

Corporate governance report

This section of our Annual Report sets out our approach to corporate governance in 2006. In it you will find information on the Board, how it operated, how it delegated its responsibilities to the Executive team and to the Board Committees, how those Committees discharged their responsibilities and how we evaluated the effectiveness of the Board, the Committees and the Directors. This report also discusses how we engaged with our shareholders and how we approached our corporate and social responsibilities.

Corporate governance review 2006

This review explains our overall approach to corporate governance, how we have applied the principles of the 2003 Combined Code on Corporate Governance, the extent to which we have complied with the Code's provisions and an explanation of those areas where we have not complied.

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

In 2004 the Board adopted the Schroders Governance Guidelines. These guidelines form the basis for how the Board and the Committees operate, what is expected of Directors and how they discharge their duties. The Guidelines, and all the other documents mentioned in this Annual Report, are available on the website at www.schroders.com, or from the Company Secretary.

The role of the Board

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

- The Group's strategy;
- Major acquisitions and disposals;
- Significant new business activities;
- The Annual Report and Accounts and other financial statements; and
- The annual budget.

The composition of the Board

There are currently 12 Directors. In addition to the Chairman there are four executive Directors and seven non-executive Directors, five of whom are considered by the Board to be independent. Profiles of the Directors are on pages 18 and 19.

Luc Bertrand joined the Board as a non-executive Director on 1 March 2006. There were no other changes to the Board during the year.

The Nominations Committee reviewed the composition of the Board in 2006 and recommended that the appointment of an additional independent non-executive Director should be considered. This search is progressing with a view to the Board making an appointment in 2007.

Chairman

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

Chief Executive

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

The roles of the Chairman and Chief Executive are totally separate and each has a written job description setting out their respective responsibilities.

Senior Independent Director

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

Non-executive Directors

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



Time commitment

The Board is satisfied that the Chairman and each of the non-executive Directors committed sufficient time during 2006 to the fulfilment of their duties as Directors of the Company. During the year the Chairman stood down as chairman of Johnson Matthey and as a non-executive director of BP, his two principal external commitments. None of the non-executive Directors has any conflict of interest which has not been disclosed to the Board in accordance with the Company's Articles of Association.

External non-executive directorships

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

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

Board meetings

The Board held five meetings during 2006, including a two day off-site meeting which focused on the Group's strategy. The Board has a two year rolling plan of items for discussion, agreed between the Chairman and the Chief Executive. This plan is reviewed and adapted regularly to ensure that all of the matters reserved to the Board, as well as other key issues, are discussed at the appropriate time. At each Board meeting the Chief Executive provided a review of the business and its performance and the Chief Financial Officer provided a detailed review of the Group's financial position. In 2006 the range of subjects discussed included:

- The strategic development of the Group, including people strategy;
- The Group's financial results;
- The budget for 2007;
- The dividend;
- The Group's capital;
- Our regional businesses in Asia, Europe and the Americas;
- Our key business areas including Investment, Distribution, Private Equity and Private Banking;
- Our information technology and operational platforms;
- Approval of the acquisitions of NewFinance Capital and Aareal Asset Management; and
- Regulatory and governance issues.

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

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

Information to the Board

Before each Board meeting Directors received comprehensive papers and reports on the issues to be discussed at the meeting. Senior executives below Board level also attended meetings to make presentations on their areas of responsibility. This gave the Board the opportunity to have direct access to executives below Board level. In addition to Board papers, Directors were provided with relevant information between meetings. This included information on management changes and the announcement of our quarterly trading updates. Directors were also sent copies of the minutes of the Group Management Committee meetings, the principal executive committee.

Support to the Board

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

Insurance and indemnification

The Company maintains appropriate Directors' and Officers' liability insurance. Following a recent change in legislation the Company will be putting forward a proposal at the Annual General Meeting to make certain amendments to its Articles of Association, including in relation to the indemnification of Directors and funding of their defence costs. Further details are set out in the notice of meeting on pages 97 and 98. If such amendments are approved, it is also proposed that the Company enters into specific deeds of indemnity with each Director and the Company Secretary, as explained on page 22.

Chairman's Committee

Meetings of the Chairman and non-executive Directors, usually without the executive Directors present, are held prior to most scheduled Board meetings. Four such meetings were held in 2006 and matters discussed included the evaluation of the Board, the performance of the Chief Executive, shareholder relations and management succession. The Chief

Executive attended meetings at the invitation of the Chairman. A further meeting of the Chairman's Committee was held to review the performance of the Chairman. The Chairman did not attend this meeting.

Delegated authorities

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

Michael Dobson	Chief Executive
Jonathan Asquith	Chief Financial Officer
Alan Brown	Investment
Jamie Dorrien-Smith	Americas
Lester Gray	Asia Pacific
Philip Mallinckrodt	Corporate Development and Private Banking
Markus Ruetimann	Operations, IT and Human Resources
Massimo Tosato	Distribution
Howard Trust	General Counsel

The Board delegates certain of its responsibilities to its Remuneration, Nominations and Audit Committees. Summaries of the terms of reference of these Committees are set out on pages 26, 34 and 35 respectively, together with reports on the Committees' activities during the year. The Chairmen of the Audit and Remuneration Committees reported to the Board on the matters considered, and any significant issues that had arisen, at the next Board meeting after their Committees had met. Meetings of the Nominations Committee were held after the conclusion of scheduled Board meetings. All Directors received copies of the minutes of all Committee meetings.

Board effectiveness Evaluation

The Board, led by the Chairman, reviewed during the year the effectiveness of the Board, the principal Board Committees and individual Directors. The Board considered alternative evaluation methods and agreed that internal evaluation using a Schroders-specific questionnaire was the most appropriate method this year. The responses to the questionnaire were analysed and reviewed with the Chairman. The Chairman also discussed the effectiveness of the Board with Directors on an individual basis. A report was prepared on the findings of the evaluation process and this was considered by the whole Board at its meeting in February 2007.

The performance of the Chief Executive was considered by the Chairman's Committee. The outcome was discussed by the Chairman with the Chief Executive.

The non-executive Directors, led by Sir Peter Job in his role as Senior Independent Director, also assessed the performance of the Chairman with input from the whole Board. Sir Peter discussed with the Chairman the outcome of this review.

Induction and updating of knowledge

All new Directors undertake an induction programme on joining the Board. The aim of this programme is to introduce new Directors to the Group's business, its operations and its governance arrangements. The induction programme includes meetings with senior management, visits to offices, presentations on key business areas and relevant documentation. The Board receives presentations on business and functional areas and new business and strategic developments.

In addition, briefing sessions are held which are open to all Directors. Topics covered in 2006 included the management of investment risk, the Group's property business and the implications for Directors of the new Companies Act.

Shareholder relations

Ongoing communication across the Company's shareholder base, including institutional investors and private and employee shareholders, is achieved mainly through the publication of the annual and interim reports and quarterly trading updates, the announcement of significant developments affecting the Group and the Annual General Meeting. Corporate and investor information, including webcasts of the presentations of the interim and final results made by the Chief Executive, Chief Financial Officer and other senior management are published on our website.

The Board as a whole is responsible for ensuring that dialogue with shareholders takes place. During the year the Chief Executive, the Chief Financial Officer and other senior executives conducted a series of meetings with, and presentations to, institutional investors, analysts and prospective shareholders to review the Group's strategy and prospects and to discuss corporate governance matters. Over 30 such meetings were held in 2006. The Chairman is also available to meet institutional shareholders, as is the Senior Independent Director. Feedback from shareholders is available to the Board from the Chairman, the Chief Executive and the Chief Financial Officer.

The Annual General Meeting provides shareholders with an opportunity to question the Chairman and other Directors, including the Chairmen of the Remuneration and Audit Committees. The Chief Executive provided shareholders at the 2006 meeting with a review of the Group's business in 2005. The Annual Report and Accounts and the notice of meeting are sent to shareholders at least 20 working days prior to the date of the Annual General Meeting.

Compliance with Code Provisions

The Company complied with all of the provisions of section 1 of the Combined Code 2003 throughout the year. There were only two provisions of the entire Code with which we did not comply fully. These were:

- Neither Bruno Schroder nor George Mallinckrodt are considered independent under the provisions of the Code. Consequently, fewer than half (five) of the members of the Board (excluding the Chairman) comprised independent non-executive Directors. Bruno Schroder is a representative of the principal shareholder group and the Board considers that it is appropriate for this group to be represented on the Board. George Mallinckrodt is not considered independent as he is a former executive Director of the Company. The Board considers that his business and international experience are of great value to the Board. The Board is looking to appoint an additional independent non-executive Director in 2007.
- Until he stood down at the end of March 2006, Michael Miles was also chairman of Johnson Matthey plc. During that time both Schroders and Johnson Matthey were constituents of the FTSE 100 Index. Michael Miles was appointed Chairman of both companies before the provisions of the Combined Code were introduced.

Michael Miles

Chairman

8 March 2007

