**–**	**12.7**	**10.2**	**–**	**10.2**
Net fair value movements on available-for-sale financial assets	–	10.4	10.4	–	5.9	5.9
Net exchange differences on available-for-sale financial assets	–	–	–	–	0.1	0.1
Net transfer on disposal of available-for-sale financial assets – equities	8.3	(8.3)	–	7.3	(7.3)	–
Net fair value movement on available-for-sale financial assets	**8.3**	**2.1**	**10.4**	**7.3**	**(1.3)**	**6.0**
Net reversal of/(net charge for) impairment of loans and receivables	7.5	–	7.5	(0.8)	–	(0.8)
Gains made by the UK unit trust manager from buying and selling units	9.6	–	9.6	10.4	–	10.4
Other income	7.5	–	7.5	2.5	–	2.5
Net gains/(losses) on financial instruments and other income	**45.6**	**2.1**	**47.7**	**29.6**	**(1.3)**	**28.3**

5. Operating expenses

Operating expenses represent the Group's administrative expenses and are recognised as the services are provided. Certain costs, including leases and capitalised costs, are charged evenly over the life of the relevant contract or useful life of the asset. The biggest part is employee benefits, as shown below. Other costs include accommodation, information technology and marketing, along with movements in provisions which are recorded based on an estimate of unavoidable costs relating to past transactions.

The control of compensation and total cost are both key performance objectives of the Group. Compensation is managed within a target compensation to net revenue range of 45 to 49 per cent. Total costs are managed to a target long-term ratio of 65 per cent. costs to net revenue. Targeting a compensation to net revenue range provides some flexibility to manage the overall cost base in response to market conditions.

Employee benefits expense includes salaries and wages, together with the cost of other benefits provided to employees such as pension and bonuses. The Group makes some performance awards to employees which are deferred over a specified vesting period. Such awards are charged to the income statement over the performance period and the vesting period. Further detail on other types of employee benefit can be found elsewhere within these financial statements: see note 26 for pension costs, and note 27 for more detail on compensation that is awarded in Schroders plc shares.

(a) Employee benefits expense and number of employees

	2014 £m	2013 £m
Salaries, wages and other remuneration	613.6	573.6
Social security costs	59.4	63.8
Pension costs	31.6	28.2
	704.6	**665.6**

£16.8 million (2013: £13.1 million) of the total compensation costs of £704.6 million (2013: £665.6 million) are included within exceptional items, being £12.9 million deferred compensation arising directly from acquisitions (2013: £11.7 million) and £3.9 million integration costs (2013: £1.4 million).

Information about key management personnel compensation can be found in note 29. Amounts paid to or receivable by Directors are detailed in the Remuneration Report on pages 64 to 76.

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

	2014 Number	2013 Number
Full-time employees	3,260	3,031
Contract and temporary employees	282	273
	3,542	**3,304**
Employed as follows:		
Asset Management	2,919	2,832
Wealth Management	614	464
Group	9	8
	3,542	**3,304**

(b) Audit and other services

	2014 £m	2013 £m
Fees payable to the auditor for the audit of the Company's consolidated financial statements	0.5	0.5
Fees payable to the auditor and its associates for other services:		
Audit of the Company's subsidiaries	2.4	2.5
Audit-related assurance services	0.3	0.2
Other assurance services	0.6	0.7
Tax advisory services	0.4	0.7
Tax compliance services	0.4	0.5
Other non-audit services	0.3	1.5
	4.9	**6.6**

6. Net finance income

The Group earns interest on non-banking activities, principally on cash and deposits with banks, but also as a result of holding investments in debt and fixed income securities. Fixed income investments and cash held outside of Wealth Management entities are managed mainly by Group Treasury to earn competitive rates of return and ensure liquidity throughout the Group. Significant amounts of the Group's cash and interest-earning securities are held within Wealth Management and managed by the Wealth Management treasury team. Interest earned on the assets held within Wealth Management is included in revenue; interest incurred on the liabilities assumed is included in cost of sales. Interest is recognised using the effective interest method (see note 2).

7. Tax expense

The Group is headquartered in the UK and pays taxes according to the rates applicable in the countries and states in which it operates. Most taxes are recorded in the income statement (see part (a)) and relate to taxes payable for the reporting period (current tax). The charge also includes benefits and charges relating to when income or expenses are recognised in a different period for tax and accounting purposes or specific treatment relating to acquisitions (deferred tax – see note 15). Some current and deferred taxes are recorded through other comprehensive income, mainly relating to the Group's defined benefit pension schemes (see part (b)), or directly to equity where the tax arises from changes in the value of remuneration settled as shares (see part (c)).

(a) Analysis of tax charge reported in the income statement

	2014 £m	2013 £m
UK Corporation Tax on profits for the year	51.1	47.5
Adjustments in respect of prior year estimates	(0.5)	(0.1)
Foreign tax – current	63.4	58.1
Foreign tax – adjustments in respect of prior year estimates	2.9	(1.3)
Current tax	**116.9**	**104.2**
Origination and reversal of temporary differences	(11.2)	(8.1)
Adjustments in respect of prior year estimates	(1.9)	0.5
Effect of changes in Corporation Tax rates	0.1	(1.8)
Deferred tax	**(13.0)**	**(9.4)**
Tax charge reported in the income statement	**103.9**	**94.8**

(b) Analysis of tax charge reported in other comprehensive income

	2014 £m	2013 £m
Current income tax on movements in available-for-sale financial assets	(0.6)	–
Deferred tax on actuarial gains/(losses) on defined benefit pension schemes	7.4	(2.3)
Deferred tax – effect of changes in Corporation Tax rates	–	2.5
Tax charge reported in other comprehensive income	**6.8**	**0.2**

(c) Analysis of tax credit reported in equity

	2014 £m	2013 £m
Current income tax on Equity Compensation Plan and other share-based remuneration	(9.9)	(8.3)
Deferred tax on Equity Compensation Plan and other share-based remuneration	5.7	(11.2)
Deferred tax – effect of changes in Corporation Tax rates	–	1.9
Tax credit reported in equity	**(4.2)**	**(17.6)**

7. Tax expense continued

(d) Factors affecting tax charge for the year

The UK standard rate of Corporation Tax reduced from 23 per cent. to 21 per cent. on 1 April 2014 resulting in a UK effective tax rate for the year of 21.5 per cent. (2013: effective rate of 23.25 per cent.). The tax charge for the year is lower (2013: lower) than a charge based on the UK effective rate.

	2014 £m	2013 £m
Profit before tax	517.1	447.5
Less post-tax profits of associates and joint ventures	(8.5)	(6.0)
Profit before tax of Group entities	508.6	441.5
Profit before tax of consolidated Group entities multiplied by Corporation Tax at the UK effective rate of 21.5 per cent. (2013: 23.25 per cent.)	109.3	102.6
Effects of:		
Different statutory tax rates of overseas jurisdictions	4.5	5.5
Permanent differences including non-taxable income and non-deductible expenses	(6.9)	(11.4)
Net movement in timing differences for which no deferred tax is recognised	(3.6)	0.8
Deferred tax adjustments in respect of changes in Corporation Tax rates	0.1	(1.8)
Prior year adjustments	0.5	(0.9)
Tax charge reported in the income statement	**103.9**	**94.8**

8. Earnings per share

This key performance indicator shows the portion of the Group's profit after tax that is attributable to each share (excluding own shares held by the Group). The calculation is based on the weighted average number of shares in issue during the year. The diluted figure recalculates that number as if all share options that would be expected to be exercised, as they have value to the option holder, had been exercised in the period. Shares that may be issued are not taken into account if the impact does not reduce earnings per share.

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

	2014 Number Millions	2013 Number Millions
Weighted average number of shares used in calculation of basic earnings per share	270.4	270.0
Effect of dilutive potential shares – share options	8.3	8.9
Effect of dilutive potential shares – contingently issuable shares	0.7	0.9
Weighted average number of shares used in calculation of diluted earnings per share	**279.4**	**279.8**

The earnings per share calculations are based on profit after tax excluding non-controlling interests of £0.1 million (2013: £0.1 million).

9. Dividends

Dividends are distributions of profit to holders of the Group's share capital, usually announced with the Group's half-yearly and annual results. Dividends are recognised only when they are paid or approved by shareholders. The reduction in equity in the year therefore comprises the prior year final dividend and the current year interim dividend.

	2015		**2014**		2013	
	£m	**Pence per share**	**£m**	**Pence per share**	£m	Pence per share
Prior years final dividend paid			113.0	42.0	80.4	30.0
Interim dividend paid			64.7	24.0	43.1	16.0
Total dividends paid			**177.7**	**66.0**	**123.5**	**46.0**
Current year final dividend recommended	146.0	54.0				

Dividends of £8.8 million (2013: £6.7 million) on shares held by employee benefit trusts have been waived; dividends may not be paid on treasury shares. The recommended 2014 final dividend is payable on 6 May 2015 and will be accounted for in 2015.

10. Trade and other receivables

Trade and other receivables includes prepayments and deposits with banks in the form of bullion as well as amounts the Group is due to receive from third parties in the normal course of business. Amounts due from third parties include fees yet to be received as well as settlement accounts for transactions undertaken on behalf of funds and investors. Trade and other receivables, other than deposits with banks in the form of bullion which are recorded at fair value, are recorded initially at fair value and subsequently at amortised cost (see note 11), after the deduction of provisions for impairment. Prepayments arise where the Group pays cash in advance for services. As the service is provided, the prepayment is reduced and the operating expense recognised in the income statement.

	2014			Restated 2013		
	Non-current £m	**Current £m**	**Total £m**	Non-current £m	Current £m	Total £m
Trade and other receivables held at amortised cost:						
Fee debtors	–	44.3	44.3	–	55.5	55.5
Settlement accounts	–	144.5	144.5	–	139.1	139.1
Accrued income	–	275.3	275.3	–	284.7	284.7
Prepayments	0.2	21.0	21.2	0.3	22.1	22.4
Other receivables	1.8	14.4	16.2	3.8	31.0	34.8
Current tax	–	10.3	10.3	–	11.0	11.0
	2.0	**509.8**	**511.8**	**4.1**	**543.4**	**547.5**
Trade and other receivables held at fair value:						
Deposits with banks in the form of bullion	–	29.2	29.2	–	36.4	36.4
	2.0	**539.0**	**541.0**	**4.1**	**579.8**	**583.9**

Comparative information has been restated to reflect the adoption of IFRS 10 Consolidated Financial Statements – see note 28 and Presentation of the financial statements.

As a result of their short-term nature, the fair value of trade and other receivables held at amortised cost approximates to their carrying value. Deposits with banks in the form of bullion are categorised as level 1 in the fair value hierarchy (see note 11).

11. Financial assets

The Group holds financial assets including equities, debt securities and derivatives to support its Group capital strategies and its Wealth Management book and client loans. The Group enters into derivatives on behalf of Wealth Management clients to enable them to participate in the derivatives market, referred to as client facilitation (see note 21).

The Group initially records all financial assets at fair value, which is the cost of acquiring the asset or, in the case of loans, the amount loaned to clients. The Group holds each financial asset either at fair value ('fair value through profit or loss' and 'available-for-sale') or at amortised cost ('held to maturity' and 'loans and receivables'). Fair value is explained on page 102. Amortised cost is the basis of moving the initial amount recognised for the financial instrument to the maturity value on a systematic basis using a fixed interest rate (effective interest rate), taking account of repayment dates and initial premiums or discounts. The carrying value of amortised cost financial instruments is adjusted for impairments. Impairment is normally determined based on a realistic assessment of future cash flows discounted using the original effective interest rate compared with contractual amounts.

Hedge accounting

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 and its strategy for undertaking the various hedging transactions. It also documents 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 the fair value of hedged items.

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring 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 whereas, for an available-for-sale asset, it would otherwise have been recorded in other comprehensive income. Hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting or the instrument is derecognised.

In respect of 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 other comprehensive income. The ineffective portion is recognised in the income statement. On disposal of the foreign operation, the cumulative gain or loss on the hedging instrument recognised directly in other comprehensive income is transferred to the income statement.

11. Financial assets continued

	2014 Listed £m	Unlisted £m	Total £m
Non-current			
Held to maturity	4.4	–	4.4
Loans and receivables	–	237.6	237.6
Fair value through profit or loss – derivatives	–	3.1	3.1
Fair value through profit or loss – other investments	–	11.2	11.2
Available-for-sale	30.2	20.8	51.0
Total non-current	**34.6**	**272.7**	**307.3**
Current			
Held to maturity	116.2	–	116.2
Loans and receivables	–	402.4	402.4
Fair value through profit or loss – derivatives	–	23.3	23.3
Fair value through profit or loss – other investments	366.9	121.9	488.8
Available-for-sale	386.5	38.9	425.4
Total current	**869.6**	**586.5**	**1,456.1**
Total financial assets	**904.2**	**859.2**	**1,763.4**

	Restated 2013 Listed £m	Unlisted £m	Total £m
Non-current			
Held to maturity	20.7	–	20.7
Loans and receivables	–	320.3	320.3
Fair value through profit or loss – derivatives	–	3.3	3.3
Fair value through profit or loss – other investments	–	34.4	34.4
Available-for-sale	28.5	15.7	44.2
Total non-current	**49.2**	**373.7**	**422.9**
Current			
Held to maturity	121.1	–	121.1
Loans and receivables	–	377.9	377.9
Fair value through profit or loss – derivatives	–	17.6	17.6
Fair value through profit or loss – other investments	347.4	295.5	642.9
Available-for-sale	74.8	21.6	96.4
Total current	**543.3**	**712.6**	**1,255.9**
Total financial assets	**592.5**	**1,086.3**	**1,678.8**

Comparative information has been restated to reflect the adoption of IFRS 10 Consolidated Financial Statements – see note 28 and Presentation of the financial statements.

11. Financial assets continued

Estimates and judgements – fair value measurements

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

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

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

Financial assets that have no quoted price principally consist of investments in private equity, derivatives and certain loans in Wealth Management. The determination of fair value requires significant judgement, particularly in determining whether changes in fair value have occurred since the last formal valuation. In making this judgement the Group evaluates amongst other factors the effect of cash distributions and changes in the business outlook.

Each instrument has been categorised using a fair value hierarchy that reflects the extent of judgements used in the valuation. These levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities and principally comprise investments in quoted equities, daily-priced funds, gilts and exchange-traded derivatives;
- Level 2 fair value measurements are those derived from prices that are not traded in an active market but are determined using valuation techniques, which make maximum use of observable market data. The Group's level 2 financial instruments principally comprise loans held at fair value, foreign exchange contracts and investments in real estate funds. Valuation techniques may include using a broker quote in an inactive market or an evaluated price based on a compilation of primarily observable market information utilising information readily available via external sources. For funds not priced on a daily basis (for example, real estate funds), the net asset value which is issued monthly or quarterly is used; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data and principally comprise investments in private equity funds. These funds are managed by third parties and are measured at the values provided by the relevant fund managers. The most recent available valuation data is used and adjusted for known events such as calls or distributions. The valuation review is a continual process throughout the year.

The fair value of financial assets held at amortised cost approximates to their carrying value (2013: same).

The Group's financial assets held at fair value (excluding those held in the Life Company – see note 16) at the year-end date are analysed as follows:

	2014			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Non-current financial assets:				
Equities	8.2	1.0	39.0	48.2
Debt securities	–	2.8	–	2.8
Derivative contracts	–	3.1	–	3.1
Other instruments	–	11.2	–	11.2
	8.2	**18.1**	**39.0**	**65.3**
Current financial assets:				
Equities	426.1	11.6	1.0	438.7
Debt securities	450.7	4.8	–	455.5
Derivative contracts	0.6	22.7	–	23.3
Other instruments	–	20.0	–	20.0
	877.4	**59.1**	**1.0**	**937.5**
	885.6	**77.2**	**40.0**	**1,002.8**

Financial assets with a fair value of £36.1 million were transferred from level 2 to level 1 during the period, and none from level 1 to level 2. The transfers from level 2 to level 1 relate primarily to equities that have returned to daily-priced positions.

	Restated 2013 Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-current financial assets:				
Equities	4.0	4.0	33.5	41.5
Debt securities	0.3	2.5	–	2.8
Derivative contracts	–	3.3	–	3.3
Other instruments	–	34.3	–	34.3
	4.3	**44.1**	**33.5**	**81.9**
Current financial assets:				
Equities	197.7	61.6	2.3	261.6
Debt securities	279.4	194.9	–	474.3
Derivative contracts	3.4	11.2	3.0	17.6
Other instruments	–	3.4	–	3.4
	480.5	**271.1**	**5.3**	**756.9**
	484.8	**315.2**	**38.8**	**838.8**

Comparative information has been restated to reflect the adoption of IFRS 10 Consolidated Financial Statements – see note 28 and Presentation of the financial statements.

Movements in financial assets categorised as Level 3 during the year were:

	2014 £m	2013 £m
At 1 January	38.8	59.4
Exchange translation adjustments	(1.8)	0.6
Total realised gains recognised in the income statement[1]	–	1.2
Total gains recognised in other comprehensive income[2]	7.7	5.1
Additions	8.0	1.7
Disposals	(11.7)	(29.2)
Transfers out of level 3	(1.0)	–
At 31 December	**40.0**	**38.8**

1 Reported within net gains on financial instruments and other income.
2 Reported within net fair value movement arising from available-for-sale financial assets.

Transfers are assumed to have occurred at the beginning of the period.

Estimates and judgements – impairment of financial assets

Financial assets categorised as available-for-sale, loans and receivables and held to maturity are reviewed for impairment at the end of each reporting period. If the year-end fair value of an asset is less than the cost, or deemed cost, of that asset, the Group will assess whether there is objective evidence that the asset is impaired.

In respect of equity products, consideration is given to the extent to which the fair value of an instrument is below cost and to the length of time that the fair value of an instrument has been below cost.

12. Associates and joint ventures

Associates are companies the Group partly owns and over which it has significant influence, but not control, through participation in the financial and operating policy decisions. Joint ventures are companies in which the Group has an investment where it, along with one or more other shareholders, has contractually agreed to share control of the business and where the major decisions require the unanimous consent of the joint partners. In both cases, the Group's income statement reflects its share of the entity's profit or loss after tax and amortisation of intangible assets, the statement of other comprehensive income records the Group's share of gains and losses arising from the entity's available-for-sale financial assets, the statement of financial position records the Group's share of the net assets of the entity plus any goodwill and intangible assets that arose on purchase less subsequent amortisation and the statement of changes in equity records the Group's share of other equity movements of the entity. Goodwill and intangible assets are reviewed regularly for impairment.

The associates and joint ventures reserve in the statement of changes in equity represents the Group's share of profits in its investments yet to be received (for example, in the form of dividends or distributions), less any amortisation of intangible assets.

(a) Investments in associates and joint ventures accounted for using the equity method

	2014			2013		
	Associates £m	**Joint ventures £m**	**Total £m**	Associates £m	Joint ventures £m	Total £m
At 1 January	78.3	4.8	83.1	77.5	1.9	79.4
Exchange translation adjustments	2.3	(0.2)	2.1	(1.9)	0.1	(1.8)
Additions	1.7	–	1.7	4.9	2.9	7.8
Disposals	–	(0.4)	(0.4)	–	–	–
Profit for the year after tax	7.7	0.8	8.5	5.4	0.6	6.0
Gains/(losses) recognised in other comprehensive income	3.9	–	3.9	(0.9)	–	(0.9)
Other movements in reserves of associates and joint ventures	(0.4)	–	(0.4)	(0.9)	–	(0.9)
Capital redemptions and distributions of profit	(5.2)	(0.7)	(5.9)	(5.8)	(0.7)	(6.5)
At 31 December	**88.3**	**4.3**	**92.6**	**78.3**	**4.8**	**83.1**

Information about the associates held by the Group at 31 December 2014 is shown below. The companies are unlisted.

Name of associate	Status	Nature of its business	Country of incorporation	Class of share	Percentage owned by the Group
Schroder Ventures Investments Limited (SVIL)	Associate	Private equity investment	Guernsey	Ordinary, deferred and redeemable preference shares	50%[1]
RWC Partners Limited (RWC)	Associate	Investment management	England	Ordinary shares	48%
Bank of Communications Schroder Fund Management Co. Ltd. (BoCom)	Associate	Investment management	China	Ordinary shares	30%
Axis Asset Management Company Limited (Axis)	Associate	Investment management	India	Ordinary shares	25%

[1] The Group holds 50% of each class of share.

During the year, the Group participated in a rights issue by Axis Asset Management Company Limited, an associate of the Group. The percentage of the company owned by the Group did not change.

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 the same as those of its major investments. For the purposes of applying the equity method of accounting, the interim financial statements of SVIL at 31 December have been used.

Following the adoption of IFRS 10, the Group concluded that its interests in the associates listed above did not meet the definition of controlling interests under that Standard. Factors considered in making that judgement are detailed in Estimates and judgements on page 135.

12. Associates and joint ventures continued

Summarised financial information in respect of the Group's associates accounted for using the equity method is set out below:

	2014					2013				
	SVIL £m	**RWC £m**	**BoCom £m**	**Axis £m**	**Total £m**	SVIL £m	RWC £m	BoCom £m	Axis £m	Total £m
Non-current assets	6.8	0.2	21.5	12.7	41.2	5.3	0.4	27.9	4.5	38.1
Current assets	5.4	31.7	151.3	17.2	205.6	5.1	22.1	123.0	7.7	157.9
Non-current liabilities	(1.3)	–	–	(8.7)	(10.0)	(1.3)	–	–	(4.0)	(5.3)
Current liabilities	(0.1)	(13.2)	(26.7)	(8.2)	(48.2)	(0.1)	(10.0)	(26.6)	(2.7)	(39.4)
Total equity	**10.8**	**18.7**	**146.1**	**13.0**	**188.6**	**9.0**	**12.5**	**124.3**	**5.5**	**151.3**
Group's share of net assets	5.4	8.9	43.8	3.3	61.4	4.5	6.4	37.3	1.4	49.6
Goodwill and intangible assets	–	11.2	–	15.7	26.9	–	12.1	–	16.6	28.7
Carrying value held by the Group	**5.4**	**20.1**	**43.8**	**19.0**	**88.3**	**4.5**	**18.5**	**37.3**	**18.0**	**78.3**
Net revenue	2.0	27.3	66.0	14.6	109.9	3.0	19.6	80.9	8.8	112.3
Profit for the year	1.8	8.0	15.1	1.3	26.2	2.8	0.6	19.7	–	23.1
Other comprehensive income	–	–	13.0	–	13.0	–	–	(3.0)	–	(3.0)
Total comprehensive income	**1.8**	**8.0**	**28.1**	**1.3**	**39.2**	**2.8**	**0.6**	**16.7**	**–**	**20.1**
Group's share of profit for the year before amortisation	**0.9**	**3.8**	**4.5**	**0.3**	**9.5**	**1.4**	**0.3**	**5.9**	**–**	**7.6**
Amortisation charge	–	–	–	(1.8)	(1.8)	–	–	–	(2.2)	(2.2)
Group's share of profit/(loss) for the year	**0.9**	**3.8**	**4.5**	**(1.5)**	**7.7**	**1.4**	**0.3**	**5.9**	**(2.2)**	**5.4**
Group's share of other comprehensive income	–	–	3.9	–	3.9	–	–	(0.9)	–	(0.9)
Group's share of total comprehensive income	**0.9**	**3.8**	**8.4**	**(1.5)**	**11.6**	**1.4**	**0.3**	**5.0**	**(2.2)**	**4.5**

(b) Investments in associates measured at fair value

Where the Group holds units in investment vehicles which give the Group significant influence, but not control, through participation in the financial and operating policy decisions, the Group records such investments at fair value. Information about the Group's principal associates measured at fair value is shown on the following page. The investments are recorded as financial assets within the Group's statement of financial position.

12. Associates and joint ventures continued

Summarised financial information in respect of the Group's associates held at fair value is set out below:

	2014				
	Lohas Taiwan Equity Fund £m	Banco do Brasil Feeder Fund £m	Schroder Institutional Sterling Bond Fund £m	Schroder Institutional International Bond Fund £m	Schroder Dynamic Multi Asset Fund £m
Current assets	11.3	29.6	71.9	60.2	63.8
Current liabilities	(0.3)	–	(0.5)	(1.1)	(1.9)
Total equity	**11.0**	**29.6**	**71.4**	**59.1**	**61.9**
Net revenue	3.0	(1.5)	8.9	3.4	2.5
Profit/(loss) for the year	2.8	(1.8)	9.6	3.5	2.3
Total comprehensive income	**2.8**	**(1.8)**	**9.6**	**3.5**	**2.3**
Country of incorporation	Taiwan	Brazil	UK	UK	UK
Percentage owned by the Group	28%	38%	38%	33%	30%

	2013						
	Schroder Institutional Sterling Bond Fund £m	Schroder Institutional International Bond Fund £m	Schroder All Maturities Corporate Bond Fund £m	Schroder Specialist Value UK Equity Fund £m	Schroder International Selection Fund US Equity Alpha £m	Schroder International Selection Fund Global High Income Bond £m	Schroder International Selection Fund Global Energy £m
Current assets	80.3	58.1	1,142.6	126.7	18.6	26.5	347.4
Current liabilities	(0.7)	(1.4)	(143.4)	(0.1)	–	(0.2)	(1.2)
Total equity	**79.6**	**56.7**	**999.2**	**126.6**	**18.6**	**26.3**	**346.2**
Net revenue	(3.6)	(2.0)	24.4	52.5	5.3	0.8	44.7
Profit for the year	(2.8)	(1.9)	21.6	52.2	5.0	0.5	38.6
Total comprehensive income	**(2.8)**	**(1.9)**	**21.6**	**52.2**	**5.0**	**0.5**	**38.6**
Country of incorporation	UK	UK	UK	UK	Luxembourg	Luxembourg	Luxembourg
Percentage owned by the Group	36%	32%	27%	27%	26%	26%	23%

13. Property, plant and equipment

The Group's property, plant and equipment provide the infrastructure to enable the Group to operate and principally comprise computer equipment and leasehold improvements. The cost of these assets is recognised in the income statement over time as a depreciation charge. The assets are currently depreciated over three to five years.

	2014 £m	2013 £m
Cost		
At 1 January	96.5	85.3
Exchange translation adjustments	(0.4)	(1.4)
Acquired as part of business combinations	–	2.1
Additions	16.1	13.5
Disposals	(6.0)	(3.0)
At 31 December	**106.2**	**96.5**
Accumulated depreciation		
At 1 January	(74.0)	(70.3)
Exchange translation adjustments	0.2	0.8
Depreciation charge for the year	(8.1)	(6.8)
Disposals	5.6	2.3
At 31 December	**(76.3)**	**(74.0)**
Net book value at 31 December	**29.9**	**22.5**

14. Goodwill and intangible assets

Intangible assets (other than software) arise when the Group acquires a business and the fair value paid exceeds the fair value of the net tangible assets acquired. This premium reflects additional value that the Group determines to be attached to the business. Intangible assets include contractual agreements to manage client funds and gain additional access to new or existing clients, geographies and brand names. Where such assets can be identified, they are recorded as intangible assets arising from business combinations and charged to the income statement over time.

Consideration paid to acquire the business in excess of the acquisition date fair value of net tangible and intangible assets is known as goodwill. Goodwill is not charged to the income statement unless its value has diminished. After acquisition, the business is normally integrated fully into the existing Group. Assessment of whether goodwill has become impaired is based on the expected future returns of the relevant business segment as a whole.

Software purchased for use in the business is also referred to as an intangible asset. The cost of purchasing software is taken to the income statement over time as an amortisation charge. The treatment is similar to property, plant and equipment and the asset is normally amortised evenly over three to five years, but can have estimated useful lives of up to ten years.

	2014				2013			
	Goodwill £m	**Acquired intangible assets £m**	**Software £m**	**Total £m**	Goodwill £m	Acquired intangible assets £m	Software £m	Total £m
Cost								
At 1 January	357.0	135.0	78.6	570.6	117.2	23.9	64.0	205.1
Exchange translation adjustments	0.3	0.5	(0.3)	0.5	(2.3)	(1.4)	(0.1)	(3.8)
Additions[1]	–	–	13.6	13.6	242.1	112.5	14.7	369.3
Disposals	–	–	(3.7)	(3.7)	–	–	–	–
At 31 December	**357.3**	**135.5**	**88.2**	**581.0**	**357.0**	**135.0**	**78.6**	**570.6**
Accumulated amortisation								
At 1 January	–	(34.3)	(47.3)	(81.6)	–	(21.3)	(41.7)	(63.0)
Exchange translation adjustments	–	–	0.3	0.3	–	0.3	0.1	0.4
Amortisation charge for the year	–	(20.8)	(8.1)	(28.9)	–	(13.3)	(5.7)	(19.0)
Disposals	–	–	3.7	3.7	–	–	–	–
At 31 December	**–**	**(55.1)**	**(51.4)**	**(106.5)**	**–**	**(34.3)**	**(47.3)**	**(81.6)**
Carrying amount at 31 December	**357.3**	**80.4**	**36.8**	**474.5**	**357.0**	**100.7**	**31.3**	**489.0**

1 Additions in 2013 principally relate to the acquisition of Cazenove Capital Holdings Limited on 2 July.

Of the total goodwill of £357.3 million (2013: £357.0 million), £288.4 million (2013: £288.1 million) is allocated to Asset Management and £68.9 million (2013: £68.9 million) to Wealth Management.

The majority of the Group's intangible assets from business combinations relate to the Cazenove Capital acquisition; the proportion of assets allocated to Asset Management (£34.1 million at 2 July 2013) will be charged to the income statement over four years, and the proportion allocated to Wealth Management (£66.7 million at 2 July 2013) over eight years.

Estimates and judgements

The Group determined the fair value of acquired intangible assets based on estimated profits, taking account of synergies, derived from contractual relationships that existed at the acquisition date. This assessment involved judgements and assumptions relating to potential future revenues, appropriate discount rates and the expected duration of client relationships. The difference between the fair value of the consideration and the value of the identifiable assets and liabilities acquired, including intangible assets, was accounted for as goodwill.

At each reporting date, an assessment is made as to whether there is any indication that goodwill or an acquired intangible asset may be impaired. If any indication exists and the carrying value exceeds the estimated recoverable amount at that time, the assets are written down to their recoverable amount.

The recoverable amount of goodwill is determined using a discounted cash flow model, details of which are provided below. Any impairment is recognised immediately in the income statement and cannot be reversed. 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 uses to determine impairment is segment level.

The recoverable amount of acquired intangible assets is the greater of fair value less costs to sell and the updated discounted valuation of the remaining net residual income stream. Any impairment is recognised immediately in the income statement but may be reversed if relevant conditions improve.

14. Goodwill and intangible assets continued

The recoverable amounts of the CGUs are determined from value-in-use calculations applying a discounted cash flow model. The key assumptions on which management have based their cash flow projections are market growth rates of 2 per cent. per annum (2013: 2 per cent.), a pre-tax discount rate of 14 per cent. (2013: 14 per cent.), expected fund flows and expected changes to margins. The results of the calculation indicate that goodwill for both CGUs is not impaired.

The sensitivity of the carrying amounts of goodwill to the methods and assumptions used in estimating the recoverable amounts of the CGUs is small. This is due to the amount of goodwill allocated to a business segment relative to the size of the segment's future profitability estimate. Movements in the growth rate and/or the discount rate of 1 per cent. would not lead to any impairment. A comparison of actual results to the projected results used to assess goodwill impairment in prior years reveals that the Group would have recognised no changes (2013: nil) to its goodwill asset in the year as a result of inaccurate projections.

15. Deferred tax

Deferred tax assets and liabilities represent amounts of tax that will become recoverable and payable in future accounting periods. They generally arise as a result of temporary differences, where the time at which profits and losses are recognised for tax purposes differs from the time at which the relevant transaction is recorded in the accounts. A deferred tax asset represents a tax reduction that is expected to arise in a future period. A deferred tax liability represents taxes which will become payable in a future period as a result of a current or prior year transaction.

Deferred tax liabilities also arise on acquisitions where the amortisation of the acquired intangible asset does not result in a tax deduction. The deferred tax liability is established on acquisition and is released to the income statement to match the intangible asset amortisation.

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 year-end date.

(a) Deferred tax assets in respect of temporary differences

	2014 £m	2013 £m
At 1 January	48.5	47.8
Acquired in business combinations	–	(16.2)
Income statement credit due to changes in timing differences	12.2	9.3
Other comprehensive gains due to changes in timing differences	(7.4)	(0.2)
(Charge)/credit taken to equity	(5.7)	9.3
Other movements in timing differences	0.2	(1.5)
At 31 December	**47.8**	**48.5**

Included in deferred tax assets in respect of temporary differences is an asset relating to UK tax deductions for share-based remuneration which is dependent on the prices of the Company's 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 2014.

A deferred tax asset of £27.3 million (2013: £19.5 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 £9.2 million (2013: £15.6 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.

(b) Deferred tax liabilities in respect of temporary differences

	2014 £m	2013 £m
At 1 January	(1.7)	(1.9)
Income statement credit	0.8	0.1
Other movements in timing differences	0.5	0.1
At 31 December	**(0.4)**	**(1.7)**

The aggregate amount of gross temporary differences regarding investments in subsidiaries is £7.6 million (2013: £7.0 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.

16. Unit-linked liabilities and assets backing unit-linked liabilities

The Group operates a unit-linked life assurance business through the wholly-owned subsidiary, Schroder Pension Management Limited (referred to as 'the Life Company'). The Life Company provides investment products through a life assurance wrapper. The investment products do not provide cover for any insurance risk and are therefore recognised and accounted for as financial instruments and presented as financial liabilities due to Life Company investors (policyholders) within unit-linked liabilities.

The investment product is almost identical to a unit trust. The Group earns fee income from managing the investment which is included in net revenue. As it is a life assurance product, the contractual rights and obligations of the investments remain with the Group and the AUM is therefore included on the Group's statement of financial position, together with the liability to investors.

Financial assets and liabilities held by the Life Company are measured at fair value through profit or loss. Other balances include cash and receivables, which are measured at amortised cost (see note 11). The Life Company's assets are regarded as current assets as they represent the amount available to Life Company investors (or third-party investors in other funds) who are able to withdraw their funds on call, subject to certain restrictions in the case of illiquidity. Gains and losses from assets and liabilities held to cover investor obligations are attributable to investors in the Life Company or third-party investors in the funds. As a result, any gain or loss is offset by a change in the obligation to investors.

Unit-linked liabilities comprise:

	2014 £m	Restated 2013 £m
Financial liabilities due to Life Company investors	11,080.3	9,912.0
Financial liabilities due to third-party investors[1]	2,578.1	1,774.4
	13,658.4	**11,686.4**

1 In accordance with accounting standards, the Group is deemed to hold a controlling interest in certain funds as a result of the investments held by the Life Company. This results in all of the assets and liabilities of those funds being presented within the Group's statement of financial position and the third-party interest in the fund being recorded as a financial liability due to third-party investors.

Comparative information has been restated to reflect the adoption of IFRS 10 Consolidated Financial Statements – see note 28 and Presentation of the financial statements.

The Group has no primary exposure to market risk, credit risk or liquidity risk in relation to the investments of the Life Company. The risks and rewards associated with its investments are normally borne by the investors in the Life Company's investment products or third-party investors in the funds and not by the Life Company itself.

Fair value measurements of Life Company financial assets and liabilities

Each of the Life Company's financial assets and liabilities has been categorised using a fair value hierarchy. These levels are based on the degree to which the fair value is observable and are defined in note 11.

The Life Company's financial instruments at the year-end date are analysed as follows:

	2014				
	Level 1 £m	Level 2 £m	Level 3 £m	Financial instruments not at fair value £m	Total £m
Assets backing unit-linked liabilities	10,830.7	1,950.4	49.6	827.7	13,658.4
Unit-linked liabilities	13,488.2	5.5	–	164.7	13,658.4

	Restated 2013				
	Level 1 £m	Level 2 £m	Level 3 £m	Financial instruments not at fair value £m	Total £m
Assets backing unit-linked liabilities	9,971.2	718.3	158.2	838.7	11,686.4
Unit-linked liabilities	11,644.6	8.6	–	33.2	11,686.4

Comparative information has been restated to reflect the adoption of IFRS 10 Consolidated Financial Statements – see note 28 and Presentation of the financial statements.

The types of instruments found in each of the above levels 1 and 3 for the Life Company are the same as those listed for the non-Life Company instruments in note 11. Level 2 investments principally comprise corporate bonds.

16. Unit-linked liabilities and assets backing unit-linked liabilities continued

Movements in financial assets categorised as Level 3 during the year were:

	2014 £m	2013 £m
At 1 January	158.2	170.7
Exchange translation adjustments	(6.5)	–
Gains/(losses) recognised in the income statement	13.2	(0.7)
Additions	1.8	0.6
Disposals	(117.1)	(12.4)
At 31 December	**49.6**	**158.2**

17. Trade and other payables

Trade and other payables (excluding deferred income) represent amounts the Group is due to pay to third parties in the normal course of business. These include expense accruals as well as settlement accounts (amounts due to be paid for transactions undertaken). Trade creditors are costs that have been billed; accruals represent costs, including remuneration, that are not yet billed or due for payment, but for which the goods or services have been received. Trade and other payables held at fair value comprise deferred cash awards (deferred employee remuneration payable in cash) and bullion deposits by customers.

Deferred income represents fees received in advance of services being performed.

Trade and other payables are initially recorded at fair value, and are subsequently measured at amortised cost or fair value (see note 11), as shown below.

	2014			2013		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Trade and other payables at amortised cost:						
Settlement accounts	–	159.6	159.6	–	170.2	170.2
Trade creditors	–	4.3	4.3	–	8.1	8.1
Social security	20.1	55.0	75.1	18.2	48.4	66.6
Accruals and deferred income	10.2	379.8	390.0	8.1	363.5	371.6
Other payables	2.8	18.3	21.1	2.9	32.1	35.0
	33.1	**617.0**	**650.1**	**29.2**	**622.3**	**651.5**
Trade and other payables at fair value:						
Deferred cash awards	36.8	36.0	72.8	34.5	41.7	76.2
Bullion deposits by customers	–	29.2	29.2	–	36.4	36.4
	36.8	**65.2**	**102.0**	**34.5**	**78.1**	**112.6**
	69.9	**682.2**	**752.1**	**63.7**	**700.4**	**764.1**

As a result of their short-term nature, the fair value of trade and other payables held at amortised cost approximates to their carrying value. The fair value of bullion deposits by customers is derived from level 1 inputs (see note 11). Deferred cash awards derive their value from the fair value of units in funds to which the employee award is linked (fund awards).

The Group's trade and other payables contractually mature in the following time periods:

	2014 £m	2013 £m
Less than 1 year[1]	682.2	700.4
1 – 2 years	37.0	35.6
2 – 5 years	30.6	26.4
More than 5 years	2.3	1.7
	69.9	**63.7**
	752.1	**764.1**

1 Settlement accounts are generally settled within four working days and trade creditors have an average settlement period of 20 working days (2013: 21 working days).

18. Financial liabilities

The Group's financial liabilities principally comprise deposits by Wealth Management clients and banking counterparties. They also include derivatives held for client facilitation or interest rate matching in Wealth Management (see note 21), and the hedging of risk exposures within investment capital. The fair value measurements section below reflects the level of judgement involved in determining fair value although this does not necessarily indicate that the fair value is more or less likely to equal the actual settlement cost. Liabilities arise in respect of consolidated funds (consolidation occurs when the Group is deemed to control a fund, usually in respect of Life Company or seed capital investments). When this happens, the Group accounts for the fund in its statement of financial position as if it were wholly-owned by the Group, but records an additional liability representing the fair value of the proportion of the fund owned by third-party investors. Where the investment is held by the Life Company, the fair value of the proportion of the fund owned by third party investors is shown as part of unit-linked liabilities (see note 16).

Financial liabilities are initially recorded at fair value, and subsequently at amortised cost or fair value (see note 11), as shown below.

	2014			Restated 2013		
	Non-current £m	**Current £m**	**Total £m**	Non-current £m	Current £m	Total £m
Financial liabilities at amortised cost:						
Client accounts	187.3	2,889.4	3,076.7	237.6	2,039.6	2,277.2
Deposits by banks	–	44.4	44.4	–	15.4	15.4
Loan notes in issue	–	5.4	5.4	–	8.4	8.4
	187.3	**2,939.2**	**3,126.5**	**237.6**	**2,063.4**	**2,301.0**
Financial liabilities at fair value:						
Derivative contracts (see note 21)	3.0	12.4	15.4	5.2	10.6	15.8
Other financial liabilities held at fair value through profit or loss	8.4	43.2	51.6	13.0	35.1	48.1
	11.4	**55.6**	**67.0**	**18.2**	**45.7**	**63.9**
	198.7	**2,994.8**	**3,193.5**	**255.8**	**2,109.1**	**2,364.9**

Comparative information has been restated to reflect the adoption of IFRS 10 Consolidated Financial Statements – see note 28 and Presentation of the financial statements.

Maturity profiles of client accounts, deposits by banks and derivative contracts can be found in notes 20 and 21.

Fair value measurements

The Group holds financial liabilities that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined in note 11.

The Group's financial liabilities held at fair value (excluding those held in the Life Company – see note 16) at the year-end date are analysed as follows:

	2014			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Non-current financial liabilities:				
Derivative contracts	–	3.0	–	3.0
Other financial liabilities held at fair value through profit or loss	–	7.6	0.8	8.4
	–	**10.6**	**0.8**	**11.4**
Current financial liabilities:				
Derivative contracts	1.8	10.6	–	12.4
Other financial liabilities held at fair value through profit or loss	43.2	–	–	43.2
	45.0	**10.6**	**–**	**55.6**
	45.0	**21.2**	**0.8**	**67.0**

18. Financial liabilities continued

	Restated 2013			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-current financial liabilities:				
Derivative contracts	–	5.2	–	5.2
Other financial liabilities held at fair value through profit or loss	–	9.7	3.3	13.0
	–	**14.9**	**3.3**	**18.2**
Current financial liabilities:				
Derivative contracts	2.5	8.1	–	10.6
Other financial liabilities held at fair value through profit or loss	30.0	5.1	–	35.1
	32.5	**13.2**	**–**	**45.7**
	32.5	**28.1**	**3.3**	**63.9**

Comparative information has been restated to reflect the adoption of IFRS 10 Consolidated Financial Statements – see note 28 and Presentation of the financial statements.

19. Provisions and contingent liabilities

Provisions are liabilities where there is uncertainty over the timing or amount of settlement and therefore usually require the use of estimates. They are recognised when three conditions are fulfilled: when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that the Group will incur a loss in order to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. They are recorded at the Group's best estimate of the cost of settling the obligation. Any differences between those estimates and the amounts for which the Group actually becomes liable are taken to the income statement as additional charges where the Group has underestimated and credits where the Group has overestimated. Where the estimated timing and settlement is longer-term, the amount is discounted using a rate reflecting specific risks associated with the provision.

Contingent liabilities are potential liabilities where there is even greater uncertainty, which could include a dependency on events not within the Group's control, but where there is a possible obligation. Contingent liabilities are only disclosed and not included within the statement of financial position.

(a) Provisions

	Dilapidations and onerous leases £m	Legal and regulatory £m	Total £m
At 1 January 2014	12.1	39.1	51.2
Exchange translation and other movements	–	2.4	2.4
Provisions utilised	(2.0)	(5.3)	(7.3)
Additional provisions charged in the year	2.2	6.6	8.8
Unused amounts reversed in the year	(0.4)	(0.7)	(1.1)
At 31 December 2014	**11.9**	**42.1**	**54.0**
Current – 2014	3.5	19.2	22.7
Non-current – 2014	8.4	22.9	31.3
	11.9	**42.1**	**54.0**
Current – 2013	2.1	15.7	17.8
Non-current – 2013	10.0	23.4	33.4
	12.1	**39.1**	**51.2**

19. Provisions and contingent liabilities continued

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

	2014 £m	2013 £m
Less than 1 year	22.7	17.8
1 – 2 years	23.9	26.7
2 – 3 years	0.8	0.7
3 – 4 years	5.6	0.8
4 – 5 years	0.7	0.8
More than 5 years	0.3	4.4
	31.3	**33.4**
	54.0	**51.2**

The provision for dilapidations and onerous leases covers lease commitments with a weighted average maturity of two years (2013: three years).

Legal and regulatory obligations associated with the Group's business arise from past events that are estimated to crystallise mainly within two years (2013: two years). These matters are ongoing.

As at 31 December 2013 and 2014, the Group has recorded a £15.0 million provision for a possible penalty payable in connection with the US Department of Justice (DOJ) programme announced on 29 August 2013 that applies industry wide to Swiss banks in order to identify accounts related to persons who may not have been US-tax compliant. The Group's Swiss bank is participating voluntarily in the programme. Where a Swiss bank is unable to provide fully sufficient evidence of compliance, a penalty may be payable. This programme may complete in 2015 and there is uncertainty as to the extent of any payment required by Schroders. Details of the programme can be found at the DOJ website.

The Group established a provision in 2013 based on a review of relevant accounts that existed on or after 1 August 2008. The provision relates principally to closed accounts. There is uncertainty mainly in respect of the range of probabilities applied to relevant accounts which will only become certain following the conclusion of the DOJ's analysis of the Swiss bank's submission of its evidence. As a result, the actual payment is expected to vary from the amount provided.

Estimates and judgements

The timing and amount of settlement of each legal claim or potential claim and constructive obligation is uncertain. The Group has performed an assessment of the timing and amount, and reviews this assessment periodically. For some provisions, including the provision for onerous leases, there is greater certainty as the cash flows have largely been determined. However, the onerous lease provision also includes an assessment of potential cash inflows (where these are not contractually binding) from subletting arrangements. Potential legal claims, regulatory related costs and other obligations to third parties arise as a consequence of normal business activity. They can arise from actual or alleged breaches of obligations and may be covered by the Group's insurance arrangements, but subject to insurance excess. In certain circumstances, legal and regulatory claims can arise despite there being no error or breach. Our risk management and compliance procedures are designed to mitigate, but are not able to eliminate, the risk of losses occurring. Where such claims and costs arise there is often uncertainty over whether a payment will be required and the quantum and timing of that payment. As a result there is also uncertainty over the timing and amount of any insurance recovery, although this does not change the likelihood of insurance cover being available, where applicable. The Group makes periodic assessments of all cash flows, including taking external advice where appropriate, to determine an appropriate provision. Some matters may be settled through commercial negotiation as well as being covered in whole or in part by the Group's insurance arrangements. The Group has made provisions based on reasonable expectation of likely outflows. However the results of negotiations and insurance cover may result in different outcomes.

(b) Contingent liabilities

	2014 £m	2013 £m
Assets pledged as collateral security	54.9	57.4
Guarantees and irrevocable letters of credit	34.7	34.5
	89.6	**91.9**

Transactions giving rise to contingent liabilities are principally in Wealth Management and are only entered into by the Group once it has received sufficient high quality collateral from the client. Assets pledged as collateral security reflect the value of instruments that the Group is required to hold with clearing agents in order to support the execution of the Group's security transactions. The pledged assets provide collateral in the event of the Group not settling trades within agreed time frames.

20. Financial instrument risk management

As a result of its operations, the Group is exposed to multiple forms of risk including: (i) the risk that money owed to the Group will not be received (credit risk); (ii) the risk that the Group may not have sufficient cash available to pay its creditors as they fall due (liquidity risk); and (iii) the risk that the value of assets will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange rates (market risk). The management of such risks is embedded in managerial responsibilities fundamental to the wellbeing of the Group. This note sets out the nature of the risks and their quantification and management.

The Group's primary exposure to financial instrument risk is derived from the financial instruments that it holds as principal. In addition, due to the nature of the business, the Group's exposure extends to the impact on investment management and other fees that are determined on the basis of a percentage of AUM and are therefore impacted by financial instrument risk exposure of our clients – the secondary exposure. This note deals with the primary exposure only.

Financial instruments give rise to market, liquidity and credit risk exposures. Settlement of financial instruments (on both a principal and agency basis) gives rise to operational risk. The execution and 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 Board and is then delegated to senior management.

The Audit and Risk Committee provide oversight and the 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 control environment is provided by Internal Audit.

The Life Company provides investment products through a life assurance wrapper. The financial risks of these products are largely borne by the third-party investors, consistent with other investment products managed by the Group. However, since the Life Company provides the investment products, both the investments and the third-party obligations are recorded in the statement of financial position. Financial instrument risk management in respect of the Life Company is set out in note 16.

(a) Capital

Total capital comprises:

	2014 £m	Restated 2013 £m
Regulatory capital	673	603
Other operating capital	284	311
Operating capital	**957**	**914**
Investment capital*	725	515
Seed capital	163	182
Other items**	693	658
Total capital	**2,538**	**2,269**

* Includes RWC Partners Limited and Schroder Ventures Investments Limited associates.
**Comprises goodwill, intangible assets, pension scheme surpluses, other associates and joint ventures, and deferred tax.

(i) Operating capital

Operating capital is the capital required to meet regulatory and working capital requirements. The Group holds surplus capital over the regulatory requirements which is managed by Group Treasury and in-house fund managers.

Regulators oversee the activities and impose minimum capital requirements on the Group's operating subsidiaries. The Group's policy is for subsidiaries to have sufficient capital to meet regulatory requirements, keep an appropriate standing with counterparties and meet working capital requirements. The Group Capital Committee reviews compliance with this policy.

Schroders plc is regulated by the PRA as a UK consolidated group. Its capital resources calculated for a Group holding a banking licence amounted to £1,974 million (2013: £1,673 million) and its Pillar 1 minimum capital requirement was £387 million (2013: £342 million). Other regulatory minimum capital requirements apply to the Group which set the minimum requirement at £673 million (2013: £603 million).

The Group holds sufficient capital to meet its regulatory capital requirements. All regulated entities within the Group complied with regulatory minimum capital requirements during the year.

(ii) Investment capital

Investment capital is shareholders' investible equity held in excess of operating requirements. It is managed with the aim of achieving a low-volatility cash plus 2 per cent. absolute return. It is mainly held in cash, government and government-guaranteed bonds, investment grade corporate bonds, and Schroders' funds. Investment capital is also used to help support the organic development of existing and new business strategies and to respond to other investment and growth opportunities as they arise, such as acquisitions that will accelerate the development of the business.

(iii) Seed capital

Seed capital may be used to develop new investment strategies, co-invest selectively alongside our clients and finance growth opportunities. Seed capital is deployed principally to support the growth of Asset Management and, where practical, the market risk on its seed capital investments is hedged. Surplus capital is deployed in accordance with limits approved by the Board.

20. Financial instrument risk management continued

The categorisation of the Group's assets and liabilities (the difference between which represents capital) analysed by accounting treatment is summarised below:

2014	Loans and receivables/ liabilities at amortised cost £m	Held to maturity £m	At fair value through profit or loss: Held for trading £m	At fair value through profit or loss: Designated as at fair value through profit or loss £m	Available-for-sale £m	Non-financial instruments and other £m	Total £m
Assets							
Cash and cash equivalents	3,535.3	–	–	–	–	–	3,535.3
Trade and other receivables	480.3	–	–	–	–	60.7	541.0
Financial assets – non-debt securities	571.6	–	214.0	31.2	299.3	–	1,116.1
Financial assets – debt securities	68.4	120.6	281.2	–	177.1	–	647.3
Associates and joint ventures	–	–	–	–	–	92.6	92.6
Property, plant and equipment	–	–	–	–	–	29.9	29.9
Goodwill and intangible assets	–	–	–	–	–	474.5	474.5
Deferred tax	–	–	–	–	–	47.8	47.8
Retirement benefit scheme assets	–	–	–	–	–	103.7	103.7
Assets backing unit-linked liabilities	827.7	–	–	12,830.7	–	–	13,658.4
Total assets	**5,483.3**	**120.6**	**495.2**	**12,861.9**	**476.4**	**809.2**	**20,246.6**
Liabilities							
Trade and other payables	575.0	–	–	72.8	–	104.3	752.1
Financial liabilities	3,126.5	–	15.4	51.6	–	–	3,193.5
Current tax	–	–	–	–	–	44.1	44.1
Provisions	54.0	–	–	–	–	–	54.0
Deferred tax	–	–	–	–	–	0.4	0.4
Retirement benefit scheme deficits	–	–	–	–	–	6.3	6.3
Unit-linked liabilities	164.7	–	–	13,493.7	–	–	13,658.4
Total liabilities	**3,920.2**	**–**	**15.4**	**13,618.1**	**–**	**155.1**	**17,708.8**
Capital							**2,537.8**

Restated 2013	Loans and receivables/ liabilities at amortised cost £m	Held to maturity £m	At fair value through profit or loss: Held for trading £m	At fair value through profit or loss: Designated as at fair value through profit or loss £m	Available-for-sale £m	Non-financial instruments and other £m	Total £m
Assets							
Cash and cash equivalents	2,533.5	–	–	–	–	–	2,533.5
Trade and other receivables	514.1	–	–	–	–	69.8	583.9
Financial assets – non-debt securities	601.8	–	185.8	37.7	138.2	–	963.5
Financial assets – debt securities	96.4	141.8	474.7	–	2.4	–	715.3
Associates and joint ventures	–	–	–	–	–	83.1	83.1
Property, plant and equipment	–	–	–	–	–	22.5	22.5
Goodwill and intangible assets	–	–	–	–	–	489.0	489.0
Deferred tax	–	–	–	–	–	48.5	48.5
Retirement benefit scheme assets	–	–	–	–	–	63.7	63.7
Assets backing unit-linked liabilities	838.7	–	–	10,847.7	–	–	11,686.4
Total assets	**4,584.5**	**141.8**	**660.5**	**10,885.4**	**140.6**	**776.6**	**17,189.4**
Liabilities							
Trade and other payables	584.9	–	–	76.2	–	103.0	764.1
Financial liabilities	2,301.0	–	15.8	48.1	–	–	2,364.9
Current tax	–	–	–	–	–	46.6	46.6
Provisions	51.2	–	–	–	–	–	51.2
Deferred tax	–	–	–	–	–	1.7	1.7
Retirement benefit scheme deficits	–	–	–	–	–	5.9	5.9
Unit-linked liabilities	33.2	–	–	11,653.2	–	–	11,686.4
Total liabilities	**2,970.3**	**–**	**15.8**	**11,777.5**	**–**	**157.2**	**14,920.8**
Capital							**2,268.6**

Comparative information has been restated to reflect the adoption of IFRS 10 Consolidated Financial Statements – see note 28 and Presentation of the financial statements.

20. Financial instrument risk management continued
(b) Credit risk, liquidity risk and market risk
(i) Credit risk
Credit risk is the risk that a counterparty to a financial instrument, loan or commitment will cause the Group financial loss by failing to discharge an obligation. For this purpose, the impact on fair value of a credit loss arising from credit spread price changes in a portfolio of investments is excluded. This risk is addressed within Pricing 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 carefully manages its exposure to credit risk by: approving lending policies that specify the type of acceptable collateral and minimum lending margins; setting limits for individuals' exposures and sectors; and by taking security. The Group's maximum exposure to credit risk is represented by the carrying value of its financial assets. In addition the Group holds collateral on its loans and advances to clients and certain derivative positions.

A breakdown of the Group's relevant financial assets by credit rating is set out below:

	Cash and cash equivalents		Debt securities at amortised cost		Debt securities at fair value	
	2014 £m	Restated 2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Credit rating[1]:						
AAA	1,628.7	470.7	112.5	84.1	198.6	96.3
AA+	63.3	343.9	–	17.4	5.7	126.0
AA	68.3	26.7	–	–	2.7	0.2
AA-	447.0	503.9	10.6	41.3	5.4	0.1
A+	466.5	271.2	27.0	25.6	19.8	148.5
A	566.4	738.8	38.9	69.8	24.8	75.3
A-	275.2	166.8	–	–	34.6	2.5
BBB+ and lower	6.0	3.1	–	–	126.7	13.1
Not rated	13.9	8.4	–	–	40.0	15.1
	3,535.3	**2,533.5**	**189.0**	**238.2**	**458.3**	**477.1**

1 Provided by rating agencies.

Wealth Management activities
All facility requests are presented to the relevant Wealth Management credit committees and counterparty exposures are monitored daily. Loans and advances to clients are secured on a range of assets including real estate (both residential and commercial), cash, client portfolios and insurance policies. The Group does not usually provide loans and advances to clients on an unsecured basis. Where disposal of non-cash collateral is required, in the event of default, the terms and conditions relevant to the specific contract and country will apply.

Portfolios held as collateral are marked to market daily and positions compared to clients' loans. Credit limits are set following an assessment of the market value of each type of collateral, depending on the perceived risk associated with the collateral. Clients are contacted if these limits are breached, or if collateral is not sufficient to cover the outstanding exposure.

No provisions (2013: £13.0 million) are held against gross loans and receivables that are recorded at amortised cost.

The amount of change in the year in the fair value of loans and receivables held at fair value through profit or loss that is attributable to changes in credit risk is a loss of £1.4 million (2013: £0.1 million) and £7.1 million (2013: £5.7 million) cumulatively. This is due to a shortfall in the value of the collateral held against the loans and receivables.

Wealth Management takes a conservative approach to its treasury investments placing them with, or purchasing debt securities issued by, UK and overseas banks, central banks, supranational banks and sovereigns.

Debt securities held within the Wealth Management treasury book are classified as loans and receivables or as held to maturity financial assets and are unsecured. Policies covering various counterparty and market risk limits are set and monitored by the relevant Wealth Management asset and liability management committees. All instruments held within Wealth Management are rated investment grade.

Other activities
Fee debtors and other receivables arise as a result of the Group's Asset Management activities and amounts are monitored regularly. Historically, default levels have been insignificant and unless a client has withdrawn its funds, there is an ongoing relationship between the Group and the client.

Fee debtors past due but not yet impaired as at 31 December 2014 were £13.4 million (2013: £10.0 million), the majority of which is less than 60 days past due. 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 pay.

The Group seeks to manage its exposure to credit risk arising from debt securities and derivatives within the investment portfolio by adopting a conservative approach and through ongoing credit analysis. Cash is held with well-rated banks, government and government-guaranteed bonds are rated AA or better, corporate bond portfolios have an investment grade mandate, and exposure to sub-investment grade debt is low. Derivative positions are taken in exchange-traded securities where there is minimal credit risk. Forward foreign exchange positions generally have a maturity of one month.

The Group's cash and cash equivalents in the non-Wealth Management entities are invested primarily in current accounts, on deposit with well-rated banks, and invested in money market funds.

20. Financial instrument risk management continued

(ii) Liquidity risk

Liquidity risk is the risk that the Group cannot meet its obligations as they fall due or can only do so at a cost. The Group has a clearly defined liquidity risk management framework in place. Group policy is that its subsidiaries should trade solvently, comply with regulatory liquidity requirements, and have adequate liquidity for all activities undertaken in the normal course of business. In particular, all companies should maintain sufficient liquid funds to meet peak working capital requirements. Financial liabilities relating to other operating entities are £53.4 million (2013: £49.7 million), the majority of which are current.

Wealth Management activities

The principal liquidity risk the Group faces concerns its Wealth Management liabilities. The liquidity policy is to maintain sufficient liquidity to meet regulatory and prudential requirements, to cover cash flow imbalances and fluctuations in funding, and to ensure the timely repayment of funds to depositors.

The contractual maturity of Wealth Management financial assets and liabilities is set out below:

	2014						
	Less than 1 year £m	**1-2 years £m**	**2-3 years £m**	**3-4 years £m**	**4-5 years £m**	**More than 5 years £m**	**Total £m**
Assets							
Cash	2,666.2	–	–	–	–	–	2,666.2
Loans and advances to clients[1]	334.1	51.6	6.0	11.7	27.8	151.6	582.8
Debt securities	184.5	4.4	–	–	–	–	188.9
Other financial assets	18.0	0.2	2.3	0.5	–	–	21.0
Total financial assets	**3,202.8**	**56.2**	**8.3**	**12.2**	**27.8**	**151.6**	**3,458.9**
Liabilities							
Client accounts	2,889.4	11.8	3.1	8.2	27.8	136.4	3,076.7
Deposits by banks	44.4	–	–	–	–	–	44.4
Other financial liabilities[2]	8.5	0.6	2.3	7.6	–	–	19.0
Total financial liabilities	**2,942.3**	**12.4**	**5.4**	**15.8**	**27.8**	**136.4**	**3,140.1**
Cumulative gap	**260.5**	**304.3**	**307.2**	**303.6**	**303.6**	**318.8**	**318.8**

	2013						
	Less than 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Assets							
Cash	1,824.9	–	–	–	–	–	1,824.9
Loans and advances to clients[1]	258.3	102.8	69.7	3.1	13.1	166.0	613.0
Debt securities	237.9	20.7	–	–	–	–	258.6
Other financial assets	8.7	0.9	2.1	–	0.7	0.4	12.8
Total financial assets	**2,329.8**	**124.4**	**71.8**	**3.1**	**13.8**	**166.4**	**2,709.3**
Liabilities							
Client accounts	2,039.5	51.6	22.1	3.1	9.6	151.3	2,277.2
Deposits by banks	15.4	–	–	–	–	–	15.4
Other financial liabilities[2]	7.6	2.1	2.8	–	9.7	0.4	22.6
Total financial liabilities	**2,062.5**	**53.7**	**24.9**	**3.1**	**19.3**	**151.7**	**2,315.2**
Cumulative gap	**267.3**	**338.0**	**384.9**	**384.9**	**379.4**	**394.1**	**394.1**

1 Includes loans and advances to clients held at fair value through profit or loss of £31.2 million (2013: £37.7 million).
2 Includes client accounts held at fair value through profit or loss of £7.6 million (2013: £14.9 million).

Other activities

Liquidity risk in the rest of the Group is low. Excluding the Life Company and consolidated funds, the Asset Management and Group segment together hold cash and cash equivalents of £860.8 million (2013: £697.6 million).

The Group has a committed loan facility of £50.0 million (2013: £50.0 million) that expires on 30 September 2018 and £5.4 million (2013: £8.4 million) of loan notes as part of the acquisition of Cazenove Capital that are repayable on 12 July 2018 and subject to early redemption rights in certain circumstances.

20. Financial instrument risk management continued

(iii) Market risk

The sensitivities to market risk are estimated as follows:

		31 December 2014			31 December 2013		
Variable[1]		A reasonable change in the variable within the next calendar year %	Increase/(decrease) in post-tax profit £m	Increase/(decrease) in other components of equity £m	A reasonable change in the variable within the next calendar year %	Increase/(decrease) in post-tax profit £m	Increase/(decrease) in other components of equity £m
Interest rates[2]	-increase	0.5	2	–	0.5	4	–
	-decrease	–	–	–	–	–	–
US dollar against Sterling	-strengthen	8	(1)	14	8	(2)	17
	-weaken	(6)	1	(9)	(6)	1	(11)
Euro against Sterling	-strengthen	5	6	7	5	5	7
	-weaken	(8)	(9)	(10)	(6)	(5)	(7)
FTSE-All Share Index[3]	-increase	20	3	19	20	–	5
	-decrease	(20)	(18)	(4)	(20)	(1)	(5)

1 The underlying assumption is that there is one variable increase/decrease with all other variables held constant.
2 Assumes that the fair value of assets and liabilities will not be affected by a change in interest rates.
3 Assumes that changes in the FTSE-All Share Index correlate to changes in the fair value of the Group's equity investments.

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 other than those arising from interest rate risk or currency risk.

In respect of financial instrument risk, the Group's exposure to pricing risk is principally through investments held in investment capital, seed capital, deferred employee compensation fund awards and some investments held for regulatory capital. However, the more significant risk is the impact on the Group's fee income as this is principally determined on percentages of the fair value of AUM. This risk cannot be easily mitigated but is addressed to some extent by ongoing net new business.

The Group does not hedge exposure to price risk except in respect of seed capital and employee compensation awards in the form of fund awards when it is considered that the amount of risk is material and an effective hedge is available.

The changes used in the sensitivity analysis were provided by the Group's Global Economics team who determine reasonable assumptions.

Interest rate risk

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

Wealth Management activities

In Wealth Management, interest rate risk is monitored against policies and limits set by the relevant risk committee on a daily basis.

Wealth Management manages its interest rate risk by matching asset and liability positions and through the use of interest rate swaps.

Within Wealth Management, there are sensitivity-based and stress-based models used for monitoring interest rate risk. These involve assessing the impact of a prescribed basis point rise in interest rates, together with extreme scenarios for the stress tests. The impact is calculated regularly for each currency and in aggregate.

Other activities

Cash held by the other operating companies is not normally expected to be placed on deposit for longer than three months.

The Group's capital includes investments in government bonds and corporate investment-grade bonds managed by the Group's fixed income fund managers.

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.

Wealth Management activities

In Wealth Management, some loans and advances to clients, as well as a proportion of the treasury activities, are undertaken in foreign currencies. This is managed by the treasury departments within agreed limits that are set and monitored by the relevant risk committees.

20. Financial instrument risk management continued

Other activities

The Group's policy in relation to revenue, expenditure and capital currency exposure in Asset Management activities is generally not to hedge. The Group's revenue is earned and expenditure incurred in many currencies and the resulting exposure is considered part of the business.

The Group also has exposure to foreign currency through investments in currencies other than sterling. The Group uses forward foreign exchange contracts with third parties to mitigate this exposure. The gain or loss on the hedging instruments is included in the statement of other comprehensive income or the income statement, as appropriate. The use of such instruments is subject to the approval of the Group Capital Committee.

The Group's gross and net exposure to foreign currencies is set out below:

	2014			2013		
	Gross exposure £m	**Hedged £m**	**Net exposure £m**	Gross exposure £m	Hedged £m	Net exposure £m
US dollar	278	(112)	166	305	(107)	198
Euro	210	(72)	138	204	(74)	130
Swiss franc	124	–	124	137	–	137
Singapore dollar	58	–	58	50	–	50
Australian dollar	59	(25)	34	27	–	27
Hong Kong dollar	48	–	48	39	–	39
Chinese renminbi	41	–	41	37	–	37
Other	110	(16)	94	117	(20)	97
Total currency exposures	**928**	**(225)**	**703**	**916**	**(201)**	**715**
Sterling	1,610	225	1,835	1,353	201	1,554
	2,538	–	**2,538**	**2,269**	**–**	**2,269**

21. Derivative contracts

(a) The Group's use of derivatives

The Group holds derivatives for risk management, client facilitation, and within its investment portfolios to provide exposure to market returns. The Group most commonly uses forward foreign exchange contracts where it agrees to buy or sell specified amounts of a named currency at a future date, allowing the Group effectively to fix exchange rates so that it can avoid unpredictable gains and losses on receivables and payables in foreign currencies. The Group uses equity contracts to hedge market-related gains and losses on its seed capital investments where the purpose of investing is to help establish a new product rather than gain additional market exposure. Interest rate contracts are used to hedge exposures to fixed or floating rates of interest.

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 entering into derivative contracts, the Group is able to mitigate or eliminate such exposures. The principal risk that the Group faces through such use of derivative contracts is credit risk.

Client facilitation: the Group's Wealth Management 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 or as principal in financial assets and liabilities (including derivatives) in order to facilitate client portfolio requirements. Wealth Management's policy is to hedge, as appropriate, exchange rate and interest rate risk on its client facilitation positions. The hedging of equal and opposite risks seeks to mitigate market risk, but does not eliminate the possibility of credit risk.

For details of how the Group manages its exposure to credit risk, see (b) below and note 20.

(b) Derivatives used by the Group

Currency forwards are contractual obligations to receive or pay amounts based on changes in currency rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price. For currency forward contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

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 in the case of certain currency swaps. The Group's credit risk represents the potential cost of replacing the swap contracts if counterparties fail to perform their obligations. 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 Group assesses counterparties in accordance with its internal policies and procedures.

21. Derivative contracts continued

Foreign exchange, equity and interest rate options are contractual agreements under which the seller grants the purchaser 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 purchaser and assumes foreign exchange, equity or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer or market counterparty. 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.

Futures contracts are standardised contracts to buy or sell specified assets for an agreed price at a specified future date. Contracts are negotiated at a futures exchange which acts as an intermediary between the two parties. For futures contracts, the maximum exposure to credit risk is represented by the fair value of the contracts.

The fair value of derivative instruments becomes favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, indices, foreign exchange rates and other relevant variables relative to their terms. The aggregate contractual amount of derivative financial instruments held, 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 fair values are set out below:

	2014		2013	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Interest rate contracts	0.8	(2.0)	1.5	(3.6)
Forward foreign exchange contracts	22.6	(9.3)	9.0	(6.0)
Equity contracts	3.0	(4.1)	10.3	(6.2)
	26.4	**(15.4)**	**20.8**	**(15.8)**

	2014		2013	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Net-settled derivative contracts[1] maturing/repricing[2] in:				
Less than 1 year	0.8	(3.1)	8.6	(4.6)
1 – 3 years	2.5	(3.0)	2.1	(4.8)
3 – 5 years	0.5	–	0.7	–
More than 5 years	–	–	0.4	(0.4)
	3.8	**(6.1)**	**11.8**	**(9.8)**
Gross-settled derivatives[3] maturing/repricing[2] in:				
Less than 1 year:				
Gross inflows	953.0	575.4	545.9	434.6
Gross outflows	(948.0)	(577.5)	(541.1)	(435.3)
Difference between future contractual cash flows and fair value	17.6	(7.2)	4.2	(5.3)
	22.6	**(9.3)**	**9.0**	**(6.0)**
	26.4	**(15.4)**	**20.8**	**(15.8)**

1 Comprise interest rate and equity contracts.
2 Whichever is earlier.
3 Comprise forward exchange contracts.

22. Share capital and share premium

Share capital represents the number of issued ordinary and non-voting ordinary shares in Schroders plc multiplied by their nominal value of £1 each. Share premium substantially represents the aggregate of all amounts that have ever been paid above nominal value to Schroders plc when it has issued ordinary and non-voting ordinary shares. There are certain circumstances in which the share premium can be reduced but these have not arisen in 2014 or 2013. The Company has no authority to issue, buy back, or cancel ordinary shares in issue (including those held in trust) and has authority limited by shareholder resolution to issue or purchase non-voting ordinary shares, which may either be cancelled or held in treasury.

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

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2013	282.5	226.0	56.5	282.5	90.1
Shares issued	1.8	–	1.8	1.8	29.3
Shares cancelled	(1.6)	–	(1.6)	(1.6)	–
At 31 December 2013	**282.7**	**226.0**	**56.7**	**282.7**	**119.4**

	2014 Number of shares Millions	2013 Number of shares Millions
Issued and fully paid:		
Ordinary shares of £1 each	226.0	226.0
Non-voting ordinary shares of £1 each	56.5	56.7
	282.5	**282.7**

During the year, 0.2 million non-voting ordinary shares were bought back by the Group and cancelled.

The difference between the share classes

The non-voting ordinary shares carry the same rights as ordinary shares except they do not confer the right to attend and vote at any general meeting of the Company, and that on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares.

23. Own shares

Own shares are recorded by the Group when non-voting ordinary shares are acquired by the Company, or ordinary or non-voting ordinary shares are acquired through employee benefit trusts. There are two main reasons why this may happen: first, it enables the Group to meet share-based remuneration awards to employees in the form of shares (see note 27) in a way that does not dilute the percentage holdings of existing shareholders. Second, the Group may wish to hold some of its shares in treasury to settle option exercises or for other permitted purposes. Own shares are held at cost and their purchase reduces the Group's net assets by the amount spent. When shares vest unconditionally or are cancelled, they are transferred from own shares to the profit and loss reserve at their weighted average cost.

Movements in own shares during the year were as follows:

	2014 £m	2013 £m
At 1 January	(229.9)	(165.1)
Own shares acquired	(64.9)	(142.3)
Cancellations of own shares held in treasury	3.8	30.8
Awards vested	90.9	46.7
At 31 December	**(200.1)**	**(229.9)**

The Group purchased its own shares during the year in order to hedge share-based awards made and to buy back shares for cancellation to counteract the effect of having issued 1.7 million shares in July 2013.

The total number of shares in the Company held within the Group's employee benefit trusts comprise:

	2014			2013		
	Number of vested shares Millions	**Number of unvested shares Millions**	**Total Millions**	Number of vested shares Millions	Number of unvested shares Millions	Total Millions
Ordinary shares	2.8	9.9	12.7	2.8	12.2	15.0
Non-voting ordinary shares	0.2	1.1	1.3	0.4	1.7	2.1
	3.0	**11.0**	**14.0**	**3.2**	**13.9**	**17.1**

	2014			2013		
	Vested shares £m	**Unvested shares £m**	**Total £m**	Vested shares £m	Unvested shares £m	Total £m
Ordinary shares:						
Cost	38.6	180.2	218.8	40.6	200.8	241.4
Fair value	76.5	266.0	342.5	72.2	317.6	389.8
Non-voting ordinary shares:						
Cost	1.9	19.9	21.8	4.2	29.1	33.3
Fair value	4.1	23.5	27.6	8.1	33.7	41.8
Total:						
Cost	**40.5**	**200.1**	**240.6**	**44.8**	**229.9**	**274.7**
Fair value	**80.6**	**289.5**	**370.1**	**80.3**	**351.3**	**431.6**

During the year 2.0 million own shares were purchased. 1.8 million were held for hedging share-based awards and 0.2 million were placed in treasury and subsequently cancelled. 4.7 million shares awarded to employees vested in the period and were transferred out of own shares.

24. Reconciliation of net cash from operating activities

This note should be read in conjunction with the cash flow statement. It provides a reconciliation to show how operating profit, which is based on accounting rules, translates to cash flows.

	2014 £m	Restated 2013 £m
Operating profit	**498.1**	**429.8**
Adjustments for income statement non-cash movements:		
Depreciation of property, plant and equipment and amortisation of intangible assets	37.0	25.8
Net gains and impairments taken through the income statement on financial instruments	(18.5)	(16.7)
Share-based payments	60.6	56.6
Net charge for provisions	7.7	16.3
Other non-cash movements	8.3	3.9
	95.1	**85.9**
Adjustments for statement of financial position movements:		
Decrease in trade and other receivables	44.3	44.7
Increase/(decrease) in trade and other payables, financial liabilities and provisions	881.2	(218.9)
	925.5	**(174.2)**
Adjustments for Life Company movements:		
Net increase in financial assets backing unit-linked liabilities	(2,062.6)	(1,906.2)
Net increase in unit-linked liabilities	1,972.0	1,868.8
	(90.6)	**(37.4)**
Tax paid	**(106.2)**	**(93.9)**
Interest paid	**–**	**(0.2)**
Net cash from operating activities	**1,321.9**	**210.0**

Comparative information has been restated to reflect the adoption of IFRS 10 Consolidated Financial Statements – see note 28 and Presentation of the financial statements.

Net cash from operating activities includes cash outflows of £13.4 million (2013: £14.6 million) in respect of exceptional items.

25. Commitments

Commitments represent amounts the Group has contractually committed to pay to third parties but which do not yet represent a charge or asset. This gives an indication of committed future cash flows. Commitments at the year end do not impact on the Group's financial results for the year.

The Group leases office space and equipment. Lease agreements can commit the Group to significant future expenditure and the table below discloses the Group's commitments to make such payments. Such commitments are not recorded on the Group's statement of financial position in advance of the period to which they relate.

The Group sublets a small number of its leased properties where such properties, or parts of such properties, are no longer required for use by the Group. The table below discloses the commitments sublessees have made in respect of such arrangements. These commitments are not recorded on the statement of financial position in advance of the period to which they relate. However, they may be used to determine the onerous lease provision if the rental income does not equal or exceed the Group's own rental obligation (see note 19). Rental income for each year is recorded in the income statement as it is earned.

	2014			
	No later than 1 year £m	Later than 1 year and no later than 5 years £m	Later than 5 years £m	Total £m
Operating leases as lessee	34.0	82.7	348.0	464.7
Undrawn loan facilities	6.3	4.7	–	11.0
Investment call commitments	17.8	–	–	17.8
Total commitments	**58.1**	**87.4**	**348.0**	**493.5**
Operating leases receivable as lessor	(3.1)	(3.6)	(1.0)	(7.7)
Net commitments payable	**55.0**	**83.8**	**347.0**	**485.8**

25. Commitments continued

	2013			
	No later than 1 year £m	Later than 1 year and no later than 5 years £m	Later than 5 years £m	Total £m
Operating leases as lessee	34.8	97.8	352.8	485.4
Undrawn loan facilities	13.2	7.6	–	20.8
Investment call commitments	29.5	–	–	29.5
Total commitments	**77.5**	**105.4**	**352.8**	**535.7**
Operating leases receivable as lessor	(4.5)	(7.9)	(1.1)	(13.5)
Net commitments payable	**73.0**	**97.5**	**351.7**	**522.2**

In December 2013, the Group entered into an agreement to lease premises in the City of London. The table above reflects the expectation that the lease will commence in 2018.

Leases in respect of office properties are negotiated for a weighted average term of 15.9 years (2013: 15.3 years) and rentals are fixed for a weighted average term of 4.6 years (2013: 4.5 years). Leases in respect of office equipment are negotiated for a weighted average term of 1.1 years (2013: 1.8 years) and rentals are fixed for a weighted average term of 1.0 years (2013: 1.4 years).

Office property subleases have a weighted average term of 4.0 years (2013: 2.0 years) and rentals are fixed for a weighted average term of 3.6 years (2013: 1.1 years).

Lease payments recognised as an expense during the year were £35.7 million (2013: £33.2 million).

26. Retirement benefit obligations

The Group has two types of pension benefit for employees: defined benefit (DB) where the Group has an obligation to provide participating employees with pension payments that represent a specified percentage of their final salary for each year of service, and defined contribution (DC), where the Group's contribution to an employee's pension is measured as, and limited to, a specified percentage of salary.

Accounting for DB schemes requires an assessment of the likely quantum of future pension payments to be made. If ring-fenced assets are held specifically to meet this cost, the scheme is funded, and if not, it is unfunded. The Group periodically reviews its funded DB schemes using actuarial specialists to assess whether it is on course to meet the expected pension payments that current and former employees are or will be entitled to. In the case of a projected shortfall, a plan must be formulated to reverse the deficit.

The income statement charge or credit represents the sum of pension entitlements earned by employees in the period, plus a notional net interest charge (if the scheme is in deficit) or income (if it is in surplus) based on the market yields on high quality corporate bonds. Experience differences, principally the difference between actual investment returns and the notional interest amount, as well as actuarial changes in estimating the present value of future liabilities, are recorded in other comprehensive income.

Assets or liabilities in the statement of financial position represent the differences between the fair value of plan assets (if any) and the actuarially-determined estimates of the present value of future liabilities. The Group closed its largest DB scheme to future accrual on 30 April 2011, although it still operates some small unfunded schemes overseas. This means that no future service will contribute to the closed scheme member benefits but those members continue to have the benefits determined by the Scheme rules as at 30 April 2011.

The Group's exposure to funding DC pension schemes is limited to the contributions it has agreed to make. These contributions generally stop when employment ceases. The income statement charge represents the contributions the Group has agreed to make into employees' pension schemes in that period.

The disclosures within this note are provided mainly in respect of the principal DB scheme which is the DB section of the funded Schroders Retirement Benefits Scheme (the Scheme). Certain comparative disclosures are also provided in respect of the Cazenove Capital Management Limited Pension Scheme (the Cazenove Capital Scheme), a funded DB scheme that was transferred into the Scheme on 31 December 2014.

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

	2014 £m	2013 £m
Pension costs – defined contribution plans	33.3	30.0
Pension credit – defined benefit plans	(1.8)	(1.8)
Other post-employment benefits	0.1	–
	31.6	**28.2**

26. Retirement benefit obligations continued

(i) Profile of the Scheme

The Scheme is administered by a Trustee company, Schroder Pension Trustee Limited. The board of the Trustee company comprises an independent chairman, three directors appointed by the employer and two directors elected by the Scheme members. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the day-to-day administration of the benefits. The Trustee's investment committee comprises four of the Trustee directors and two representatives of the Group. This committee, which reports to the Trustee board, is responsible for setting the investment strategy and monitoring the performance of the investment manager.

Under the Scheme, employees are entitled to annual pensions on retirement based on a specified percentage of their final pensionable salary or, in the case of active members at 30 April 2011, actual pensionable salaries at that date, for each year of service. These benefits are adjusted for the effects of inflation, subject to a cap of 2.5 per cent. for pensions accrued after 12 August 2007 and 5.0 per cent. for pensions accrued before that date.

As at 31 December 2014, there were no active members in the DB section (2013: nil) and 1,553 active members in the DC section (2013: 1,598). The weighted average duration of the Scheme's DB obligation is 21 years (2013: 21 years).

Membership details of the DB section of the Scheme as at 31 December are as follows:

	2014	2013
Number of deferred members	1,605	1,622
Total deferred pensions (at date of leaving Scheme)	£14.6m per annum	£14.4m per annum
Average age (deferred)	51	49
Number of pensioners	738	727
Average age (pensioners)	69	68
Total pensions in payment	£16.9m per annum	£16.4m per annum

(ii) Funding requirements

The last completed triennial valuation of the Scheme was carried out as at 31 December 2011. It disclosed that the market value of the assets of the Scheme represented 101 per cent. of the liabilities at that date, calculated on the funding basis applicable to the Scheme, for the benefits that had accrued to members at that date. No additional funding was required. No contributions were made to the Scheme in the year (2013: nil) and the Group does not expect to make any contributions in 2015. The triennial valuation as at 31 December 2014 is currently in progress.

(iii) Risks of the Scheme

The Company and the Trustee have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes, as detailed below, an asset-liability matching policy which aims to reduce the volatility of the funding level of the Scheme by investing in assets such as swaps which perform in line with the liabilities of the Scheme so as to protect against inflation and/or interest rates being higher than expected.

The most significant risks that the Scheme exposes the Group to are:

Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this may create a deficit. The Group manages this risk by holding 39.3 per cent. (2013: 37.5 per cent.) of Scheme assets in a liability-driven investment (LDI) portfolio and the remainder in growth assets such as the Schroder Life Diversified Growth Fund and a Strategic Beta portfolio. This asset mix is designed to provide returns that match or exceed the unwinding of the discount rate in the long term, but which can create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

Credit risk

The assets of the Scheme include LDI and other fixed income instruments that expose the Group to credit risk. A significant amount of this exposure is to the UK Government as a result of holding gilts and bonds guaranteed by the UK Government. Other instruments held include derivatives, which are collaterised daily to cover unrealised gains or losses. The minimum rating for any derivatives counterparty is A (Standard & Poor's).

Interest rate risk

A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this should be partially offset by an increase in the value of the Scheme's LDI portfolio which comprises gilts and other LDI instruments. The LDI portfolio has been designed to mitigate interest rate exposures measured on a funding rather than an accounting basis. One of the principal differences between these bases is that the liability under the funding basis is calculated using a discount rate set with reference to gilt yields; the latter uses corporate bond yields. As a result, the LDI portfolio hedges against interest rate risk by purchasing instruments that seek to replicate movements in gilt yields rather than corporate bond yields. Movements in the different types of instrument are not exactly correlated, and it is therefore likely that a tracking error can arise when assessing whether the LDI portfolio has provided an effective hedge against interest rate risk on an accounting basis. At 31 December 2014, the LDI portfolio was designed to mitigate 70 per cent. (2013: 70 per cent.) of the Scheme's exposure to changes in gilt yields.

Inflation risk

A significant proportion of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. However, in most cases, caps on the level of inflationary increases are in place to protect against inflation. The majority of the growth assets are either unaffected by or not closely correlated with inflation, which means that an increase in inflation will also decrease any Scheme surplus. The LDI portfolio includes instruments such as index-linked gilts to provide protection against inflation risk. At 31 December 2014, the LDI portfolio was designed to mitigate 70 per cent. (2013: 70 per cent.) of the Scheme's exposure to inflation risk.

26. Retirement benefit obligations continued

Life expectancy

The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liability.

(iv) Reporting at 31 December 2014

The principal financial assumptions used for the Scheme were as listed below:

	2014 %	2013 %
Discount rate	3.6	4.5
RPI inflation rate	3.3	3.7
CPI inflation rate	2.2	2.7
Future pension increases (for benefits earned before 13 August 2007)	3.2	3.5
Future pension increases (for benefits earned after 13 August 2007)	2.1	2.3
Average number of years a current pensioner is expected to live beyond age 60:		
Men	29	29
Women	31	31
Average number of years future pensioners currently aged 45 are expected to live beyond age 60:		
Men	31	31
Women	33	33

The net interest for pension costs is determined by applying the corporate bond rate to the opening net surplus or deficit in the Scheme. 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, long-dated corporate bonds that are denominated in the currency in which the benefits will be paid.

Estimates and judgements

Assumptions made on expected mortality rates are inherently uncertain. The Group's mortality assumptions are based on standard mortality tables with Continuous Mortality Investigation core projection factors and a long-term rate of mortality improvement of 1.5 per cent. per annum. Mortality tables for female pensioners are scaled back by 5 per cent. to reflect the history of longer life expectancy of the Group's employees. The Group reviews its assumptions annually in conjunction with its independent actuaries and considers this adjustment appropriate given the geographic and demographic profile of Scheme members. Other assumptions for pension obligations are based in part on current market conditions.

The financial impact of the Scheme on the Group has been determined by independent qualified actuaries, Aon Hewitt Limited, and is based on an assessment of the Scheme as at 31 December 2014.

The amounts recognised in the income statement are:

	2014 £m	2013 £m
Interest income on Scheme assets	(36.1)	(35.2)
Interest cost on Scheme liabilities	33.3	32.1
Total interest income recognised in the income statement in respect of the Scheme	**(2.8)**	**(3.1)**
Income statement charge in respect of other defined benefit schemes	1.0	1.3
Total defined benefit schemes income statement credit	**(1.8)**	**(1.8)**

The amounts recognised in the statement of comprehensive income are:

	2014 £m	2013 £m
Return on Scheme assets in excess of that recognised in interest income	(119.3)	(22.3)
Actuarial gains due to change in demographic assumptions	(1.9)	(8.6)
Actuarial losses due to change in financial assumptions	89.2	41.1
Actuarial gains due to experience	(6.7)	(1.3)
Total other comprehensive (income)/loss in respect of the Scheme	**(38.7)**	**8.9**
Other comprehensive loss in respect of other defined benefit schemes	1.8	0.9
Total other comprehensive (income)/loss in respect of defined benefit schemes	**(36.9)**	**9.8**

26. Retirement benefit obligations continued

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

Assumption	Assumption change	2014 Estimated reduction in pension liabilities £m	2014 Estimated reduction in pension liabilities %	2013 Estimated reduction in pension liabilities £m	2013 Estimated reduction in pension liabilities %
Discount rate	Increase by 0.5% per annum	82.4	9.8	67.6	9.0
Expected rate of pension increases in payment	Reduce by 0.5% per annum	59.0	7.0	48.0	6.4
Life expectancy	Reduce by one year	28.8	3.4	21.7	2.9

Movements in respect of the assets and liabilities of the Scheme and the Cazenove Capital Scheme[1] are:

	2014 The Scheme £m	2014 Cazenove Capital Scheme £m	2014 Total £m	2013 The Scheme £m	2013 Cazenove Capital Scheme £m	2013 Total £m
At 1 January	812.1	37.3	849.4	776.9	–	776.9
Acquired[1]	–	–	–	–	37.6	37.6
Interest on assets	36.1	1.6	37.7	35.2	0.8	36.0
Remeasurement of assets	119.3	3.2	122.5	22.3	(0.2)	22.1
Benefits paid	(20.0)	(1.8)	(21.8)	(22.3)	(0.9)	(23.2)
Transfer of assets[1]	40.3	(40.3)	–	–	–	–
Fair value of plan assets	**987.8**	**–**	**987.8**	**812.1**	**37.3**	**849.4**
At 1 January	(750.7)	(35.0)	(785.7)	(709.7)	–	(709.7)
Acquired[1]	–	–	–	–	(34.2)	(34.2)
Interest cost	(33.3)	(1.5)	(34.8)	(32.1)	(0.7)	(32.8)
Actuarial gains/(losses) due to change in demographic assumptions	1.9	0.1	2.0	8.6	(1.1)	7.5
Actuarial (losses)/gains due to change in financial assumptions	(89.2)	(4.9)	(94.1)	(41.1)	0.3	(40.8)
Actuarial gains/(losses) due to experience	6.7	–	6.7	1.3	(0.2)	1.1
Benefits paid	20.0	1.8	21.8	22.3	0.9	23.2
Transfer of liabilities[1]	(39.5)	39.5	–	–	–	–
Present value of funded obligations	**(884.1)**	**–**	**(884.1)**	**(750.7)**	**(35.0)**	**(785.7)**
Net asset	**103.7**	**–**	**103.7**	**61.4**	**2.3**	**63.7**

1 The Group acquired the Cazenove Capital Scheme as part of its acquisition of Cazenove Capital Holdings Limited on 2 July 2013; on 31 December 2014, the assets and liabilities of the Cazenove Capital Scheme were transferred into the Scheme.

The Group has not materially changed the basis of any of the principal financial assumptions underlying the calculation of the Scheme's net financial position during 2014, although such assumptions have been amended where applicable to reflect current market conditions and expectations.

Administration expenses and the levy payable to the Pension Protection Fund are met directly by the Group.

The fair value of the Scheme assets at the year-end date is analysed as follows:

	2014 Value £m	2014 Of which not quoted in an active market £m	2013 Value £m	2013 Of which not quoted in an active market £m
Equity instruments	–	–	32.6	–
Liability-driven investments	388.6	3.1	304.5	–
Bonds (excluding those held as part of the liability-driven investment portfolio)	128.1	–	100.2	–
Portfolio funds	397.9	18.4	189.6	–
Hedge funds	–	–	27.5	–
Exchange-traded futures and over the counter derivatives	15.2	(1.0)	136.6	58.5
Cash	58.0	–	21.1	–
	987.8	**20.5**	**812.1**	**58.5**

During 2013, a restructuring of the Scheme's liquid growth assets was initiated which replaced the majority of the Scheme's directly-held investments and holdings in pooled funds with an investment in the Schroder Life Diversified Growth Fund and a segregated portfolio aiming to provide a total return of capital and growth. The restructuring was completed in 2014. It is intended that the restructuring will enable the Scheme to benefit from the economies of scale, broader range of strategies and better liquidity that the unitised vehicle can offer, and the strategy aims at an overall reduction in funding level volatility without a significant decrease in expected returns.

27. Share-based payments

Share-based payments are remuneration payments to selected employees that take the form of an award of shares in Schroders plc. Employees are generally not able to exercise such awards until three years after the award has been made, although conditions vary between different types of award. Accounting for share-based awards settled by transferring shares to the awardee (equity-settled) differs from accounting for similar awards settled in cash (cash-settled). The charge for equity-settled share-based payments is determined based on the fair value of the award on the grant date or, in the case of grandfathered awards arising on business combinations, the fair value of the share awards at the acquisition date. Such awards can include share options or share awards which may or may not have performance criteria. The initial fair value of the award takes into account the current value of shares expected to be issued (i.e. estimates of the likely levels of forfeiture and achievement of performance criteria), the contribution, if required, by the employee and the time value of money. This initial fair value is charged to the income statement reflecting benefits received from employment, where relevant, in the performance period and over the vesting period. The income statement charge is offset by a credit to the statement of changes in equity, where the award is expected to be settled through the issue of shares. Such awards constituted 9.9 per cent. (2013: 9.9 per cent.) of salaries and other remuneration.

The Group may make share-based payments to employees through awards over or linked to the value of ordinary and non-voting ordinary shares and by the grant of market value share options over ordinary or non-voting ordinary shares.

It is our practice to hedge all awards to eliminate the impact of changes in the market value of shares between the grant date and the exercise date.

Awards that lapse or are forfeited result in a credit to the income statement (reversing the previous charge) in the year in which they lapse or are forfeited.

The Group recognised total expenses of £61.3 million (2013: £59.8 million) arising from share-based payment transactions during the year of which £60.6 million (2013: £56.6 million) were equity-settled share-based payment transactions. Included within equity-settled share-based payments were exceptional items of £11.2 million (2013: £7.5 million).

The Group has the following share-based payment arrangements (further details of the current schemes may be found in the Remuneration report):

(a) 2000 Equity Compensation Plan and 2011 Equity Compensation Plan

Awards over ordinary and non-voting ordinary shares made under the Group's Equity Compensation Plans are charged at fair value as 'Operating expenses' in the income statement. There are no performance conditions attached to the awards. For the 2000 Equity Compensation Plan the fair value of an award is calculated using the market value of the shares at the date of grant, discounted for the dividends forgone over the average holding period of the award. For the 2011 Equity Compensation Plan the fair value of an award is calculated using the market value of the shares on the date of grant. The fair value charges, adjusted to reflect actual levels of vesting, are spread over the performance period and the vesting period of the awards. The award is structured as a nil cost option.

	2014		2013	
	Ordinary shares Number Millions	**Non-voting ordinary shares Number Millions**	Ordinary shares Number Millions	Non-voting ordinary shares Number Millions
Rights outstanding at 1 January	9.3	0.5	10.7	0.7
Granted	1.9	–	1.7	0.1
Forfeited	(0.2)	–	(0.4)	–
Exercised	(2.6)	(0.2)	(2.7)	(0.3)
Rights outstanding at 31 December	**8.4**	**0.3**	**9.3**	**0.5**
Vested	2.6	0.2	2.4	0.4
Unvested	5.8	0.1	6.9	0.1
Weighted average fair value of share granted (£)	26.72	20.48	21.54	17.26
Weighted average share price at dates of exercise (£)	26.09	20.09	23.13	17.21

The weighted average exercise price per share is nil.

A charge of £40.2 million (2013: £40.7 million) was recognised during the financial year.

The table below shows the expected charges for awards issued under the Equity Compensation Plan to be expensed in future years:

	£m
2015	13.6
2016	4.6
2017	0.2
	18.4

27. Share-based payments continued
(b) Equity Incentive Plan

Awards over ordinary shares made under the Group's Equity Incentive Plan are charged at fair value to the income statement over a five-year vesting period. Fair value is determined at the date of grant and is equal to the market value at that time. The award is structured as a nil cost option.

	2014 Number of ordinary shares Millions	2013 Number of ordinary shares Millions
Rights outstanding at 1 January	2.3	2.4
Granted	0.8	0.6
Forfeited	(0.1)	(0.2)
Exercised	(0.8)	(0.5)
Rights outstanding at 31 December	**2.2**	**2.3**
Vested	0.2	0.4
Unvested	2.0	1.9
Weighted average fair value of share granted (£)	24.85	23.96
Weighted average share price at dates of exercise (£)	26.12	24.80

The weighted average exercise price per share is nil.

A charge of £5.4 million (2013: £3.5 million) was recognised during the financial year.

The table below shows the expected charges for awards issued under the Equity Incentive Plan to be expensed in future years:

	£m
2015	7.3
2016	6.6
2017	6.3
2018	5.9
2019	2.8
	28.9

(c) Long Term Incentive Plan

Awards over ordinary and non-voting ordinary shares made under the Group's Long Term Incentive Plan are charged at fair value to the income statement over a four-year vesting period. Fair value is calculated using the market value of the shares at the grant date, discounted for dividends forgone over the vesting period of the award and adjusted based on an estimate at the year-end date of the extent to which the performance conditions are expected to be met.

	2014		2013	
	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions
Rights outstanding at 1 January	1.7	0.1	1.5	0.1
Granted	0.1	–	0.3	–
Forfeited	–	–	(0.1)	–
Exercised	(0.6)	–	–	–
Rights outstanding at 31 December	**1.2**	**0.1**	**1.7**	**0.1**
Vested	0.1	–	–	–
Unvested	1.1	0.1	1.7	0.1
Weighted average fair value of share granted (£)	24.70	18.32	19.65	15.64
Weighted average share price at dates of exercise (£)	26.14	20.20	–	–

The weighted average exercise price per share is nil.

A charge of £3.1 million (2013: £4.4 million) was recognised during the financial year.

The table below shows the expected charges for awards issued under the Long Term Incentive Plan to be expensed in future years:

	£m
2015	2.3
2016	1.6
2017	0.3
	4.2

27. Share-based payments continued
(d) Share Incentive Plan

The employee monthly share purchase plan is open to UK permanent employees and provides free shares from the Group to match the employee purchase up to a maximum of £50 per month.

Pursuant to this plan, the Group purchased 28,457 ordinary shares in 2014 (2013: 24,473) at a weighted average share price of £25.16 (2013: £22.79). A charge of £0.7 million (2013: £0.5 million) is expensed over a vesting period of one year.

(e) Restricted and Growth Share Plan

Awards under this plan were made by Cazenove Capital Holdings Limited in June 2011 to certain employees. Following the Group's acquisition of Cazenove Capital in 2013, the awards were modified to be settled in ordinary and non-voting ordinary shares of Schroders plc. The awards do not have performance conditions attached and vest in three equal tranches between three and five years from the date of award. The Group does not intend to make any further awards under the Plan. The fair value of awards made under the Plan at the acquisition date is spread over the performance and vesting periods. The fair value, at the acquisition date, of the award attributable to the pre-acquisition part of the vesting period formed part of the cost of acquisition and is not charged to the income statement.

	2014		2013	
	Number of ordinary shares Millions	**Number of non-voting ordinary shares Millions**	Number of ordinary shares Millions	Number of non-voting ordinary shares Millions
Rights outstanding at 1 January 2014/2 July 2013	1.5	1.5	1.5	1.7
Forfeited	(0.1)	(0.1)	–	–
Exercised	(0.5)	(0.5)	–	(0.2)
Rights outstanding at 31 December – unvested	**0.9**	**0.9**	**1.5**	**1.5**
Weighted average fair value of share at acquisition date (£)	–	–	24.23	17.82
Weighted average share price at dates of exercise (£)	24.29	19.02	26.45	19.91

A charge of £11.2 million (2013: £7.5 million) was recognised during the financial year. This charge is included within exceptional items.

The table below shows the expected charges for awards issued under the Restricted and Growth Share Plan to be expensed in future years:

	£m
2015	6.7
2016	1.0
	7.7

28. Impact of IFRS 10 adoption on the Group's financial statements

As explained in the Basis of preparation below, the Group has adopted IFRS 10 in the year and restated comparative information where relevant, as shown in the tables below.

(a) Changes to the consolidated statement of financial position

	31 December 2013			1 January 2013		
	As originally reported £m	IFRS 10 restatement £m	As restated £m	As originally reported £m	IFRS 10 restatement £m	As restated £m
Cash and cash equivalents	2,522.5	11.0	2,533.5	2,542.8	5.0	2,547.8
Trade and other receivables	594.2	(10.3)	583.9	414.7	(2.0)	412.7
Financial assets	1,665.8	13.0	1,678.8	2,019.8	10.2	2,030.0
Other assets	706.8	–	706.8	351.5	–	351.5
	5,489.3	**13.7**	**5,503.0**	**5,328.8**	**13.2**	**5,342.0**
Assets backing unit-linked liabilities						
Cash and cash equivalents	777.2	9.7	786.9	820.5	3.8	824.3
Financial assets	10,354.5	545.0	10,899.5	8,525.8	467.5	8,993.3
	11,131.7	**554.7**	**11,686.4**	**9,346.3**	**471.3**	**9,817.6**
Total assets	**16,621.0**	**568.4**	**17,189.4**	**14,675.1**	**484.5**	**15,159.6**
Trade and other payables	764.1	–	764.1	559.3	0.2	559.5
Financial liabilities	2,351.2	13.7	2,364.9	2,585.1	13.0	2,598.1
Other liabilities	105.4	–	105.4	114.5	–	114.5
	3,220.7	**13.7**	**3,234.4**	**3,258.9**	**13.2**	**3,272.1**
Unit-linked liabilities	**11,131.7**	**554.7**	**11,686.4**	**9,346.3**	**471.3**	**9,817.6**
Total liabilities	**14,352.4**	**568.4**	**14,920.8**	**12,605.2**	**484.5**	**13,089.7**
Equity	**2,268.6**	**–**	**2,268.6**	**2,069.9**	**–**	**2,069.9**

(b) Changes to the consolidated cash flow statement

	31 December 2013		
	As originally reported £m	IFRS 10 restatement £m	As restated £m
Net increase in assets backing unit-linked liabilities	(1,828.7)	(77.5)	(1,906.2)
Net increase in unit-linked liabilities	1,785.4	83.4	1,868.8
Other movements	247.4	–	247.4
Net cash from operating activities	**204.1**	**5.9**	**210.0**
Net disposal of financial assets	265.2	6.0	271.2
Other flows	(284.6)	–	(284.6)
Net cash used in investing activities	**(19.4)**	**6.0**	**(13.4)**
Net cash used in financing activities	**(236.3)**	**–**	**(236.3)**
Net decrease in cash and cash equivalents	**(51.6)**	**11.9**	**(39.7)**
Opening cash and cash equivalents	3,363.3	8.8	3,372.1
Net decrease in cash and cash equivalents	(51.6)	11.9	(39.7)
Effect of exchange rate changes	(12.0)	–	(12.0)
Closing cash and cash equivalents	**3,299.7**	**20.7**	**3,320.4**

29. Related party transactions

Transactions between the Group and parties related to the Group are required to be disclosed to the extent that they are necessary for an understanding of the potential effect of the relationship on the financial statements. Other disclosures, such as key management personnel compensation, are also required.

The Group is not deemed to be controlled or jointly controlled by a party directly or through intermediaries under accounting standards. As a result the related parties of the Group are members of the Group, including associates and joint ventures, key management personnel, close family members of key management personnel and any entity controlled by those parties.

Cash transactions with associates or joint ventures are reported in the cash flow statement and in note 12.

29. Related party transactions continued

£6.7 million (2013: £4.8 million) was held in customer accounts on behalf of related parties. All amounts were payable to key management personnel.

Some of the plan assets of the defined benefit section of the Schroders Retirement Benefit Scheme are invested within a Life Company fund managed by the Group. At 31 December 2014, the fair value of these assets was £240.5 million (2013: £189.6 million).

Peter Harrison has an interest in 100,252 shares in an associate of the Group, RWC Partners Limited, representing 6.2 per cent. of its issued share capital. He exercised 20,000 share options in the year, and holds no further options over shares.

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.

Key management personnel compensation

Key management personnel are defined as members of the Board or the Group Management Committee. The remuneration of key management personnel during the year was as follows:

Type of remuneration	Typical composition of this type of benefit	2014 £m	2013 £m
Short-term employee benefits	Salary, cash bonus	26.7	27.0
Share-based payments	Deferred share awards	11.3	14.7
Other long-term benefits	Other life assurance plans and deferred cash awards	8.9	9.0
Termination benefits	Termination benefits	–	1.0
Post-employment benefits	Pension plans	0.3	0.5
		47.2	**52.2**

The remuneration of key management personnel is based on individual performance and market rates. The remuneration policy (which applies to Directors and management) is described in more detail in the Remuneration report.

30. Interests in unconsolidated structured entities

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements. The Group's interests in consolidated and unconsolidated structured entities are described below.

The Group has interests in structured entities as a result of contractual arrangements arising from its principal activity, the management of assets on behalf of its clients. Assets under management, excluding deposits by Wealth Management clients and some segregated client portfolios held within the Institutional channel of the Group's Asset Management business, are managed within structured entities. These structured entities typically consist of unitised vehicles such as Open Ended Investment Companies (OEICs), Authorised Unit Trusts (AUTs) and Sociétés d'Investissement à Capital Variable (SICAVs), which entitle investors to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units or shares by investors, which may include the Group should it wish to invest. Such investments typically take place for the purpose of providing seed capital in support of new investment strategies or through the investment of the Group's capital to generate investment return as well as by the Life Company on behalf of policyholders.

As fund manager, the Group does not guarantee returns on its funds or commit to financially support its funds. A small proportion of the Group's funds, principally real estate funds, are permitted to raise finance through loans from banks and other financial institutions. Where external finance is raised, the Group does not provide a guarantee for the repayment of any borrowings.

The business activity of all structured entities, in which the Group has an interest, is the management of assets in order to maximise investment returns for investors from capital appreciation and/or investment income. The Group earns a management fee from its structured entities, based on a percentage of the entity's net asset value and, where contractually agreed, a performance fee, based on outperformance against predetermined benchmarks. In addition, where the Group owns a proportion of the structured entity it is entitled to receive investment returns.

30. Interests in unconsolidated structured entities continued

The Group's interest in structured entities is reflected in the Group's assets under management (AUM). Certain AUM is managed in investment vehicles that are not considered to be structured entities, as a result of voting structures that allow the Group to be removed as manager without cause (£0.2 billion). Within Asset Management certain Institutional client portfolios are invested directly (£126.2 billion) outside of structured entities. A significant part of Wealth Management AUM (£21.6 billion) relates to contractual relationships which the Group has directly with its clients rather than through structured entities – for example, the provision of discretionary and advisory asset management and banking services. In addition, Wealth Management AUM in the form of loans and advances to customers and deposits by banks (£3.1 billion) is also outside of structured entities and £0.8 billion is managed in investment vehicles that are not considered to be structured entities as a result of voting structures.

AUM within consolidated and unconsolidated structured entities, comprising net assets for Intermediary clients as well as some assets held for Institutional and Wealth Management clients, is shown below. The Group's beneficial interest in structured entities has been excluded and is described separately.

	2014			
	Total £bn	AUM outside of structured entities[1] £bn	AUM within consolidated structured entities £bn	AUM within unconsolidated structured entities £bn
Asset Management	268.9	(126.4)	(11.7)	130.8
Wealth Management	31.1	(25.5)	–	5.6
	300.0	**(151.9)**	**(11.7)**	**136.4**

[1] Certain entities in which the Group has an investment are deemed to be controlled by the Group and are consolidated in accordance with IFRS 10. AUM within consolidated structured entities represents the net assets of the consolidated structured entity beneficially owned by third parties. These entities are accounted for as subsidiaries in accordance with IFRS 10.

The Group has no direct exposure to losses in relation to the AUM reported above, except where it also invests, as the investment risk is borne by external investors. The main risk the Group faces from its interest in AUM managed on behalf of external investors is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependant on market sentiment, asset performance and investor considerations. Further information on these risks can be found in the Business review section.

The table below shows the carrying values of the Group's interests in unconsolidated structured entities, including proprietary investments, recognised in the statement of financial position, which are equal to the Group's maximum exposure to loss from those interests.

	2014 £m
Cash and cash equivalents	228.9
Fee debtors[1]	4.3
Accrued income[1]	152.6
Financial assets	393.6
Total exposure	**779.4**

[1] Recognised in trade and other receivables.

The Group's statement of financial position also includes the Life Company assets of £13,658.4 million, which are principally investments in unconsolidated structured entities. The exposure to the risks and rewards associated with these assets is borne by unit-linked policy holders, or, where Life Company funds are consolidated, third-party investors in those funds.

Financial assets and cash and cash equivalents represent the Group's interest in unconsolidated structured entities through its proprietary investments, including seed capital, of £622.5 million. These include funds managed by the Group with a carrying value of £430.4 million as well as investments of £192.1 million that are external to the Group and in which the Group has no interest apart from its role as investor.

The main risk the Group faces from its interests in unconsolidated structured entities arising from proprietary investments is that the investments will decrease in value. Note 20 includes further information on the Group's exposure to market risk arising from investments held in investment capital.

Fee income includes £1,081.6 million (2013: £1,014.8 million) of fees from structured entities managed by the Group and net gains on financial instruments and other income includes gains of £12.3 million (2013: £2.4 million).

Financial support for consolidated structured entities where there is no contractual obligation to do so

The Group supports some of its funds through the injection of seed capital in order to enable the funds to establish a track record before they are more widely marketed. During the year, the Group purchased units at a cost of £54.1 million to provide seed capital to investment funds managed by the Group, of which £27.1 million resulted in the consolidation of those funds, and £27.0 million did not.

Presentation of the financial statements

Financial information for the year ended 31 December 2014 is presented in accordance with International Accounting Standard (IAS) 1 Presentation of Financial Statements.

The presentation of the Income statement includes separate disclosure of exceptional items. The policy for exceptional items is set out in note 1(c).

The Statement of financial position is shown in order of liquidity. The classification between current and non-current is set out in the notes. The Group's Life Company business is reported separately. If the assets and liabilities of the Group's Life Company business were to be included within existing captions on the Group's Statement of financial position, the effect would be to gross up a number of individual line items to a material extent. By not doing this, the Group can provide a more transparent presentation that shows the assets of the Life Company and the related unit-linked liabilities as separate and distinct from the remainder of the Group's Statement of financial position.

Basis of preparation

The consolidated financial statements are prepared in accordance with IFRS, as adopted by the European Union (EU), which comprise Standards and Interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial information presented within these financial statements has been prepared on the going concern basis under the historical cost convention, 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 certain deposits both with banks and by customers and banks (including those that relate to bullion).

The Group's principal accounting policies have been consistently applied. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Any areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed within the notes and identified with background shading in grey. The principal accounting policy and a simplified summary of the relevant note is included in the blue print.

On 1 January 2014, the following Standards and Interpretations were adopted:

IFRS 10	Consolidated Financial Statements
IFRS 12	Disclosure of Interests in Other Entities

The adoption of IFRS 10 has led to additional investment vehicles being consolidated where the Group is now deemed to hold a controlling interest, as defined by this accounting standard. This results in all of the assets and liabilities of those investment vehicles being presented within the Group's Statement of financial position, and the third-party interest in the investment vehicle being recorded within liabilities. There is no impact on net assets, operating profit or profit before tax. The effect of the Standard on the Group's previously reported cash flows and Statement of financial position is set out in note 28.

Prior to the adoption of IFRS 10, the Group consolidated investments when its shareholding resulted in control, as defined by IFRS. This policy has not changed subsequent to the adoption of IFRS 10. However, the change to the definition of control under IFRS 10 means that certain of the Group's investment vehicles, principally held by the Life Company, now meet the definition of a subsidiary as they are deemed to be controlled by the Group as a result of the combination of holding a significant proprietary investment and additionally being the named asset manager, with third-party investors unable to remove the Group easily from that role without cause.

IFRS 12 requires certain disclosures to be made in respect of the Group's interests in the investment vehicles it manages but does not control, as defined by IFRS 10. These disclosures are included in notes 12 (in respect of investment vehicles that are associates) and 30.

The Group did not implement the requirements of any Standards or Interpretations which were in issue and which were not required to be implemented at the year-end date. The following Standards and Interpretations relevant to the Group that had been issued but not yet endorsed by the EU or adopted at the year end were:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

IFRS 9 has yet to be endorsed by the EU and replaces the classification and measurement models for financial instruments in IAS 39 with three classification categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The Group's business model and the contractual cash flows arising from its investments in financial instruments determine the classification. Equity instruments will be recorded at fair value, with gains or losses reported either in the Income statement or through equity. However, where fair value gains and losses are recorded through equity there will no longer be a requirement to transfer gains or losses to the Income statement on impairment or disposal.

IFRS 9 also introduces an expected loss model for the assessment of impairment. The current incurred loss model (under IAS 39) requires the Group to recognise impairment losses when there is objective evidence that an asset is impaired; under the expected loss model, impairment losses are recorded if there is an expectation of credit losses, even in the absence of a default event. The Group does not anticipate that this will have a material impact on results.

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted subject to EU endorsement. The Group is currently assessing the impact of IFRS 15 on its financial statements.

No other Standards or Interpretations issued and not yet effective are expected to have an impact on the Group's financial statements.

Basis of consolidation

The consolidated financial information includes the total comprehensive gains or losses, the financial position and the cash flows of the Company and its subsidiaries, associates and joint ventures. This includes share ownership trusts established for certain share-based awards. In the case of associates and joint ventures, those entities are presented as single line items in the Income statement and Statement of financial position (see note 12). Intercompany transactions and balances are eliminated on consolidation. Consistent accounting policies have been applied across the Group in the preparation of the consolidated financial statements.

The entities included in the consolidation may vary year-on-year due to both the restructuring of the Group (including acquisitions and disposals) and changes to the number and net assets of investment vehicles managed by the Group where the shareholding in the year results in control, as defined by IFRS. These include investments held by the Life Company. In such cases, the investment vehicle is consolidated and the third-party interest is recorded as a financial liability. This consolidation has no net effect on the Income statement. This treatment continues until the Group loses control, as defined by IFRS.

Net gains and losses on foreign exchange

Many subsidiaries are denominated in currencies other than sterling. The results of these subsidiaries are translated at the average rate of exchange. At the year end, the assets and liabilities are translated at the closing rate of exchange. Gains or losses on translation are recorded in the Statement of comprehensive income and as a separate component of equity together with gains or losses on any hedges of overseas operations. Such gains or losses are transferred to the Income statement on disposal or liquidation of the relevant subsidiary.

Transactions undertaken in foreign currencies are translated into the functional currency of the subsidiary at the exchange rate prevailing on the date of the transaction. Foreign currency assets and liabilities are translated into the functional currency at the rates of exchange ruling at the year-end date. Any exchange differences arising are included within 'Net gains on financial instruments and other income' in the Income statement unless they relate to non-monetary items where such gains or losses are recognised directly in other comprehensive income. This also applies to sterling-based entities with foreign currency transactions, assets and liabilities.

Estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. 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 may not equal the related actual results. The estimates and assumptions that could have a significant effect on the carrying amounts of assets and liabilities are set out in the following notes:

Note 11	Financial assets
Note 14	Goodwill and intangible assets
Note 19	Provisions and contingent liabilities
Note 26	Retirement benefit obligations

The Group has adopted IFRS 10 (see Basis of preparation) during the year. In applying this Standard, the Group is required to assess whether its interests in funds (and other entities), including those held by the Group's Life Company, constitute controlling interests. The Group has interests in funds through its role as fund manager and through its proprietary investments in funds. The Group considers all relevant facts and circumstances in assessing whether it has power over specific funds or other entities. This includes consideration of the purpose and design of an investee, the extent of the Group's exposure to variability of returns as an investor and, where appropriate, as a fund manager, and the Group's ability to direct the relevant activities, including whether it has substantive or protective rights through voting rights and potential voting rights. These considerations are reassessed if there are indications that circumstances have changed since the original assessment.

Schroders plc – Statement of financial position

31 December 2014

	Notes	2014 £m	2013 £m
Assets			
Cash and cash equivalents		0.1	0.1
Trade and other receivables	33	850.4	734.6
Retirement benefit scheme surplus	26	103.7	61.4
Investments in subsidiaries	34	3,007.0	3,007.0
Total assets		**3,961.2**	**3,803.1**
Liabilities			
Trade and other payables	35	38.9	38.7
Deferred tax	36	13.1	5.0
Total liabilities		**52.0**	**43.7**
Net assets		**3,909.2**	**3,759.4**
Equity		**3,909.2**	**3,759.4**

The financial statements were approved by the Board of Directors on 4 March 2015 and signed on its behalf by:

Richard Keers
Director

Bruno Schroder
Director

Schroders plc – Statement of changes in equity

Year ended 31 December 2014

Year ended 31 December 2014	Notes	Share capital £m	Share premium £m	Own shares £m	Profit and loss reserve £m	Total £m
At 1 January 2014		282.7	119.4	(138.6)	3,495.9	3,759.4
Profit for the year		**–**	**–**	**–**	**299.6**	**299.6**
Items not to be reclassified to the income statement:						
Actuarial gains on defined benefit pension schemes		–	–	–	38.7	38.7
Tax on items taken directly to other comprehensive income		–	–	–	(7.7)	(7.7)
Other comprehensive income		**–**	**–**	**–**	**31.0**	**31.0**
Shares cancelled	22	(0.2)	–	–	0.2	–
Share-based payments		–	–	–	55.4	55.4
Tax credit in respect of share schemes		–	–	–	0.4	0.4
Dividends	9	–	–	–	(177.7)	(177.7)
Own shares purchased	38	–	–	(58.9)	–	(58.9)
Transactions with owners		**(0.2)**	**–**	**(58.9)**	**(121.7)**	**(180.8)**
Transfers		–	–	62.3	(62.3)	–
At 31 December 2014		**282.5**	**119.4**	**(135.2)**	**3,642.5**	**3,909.2**

Year ended 31 December 2013	Notes	Share capital £m	Share premium £m	Own shares £m	Profit and loss reserve £m	Total £m
At 1 January 2013		282.5	90.1	(137.6)	3,201.9	3,436.9
Profit for the year		**–**	**–**	**–**	**439.9**	**439.9**
Items not to be reclassified to the income statement:						
Actuarial losses on defined benefit pension schemes		–	–	–	(8.9)	(8.9)
Tax on items taken directly to other comprehensive income		–	–	–	(0.4)	(0.4)
Other comprehensive loss		**–**	**–**	**–**	**(9.3)**	**(9.3)**
Shares issued	22	1.8	29.3	–	–	31.1
Shares cancelled	22	(1.6)	–	–	1.6	–
Share-based payments		–	–	–	50.9	50.9
Tax charge in respect of share schemes		–	–	–	1.7	1.7
Dividends	9	–	–	–	(123.5)	(123.5)
Own shares purchased	38	–	–	(67.9)	(0.4)	(68.3)
Transactions with owners		**0.2**	**29.3**	**(67.9)**	**(69.7)**	**(108.1)**
Transfers		–	–	66.9	(66.9)	–
At 31 December 2013		**282.7**	**119.4**	**(138.6)**	**3,495.9**	**3,759.4**

The distributable profits of Schroders plc are £2.1 billion and comprise retained profits of £2.2 billion, included within the ‘Profit and loss reserve’, less amounts held within the own shares reserve.

The Group’s ability to pay dividends is however restricted by the need to hold regulatory capital and to maintain sufficient other operating capital to support its ongoing business activities. In addition, the Group invests in its own funds as seed capital for the purposes of supporting new investment strategies.

Schroders plc – Cash flow statement

for the year ended 31 December 2014

	2014 £m	2013 £m
Operating profit	290.5	430.6
Adjustments for:		
(Increase)/decrease in trade and other receivables	(115.5)	84.0
Increase in trade and other payables	0.3	6.7
Net credit taken in respect of defined benefit pension schemes	(2.8)	(3.1)
Share-based payments expensed	55.4	50.9
Amounts received in respect of Group tax relief	6.4	4.1
Interest paid	(0.2)	(1.9)
Interest received	2.5	3.0
Net cash from operating activities	**236.6**	**574.3**
Cash flows from financing activities		
Net proceeds from issue of non-voting ordinary shares	–	0.6
Acquisition of own shares	(58.9)	(68.3)
Dividends paid	(177.7)	(123.5)
Net cash used in financing activities	**(236.6)**	**(191.2)**
Cash flows from investing activities		
Acquisition of subsidiaries	–	(383.1)
Net cash used in investing activities	**–**	**(383.1)**
Net movement in cash and cash equivalents	**–**	**–**
Opening cash and cash equivalents	0.1	0.1
Net movement in cash and cash equivalents	–	–
Closing cash and cash equivalents	**0.1**	**0.1**

31. Significant accounting policies

The separate financial statements of Schroders plc (the Company) have been prepared on a going concern basis in accordance with the Companies Act 2006 applicable to companies reporting under IFRS, and accounting policies have been applied consistently. As permitted by the Act, the separate financial statements have been prepared in accordance with IFRS (as adopted by the European Union), which comprise standards and interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as at 31 December 2014. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement and statement of comprehensive income.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in the Group's financial statement note disclosures. In addition note 34 sets out the accounting policy in respect of investments in subsidiary undertakings.

32. Expenses and other disclosures

The auditors' remuneration for audit services to the Company was £0.5 million (2013: £0.5 million). There were no fees relating to further assurance services in the year (2013: nil).

Key management personnel compensation

The remuneration policy is described in more detail in the Remuneration report. The typical composition of each type of remuneration is the same as that given in note 5. The remuneration of key management personnel during the year was as follows:

	2014 £m	2013 £m
Short-term employee benefits	13.6	10.5
Share-based payments	5.2	5.7
Other long-term benefits	4.0	3.9
Post-employment benefits	0.1	0.1
	22.9	**20.2**

33. Trade and other receivables

	2014 £m	2013 £m
Amounts due from subsidiaries	849.7	732.8
Prepayments and accrued income	0.2	0.3
Other receivables	0.5	1.5
	850.4	**734.6**

Trade and other receivables are initially recorded at fair value and subsequently at amortised cost. All trade and other receivables are due within one year.

Amounts due from subsidiaries include £793.3 million (2013: £677.2 million) of interest-bearing loans and deposits.

34. Subsidiary undertakings

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

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 or are regulated. The subsidiary entities set out below are all wholly-owned subsidiary undertakings of the Company unless otherwise stated. All undertakings operate in the countries where they are registered or incorporated. Their financial year ends are coterminous with the Company. The primary business of each company is as stated below.

England
Cazenove Capital Management Limited[1]
Cazenove Investment Fund Management Limited[1]
Leadenhall Securities Corporation Limited[3]
Schroders NewFinance Capital LLP[1]
Schroder & Co. Limited[2]
Schroder Administration Limited**[4]
Schroder Financial Services Limited[3]
Schroder International Holdings Limited[4]
Schroder Investment Company Limited[3]
Schroder Investment Management Limited[1]
Schroder Investment Management North America Limited[1]
Schroder Investments Limited[1]
Schroder Pension Management Limited[1]
Schroder Real Estate Investment Management Limited[1]
Schroder Unit Trusts Limited[1]

Argentina
Schroder Investment Management S.A.[1]

Australia
Schroder Investment Management Australia Limited*[1]

Brazil
Schroder Investment Management Brasil Ltda.[1]

Bermuda
Schroder International Holdings (Bermuda) Limited[4]
Schroders (Bermuda) Limited[4]
Schroder Holdings (Bermuda) Limited[4]

Channel Islands
Burnaby Insurance (Guernsey) Limited[5]
Cazenove Capital Holdings Limited**[4]
Cazenove Capital Management Jersey Limited[2]
Schroder Venture Managers (Guernsey) Limited*[3]
Schroders (C.I.) Limited[2]
Schroder Real Estate Managers (Jersey) Limited[1]
Schroder Investment Company (Guernsey) Limited[3]

Germany
Schroder Investment Management GmbH[1]
Schroder Real Estate Investment Management GmbH[1]
Schroder Real Estate Kapitalverwaltungsgesellschaft mbH[1]

Hong Kong SAR
Cazenove Capital Management Asia Limited[2]
Schroder Investment Management (Hong Kong) Limited[1]

Indonesia
PT Schroder Investment Management Indonesia – 99 per cent.[1]

Ireland
Schroder Investment Management (Ireland) Limited[1]

Italy
Schroders Italy SIM S.p.A.[2]

Japan
Schroder Investment Management (Japan) Limited[1]

Korea
Schroders Korea Limited[1]

Luxembourg
Schroder Investment Management (Luxembourg) S.A.[1]
Schroder Real Estate Investment Management (Luxembourg) S.à.r.l.[1]

Mexico
Consultora Schroders, S.A. de C.V.[1]

Netherlands
Schroder International Finance B.V.[4]
Schroder Nederland Finance B.V.[4]

Singapore
Schroder & Co. (Asia) Limited[2]
Schroder Investment Management (Singapore) Limited[1]

Switzerland
Schroder & Co Bank AG[2]
Schroder Investment Management (Switzerland) AG[1]

Taiwan
Schroder Investment Consulting Co. Limited[1]
Schroder Investment Management (Taiwan) Limited[1]

United States of America
Schroder Investment Management North America Inc.[1]
Schroder US Holdings Inc.[3]
Schroder Fund Advisers LLC.[1]

* The company also holds preference shares
** Held directly by the company
1 Asset Management
2 Wealth Management
3 Management of Group investment capital
4 Holding company
5 Captive insurer for the Group

In addition to the subsidiary undertakings listed above, the Company also holds what are deemed to be controlling interests in some of the funds in which it holds investments. These investments are consolidated by the Company but are not individually listed as none of the investments materially affect the profits or net assets of the Company.

The principal associates and joint ventures are set out in note 12.

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.

The Company has utilised the exemption conferred by Regulation 7 of the Partnership (Accounts) Regulations 2008 to not append copies of qualifying partnership accounts to the accounts of any UK subsidiary.

35. Trade and other payables

	2014			2013		
	Non-current £m	**Current £m**	**Total £m**	Non-current £m	Current £m	Total £m
Trade and other payables held at amortised cost:						
Social security	1.9	4.7	6.6	2.2	3.8	6.0
Accruals	5.6	15.9	21.5	5.0	14.7	19.7
Other liabilities	–	5.4	5.4	–	9.6	9.6
Amounts owed to subsidiaries	–	5.4	5.4	–	3.4	3.4
	7.5	**31.4**	**38.9**	**7.2**	**31.5**	**38.7**

The Company's trade and other payables mature in the following time periods:

	2014 £m	2013 £m
Less than one year	31.4	31.5
1 – 2 years	2.3	4.1
2 – 3 years	3.1	1.7
3 – 4 years	2.1	1.4
	7.5	**7.2**
	38.9	**38.7**

36. Deferred tax liabilities

All movements in deferred tax arise from temporary differences including deferred remuneration and pension costs.

	2014 £m	2013 £m
At 1 January	5.0	9.6
Income statement expense/(credit)	0.3	(3.7)
Transfer of deferred tax liability on transfer of pension scheme from Group company	0.1	–
Changes in timing differences – other comprehensive income expense/(credit)	7.7	(2.0)
Effect of changes in tax rates – other comprehensive income expense	–	2.4
Credit taken to equity	–	(1.3)
At 31 December	**13.1**	**5.0**

37. Financial instrument risk management

The Company's policy is to have adequate capital for all activities undertaken in the normal course of business. In particular, it should have adequate capital to maintain sufficient liquid funds to meet peak working capital requirements. Generally, surplus capital is loaned back to the Group's investment capital management entities.

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 the 'Key risks and mitigations' section within the Strategic report and the 'Risk and internal controls' section within the Governance report of this document as well as in note 20. 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 predominantly its subsidiaries and therefore there is minimal external credit risk exposure.

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 meet all obligations as they fall due and maintain solvency. The Company holds sufficient liquid funds to cover its normal course of business. The Company can request to borrow through intragroup loans and the Group loan facility (see below) to maintain sufficient liquidity.

In 2013, the Group entered into a committed loan facility of £50.0 million that expires on 30 September 2018.

Interest rate risk

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

At 31 December 2014, if interest rates had been 50 basis points higher (2013: 50 basis points higher) with all other variables held constant, the Company estimates that post-tax profit for the year would have increased by £3 million (2013: increased by £3 million), mainly as a result of higher net interest income on the Company's interest-bearing intercompany receivables and payables and cash; other components of equity would have been unaffected.

The model used to calculate the effect on post-tax profits assumes that the fair value of assets and liabilities will not be affected by a change in interest rates.

Foreign exchange and pricing 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. 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 is not directly exposed to foreign exchange or pricing risk. The Company's investments in its directly-held subsidiaries are in sterling and are held at historic cost. It has indirect exposure to foreign exchange and pricing risk in the Group which could result in the impairment of these subsidiaries. There are currently sufficient resources in subsidiaries to absorb any normal market events.

38. Own shares

Movements in own shares during the year were as follows:

	2014 £m	2013 £m
At 1 January	(138.6)	(137.6)
Own shares purchased	(58.9)	(67.9)
Cancellations of own shares in treasury	3.8	30.8
Awards vested	58.5	36.1
At 31 December	**(135.2)**	**(138.6)**

The total number of shares in the Company held within the Company's employee benefit trusts comprise:

	2014			2013		
	Vested shares Number Millions	Unvested shares Number Millions	Total Number Millions	Vested shares Number Millions	Unvested shares Number Millions	Total Number Millions
Ordinary shares	2.8	7.6	10.4	2.6	8.9	11.5
Non-voting ordinary shares	0.2	0.1	0.3	0.4	0.2	0.6
	3.0	**7.7**	**10.7**	**3.0**	**9.1**	**12.1**

	2014			2013		
	Vested shares £m	Unvested shares £m	Total £m	Vested shares £m	Unvested shares £m	Total £m
Ordinary shares:						
Cost	38.1	133.1	171.2	38.4	136.6	175.0
Fair value	74.2	203.9	278.1	68.5	232.1	300.6
Non-voting ordinary shares:						
Cost	1.9	2.1	4.0	4.2	2.0	6.2
Fair value	4.1	2.8	6.9	8.1	3.0	11.1
Total:						
Cost	**40.0**	**135.2**	**175.2**	**42.6**	**138.6**	**181.2**
Fair value	**78.3**	**206.7**	**285.0**	**76.6**	**235.1**	**311.7**

39. Related party transactions

The Company is not deemed to be controlled or jointly controlled by a party directly or through intermediaries under accounting standards. As a result the related parties of the Company are members of the Company, including joint ventures and associates, key management personnel, close family members of key management personnel and any entity controlled by those parties.

The Company has determined that key management personnel includes only the Board of Directors.

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 (which is set out in note 32), are disclosed below:

	2014					
	Revenue £m	Expenses £m	Interest receivable £m	Interest payable £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Subsidiaries of the Company	321.6	8.2	2.5	–	849.7	(5.4)
Key management personnel	0.1	–	–	–	–	(3.8)

	2013					
	Revenue £m	Expenses £m	Interest receivable £m	Interest payable £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Subsidiaries of the Company	462.8	7.8	2.3	–	732.8	(3.4)
Key management personnel	0.1	–	–	–	–	(3.3)

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No expense for bad or doubtful debts has been recognised in the year in respect of the amounts owed by related parties.

Independent auditors' report to the members of Schroders plc
Report on the financial statements

Our opinion
In our opinion:
- Schroders plc Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's profit and of the Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited
Schroders plc's financial statements comprise:
- the consolidated and Schroders plc statements of financial position as at 31 December 2014;
- the consolidated income statement and statement of comprehensive income for the year then ended;
- the consolidated and Schroders plc statements of changes in equity and statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts (the Annual Report) rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company, as applied in accordance with the provisions of the Companies Act 2006.

Our audit approach
Overview

Materiality	– Overall Group materiality: £28.3 million which represents 5% of profit before tax and exceptional items.
Audit scope	– The Group has three business segments, Asset Management, Wealth Management and Group, consisting of over 170 legal entities operating in 37 offices. – We audited the complete financial information for 15 legal entities, due to their size and/or risk characteristics. – Taken together, the territories and functions in the scope of audit work accounted for 82 per cent. of Group revenues, 80 per cent. of Group profit before tax and exceptional items, 97 per cent. of Group total assets and 92 per cent. of Group net assets.
Area of focus	– Misstatement in revenue recognition of manually calculated or complex revenue streams. – Valuation and completeness of legal and regulatory provisions. – Valuation and impairment of goodwill and intangible assets.

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)).

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus particular to Schroders plc	How the scope of our audit addressed the area of focus
Misstatement in revenue recognition of manually calculated or complex revenue streams *Refer to page 57 (Audit and Risk Committee Report) and note 2 – (Revenue).* Revenue, which comprises management fees, performance fees, interest income and other fees is the result of investment management activities from both the Asset Management and Wealth Management segments. We have understood the significant revenue streams and assessed where there is an inherent risk of error, including manual processes and areas of judgement. The Group recognised performance fees of £37.1m in 2014 (2013: £80.6m). This is the most judgemental revenue stream for the Group due to the timing and extent of revenue recognition. Performance fees bases are set out in the relevant fund prospectus or investment management agreement. They involve some additional complexity as the performance of relevant assets is compared to a relevant benchmark. Each agreement sets out the benchmark performance criteria, and measurement thereof, that Schroders needs to achieve in order for the performance fee to crystallise. These fees are calculated using data from internal and external sources, including third party administrators. Any queries from clients are investigated by the Group and resolved, and the collection of performance fees is actively monitored.	We tested the operating effectiveness of key controls operated by the Group around assets under management, fee billing systems and set up of client data. We also obtained and assessed independent assurance reports for the relevant controls at the third party administrators, and considered whether there was any impact on our audit. We tested the operating and effectiveness of the review by the client management teams of the performance fee bills issued to clients, the monitoring of matching of cash received in settlement and investigation of any queries raised by clients. Our controls testing did not identify any weaknesses that caused us to amend our planned substantive testing. We substantively tested a sample of performance fee calculations to check that performance fees were appropriately earned by agreeing the data used to the Group's underlying systems, agreeing the basis of calculation to that set out in the client agreements, agreeing the benchmark performance to an independent third party source, and re-performing the calculation. Our testing did not identify any evidence that performance fees were materially misstated.

Area of focus particular to Schroders plc	How the scope of our audit addressed the area of focus
Valuation and completeness of legal and regulatory provisions *Refer to page 57 (Audit and Risk Committee Report) and note 19 – (Provisions and Contingent Liabilities).* The Group is exposed to actual and potential legal claims and also matters arising as a result in changes in regulation and legislation in the countries in which it operates. The estimations and assumptions involved are inherently judgemental in nature. In connection with the US Department of Justice (DOJ) programme to identify US related accounts at Swiss banks relating to non-US tax compliant persons, there remains uncertainty about the amount that will be paid, which depends upon assumptions about the tax compliance status of the related persons. An Independent Examiner has been appointed by Schroders to partly verify the analysis prepared by the Group as required by the DOJ. The Group held a provision of £15m for the possible penalty in relation to the DOJ programme at 31 December 2014 (2013: £15m). That provision remains the Group's current estimate of the amount that may be payable, which will be subject to final assessment by the DOJ.	To test the provision in relation to the DOJ programme, we: – obtained and read correspondence between the Group and external legal counsel, the DOJ and the Independent Examiner; – tested changes to the US related accounts identified and the financial information related to those accounts audited in 2013 by agreeing the information to the firm's systems and records; – assessed the updated judgements on non-tax compliance of accounts and the allocation of accounts to categories stratified by risk of penalty on a sample basis by reading the client information supporting that judgement; – re-performed the calculation of the possible penalty based on the stratification by risk of penalty; and – assessed the financial sensitivity of the provision by flexing the assumptions on the likelihood of the Group paying a penalty. We found no exceptions in the population of US-related accounts identified by the Group and no errors in the calculation of the provision held at the year end. In order to test other potential claims (both those for which a provision is recognised and those for which it is not), we made enquiries of the Group's and Company's internal legal counsel, obtained independent letters from external counsel and assessed the provisions against past history or agreed to supporting documentation. We evaluated the appropriateness of the disclosures of provisions and contingent liabilities made in the Group financial statements against the requirements of IFRS. We did not identify any material misstatements.
Valuation and impairment of goodwill and intangible assets *Refer to page 57 (Audit and Risk Committee Report) and note 14 (Goodwill and intangible assets).* In line with IAS 36 'Impairment of assets', the goodwill and intangible asset balances of £474.5m (2013 £489.0m) are subject to an annual impairment review by the Directors to assess the risk that the value attributed to them on acquisition may not be supported by conditions or any events that have occurred post acquisition. The goodwill attributed to the Asset Management (£288.4m) and Wealth Management (£68.9m) segments both have significant headroom in their impairment reviews at the year end. We, therefore, consider the risk of impairment to be low. We focused on acquired intangible customer relationship assets recognised on the acquisitions of Cazenove Capital (£96.7m) and STW (£10.6m). The key assumptions on which the fair value of the acquired customer relationships is based are client retention rates, the level of assets under management and the discount rate used. Following the integration of Cazenove Capital and STW into the Asset Management and Wealth Management segments, it is no longer possible for the Directors to clearly distinguish the cashflows of the acquired businesses from the wider Schroders' business. Impairment was, therefore considered at the Asset Management and Wealth Management segment level. The directors have considered possible indicators of impairment arising from changes to the business activities including net flows, funds under management, and revenue generated. No impairment charge has been recorded against these balances in the current financial year.	We obtained and read the Directors' assessment of whether there had been any indicators of impairment for acquired intangible assets and challenged the Directors' key assumptions for client retention and long-term assets under management growth rates by comparing retention rates to experience, growth rates to economic and industry forecasts and assessing the discount rate compared to the cost of capital for the Group and comparable organisations. We calculated the extent of change in the assumptions that either individually or collectively would be required for the goodwill or intangible asset balance in each cash generating unit to be impaired for both the Wealth Management and Asset Management segments. We found no material exceptions in our testing.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the audit of the Group, we considered our assessment of the risk of material misstatement within each entity. We determined the work that needed to be performed by us, as the Group engagement team, or by local teams within PwC UK or from other PwC network firms. Where the work was performed by local audit teams, we determined the level of involvement we needed to have in the audit work for those entities to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

In the current year the Group team met with all the local audit teams responsible for those entities scoped in for Group reporting purposes, namely Luxembourg, Switzerland and Australia, as well as holding regular discussions with these teams throughout the audit process. In addition we met with the Schroders centralised finance teams in Singapore, Luxembourg and Switzerland.

The Group consolidation, financial statement disclosures and a number of complex items, including valuation of goodwill and intangibles, valuation of provisions, employee benefits expense and tax, are audited by the Group engagement team at the head office.

Taken together the territories and functions in the scope of audit work accounts for 82 per cent. of Group revenues, 80 per cent. of Group profit before tax and exceptional items, 97 per cent. of Group total assets and 92 per cent. of Group net assets.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£28.3 million (2013: £22.0 million).
How we determined it	5% of profit before tax and exceptional items.
Rationale for benchmark applied	Profit before tax is a standard benchmark used in determining materiality. This year we have adjusted it for exceptional items given the one-off nature of these items, which would distort the basis of the calculation.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £1.75 million (2013: £1.0 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 63, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 50 to 62 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

– information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
– the explanation given by the Directors on page 77, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), as to why the Annual Report does not include a statement that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Parent Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
– the explanation given by Directors on pages 56 to 59, as required by provision C.3.8 of the Code, as to why the Annual Report does not include a section that appropriately addresses matters communicated by us to the Audit and Risk Committee is materially inconsistent with our knowledge of the Group and Parent Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Directors' remuneration report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Parent Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit
Our responsibilities and those of the Directors
As explained more fully in the Directors' Responsibilities Statement set out on page 77, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
- whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

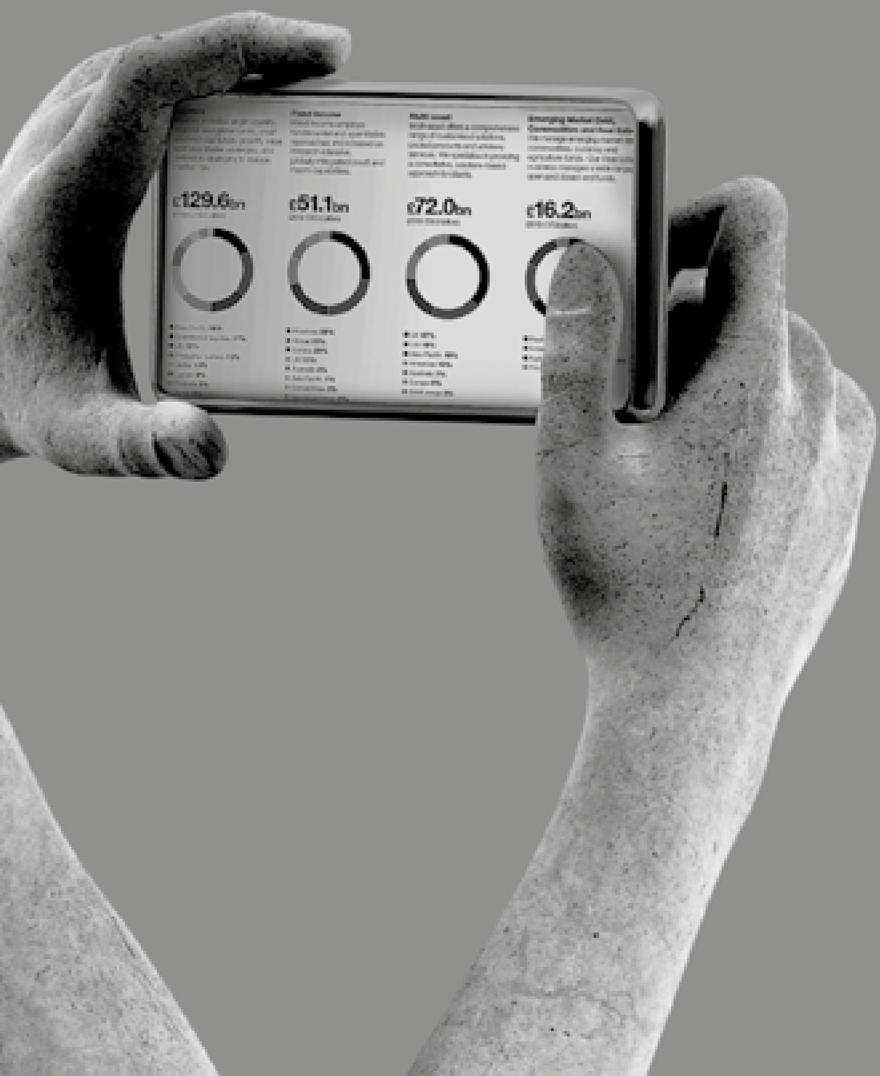
We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Andrew Kail (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2015

a. The maintenance and integrity of the Schroders plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
b. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Shareholder information


£129.6bn
£51.1bn
£72.0bn
£16.2bn

Shareholder information

Contact information

Schroders plc
Registered in England and Wales
Company No. 3909886

Registered office
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London EC2V 7QA
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Fax: +44 (0) 20 7658 3977
Email: companysecretary@schroders.com
www.schroders.com

Share and Loan Note Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

UK Shareholder and Loan Noteholder helpline:
Freephone (UK callers only): 0800 923 1530
International: +44 117 378 8170
Fax: +44 (0) 870 703 6101
www.investorcentre.co.uk

Financial calendar

Ex-dividend date	26 March 2015
Record date	27 March 2015
Interim Management Statement	30 April 2015
Annual General Meeting	30 April 2015
Final dividend payment date	6 May 2015
Half-yearly results announcement	30 July 2015
Interim dividend paid*	September 2015
Interim Management Statement	5 November 2015

* date to be confirmed.

Annual General Meeting

Our Annual General Meeting will be held at 11.30 a.m. on 30 April 2015 at 31 Gresham Street, London EC2V 7QA.

Investor Centre

Computershare is the Company's share and loan note registrar. Investor Centre is Computershare's free, secure, self-service website, where holders can manage their interests online.

The website enables holders to:
– View share and loan note balances
– Change address details
– View payment and tax information
– Update payment instructions
– Update communication instructions

Holders can register their email address at www.investorcentre.co.uk to be notified electronically of events such as annual general meetings, and can receive shareholder and loan note communications such as the annual report and the notice of meeting online.

Enquiries and notifications concerning dividends, interest payments, share or loan note certificates or transfers and address changes should be sent to the Registrar.

Dividends and interest payments

Paying dividend and interest payments into a bank or building society account helps reduce the risk of fraud and will provide you with immediate access to your funds. To apply for an electronic mandate please contact the Registrar.

If your dividend is paid directly into your bank or building society account, you will receive an annual consolidated tax voucher which will be sent to you in September each year at the time the interim dividend is paid. You will receive a tax voucher each time you are paid an interest payment.

Dividend and interest payment tax vouchers are available electronically at www.investorcentre.co.uk to those holders who have their payments mandated to their bank or building society accounts and who have expressed a preference for e-communications.

The Company operates a dividend reinvestment plan (DRIP) which provides shareholders with a way of increasing their shareholding in the Company by reinvesting their dividends. For a copy of the DRIP information pack and application form please contact the Registrar.

Details of dividend payments can be found in the Directors' report on page 63.

Schroders offers a service to shareholders in participating countries which enables dividends to be received in local currencies. To check your eligibility and/or request a mandate form please contact the Registrar.

Floating Rate Unsecured Loan Notes

If you wish to redeem your Loan Note(s) please send the completed Notice of Repayment on the reverse of the Loan Note Certificate to the Registrar no later than the deadlines set out below. Please note that partial redemptions are only permitted in multiples of £100.

Redemption Date	Deadline
30 June 2015	31 March 2015
31 December 2015	30 September 2015
30 June 2016	31 March 2016
31 December 2016	30 September 2016
30 June 2017	31 March 2017
31 December 2017	30 September 2017
30 June 2018	31 March 2018

It is expected that the final redemption will take place on 5 July 2018.

Where a Redemption Date falls on a non-business day, Notices of Repayment should be received on the last working day prior to that date. Please note that any Notices of Repayment received after the relevant deadline will not be actioned until the next Redemption Date.

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.

Warning to shareholders

Companies are aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares or investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation;
- Check that they are properly authorised by the FCA before getting involved by visiting www.fsa.gov.uk/register/home.do;
- Report the matter to the FCA by calling 0845 606 1234 or visiting www.fca.org.uk/scams; and
- Do not deal with any firm that you are unsure about.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FCA provides a list of unauthorised firms of which it is aware, which can be accessed at www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/unauthorised-firms-to-avoid.

More detailed information on this or similar activity can be found on the FCA website at www.fca.org.uk/scams.

Capital gains tax

Capital gains tax values for the Company's shares as at 31 March 1982 and values relating to the disposal of the investment banking business in 2000 can be found on the Company's website.

Five-year consolidated financial summary

Before exceptional items	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Profit before tax	565.2	507.8	360.0	407.3	406.9
Tax	(113.9)	(103.0)	(76.8)	(91.5)	(95.7)
Profit after tax	451.3	404.8	283.2	315.8	311.2

After exceptional items	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Profit before tax	517.1	447.5	360.0	407.3	406.9
Tax	(103.9)	(94.8)	(76.8)	(91.5)	(95.7)
Profit after tax	413.2	352.7	283.2	315.8	311.2

Pre-exceptional earnings per share:	2014 Pence	2013 Pence	2012 Pence	2011 Pence	2010 Pence
Basic earnings per share[1]	166.8	149.9	104.7	115.9	111.8
Diluted earnings per share[1]	161.5	144.6	101.3	111.9	108.3

Post-exceptional earnings per share:	2014 Pence	2013 Pence	2012 Pence	2011 Pence	2010 Pence
Basic earnings per share[1]	152.7	130.6	104.7	115.9	111.8
Diluted earnings per share[1]	147.8	126.0	101.3	111.9	108.3

Dividends:	2014	2013	2012	2011	2010
Cost (£m)	177.7	123.5	104.1	104.8	87.6
Pence per share[2]	66.0	46.0	39.0	39.0	32.0

Total equity (£m)	2,537.8	2,268.6	2,069.9	1,901.6	1,799.7
Net assets per share (pence)[3]	898	802	733	673	620

Group employees at year-end 31 December	2014 Number	2013 Number	2012 Number	2011 Number	2010 Number
Europe	2,517	2,503	2,032	1,966	1,836
Americas	278	294	251	236	224
Asia Pacific	761	731	728	700	662
	3,556	3,528	3,011	2,902	2,722

1 See note 8 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 year-end date (see note 22).

Exchange rates – closing

31 December	**2014**	2013	2012	2011	2010
Sterling:					
Euro	1.29	1.20	1.23	1.20	1.17
US dollar	1.56	1.66	1.63	1.55	1.57
Swiss franc	1.55	1.47	1.49	1.45	1.46
Australian dollar	1.91	1.85	1.57	1.52	1.53
Hong Kong dollar	12.09	12.84	12.60	12.07	12.17
Japanese yen	186.95	174.08	140.55	119.57	126.98
Singaporean dollar	2.07	2.09	1.99	2.02	2.01

Exchange rates – average	**2014**	2013	2012	2011	2010
Sterling:					
Euro	1.24	1.18	1.23	1.15	1.17
US dollar	1.65	1.57	1.59	1.61	1.55
Swiss franc	1.51	1.45	1.48	1.42	1.60
Australian dollar	1.83	1.64	1.53	1.54	1.69
Hong Kong dollar	12.78	12.18	12.33	12.50	12.03
Japanese yen	175.15	152.51	126.93	127.84	135.68
Singaporean dollar	2.09	1.96	1.98	2.02	2.11

Glossary

Actively managed
The management of assets based on active decision-making as opposed to the direct replication of an index

Alpha
Excess return over beta relative to a market benchmark

Assets under management (AUM)
The aggregate value of assets managed on behalf of clients. In Wealth Management this also includes assets held in custody

Basis point (bps)
One one-hundredth of a percentage point (0.01%)

Beta
Market returns

Carbon dioxide equivalent (CO_2e)
A standard unit for measuring carbon footprints. It enables the impact of different greenhouse gas emissions on global warming to be expressed using an equivalent amount of carbon dioxide (CO_2) as a reference

Compensation cost
Total employee benefits expense

Compensation cost to net revenue ratio
Compensation cost divided by net revenue before exceptional items

Costs to net revenue ratio
Total Group costs divided by net revenue before exceptional items

CRD IV
CRD IV is an EU legislative package covering prudential rules for banks, building societies and investment firms. CRD IV is made up of the Capital Requirements Directive (CRD) which is implemented through national law; and the Capital Requirements Regulation (CRR), which is directly applicable to firms across the EU.

CRD IV implements the Basel III agreement in the EU. This includes enhanced requirements for the quality and quantity of capital and a basis for new liquidity and leverage requirements. CRD IV also makes changes to rules on corporate governance, including remuneration, and has introduced standardised EU regulatory reporting – referred to as COREP and FINREP. These reporting requirements specify the information firms must report to supervisors in areas such as own funds, large exposures and other financial information

DEFRA
Department for Environment, Food and Rural Affairs

Dividend payout ratio
The total dividend per share in respect of the year divided by the pre-exceptional basic earnings per share

EMIR
European Market Infrastructure Regulation

Employee benefit trust
An employee benefit trust is a type of discretionary trust established to provide employee benefits such as affording employees the opportunity to hold vested or unvested share awards in their employing company, with a view to facilitating the recruitment, retention and motivation of employees

Family offices
These manage the financial and investment side of an affluent individual or family

FATCA
Foreign Account Tax Compliance Act

Fitch Asset Management Rating
Asset manager ratings reflect an assessment of an asset management organisation's vulnerability to operational and investment management failures, as reflected by the quality of the organisation's experience, staffing resources, investment processes, internal control environment, investment administration capabilities and related technology resources. Asset manager ratings are assigned on a scale from 'Highest Standards' to 'Inadequate Standards'. Highest Standards denotes the lowest vulnerability to operational and investment management failures

FCA
Financial Conduct Authority

GAIA
Global Alternative Investor Access

GMC
Group Management Committee

GRC
Group Risk Committee

Hard and soft closed funds
A soft closed fund is not marketed actively but is still open to additional investment. Hard closed applies to a fund that is not open to new investment, either from new or existing investors

ICAAP
Internal Capital Adequacy Assessment Process

IFRS
International Financial Reporting Standards

Institutional sales channel
Institutional clients, such as pension funds, insurance companies and government funds, come to Schroders through their own adviser or consultant. Assignments are typically highly specific and may dovetail with their other investments in a range of asset classes and with other managers they employ

Intermediary sales channel
Schroders works with intermediaries such as banks, insurance companies, platforms and independent financial advisers, who advise the end retail client

Investment capacity
The extent to which easily accessible investments are available, which are capable of delivering the required return of a particular product or investment strategy

Investment performance
This is calculated by Schroders, using published benchmarks for products, where available, for Asset Management only. It excludes private equity, LDI and externally managed GAIA funds, and funds which do not have the required track record. If no benchmark is published or agreed with the client but the fund is listed in competitor rankings, the relative position of the fund to its peer group is used. Funds with no benchmark but an absolute return target over the one or three-year period are measured against that absolute target. Funds with no benchmark and no target may be measured against a cash return, if applicable. As at 31 December 2014, such comparator data existed for 74 per cent. of Asset Management AUM over three years and 84 per cent. over one year.

We reviewed the basis of preparation of this data during 2013 as reflected in our explanation of the calculation above. These changes have not had a material impact on prior year figures

Investment returns
The increase in AUM attributable to investment performance, market movements and foreign exchange

Liability-driven investment (LDI)
A form of investing where the main goal is to gain sufficient assets to meet all known liabilities, both current and future. This form of investment is most prominent for defined benefit pension schemes

Life Company
Schroder Pension Management Limited, a wholly-owned subsidiary, which provides investment products through a life assurance wrapper

MiFID II
Markets in Financial Instruments Directive II

Multi-asset
A combination of asset classes (such as cash, equity and bonds) used as an investment that creates a group or portfolio of assets

Net new business
New funds from clients less funds withdrawn by clients excluding market and currency changes. This is also described as net inflows (when positive) or net outflows (when negative)

Net revenue
Net fee income, net banking interest income and net gains/(losses) on financial instruments and other income. Net revenue excludes net finance income from non-banking operations

Net revenue margins
Asset Management plus Wealth Management net revenue excluding exceptional items divided by total average assets under management

Official institutions
These are central governments of countries, including all departments and agencies of national governments, central banks, exchange authorities, and all fiscal agents of national governments that undertake activities similar to those of a treasury or central bank

Outcome-orientated products
Customised investment solutions designed to meet specific outcomes rather than market relative returns; for example, providing an income stream post-retirement

Passive products
Products which are designed to replicate an index

Pillar 1
The minimum capital requirements in relation to credit risk, operational risk and market risk taken by the Group as principal

Pillar 2
The requirement for companies to assess the level of additional capital held against risks not covered in Pillar 1

Pillar 3
This complements Pillar 1 and Pillar 2 with the aim of improving market discipline by requiring companies to publish certain details of their risks, capital and risk management. Schroders' Pillar 3 disclosures are available at www.schroders.com/ir

Platforms
Platforms in the UK savings market offer a range of investment products such as Individual Saving Accounts (ISAs), unit-linked Life and Pension bonds and Self-Invested Personal Pensions (SIPPs) to facilitate investment in a multitude of funds from different managers through one portal

PRA
Prudential Regulation Authority

Profit share ratio
Bonus charge divided by pre-bonus profit before tax and exceptional items

Regulatory capital
Regulatory capital is the amount of risk capital set by legislation or local regulators, which companies must hold to allow them to survive any difficulties such as market or credit risks

Remuneration hedging
The purchase of own shares to hold against share-based awards made to employees as part of the Group's remuneration strategy

Rights to shares
The entitlements of employees, including executive Directors, to Company shares until vesting conditions have been satisfied and the awards exercised

Smart beta
Also known as custom beta. A variant of passive investing where stock weightings deviate from traditional market capitalisation weighted indices

Solvency II
The Solvency II EU Directive concerning the governance, risk management disclosure and the amount of capital that EU insurance companies must hold to reduce the risk of insolvency

Tier 1 capital ratio
This is the measure used by regulators to assess a bank's financial strength and is the ratio of a bank's core equity capital to its total risk-weighted assets. Risk-weighted assets are the total of all assets held by the bank weighted by credit risk, as determined by local regulators

Total dividend per share
Unless otherwise stated, this is the total dividend in respect of the year, comprised of the interim dividend and the proposed final dividend. This differs to the IFRS dividend which is comprised of the interim and final dividends declared and paid during the year

UCITS V
Undertakings for Collective Investments in Transferable Securities V

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