Schroders

Press Release
Schroders plc
Half-year results to 30 June 2017 (unaudited)

27 July 2017

- Profit before tax and exceptional items up 23% to £361.5 million (H1 2016: £293.7 million)
- Profit before tax up 21% to £342.8 million (H1 2016: £282.3 million)
- Net inflows £0.8 billion (H1 2016: £1.0 billion*)
- Assets under management and administration £418.2 billion (30 June 2016: £343.8 billion)
- Interim dividend up 17% to 34.0 pence per share (interim dividend 2016: 29.0 pence per share)

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Year ended 31 December 2016 £m
Profit before tax			
Asset Management	301.0	249.1	553.9
Wealth Management	36.4	28.4	56.3
	337.4	**277.5**	**610.2**
Group segment	5.4	4.8	7.9
Profit before tax	**342.8**	**282.3**	**618.1**
Profit before tax and exceptional items	**361.5**	**293.7**	**644.7**
Basic earnings per share (pence)	**97.8**	**81.1**	**178.3**
Basic earnings per share before exceptional items (pence)	**103.5**	**84.5**	**186.3**
Dividend (pence)	**34.0**	**29.0**	**93.0**

*H1 2016 net flows have been restated from £0.7 billion to £1.0 billion to exclude income drawdowns from Wealth Management, which are now included within investment returns.

Peter Harrison, Group Chief Executive, commented: *"We have delivered another set of good results, with profit before tax and exceptional items increasing 23% to £361.5 million. Assets under management and administration have reached a new high of £418.2 billion. Underlying progress in all regions was encouraging and we are building out our capabilities in Private Assets. We are confident in our ability to continue identifying, and investing in, areas of future growth.*

Markets have remained buoyant in the first half of the year, but we remain cognisant that these trends can be volatile and that market returns are difficult to predict. Our diversified business model has proven that it is well placed to adapt to the changing landscape and to continue to create value for clients and shareholders over the long term."

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Management Statement

It has been a good start to 2017, with our diversified business model performing well and continuing to generate ongoing growth. Net operating revenues increased by 18% to £940.1 million (H1 2016: £794.9 million) and profit before tax and exceptional items rose 23% to £361.5 million (H1 2016: £293.7 million). This reflects our ability to deliver revenue growth with cost discipline, resulting in the total cost ratio improving to 62.9% (H1 2016: 64.8%).

We generated net new business of £0.8 billion (H1 2016: £1.0 billion) in the first six months of the year. There was positive net new business from Institutional and Wealth Management clients, as well as a return to positive net flows within Intermediary branded funds, partially offset by outflows in Intermediary sub-advised.

Assets under management and administration ended the period at a new high of £418.2 billion (30 June 2016: £343.8 billion).

Asset Management

Asset Management net operating revenue was up 18% to £809.3 million (H1 2016: £687.8 million), including performance fees of £13.2 million (H1 2016: £6.4 million). Profit before tax and exceptional items rose 21% to £310.6 million (H1 2016: £257.6 million) and profit before tax increased 21% to £301.0 million (H1 2016: £249.1 million). Assets under management at the end of June were £363.3 billion (30 June 2016: £310.0 billion).

The net operating revenue margin before performance fees was 45 basis points (FY 2016: 46 basis points).

We generated net new business of £0.2 billion in the first half of the year (H1 2016: £1.1 billion). The Institutional channel continued to deliver, with net inflows of £1.4 billion and strong demand for Multi-asset strategies and from UK and North American clients. Assets under management in Institutional at the end of June were £238.6 billion.

In the Intermediary channel, we saw net outflows of £1.2 billion. Within branded funds, there were £4.0 billion of net inflows, reflecting improved investor sentiment. Demand was led by Equity products and from clients in continental Europe, as well as a strong return to positive net flows in the UK. However, there were net outflows of £5.2 billion from sub-advised mandates, including a significant Multi-asset mandate in North America. Assets under management in Intermediary at the end of June were £124.7 billion.

In April we announced an agreement to acquire Adveq, a Swiss-based high-quality specialist private equity solutions business. This is consistent with our strategy of accelerating our growth into Private Assets and further diversifying our product offering and we expect the deal to complete in the near future.

Wealth Management

Wealth Management net operating revenue increased 22% to £130.8 million (H1 2016: £107.1 million), including performance fees of £0.6 million (H1 2016: £1.9 million). Profit before tax and exceptional items was up 40% to £45.5 million (H1 2016: £32.4 million) and profit before tax rose 28% to £36.4 million (H1 2016: £28.4 million).

There were net inflows of £0.6 billion (H1 2016: outflows of £0.1 billion) in the first half, £0.4 billion of which came through Benchmark Capital.

The acquisition of the wealth management business of C.Hoare & Co. completed in February and brought around 1,800 clients representing £2.5 billion of assets under management.

Assets under management and administration at the end of June were £54.9 billion (30 June 2016: £33.8 billion).

The net operating revenue margin before performance fees was 62 basis points (FY 2016: 65 basis points).

Group

The Group segment comprises central costs and returns on investment capital. Profit before tax and exceptional items in the first half of 2017 was £5.4 million (H1 2016: £3.7 million). Shareholders' equity at 30 June 2017 was £3.2 billion (31 December 2016: £3.2 billion).

Dividend

The Board has declared an interim dividend of 34.0 pence per share (interim dividend 2016: 29.0 pence per share). The dividend will be payable on 21 September 2017 to shareholders on the register at 18 August 2017.

Outlook

Despite the headwinds facing the industry we believe there are growth opportunities and we are confident in our ability to identify, and invest in, areas of future growth.

Markets have remained buoyant in the first half of the year, but we remain cognisant that these trends can be volatile and that market returns are difficult to predict.

Our diversified business model has proven that it is well placed to adapt to the changing landscape and to continue to create value for clients and shareholders over the long term.

Additional information

Assets under management and administration

Six months to 30 June 2017

£bn	AUM					AUA	AUMA[2]
	Institutional	Intermediary	Asset Management	Wealth Management[1]	Total		
1 January 2017	**226.3**	**120.1**	**346.4**	**39.6**	**386.0**	**11.1**	**397.1**
Gross inflows	19.6	29.0	48.6	3.8	52.4		
Gross outflows	(18.2)	(30.2)	(48.4)	(3.2)	(51.6)		
Net flows	**1.4**	**(1.2)**	**0.2**	**0.6**	**0.8**		
Acquisitions	-	-	-	2.5	2.5		
Investment returns	10.9	5.8	16.7	0.9	17.6		
30 June 2017	**238.6**	**124.7**	**363.3**	**43.6**	**406.9**	**11.3**	**418.2**

[1]Wealth Management flows exclude income drawdowns which are now included within investment returns.
[2]Assets under management and administration comprise assets managed or advised on behalf of clients (Assets Under Management) and assets where Schroders solely provides administrative support through the Benchmark Capital business (assets under administration or AUA).

Investment performance

Investment performance data has been calculated by Schroders to give shareholders and financial analysts general guidance on how our assets under management are performing. The data is aggregated and is intended to provide historical comparisons to prior reporting periods.

All calculations for investment performance in this statement are made gross of fees with the exception of those for which the stated comparator is a net of fees competitor ranking. When a product's investment performance is discussed or shared with a client or potential client it is specific to the strategy or product: for Intermediary clients, performance will be shown net of fees at the relevant fund share-class level; for Institutional clients, it will typically be shown gross of fees with a fee schedule for the strategy supplied.

	Percentage of assets outperforming		
	One year	**Three years**	**Five years**
To 30 June 2017	76%	73%	84%
To 31 December 2016	75%	74%	85%

Investment performance has remained strong to 30 June 2017, with 76% of Asset Management assets outperforming over one year, 73% over three years and 84% over five years. This compares to 75%, 74% and 85% respectively to 31 December 2016.

The calculation includes 100% of internally-managed Asset Management assets, excluding Liability-Driven Investment (LDI) strategies, that have a complete track record over the respective reporting period. Assets held in LDI strategies, which currently amount to £25 billion, are excluded as these are not seeking to outperform a stated objective but to match the liability profile of pension funds. Assets managed by third parties are excluded and primarily comprise the Luxembourg-domiciled GAIA fund range of £5.5 billion and private equity assets of £0.5 billion.

Performance is calculated relative to the relevant stated comparator for each strategy as below. These fall into one of four categories, the percentages for each of which refer to the three year calculation:

- For 83% of assets included in the calculation, the stated comparator is the benchmark.
- If the stated comparator is to competitor rankings, the relative position of the fund to its peer group on a like-for-like basis is used to calculate performance. This applies to 4% of assets in the calculation.
- Assets for which the stated comparator is to an absolute return target are measured against that absolute target. This applies to 10% of assets in the calculation.
- Assets with no stated objective are measured against a cash return, if applicable. This applies to 3% of assets in the calculation.

Metrics for the Group

	Six months ended 30 June 2017	Six months ended 30 June 2016
Total cost ratio†*	**63%**	65%
Total compensation ratio*	**44%**	45%
Return on average capital before exceptional items (pre-tax)*	**23%**	21%
Return on average capital before exceptional items (post-tax)*	**18%**	16%

†Before exceptional items.
*Defined and explained within the 2016 Annual Report and Accounts, available on the Schroders investor relations website www.schroders.com/ir. The calculation basis of the ratios is unchanged from the year end.

Peter Harrison, Group Chief Executive, and Richard Keers, Chief Financial Officer, will host a presentation and webcast for the investment community to discuss the Group's half-year results at 9.00am GMT +1 on Thursday 27 July 2017 at 31 Gresham Street, London, EC2V 7QA. The webcast can be viewed live at www.schroders.com/ir and www.cantos.com. For individuals unable to participate in the live webcast, a replay will be available from 1.00pm GMT +1 on Thursday 27 July on www.schroders.com/ir.

This announcement contains inside information. Legal Entity Identifier: 2138001YYBULX5SZ2H24.

Forward-looking statements

This interim management statement and the Schroders website may contain forward-looking statements with respect to the financial condition, performance and position, strategy, results of operations and businesses of the Schroders Group. Such statements and forecasts involve risk and uncertainty because they are based on current expectations and assumptions but relate to events and depend upon circumstances in the future and you should not place reliance on them. Without limitation, any statements preceded or followed by or that include the words 'targets', 'plans', 'sees', 'believes', 'expects', 'aims', 'confident', 'will have', 'will be', 'will ensure', 'likely', 'estimates' or 'anticipates' or the negative of these terms or other similar terms are intended to identify such forward-looking statements. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by forward-looking statements and forecasts. Forward-looking statements and forecasts are based on the Directors' current view and information known to them at the date of this statement. The Directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Nothing in this interim management statement should be construed as a forecast, estimate or projection of future financial performance.

Consolidated income statement

	Notes	Six months ended 30 June 2017 (unaudited) Before exceptional items £m	Exceptional items[1] £m	Total £m	Six months ended 30 June 2016 (unaudited)[3] Before exceptional items £m	Exceptional items[1] £m	Total £m
Revenue	4	1,179.6	-	1,179.6	996.4	-	996.4
Cost of sales		(239.5)	-	(239.5)	(201.5)	-	(201.5)
Net operating revenue		**940.1**	**-**	**940.1**	**794.9**	**-**	**794.9**
Net gains on financial instruments and other income	5	20.2	(1.3)	18.9	27.0	(0.4)	26.6
Share of profit of associates and joint ventures		14.1	(1.1)	13.0	12.1	(1.0)	11.1
Net income		**974.4**	**(2.4)**	**972.0**	**834.0**	**(1.4)**	**832.6**
Operating expenses	6	(612.9)	(16.3)	(629.2)	(540.3)	(10.0)	(550.3)
Profit before tax		**361.5**	**(18.7)**	**342.8**	**293.7**	**(11.4)**	**282.3**
Tax	7	(76.0)	3.1	(72.9)	(61.4)	2.2	(59.2)
Profit after tax[2]		**285.5**	**(15.6)**	**269.9**	**232.3**	**(9.2)**	**223.1**
Earnings per share							
Basic	8	103.5p	(5.7)p	97.8p	84.5p	(3.4)p	81.1p
Diluted	8	101.5p	(5.5)p	96.0p	82.8p	(3.3)p	79.5p

[1] Please refer to notes 2 and 3 for a definition and further details of exceptional items.
[2] Non-controlling interest is presented in the Consolidated statement of changes in equity.
[3] The 2016 comparatives have been reformatted to reflect the way in which employee benefits expenses are managed internally. See note 1.

Consolidated statement of comprehensive income

	Notes	Six months ended 30 June 2017 (unaudited) £m	Six months ended 30 June 2016 (unaudited) £m
Profit for the period		**269.9**	**223.1**
Items that may be reclassified to the income statement on fulfilment of specific conditions:			
Net exchange differences on translation of foreign operations after hedging		(8.1)	74.1
Net fair value movement arising from available-for-sale financial assets	5	(1.8)	10.1
Net fair value movement arising from available-for-sale financial assets held by associates		(1.9)	(4.5)
Tax on items taken directly to other comprehensive income	7	(0.4)	(2.0)
		(12.2)	**77.7**
Items reclassified to the income statement:			
Net transfers on disposal of available-for-sale financial assets	5	(2.1)	(1.5)
Net transfers on disposal of available-for-sale financial assets held by associates		(1.3)	(1.5)
		(3.4)	**(3.0)**
Items that will not be reclassified to the income statement:			
Actuarial gains on defined benefit pension schemes		0.6	27.2
Tax on items taken directly to other comprehensive income	7	(0.1)	(5.0)
		0.5	**22.2**
Other comprehensive (losses)/income for the period net of tax[1]		**(15.1)**	**96.9**
Total comprehensive income for the period net of tax[1]		**254.8**	**320.0**

[1]Non-controlling interest is presented in the Consolidated statement of changes in equity.

Consolidated statement of financial position

	Notes	30 June 2017 (unaudited) £m	31 December 2016 (audited) £m
Assets			
Cash and cash equivalents		3,070.9	3,318.9
Trade and other receivables	11	947.2	648.2
Financial assets	11	3,811.3	3,105.0
Associates and joint ventures		130.0	125.0
Property, plant and equipment	10	99.6	66.4
Goodwill and intangible assets		678.5	607.1
Deferred tax		64.0	66.0
Retirement benefit scheme surplus		120.5	118.2
		8,922.0	**8,054.8**
Assets backing unit-linked liabilities			
Cash and cash equivalents		743.4	466.7
Financial assets		12,096.0	12,460.9
	11	**12,839.4**	**12,927.6**
Total assets		**21,761.4**	**20,982.4**
Liabilities			
Trade and other payables	11	1,060.5	883.3
Financial liabilities	11	4,526.7	3,902.0
Current tax		72.7	71.8
Provisions		39.3	33.1
Deferred tax		0.6	0.2
Retirement benefit scheme deficits		12.0	11.6
		5,711.8	**4,902.0**
Unit-linked liabilities	11	**12,839.4**	**12,927.6**
Total liabilities		**18,551.2**	**17,829.6**
Net assets		**3,210.2**	**3,152.8**
Equity[1]		**3,210.2**	**3,152.8**

[1]Non-controlling interest is presented in the Consolidated statement of changes in equity.

Consolidated statement of changes in equity

Six months ended 30 June 2017 (unaudited)	Notes	Attributable to owners of the parent								Non-controlling interest £m[1]	Total £m
		Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss reserve £m	Total £m		
At 1 January 2017		282.7	124.2	(163.6)	187.7	50.1	19.3	2,638.0	3,138.4	14.4	3,152.8
Profit for the period		-	-	-	-	13.0	-	256.5	269.5	0.4	269.9
Other comprehensive (losses)/income[2]		-	-	-	(8.1)	(3.2)	(4.3)	0.5	(15.1)	-	(15.1)
Total comprehensive (losses)/income for the period		-	-	-	**(8.1)**	**9.8**	**(4.3)**	**257.0**	**254.4**	**0.4**	**254.8**
Shares cancelled	12, 13	(0.2)	-	5.4	-	-	-	(5.2)	-	-	-
Own shares purchased	13	-	-	(47.9)	-	-	-	-	(47.9)	-	(47.9)
Share-based payments		-	-	-	-	-	-	27.8	27.8	-	27.8
Tax in respect of share schemes	7	-	-	-	-	-	-	1.3	1.3	-	1.3
Dividends		-	-	-	-	-	-	(174.7)	(174.7)	(3.4)	(178.1)
Other movements		-	-	-	-	(0.5)	-	-	(0.5)	-	(0.5)
Transactions with shareholders		**(0.2)**	**-**	**(42.5)**	**-**	**(0.5)**	**-**	**(150.8)**	**(194.0)**	**(3.4)**	**(197.4)**
Transfers		**-**	**-**	**45.2**	**-**	**(2.3)**	**-**	**(42.9)**	**-**	**-**	**-**
At 30 June 2017		**282.5**	**124.2**	**(160.9)**	**179.6**	**57.1**	**15.0**	**2,701.3**	**3,198.8**	**11.4**	**3,210.2**

[1]A separate presentation of non-controlling interest is included following the acquisition of Benchmark Capital Limited and an increase in the Group's interest in Secquaero Advisors AG during 2016.
[2]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 losses reported in the associates and joint ventures reserve and losses in the fair value reserve represent post-tax fair value movements on available-for-sale assets held. Other comprehensive income reported in the profit and loss reserve represent post-tax actuarial gains.

Consolidated statement of changes in equity

Six months ended 30 June 2016 (unaudited)	Notes	Share capital £m	Share premium £m	Own shares £m	Net exchange differences reserve £m	Associates and joint ventures reserve £m	Fair value reserve £m	Profit and loss Reserve £m	Total £m
At 1 January 2016		282.5	119.4	(175.5)	86.8	45.7	8.1	2,428.6	2,795.6
Profit for the period		-	-	-	-	11.1	-	212.0	223.1
Other comprehensive income/(losses)[1]		-	-	-	74.1	(6.0)	6.6	22.2	96.9
Total comprehensive income for the period		**-**	**-**	**-**	**74.1**	**5.1**	**6.6**	**234.2**	**320.0**
Own shares purchased	13	-	-	(49.2)	-	-	-	-	(49.2)
Share-based payments		-	-	-	-	-	-	28.9	28.9
Tax in respect of share schemes	7	-	-	-	-	-	-	(1.8)	(1.8)
Dividends		-	-	-	-	-	-	(157.7)	(157.7)
Other movements		-	-	-	-	(0.4)	-	(6.4)	(6.8)
Transactions with shareholders		**-**	**-**	**(49.2)**	**-**	**(0.4)**	**-**	**(137.0)**	**(186.6)**
Transfers		**-**	**-**	**61.7**	**-**	**(7.2)**	**-**	**(54.5)**	**-**
At 30 June 2016		**282.5**	**119.4**	**(163.0)**	**160.9**	**43.2**	**14.7**	**2,471.3**	**2,929.0**

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

Consolidated cash flow statement

	Note	**Six months ended 30 June 2017 (unaudited) £m**	Six months ended 30 June 2016 (unaudited) £m
Net cash from operating activities	14	**567.6**	**431.7**
Cash flows from investing activities			
Net acquisition of businesses and associates		(72.0)	(5.2)
Net acquisition of property, plant and equipment and intangible assets		(60.9)	(16.7)
Acquisition of financial assets		(1,070.1)	(683.1)
Proceeds from financial assets		869.6	530.5
Non-banking interest received		13.8	12.1
Distributions received from associates and joint ventures		2.3	4.8
Net cash used in investing activities		**(317.3)**	**(157.6)**
Cash flows from financing activities			
Acquisition of own shares		(47.9)	(49.2)
Dividends paid		(178.1)	(157.7)
Net cash used in financing activities		**(226.0)**	**(206.9)**
Net increase in cash and cash equivalents		**24.3**	**67.2**
Opening cash and cash equivalents		3,785.6	3,622.1
Net increase in cash and cash equivalents		24.3	67.2
Effect of exchange rate changes		4.4	100.9
Closing cash and cash equivalents		**3,814.3**	**3,790.2**
Closing cash and cash equivalents consists of:			
Cash backing unit-linked liabilities		743.4	582.2
Cash held in consolidated funds		60.5	27.9
Cash that the Group cannot use for its own corporate purposes		**803.9**	**610.1**
Cash		2,062.3	2,148.9
Cash equivalents		948.1	1,031.2
Cash and cash equivalents available for use by the Group		**3,010.4**	**3,180.1**
Closing cash and cash equivalents		**3,814.3**	**3,790.2**
Comprising:			
Cash and cash equivalents presented within Assets		3,070.9	3,208.0
Cash and cash equivalents presented within Assets backing unit-linked liabilities		743.4	582.2

Explanatory notes to the Half-year financial statements

Within the notes to the Half-year financial statements, all current and comparative data covering periods to (or as at) 30 June are unaudited. Data given in respect of the year ended 31 December 2016 is audited.

1. Basis of preparation

The Half-year financial statements are unaudited and do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 (the Act). The statutory accounts for 2016, which were prepared in accordance with International Financial Reporting Standards (IFRS), comprising Standards and Interpretations approved by either the International Accounting Standards Board or the IFRS Interpretations Committee or their predecessors, as adopted by the European Union (EU), and with those parts of the Act applicable to companies reporting under IFRS, have been delivered to the Registrar of Companies. The auditors' opinion on those accounts was unqualified and did not contain a statement made under Section 498 of the Companies Act 2006.

The Half-year financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. The Half-year financial statements and related notes have been reformatted to reflect the way in which employee benefits expenses are managed internally. Operating expenses are now presented net of gains and losses on financial instruments held to hedge deferred cash awards. This was previously presented in net gains on financial instruments and other income. Operating expenses of £629.2 million for the six months ended 30 June 2017 (six months to 30 June 2016: £550.3 million) include £6.1 million of gains related to these financial instruments (six months ended 30 June 2016: gains of £10.2 million). The new presentation provides a more relevant basis on which to measure the Group employee benefits expense.

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 Group has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis in preparing these Half-year financial statements.

The accounting policies applied in these Half-year financial statements are consistent with those applied in the Group's statutory accounts for 2016. 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 half year. The Group expects to implement IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 January 2018. The Group does not anticipate that IFRS 9 or IFRS 15 will have a material impact on the Group's results. The Group continues to assess the impact of IFRS 16 'Leases' which becomes effective on 1 January 2019.

No other Standards or Interpretations issued are expected to have an impact on the Group's financial statements.

2. Exceptional items

Exceptional items are significant items of income and expenditure that have been presented separately by virtue of their nature to enable a better understanding of the Group's financial performance. Exceptional items relate principally to acquisitions made by the Group, including amortisation of acquired intangible assets.

3. Segmental reporting

The Group has three business segments: Asset Management, Wealth Management and the Group segment. Asset Management principally comprises investment management including advisory services, equity products, fixed income securities, multi-asset investments, real estate and other alternative asset classes such as commodities.

3. Segmental reporting (continued)

Wealth Management principally comprises investment management, wealth planning and banking services provided to high net worth individuals and charities and a wealth management business through an independent financial advisor network. The Group segment principally comprises the Group's investment capital and treasury management activities, business strategy and corporate development activities and the management costs associated with governance and corporate management.

Segment information is presented on the same basis as that provided for internal reporting purposes to the Group's chief operating decision-maker, the Group 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.

Six months ended 30 June 2017	Asset Management £m	Wealth Management £m	Group £m	Total £m
Fee income	1,038.4	125.7	-	1,164.1
Wealth Management interest receivable	-	15.5	-	15.5
Revenue	**1,038.4**	**141.2**	**-**	**1,179.6**
Fee expense	(229.1)	(5.5)	-	(234.6)
Wealth Management interest payable	-	(4.9)	-	(4.9)
Cost of sales	**(229.1)**	**(10.4)**	**-**	**(239.5)**
Net operating revenue	**809.3**	**130.8**	**-**	**940.1**
Net (losses)/gains on financial instruments and other income	(1.3)	2.9	18.6	20.2
Share of profit of associates and joint ventures	12.0	-	2.1	14.1
Net income	**820.0**	**133.7**	**20.7**	**974.4**
Operating expenses	(509.4)	(88.2)	(15.3)	(612.9)
Profit before tax and exceptional items	**310.6**	**45.5**	**5.4**	**361.5**
Exceptional items within net income:				
Net gains on financial instruments and other income	(1.3)	-	-	(1.3)
Amortisation of acquired intangible assets relating to associates and joint ventures	(1.1)	-	-	(1.1)
	(2.4)	**-**	**-**	**(2.4)**
Exceptional items within operating expenses:				
Amortisation of acquired intangible assets	(6.1)	(8.8)	-	(14.9)
Other expenses	(1.1)	(0.3)	-	(1.4)
	(7.2)	**(9.1)**	**-**	**(16.3)**
Profit before tax and after exceptional items	**301.0**	**36.4**	**5.4**	**342.8**

3. Segmental reporting (continued)

Six months ended 30 June 2016[1]	Asset Management £m	Wealth Management £m	Group £m	Total £m
Fee income	880.8	100.4	-	981.2
Wealth Management interest receivable	-	15.2	-	15.2
Revenue	**880.8**	**115.6**	**-**	**996.4**
Fee expense	(193.0)	(3.2)	-	(196.2)
Wealth Management interest payable	-	(5.3)	-	(5.3)
Cost of sales	**(193.0)**	**(8.5)**	**-**	**(201.5)**
Net operating revenue	**687.8**	**107.1**	**-**	**794.9**
Net gains on financial instruments and other income	12.6	0.1	14.3	27.0
Share of profit of associates and joint ventures	8.5	-	3.6	12.1
Net income	**708.9**	**107.2**	**17.9**	**834.0**
Operating expenses	(451.3)	(74.8)	(14.2)	(540.3)
Profit before tax and exceptional items	**257.6**	**32.4**	**3.7**	**293.7**
Exceptional items within net income:				
Net gains on financial instruments and other income	(0.4)	-	-	(0.4)
Amortisation of acquired intangible assets within share of profits of associates and joint ventures	(1.0)	-	-	(1.0)
	(1.4)	**-**	**-**	**(1.4)**
Exceptional items within operating expenses:				
Amortisation of acquired intangible assets	(5.5)	(4.0)	-	(9.5)
Deferred compensation arising directly from acquisitions	-	-	1.1	1.1
Other expenses	(1.6)	-	-	(1.6)
	(7.1)	**(4.0)**	**1.1**	**(10.0)**
Profit before tax and after exceptional items	**249.1**	**28.4**	**4.8**	**282.3**

[1]The 2016 comparatives have been reformatted to reflect the way in which employee benefits expenses are managed internally. See note 1.

4. Revenue

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Management fees	1,032.7	866.2
Performance fees	13.8	8.3
Other fees	117.6	106.7
Interest income earned by Wealth Management	15.5	15.2
	1,179.6	**996.4**

5. Net gains on financial instruments and other income

	Six months ended 30 June 2017			Six months ended 30 June 2016[1]		
	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	**4.9**	**-**	**4.9**	**7.5**	**-**	**7.5**
Net fair value movements on available-for-sale financial assets	-	(1.8)	(1.8)	-	10.1	10.1
Net transfers on disposal of available-for-sale financial assets – equities	2.1	(2.1)	-	1.5	(1.5)	-
Net gains/(losses) on available-for-sale financial assets	**2.1**	**(3.9)**	**(1.8)**	**1.5**	**8.6**	**10.1**
Net finance income	6.4	-	6.4	9.1	-	9.1
Other income	5.5	-	5.5	8.5	-	8.5
Net gains/(losses) on financial instruments and other income	**18.9**	**(3.9)**	**15.0**	**26.6**	**8.6**	**35.2**
Net gains on financial instruments held to hedge deferred cash awards – presented within operating expenses	6.1	-	6.1	10.2	-	10.2
Net gains/(losses) on financial instruments and other income	**25.0**	**(3.9)**	**21.1**	**36.8**	**8.6**	**45.4**

[1]The 2016 comparatives have been reformatted to reflect the way in which employee benefits expenses are managed internally. See note 1.

6. Operating expenses

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016[1] £m
Salaries, wages and other remuneration	381.9	337.9
Social security costs	31.8	29.5
Pension costs	20.7	17.8
Employee benefits expense	**434.4**	**385.2**
Net gains on financial instruments held to hedge deferred cash awards	(6.1)	(10.2)
Employee benefits expense net of hedging	**428.3**	**375.0**

[1]The 2016 comparatives have been reformatted to reflect the way in which employee benefits expenses are managed internally. See note 1.

7. Tax expense

Analysis of tax charge reported in the income statement:

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
UK Corporation Tax on profits for the period	33.1	25.4
Foreign tax – current	43.2	34.6
Foreign tax – adjustments in respect of prior period estimates	-	(1.1)
Current tax	**76.3**	**58.9**
Origination and reversal of temporary differences	(3.5)	0.5
Adjustments in respect of prior period estimates	0.1	(0.2)
Deferred tax	**(3.4)**	**0.3**
Tax charge reported in the income statement	**72.9**	**59.2**

Analysis of tax charge reported in other comprehensive income:

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Current income tax charge on movements in available-for-sale financial assets	0.4	2.0
Deferred tax charge on actuarial gains on defined benefit pension schemes	0.1	5.0
Tax charge reported in other comprehensive income	**0.5**	**7.0**

Analysis of tax (credit)/charge reported in equity:

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Current income tax credit on Equity Compensation Plans and other share-based remuneration	(1.4)	(1.9)
Deferred tax charge on Equity Compensation Plans and other share-based remuneration	0.1	3.7
Tax (credit)/charge reported in equity	**(1.3)**	**1.8**

8. Earnings per share

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

	Six months ended 30 June 2017 Number Millions	Six months ended 30 June 2016 Number Millions
Weighted average number of shares used in calculation of basic earnings per share	**275.4**	**274.5**
Effect of dilutive potential shares – share options	5.2	5.3
Effect of dilutive potential shares – contingently issuable shares	0.1	0.3
Weighted average number of shares used in calculation of diluted earnings per share	**280.7**	**280.1**

There have been no material transactions involving shares or potential shares since 30 June 2017 and before the publication of these Half-year financial statements.

9. Dividends

	Six months ended 30 June 2017		Six months ended 30 June 2016	
	£m	**Pence per share**	£m	Pence per share
Prior year final dividend paid	**174.7**	**64.0**	**157.7**	**58.0**

The Board has declared an interim dividend of 34.0 pence per share (interim dividend 2016: 29.0 pence), amounting to £92.9 million (H1 2016: £78.9 million) in total. The dividend will be paid on 21 September 2017 to shareholders on the register at 18 August 2017.

10. Property, plant and equipment

	30 June 2017 £m	31 December 2016 £m
Cost		
At 1 January	154.8	113.6
Exchange translation adjustments	(0.5)	8.3
Additions	40.9	33.5
Disposals	-	(0.6)
At 30 June/31 December	**195.2**	**154.8**
Accumulated depreciation		
At 1 January	(88.4)	(71.8)
Exchange translation adjustments	0.2	(5.3)
Depreciation charge for the period	(7.4)	(11.7)
Disposals	-	0.4
At 30 June/31 December	**(95.6)**	**(88.4)**
Net book value at 30 June/31 December	**99.6**	**66.4**

11. Fair value measurement disclosures

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

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

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

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

The Group's financial instruments have been categorised using a fair value hierarchy that reflects the extent of judgements used in the valuation. These levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities and principally comprise investments in quoted equities and government debt, daily-priced funds and exchange-traded derivatives;

- Level 2 fair value measurements are those derived from prices that are not traded in an active market but are determined using valuation techniques, which make maximum use of observable market data. The Group's level 2 financial instruments principally comprise foreign exchange contracts, certain debt securities, assets and mortgage back securities and loans held at fair value. Valuation techniques may include using a broker quote in an inactive market or an evaluated price based on a compilation of primarily observable market information utilising information readily available via external sources. For funds not priced on a daily basis, the net asset value which is issued monthly or quarterly is used; and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data and principally comprise investments in private equity funds. These funds are managed by third parties and are measured at the values provided by the relevant fund managers, unadjusted by the Group except for known events, such as calls or distributions, that have occurred between the valuation and reporting date. The valuation review is a continual process throughout the year.

11. Fair value measurement disclosures (continued)

The Group holds certain assets and liabilities at fair value. Their categorisation within the fair value hierarchy is shown below:

	30 June 2017				
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Assets and liabilities not at fair value[1] £m**	**Total £m**
Financial assets:					
Equities	878.4	7.6	35.6	-	921.6
Debt securities	335.0	711.3	1.1	257.6	1,305.0
Derivative contracts	2.3	24.4	15.2	-	41.9
Other instruments	-	0.6	-	1,542.2	1,542.8
	1,215.7	**743.9**	**51.9**	**1,799.8**	**3,811.3**
Trade and other receivables	**26.7**	**-**	**-**	**920.5**	**947.2**
Assets backing unit-linked liabilities	**8,452.9**	**3,332.4**	**45.3**	**1,008.8**	**12,839.4**
	9,695.3	**4,076.3**	**97.2**	**3,729.1**	**17,597.9**
Financial liabilities:					
Derivative contracts	0.8	32.8	-	-	33.6
Deposits by customers and banks	-	-	-	4,226.3	4,226.3
Other financial liabilities	220.4	-	43.1	3.3	266.8
	221.2	**32.8**	**43.1**	**4,229.6**	**4,526.7**
Trade and other payables	**142.1**	**-**	**-**	**918.4**	**1,060.5**
Unit-linked liabilities	**12,406.7**	**50.2**	**-**	**382.5**	**12,839.4**
	12,770.0	**83.0**	**43.1**	**5,530.5**	**18,426.6**

[1]The fair value of financial instruments not held at fair value approximates to their carrying value.

There were no material transfers of financial assets or liabilities between different levels in the fair value hierarchy during the period.

11. Fair value measurement disclosures (continued)

	31 December 2016				
	Level 1 £m	Level 2 £m	Level 3 £m	Assets and liabilities not at fair value[1] £m	Total £m
Financial assets:					
Equities	607.2	9.7	38.4	-	655.3
Debt securities	180.1	724.1	1.3	368.4	1,273.9
Derivative contracts	0.6	22.7	17.1	-	40.4
Other instruments	-	0.7	-	1,134.7	1,135.4
	787.9	**757.2**	**56.8**	**1,503.1**	**3,105.0**
Trade and other receivables	**28.8**	**-**	**-**	**619.4**	**648.2**
Assets backing unit-linked liabilities	**9,063.0**	**3,289.2**	**44.5**	**530.9**	**12,927.6**
	9,879.7	**4,046.4**	**101.3**	**2,653.4**	**16,680.8**
Financial liabilities:					
Derivative contracts	1.4	20.9	-	-	22.3
Deposits by customers and banks	-	-	-	3,762.8	3,762.8
Other financial liabilities	69.5	1.4	44.2	1.8	116.9
	70.9	**22.3**	**44.2**	**3,764.6**	**3,902.0**
Trade and other payables	**151.1**	**-**	**-**	**732.2**	**883.3**
Unit-linked liabilities	**12,840.9**	**49.2**	**-**	**37.5**	**12,927.6**
	13,062.9	**71.5**	**44.2**	**4,534.3**	**17,712.9**

[1]The fair value of financial instruments not held at fair value approximates to their carrying value.

Due to a change in the methodology applied by the Group's third party pricing provider, certain debt securities were transferred from level 1 to level 2 during the year ended 31 December 2016. This change resulted in £703.3 million of debt securities held within financial assets and £1,927.7 million of debt securities held within assets backing unit-linked liabilities being transferred from level 1 to 2. This change did not represent degradation in the quality of assets held.

No financial assets were transferred from level 2 to level 1 during the year ended 31 December 2016.

11. Fair value measurement disclosures (continued)

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

	30 June 2017			31 December 2016		
	Financial assets £m	**Assets backing unit-linked liabilities £m**	**Financial liabilities £m**	Financial assets £m	Assets backing unit-linked liabilities £m	Financial liabilities £m
At 1 January	56.8	44.5	44.2	33.6	43.4	-
Exchange translation adjustments	0.3	1.7	-	3.9	6.5	-
Total (losses)/gains recognised in the income statement	(2.0)	3.2	(1.1)	0.3	4.8	(3.8)
Total (losses)/gains recognised in other comprehensive income	(2.2)	-	-	1.9	-	-
Additions	3.0	-	-	23.7	0.9	48.0
Disposals	(4.0)	(4.1)	-	(6.6)	(11.1)	-
At 30 June/31 December	**51.9**	**45.3**	**43.1**	**56.8**	**44.5**	**44.2**

12. Share capital and share premium

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2017	282.7	226.0	56.7	282.7	124.2
Shares cancelled	(0.2)	-	(0.2)	(0.2)	-
At 30 June 2017	**282.5**	**226.0**	**56.5**	**282.5**	**124.2**

During the period, 0.2 million non-voting ordinary shares were bought back by the Group and cancelled.

	Number of shares Millions	Ordinary shares £m	Non-voting ordinary shares £m	Total shares £m	Share premium £m
At 1 January 2016	282.5	226.0	56.5	282.5	119.4
At 30 June 2016	**282.5**	**226.0**	**56.5**	**282.5**	**119.4**

13. Own shares

Own shares include the Group's shares (both ordinary and non-voting ordinary) that are held by employee trusts or in treasury.

Movements during the period were as follows:

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
At 1 January	(163.6)	(175.5)
Own shares purchased	(47.9)	(49.2)
Own shares cancelled	5.4	-
Awards vested	45.2	61.7
At 30 June	**(160.9)**	**(163.0)**

During the period 0.2 million non-voting ordinary shares were bought back for a value of £5.4 million and cancelled.

14. Reconciliation of net cash from operating activities

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Profit before tax	**342.8**	**282.3**
Adjustments for income statement non-cash movements:		
Depreciation of property, plant and equipment and amortisation of intangible assets	30.7	20.9
Net gains taken through the income statement on financial instruments	(13.1)	(19.2)
Share-based payments	27.8	28.9
Net charge of provisions	1.6	0.4
Other non-cash movements	0.8	(11.8)
	47.8	**19.2**
Adjustments for which the cash effects are investing activities:		
Net finance income	(6.4)	(9.1)
Share of profit of associates and joint ventures	(13.0)	(11.1)
	(19.4)	**(20.2)**
Adjustments for statement of financial position movements:		
Increase in loans and advances within Wealth Management	(296.1)	(52.0)
Increase in trade and other receivables	(259.5)	(161.2)
Increase in deposits and customer accounts within Wealth Management	359.5	372.3
Increase in trade and other payables, other financial liabilities and provisions	185.6	63.2
	(10.5)	**222.3**
Adjustments for Life Company movements:		
Net decrease in financial assets backing unit-linked liabilities	364.9	56.1
Net decrease in unit-linked liabilities	(88.2)	(77.0)
	276.7	**(20.9)**
Tax paid	**(69.8)**	**(51.0)**
Net cash from operating activities	**567.6**	**431.7**

15. Business combinations

C. Hoare & Co.

On 17 February 2017, the Group acquired the wealth management business of C. Hoare & Co. for consideration of £72.0 million. The acquisition contributed £2.5 billion of discretionary Wealth Management AUM and increases the Group's scale and capability for its UK private clients.

The £72.0 million of consideration was represented by £50.0 million of goodwill, £26.5 million of intangible assets and a deferred tax liability of £4.5 million.

The goodwill arising on the acquisition represents the value of the acquired business arising from:

- A broader platform for business growth;
- Talented management and employees; and
- Opportunities for synergies from combining certain Wealth Management operations.

Goodwill arising on the acquisition will not be deductible for tax purposes.

In the period between the date of acquisition and 30 June 2017, the acquired business contributed £8.0 million to the Group's net income within the Wealth Management segment. The contribution to profit before tax and exceptional items was £6.0 million and exceptional operating expenses of £1.4 million were incurred in respect of amortisation of acquired intangible assets.

If the acquisition had completed on 1 January 2017, the Group's pre-exceptional net income for the period would have been £977.0 million. Profit before tax and exceptional items for the period on the same basis would have been £363.6 million (profit before tax and after exceptional items: £344.4 million). The post-exceptional figures include deductions for the additional amortisation charges.

Adveq Holding AG

On 20 April 2017, the Group announced an agreement to acquire Adveq Holding AG (Adveq). The Group expects the transaction to complete in the near future. Adveq's results for the six months ended 30 June 2017 have not been included in these financial statements.

Key risks

Like any other asset management and wealth management business, we are exposed to a range of risks. These risks, if not managed properly, increase the possibility of the Group not being able to meet its objectives. Some of them, like the risks inherent in taking active investment decisions on behalf of clients, are the risks we are in business to take.

The key risks to which the Group will be exposed in the second half of 2017 are expected to be substantially the same as those described on pages 38 to 43 in the 2016 Annual Report and Accounts, and include: strategic risks; business risks such as investment performance risk; market, credit, liquidity and capital risks; and operational risks including conduct and regulatory risk and third-party service provider risk.

Directors' responsibility statement

On behalf of the Directors, I confirm to the best of my knowledge that the Half-year results:

- Have been prepared in accordance with International Accounting Standard 34 as adopted by the European Union;

- Include a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7, namely important events that have occurred during the first six months of the financial period and their impact on the Half-year financial statements, as well as a description of the principal risks and uncertainties faced by the Group and the undertakings included in the consolidation taken as a whole for the remaining six months of the financial year; and

- Include, as required by Disclosure Guidance and Transparency Rule 4.2.8, a fair review of material related party transactions that have taken place in the first six months of the financial period and any material changes to the related party transactions described in the last Annual Report and Accounts.

A list of current Directors is maintained on the Schroders plc website: www.schroders.com.

On behalf of the Board

Richard Keers
Chief Financial Officer
26 July 2017

Independent review report to Schroders plc

Report on the Half-year financial statements

Our conclusion

We have reviewed Schroders plc's Half-year financial statements in the Half-year results of Schroders plc for the six month period ended 30 June 2017. Based on our review, nothing has come to our attention that causes us to believe that the Half-year financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The Half-year financial statements comprise:

- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of financial position as at 30 June 2017;
- the consolidated statement of changes in equity for the period then ended;
- the consolidated cash flow statement for the period then ended; and
- the explanatory notes to the Half-year financial statements.

The Half-year financial statements included in the Half-year results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the Half-year financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Our responsibilities and those of the Directors

The Half-year results, including the Half-year financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half-year results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the Half-year financial statements in the Half-year results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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 a review of Half-year financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Half-year results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Half-year financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
26 July 2017

Notes:

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 Half-year 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.