

## Nominations committee report

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

### Role of the Committee

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

- reviewing the size and composition of the Board;
- selecting candidates for appointment to the Board to meet the desired composition;
- the procedure for the appointment of new Directors to the Board; and
- ensuring succession plans are in place for key Board members.

The full terms of reference of the Committee are available on [www.schroders.com](http://www.schroders.com) or from the Company Secretary at the registered office.

### The composition of the Committee

The members of the Committee at the end of 2006 were:

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

Luc Bertrand joined the Committee on 1 March 2006 on his appointment to the Board.

## Report on the Committee's activities in 2006

### Meetings and attendance

The Committee, which meets as often as necessary to discharge its duties, met in February and November. There was full attendance by all members at both meetings.

### Principal issues

The principal issues addressed during 2006 were:

- the appointment of Luc Bertrand as an additional independent non-executive Director; and
- the composition of the Board.

Following the Committee's review of the composition of the Board it was recommended that a search for an additional independent non-executive Director should be instigated. This process has now commenced and the Committee hopes that a further appointment will be recommended to the Board during 2007.

### Support

The Committee receives information and support from management and external sources as necessary to enable it to carry out its duties and responsibilities effectively.



## Audit committee report

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

### Role of the Committee

The Board has delegated to the Committee responsibility for overseeing the financial reporting and internal control of the Group and for maintaining an appropriate relationship with the Company's auditors. The main role of the Committee is to encourage and safeguard the highest standards of integrity, financial reporting, risk management and internal control. In doing this the principal responsibilities of the Committee include:

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

The terms of reference of the Committee (as updated from time to time) are available on [www.schroders.com](http://www.schroders.com) or from the Company Secretary at the registered office.

### The composition of the Committee

The members of the Committee at the end of 2006 were:

Kevin Parry (Chairman)  
Luc Bertrand  
Andrew Beeson  
Merlyn Lowther

All of the members are independent non-executive Directors. Luc Bertrand joined the Committee on 1 March 2006 on his appointment to the Board. The other members of the Committee served throughout the year. For the purposes of the Combined Code, Kevin Parry, a former partner in the accountancy firm KPMG LLP, is considered by the Board to have recent and relevant financial experience.

### Report on the Committee's activities in 2006

#### Meetings and attendance

The Committee met four times in 2006. Attendance by Committee members at each of those meetings is set out in the table below:

	Maximum possible attendance	Meetings attended
Kevin Parry	4	4
Andrew Beeson	4	4
Luc Bertrand	3	2
Merlyn Lowther	4	4

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

During the year the Committee met separately on two occasions with the Group's external auditors and with the Head of Group Internal Audit without executive management present. This provides an opportunity for the external and internal auditors to raise matters of concern in confidence. No issues of significance were raised during 2006.

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



The principal issues considered during 2006 were:

- the annual financial statements for 2005 and interim financial statements for 2006;
- the external audit plan for 2006;
- Group Internal Audit's plans for 2006 and 2007;
- the Group's risk management process, including key risks facing the Group;
- the appropriateness of the accounting policies used in drawing up the Group's accounts;
- Group Internal Audit's quarterly and annual reports on internal audit activities and the control environment;
- the external auditors' year-end report and management letter;
- the performance, independence and objectivity of the external auditors, including a review of non-audit fees; and
- the arrangements for staff to raise concerns about possible improprieties relating to the Company's operations (the 'whistleblowing arrangements').

#### Other issues

As well as the agreed schedule of issues the Committee also received reports and presentations on various subjects connected principally to the control environment within the Group. These included presentations on the management of investment risk, the implications for the Group of the Capital Requirements Directive, the regulatory framework for the establishment of a life assurance company within the Group, and the new regulations on provision of information to the Auditors. The Committee also reviewed the scope and level of cover provided by the Group's Directors' and Officers' liability insurance, the governance of the Group's pension arrangements, the governance of outsourced activities and the risk management framework. Each of these reports was discussed fully by the Committee.

#### Non-audit services and auditor independence

The Group has adopted a policy covering the provision of non-audit services to the Group by the external auditors. This policy was adopted by the Committee in 2004 and was introduced to enhance further the governance around the provision of such services and provide a clear and transparent framework to ensure the objectivity and independence of the external auditors. Under the policy the provision of any service which might lead to a conflict of interests is not permitted unless other possible providers are themselves conflicted. In such exceptional cases the Audit Committee must approve each service and approval will only be given where the Committee is satisfied that appropriate measures are in place to manage or mitigate any potential conflict of interest. There were no such occurrences in 2006.

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

The policy was reviewed by the Committee in 2006 and the Committee was satisfied that the policy remained appropriate and was being adhered to. In 2006 the value of non-audit services provided by PricewaterhouseCoopers LLP to Group companies was £0.8 million.

To support the principles of independence, the auditors have a policy governing the length of time a partner can work on the Schroders' audit. During the year a new senior audit partner was appointed. The Committee also considered the reappointment of PricewaterhouseCoopers

LLP as auditors, taking into account the results of the auditor assessment process, the quality of work undertaken, the level of audit fees and the succession of the senior audit partner. The Committee concluded that it was appropriate to recommend the reappointment of the Auditors and that this recommendation be put to shareholders at the Annual General Meeting.

The Committee is satisfied that the external auditors remain independent.

#### Committee evaluation

The annual evaluation of the Committee's effectiveness was undertaken as part of the overall Board evaluation process for 2006. The specific findings relating to the Audit Committee were discussed with the Committee Chairman. As a result, the Committee will be reviewing its role, responsibilities and terms of reference in the light of current best practice and making recommendations to the Board for changes as appropriate.

#### Support to the Committee

The Committee received information and support from management during the year to enable it to carry out its duties and responsibilities effectively. The Committee's programme of business related presentations was integrated into the briefing sessions organised for the whole Board during the year. Details of these briefings are included in the Governance Report on page 25.

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

