Henderson Group plc

Full Annual Financial Report and Accounts

For the year ended 31 December 2005

Profit before tax of £64 million in 2005 (2004: £123 million loss)

Henderson Global Investors – moving up the margin curve

Operating profit up 9%
Cost to income ratio improved to 75.5%
Total margin on fee income improved to 37bps

Corporate office – restructured and streamlined

Shareholder servicing costs significantly reduced due to reduction of investor base
Corporate costs decreased by 18%

Henderson Group returned to being a pure fund manager, while delivering value to shareholders

Share price up 28%
Returned £871 million to shareholders

Henderson Group plc
Company Registration Number: 2072534

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Henderson Group achieved a key strategic goal in 2005 by becoming a pure, independent fund manager. Through the disposal of the Life Services business in April, and the announced sale of Towry Law UK in December, we streamlined the Group whilst delivering value to shareholders.

We made good progress in turning Henderson Global Investors into a more successful and profitable fund management business. This involved improving investment performance, attracting additional investment talent and focusing on higher margin business.

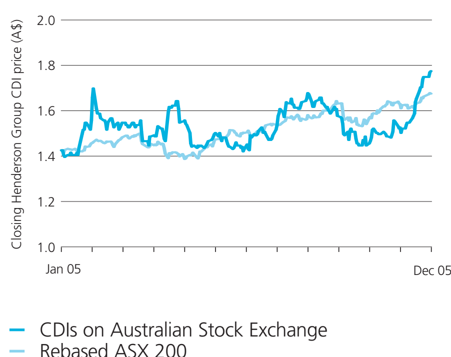
After the sale of the Life Services business, Corporate costs declined due to a reorganisation of the Corporate office and lower shareholder servicing costs. The return on Corporate cash was up significantly due to interest earned on retained sale proceeds.

We have identified surplus capital in the Group. We plan to return this surplus capital to shareholders in 2006, should it not be required for a specific acquisition opportunity.

Assuming benign markets, the prospects for the Group in 2006 are good.

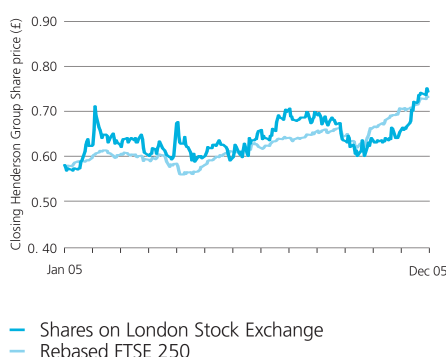
Highlights

Henderson Group Share Price
CDI vs ASX 200



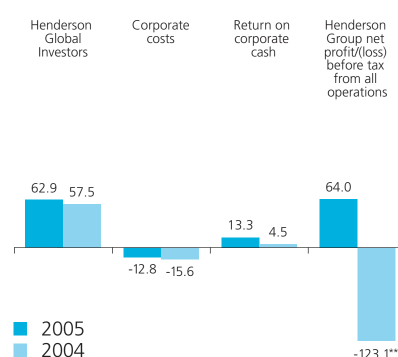
— CDIs on Australian Stock Exchange
— Rebased ASX 200

Henderson Group Share Price
Ordinary Shares vs FTSE 250



— Shares on London Stock Exchange
— Rebased FTSE 250

Net profit/(loss) before tax from all operations (£m)*



■ 2005
■ 2004

* Profit/(loss) before taxation and minority interests
** Includes impairment of the Life Services business prior to disposal

With the right corporate structure and team now in place, the Board and management can focus on turning Henderson Global Investors into a more profitable and valuable business.

Chairman's Statement

Strategic progress
Since listing in December 2003, our strategy has been to develop fund management and sell the other assets in the Group. In April 2005 we sold the Life Services business and we announced the sale of Towry Law UK in December.

We now have the right corporate structure and the right team in place, so the Board and management can concentrate on turning Henderson Global Investors into a more profitable and valuable business.

Financial progress
In the year to 31 December 2005, profit before tax from continuing operations was £63.4 million, 20% up on 2004. The increase was driven by several factors. First, improvements in performance and management fees in Henderson Global Investors. Secondly, after the sale of the Life Services business both Corporate staff costs and shareholder servicing costs were reduced. Thirdly, we retained some of the proceeds from selling the Life Services business, so the return on Corporate cash increased.

We have also invested in staff and systems in Henderson Global Investors. It is essential for a fund management company to have experienced people and modern processes, none of which can be done on the cheap.

For a transitional year these were encouraging results. They give some indication of what a pure fund management business can achieve.

Rupert Pennant-Rea, Chairman, Henderson Group

Capital and business opportunities
As we indicated last year, we intend to return capital not required for the business to shareholders. We have done a lot of work to quantify surplus capital and prepare for the most efficient way of returning it.

However, we have also identified a potential opportunity for the Group, one that could create value for shareholders and improve our strategic position. We have therefore decided to delay the planned return of capital until the position is clarified.

Should this opportunity not crystallise, we hope to return surplus capital to shareholders during 2006. We will also continue to keep our capital structure under review and consider introducing a prudent level of gearing.

Outlook
Assuming a background of benign markets, we expect a further improvement in Henderson Global Investors' profits in 2006. Better investment performance should attract more money into our funds, though we do not regard funds under management as the true measure of success. Profit is what matters, and that will come from progress in shifting to high-margin products.

Remuneration
With the changes to the shape and size of the Group, the Remuneration Committee has reviewed the terms and conditions of the Chief Executive and is reviewing the same for the Chief Financial Officer. The goals are to incentivise management, align their interests to those of shareholders, and be competitive in the market in which the Group operates. Details are in the Report on Directors' Remuneration on page 24.

The Board
As I reported to you a year ago, four Directors retired in 2005: Peter Costain, Sir Malcolm Bates, Sir William Wells and Ian Laughlin. There have been no changes in Board membership since June 2005.

The Board therefore has two Executive Directors and five Non-Executive Directors – a good size and mix for our type of business, and in line with the UK's Combined Code and the ASX Corporate Governance Council's Principles of Good Corporate Governance. More information on the Board is on pages 6 and 7.

The Board operates under formal codes, principles and processes. These are described in detail in the Corporate Governance Statement starting on page 20.

Share register
When we sold Life Services last year, we took the opportunity to reduce the size of the shareholder register. Numbers fell from just over 870,000 at the start of the year to around 145,000 at the beginning of 2006, and this has produced some useful cost savings.

At the start of 2006, 55% of Henderson Group shares were held by investors in Australasia, 40% by investors in Europe, and the rest in a variety of other countries. The split between institutional and retail investors was roughly 83% versus 17%.

Our maiden dividend
We are aiming for a sustainable flow of dividends, so we are starting prudently with a dividend cover of two times. The Board is therefore recommending a final dividend of 1.39 pence per share, which we plan to pay on 26 June 2006 to shareholders on the register at 16 June 2006.

Thank you
During a year of significant changes, our staff have been solidly committed to the job at hand. I thank them for this, and for their hard work in building Henderson Group into a more profitable business. I also thank our shareholders for their support during the year.

We will continue to focus on improving revenue and net margins by changing the business mix. Key to achieving this is delivering consistent and credible investment performance.

Chief Executive's Statement

It is a little over two years since the demerger from AMP and the listing of Henderson Group on the London and Australian markets. In that time, we have worked steadily to turn Henderson Group into a pure fund management company, while delivering value to shareholders through this process. Via the disposals of Virgin Money and the Life Services business and the recently announced sale of Towry Law UK, we have reached our first major strategic milestone – Henderson Group as a pure-play, stand alone fund manager.

At the same time, we have been working hard to improve Henderson Global Investors as a fund management business. This has involved improving investment performance, recruiting additional investment talent, improving margins and changing the business mix towards higher margin activities. The 2005 results show steady progress on all these fronts.

2005 Result

Overall Henderson Group generated profit before tax from continuing operations of £63.4 million. Henderson Global Investors itself made further steady progress, with profit before tax of £62.9 million in 2005, an increase of 9% on 2004. The key drivers behind this result were improved margins and higher equity markets.

Total fee margins rose to 37bps in 2005 from 34bps in 2004 due to an increase in management fees of £5.7 million or 3% on 2004 and an increase in performance fees of £7.8 million or 42% on 2004.

These increased revenues led to an improvement in the net margin, up to 9bps from 8bps in 2004 and to a further reduction in the cost to income ratio to 75.5% from 76.4% in 2004. This was achieved despite higher operating expenses, up 5% on 2004. Increases in staff costs, mainly higher variable compensation costs and higher pension contributions, were partly offset by lower costs in all other cost categories.

Roger Yates, Chief Executive, Henderson Group

Fund flows were in line with our expectations, with net outflows of £2.8 billion from Pearl Group and £8.8 billion from lower margin Institutional business. By contrast, we saw net inflows of £1.9 billion from higher margin activities including Mutual Funds, Property and Private Capital.

Investment performance improved in 2005 with 55% of funds beating benchmark. Performance was especially strong in key high margin areas such as US Mutuals, Absolute Return Funds, Horizon Funds and Property. In these areas between 80% and 100% of funds beat their benchmarks.

Corporate

In April 2005, when we sold the Life Services business, we indicated that we expected to make cost savings in the region of £4 million per year, a function of lower shareholder servicing costs and the reorganisation of the Corporate office. In 2005 we had the benefit of eight months' worth of corporate cost savings. Corporate costs declined from £15.6 million in 2004 to £12.8 million in 2005. In 2006, we expect to see a further reduction in Corporate costs as full-year cost savings flow through.

The return on Corporate cash was up significantly in 2005 compared to 2004. Although the majority of the proceeds of the sale of the Life Services business were returned to shareholders shortly after completion, the Group earned interest income on the retained sale proceeds from the Life Services business. We expect this return to fall in 2006, closer to 2004 levels, due to an anticipated reduction in Corporate cash balances.

Strategy

With the sale of the Life Services business behind us and the imminent completion of the sale of Towry Law UK, which is still subject to FSA approval, our strategic focus will be exclusively on asset management.

Our key objective is to continue to improve revenue and net margins. This will be achieved by shifting the business mix towards higher margin products – Mutual Funds, Property, Private Capital, Absolute Return Funds are examples of these – and higher margin distribution channels. Underpinning this must be consistent and credible investment results, as well as continuous product innovation.

The principal financial measures of success will be profits, margins and return on capital, not growth in assets under management. As was the case in 2005, it is possible that assets under management could fall while revenues and profits rise. That said, we do expect to see a slowdown in outflows, particularly in Institutional, as well as further net inflows into higher margin products.

The Chairman's statement covers the Group's capital position and options for deploying it.

People

It is axiomatic in the investment industry that companies depend on the calibre of people they employ. We were fortunate in 2005 to be able to attract a number of outstanding investment professionals to add further bench strength to our team. This underpins the improvement in investment performance we saw in 2005.

We believe strongly that being a pure asset management business, having remuneration structures which reward performance and business building, together with significant and rising employee share ownership, makes Henderson Group attractive to existing and potential employees. On the latter point, we are using a variety of Share Incentive Plans and deferrals into stock to build internal share ownership. From close to zero at the time of the demerger, employee ownership now stands at around 3% of our issued share capital and it remains a priority for us to increase this further.

Outlook

2005 was a transition year for Henderson Group as we completed the disposal of non-core assets. In addition we took steps to improve investment capability, to drive sales and improve margins. That work is now paying off. Investment performance is either good or improving, the new hires we made are now bedded into their teams and we have good sales momentum in key higher margin products and channels.

As a result we expect further improvement in revenue margins and a further reduction in the cost to income ratio.

Assuming benign market conditions, the prospects for the business are good.

Board members
At 27 February 2006, the Board consisted of the Non-Executive Chairman, two Executive Directors (being the Chief Executive and the Chief Financial Officer) and four other Non-Executive Directors.

The Board is responsible for all strategic decisions regarding the Group's businesses, including approval of commercial strategy, annual budgets, interim and full year financial statements and reports, dividend and accounting policies. It is also responsible for approving all significant capital projects, investments and disposals.

Board of Directors

Non-Executive Chairman
Rupert Pennant-Rea
BA (Econ), MA (Econ), age 58 – Chairman and Non-Executive Director. Non-Executive Director since October 2004 and Chairman since March 2005. Chairman of the Board Nomination Committee since March 2005.

Experience:
Deputy Governor of the Bank of England from 1993 to 1995, prior to which he spent 16 years with *The Economist*, where he was editor from 1986 to 1993. Mr Pennant-Rea has been the Non-Executive Chairman of PGI plc (formerly known as Plantation & General Investments plc) since 1997 and was Chairman of The Stationery Office from 1996 until September 2005. Amongst his other directorships are British American Tobacco plc, Go-Ahead Group plc and Gold Fields Limited (South Africa).

Executive Director
Roger Yates
BA (Hons) (Oxon), age 48 – Chief Executive. Executive Director since June 2003 and Managing Director of Henderson Global Investors since 1999.

Experience:
Joined AMP Limited (AMP) in October 1999 to lead the integration of Henderson Investors and AMP Asset Management Australia to form Henderson Global Investors. Mr Yates has 24 years' experience in the fund management industry as an investment professional and business manager. Previously, he was Chief Investment Officer of Invesco Global and held senior roles for fund management companies LGT and Morgan Grenfell. He was an Executive Director of AMP Limited from December 2002 until the demerger of AMP's UK and Australian operations in December 2003. Mr Yates is also a Non-Executive and Senior Independent Director of IG Group Holdings plc.

Executive Director
Toby Hiscock
BA (Hons) (Oxon), MA (Oxon), FCA, age 46 – Chief Financial Officer. Executive Director since August 2003.

Experience:
Chief Financial Officer since May 2003. Mr Hiscock is also Director of Finance and Strategy for Henderson Global Investors and was Director of Finance for Henderson Investors from July 1998, having held senior internal audit and finance roles since joining the Company in 1992. He is a qualified chartered accountant with 25 years' experience in the accounting profession. Prior to joining Henderson Investors, Mr Hiscock was Senior Audit Manager at Midland Bank, London, for three years. From 1981 to 1988, he worked for Binder Hamlyn, Chartered Accountants, in London.

Non-Executive Director
Gerald Aherne
BSc, AIA, age 60 – Non-Executive Director since October 2004. Chairman of the Board Remuneration Committee since June 2005 and a member of the Board Nomination Committee since May 2005.

Experience:
Mr Aherne spent 16 years, to September 2002, with Schroder Investment Management, as Investment Director. Prior to this, he spent 18 years with Equity & Law in various actuarial and investment management roles. He is currently Managing Partner of Javelin Capital Partners LLP and a Director of Electric and General Investment Trust plc. He was a founding Director of PRI Group plc from August 2002 until June 2003, when it was acquired by BRIT.

Non-Executive Director
Duncan Ferguson
MA (Cantab), FIA, DipAgSci, age 63 – Non-Executive Director since July 2004. A member of the Board Nomination Committee since May 2005 and of the Board Audit and the Board Remuneration Committees since June 2005.

Experience:
Non-Executive Chairman of all the life assurance subsidiaries of Resolution Group plc and a Non-Executive Director of HBOS Financial Services. Mr Ferguson's career was in senior management of insurance companies and as a consulting actuary. He was Senior Partner of Bacon & Woodrow then B&W Deloitte, from 1994 to 2003. Mr Ferguson is a Fellow of the Institute of Actuaries. He served on the Council of the Institute from 1989 to 2000 and as President from 1996 to 1998. He was also a Member of Council of the International Actuarial Association from 1996 to 2002.

Non-Executive Director
Anthony Hotson
MPhil (Oxon), MA (Oxon), MA (London), age 52 – Non-Executive Director since November 2002. Member of the Board Audit Committee since August 2003, the Board Remuneration Committee since August 2003 and the Board Nomination Committee since March 2005. Chairman of Towry Law plc since October 2003.

Experience:
Mr Hotson was formerly at the Bank of England, McKinsey & Company and Warburg. He was a Director of SG Warburg & Co. Ltd from 1992 to 1995 and subsequently Managing Director and Head of Financial Institutions Group at Warburg Dillon Read, the investment banking division of UBS AG.

Non-Executive Director
John Roques
CA, age 67 – Non-Executive Director since January 2004. Chairman of the Board Audit Committee since June 2004 and a member of the Board Nomination Committee since May 2005. He was appointed Senior Independent Director on 9 June 2005. He is also a Non-Executive Director of Towry Law plc.

Experience:
Chairman of the Portman Building Society since May 1999. Mr Roques is also a Non-Executive Director of BBA Group plc and Premier Farnell plc. He was previously Director of Chubb plc, Director of British Nuclear Fuels plc and Governor of the Health Foundation. Mr Roques spent 42 years with Deloitte & Touche (formerly Touche Ross & Co.), where he served from 1990 to 1999 as Senior Partner and Chief Executive. He is a Member of the Institute of Chartered Accountants of Scotland. He was a Member of the Financial Reporting Review Panel (1991–1994) and a Member of the Financial Reporting Council (1996–2001).

Resignations
Since the last Full Annual Financial Report and Accounts, the following Directors have resigned from the Board: Sir William Wells retired at the 2005 Annual General Meeting and Ian Laughlin resigned from the Board on 13 April 2005 as part of his transfer with the Life Services business.

Business Review

In 2005 the Group took significant steps in pursuit of its objective to become focused solely on the provision of investment management services:

- On 13 April 2005, the sale of the Life Services business to Pearl Group Limited (formerly Life Company Investor Group Limited) completed for a cash consideration of £1.070bn. The name of the Company changed from HHG PLC to Henderson Group plc on 22 April 2005. Subsequently, the Group returned £871m of the sale proceeds to shareholders. Further details of the financial impact of the sale on the Group are provided in note 35.2 to the financial statements.
- The Group announced on 21 December 2005 that an agreement had been reached with JS&P Holdings Limited for the sale of Towry Law UK and subsidiaries, for a total consideration of £37m. This sale remains subject to Financial Services Authority (FSA) approval and, as such, has not been reflected as completed in the operating results for the year ended 31 December 2005. However, the assets and liabilities of the Towry Law UK business being disposed of have been disclosed as held for sale on the 31 December 2005 balance sheet.

Upon completion of the sale of Towry Law UK, the Group will comprise Henderson Global Investors, a global investment manager with a pan-European base, the Corporate Office, and the legacy Towry Law International business closed in 2004. The Towry Law International business has been treated as discontinued, which is consistent with 2004, but will remain part of the Group until the associated legacy mis-selling claims are resolved. These claims are provided against, as set out in note 25, "Provisions". Detailed information on the sale of the Life Services business, the related return of cash and reduction of investor base, and the sale of Towry Law UK is available at **www.henderson.com**

The results of the Group for the year ended 31 December 2005 are summarised below, with comparatives:

	Full year 2005 £m	Full year 2004 £m
Henderson Global Investors	**62.9**	57.5
Corporate costs	**(12.8)**	(15.6)
Return on corporate cash	**13.3**	4.5
	63.4	46.4
Business restructure costs	**–**	(8.4)
Transfers between continuing and discontinued operations	**–**	15.0
Net profit before tax from continuing operations	**63.4**	53.0
Net profit/(loss) before tax from discontinued operations[1]	**0.6**	(176.1)
Net profit/(loss) before tax from all operations	**64.0**	**(123.1)**
Taxation – continuing operations	**(11.5)**	(4.2)
Taxation – discontinued operations	**(4.8)**	(45.9)
Total taxation	**(16.3)**	(50.1)
Net profit/(loss) after tax from all operations	**47.7**	**(173.2)**
Attributable to:		
Equity holders of the parent	**51.2**	(220.1)
Minority interests – discontinued operations	**(3.5)**	46.9
	47.7	(173.2)
Henderson Global Investors		
Assets under management	**£67.7bn**	£69.1bn
Cost to income ratio	**75.5%**	76.4%

Note
1. The loss that arose in 2004 includes a £3.5m Towry Law UK impairment, previously included within continuing operations, reclassified as discontinued, upon reaching agreement to sell Towry Law UK to JS&P Holdings Limited.

The Henderson Group plc ("Group") result

The Group adopted International Financial Reporting Standards (IFRS) for financial reporting purposes from 1 January 2005, having previously prepared its consolidated financial statements in accordance with UK Generally Accepted Accounting Practice (UKGAAP). The financial results set out in this report for the year ended 31 December 2005, along with 2004 comparatives, represent the first annual financial statements for the Group prepared in accordance with IFRS.

The Group published its Preliminary IFRS Financial Statements for the year ended 31 December 2004 on 24 June 2005, which summarised the principal effects of IFRS on the financial information for the 2004 year. This included a reconciliation of opening consolidated shareholders' equity under UKGAAP to consolidated shareholders' equity as reported under IFRS as at 1 January and 31 December 2004. This also included a reconciliation of profit after tax under UKGAAP to the loss after tax under IFRS for 2004. These reconciliations have been included in note 3 "First time adoption" to the financial statements for the year ended 31 December 2005. There have been no changes to the Group's accounting policies since the Preliminary IFRS Financial Statements for the year ended 31 December 2004 were released.

Group net profit before tax from continuing operations[2] was £63.4m for the year ended 31 December 2005, an increase of £10.4m (20%) on the year ended 31 December 2004 (£53.0m). Henderson Global Investors delivered a 9% increase in net profit before tax to £62.9m in 2005 (2004: £57.5m). Corporate costs were £12.8m in 2005, down 18% from £15.6m in 2004. Net income from corporate cash balances was £13.3m in 2005 compared to £4.5m in 2004.

The profit before tax of £0.6m (2004: £176.1m loss) from discontinued operations[2] in 2005 consists of a £2.5m profit before tax in respect of Towry Law UK's result for the year ended 31 December 2005 (2004: £3.6m loss), and a £1.9m loss before tax (2004: £172.5m loss), as disclosed in the Interim Statement for the half year ended 30 June 2005 in respect of the disposal of the Life Services business on 13 April 2005. The £1.9m loss consisted of the profit before tax for the Life Services business in the period from 1 January 2005 to the disposal date (£16.7m), less the additional loss on the disposal of the Life Services business on completion of the sale (£18.6m).

The reclassification of Towry Law UK as part of discontinued operations is required under IFRS following the agreement reached on 21 December 2005 to dispose of the business to JS&P Holdings Limited. Towry Law UK's £1.6m profit in the six months to 30 June 2005 has been attributed to discontinued operations as at 31 December 2005. This profit was disclosed as part of the continuing operations profit in the six months to 30 June 2005. The £0.9m Towry Law UK profit for the six months to 31 December 2005 has also been attributed to discontinued operations. This is set out in the following table:

Impact of reclassifying Towry Law UK as part of discontinued operations

	Continuing operations £m	Discontinued operations £m	All operations £m
Net profit/(loss) before tax for the six months to 30 June 2005, per the interim financial statements	37.0	(1.9)	35.1
Reclassification of Towry Law UK profits as discontinued operations	(1.6)	1.6	0.0
Restated profit before tax for the six months to 30 June 2005	35.4	(0.3)	35.1
Net profit before tax for the six months to 31 December 2005	28.0	0.9	28.9
Net profit before tax for the 12 months to 31 December 2005	63.4	0.6	64.0

Taxation

The 2005 income tax charge for the Group was £16.3m, comprising an £11.5m charge for continuing operations, with an effective tax rate of 18.2%, and a £4.8m charge for discontinued operations (including Towry Law UK). The effective tax rate for all operations is 25.5%. A reconciliation of the UK corporate tax rate of 30% to the effective rate for the continuing operations is provided in note 9, and for the discontinued operations in note 38, to the 2005 Financial Statements.

Note

2. Before eliminations between the continuing and discontinued operations. These eliminations are in respect of transactions between Henderson Global Investors and the Pearl Group prior to 13 April 2005. They are primarily in respect of investment management fees charged by Henderson to the Pearl Group on an arm's-length basis. These fees have continued to arise under the new investment management agreements negotiated with Pearl Group with effect from 13 April 2005.

Henderson Global Investors ("Henderson")

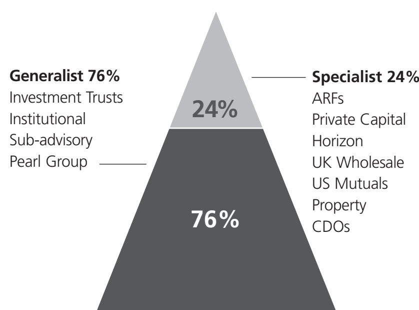
Henderson's strategy is to build a scaleable, profitable pan-European active investment management business based on its core equity and fixed interest investment capabilities, and focused on growing assets under management (AUM) in higher margin specialist products such as Absolute Return Funds (ARFs), Wholesale Funds (UK OEIC & Unit Trusts, Horizon Funds and US Mutual Funds), Property Funds and Private Capital.

To achieve this, Henderson seeks to:

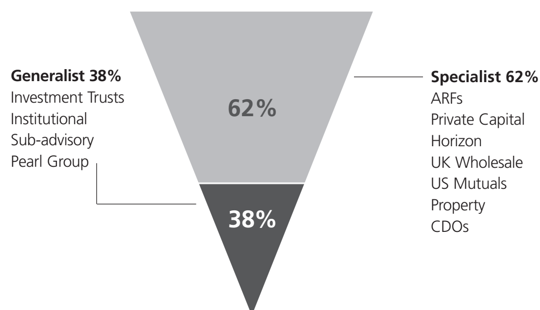
- deliver saleable investment performance;
- develop a sustainable entrepreneurial culture to attract and retain the best people;
- develop innovative specialist products and rapidly bring them to market;
- maintain highly co-ordinated marketing, distribution and client servicing activities across all channels; and
- deliver improvements to the cost-to-income ratio.

Henderson Global Investors – Revenue contribution from AUM for 2005

Assets under management



Revenue contribution



Improved 2005 result – 9% up on 2004

Net profit before tax for Henderson in 2005 was £62.9m, up 9% from £57.5m in 2004. This performance reflects management's focus on improving total fee margins on assets managed. Total fee margins increased from 34.4bps in 2004 to 36.9bps in 2005. The improvement has been sustained for both margins on underlying management fee income, and margins on total fee income.

	2005 £m	2004 £m
Management fees	**196.3**	190.6
Transaction fees	**24.4**	26.1
Performance fees	**26.5**	18.7
Total fee income	**247.2**	235.4
Investment income	**9.9**	7.9
Operating expenses	**(189.1)**	(180.8)
Depreciation/amortisation	**(5.1)**	(5.0)
Operating profit before tax	**62.9**	57.5

Total fee income in 2005 was £247.2m, up 5% from £235.4m in 2004. Management fee income increased by 3% to £196.3m in 2005 due to growth in higher margin business lines and improved equity markets during the year. This was partly offset by revenue lost from Institutional client outflows, prior year client losses and the continuing run-off of Pearl Group funds.

Performance fees increased by 42% to £26.5m in 2005, and were spread across a broader range of funds than in previous periods. Revenue from Absolute Return Funds, Horizon Funds, US Mutual Funds, Private Capital, CDO and Property Funds have all contributed to the change in the product mix and improved margins. These are product lines where, typically, higher management fee rates are charged, with performance fee opportunities in place. Transaction fee income, which by comparison is less predictable than management and performance fee income, decreased by 7% to £24.4m.

Total operating expenses increased by 5% to £189.1m in 2005. A reduction in costs across most expense categories was offset by increased staff costs. This increase was primarily in respect of variable remuneration schemes and incentivisation arrangements for investment management professionals, including key staff recruited in the past 18 months. New appointments are discussed in the investment performance section of the business review.

Overall, the increase in total revenue more than offset the anticipated higher costs in 2005 resulting in an improvement in the cost to income ratio from 76.4% in 2004 to 75.5% in 2005.

Product and geographic mix

Henderson is predominantly managed on an investment capabilities rather than geographic basis. In seeking to improve operating margins, Henderson's strategy is to focus on growing assets under management in "specialist" product areas. These specialist products include Absolute Return Funds, Property, Wholesale funds and Private Capital funds. Where applicable we aim to leverage off our core fixed income and equity capabilities.

The margins and net contribution (to unallocated overheads) of these specialist product areas are, typically, higher than for more generalist product areas, though there are exceptions, for example Investment Trusts. Revenues on specialist products for the year ended 31 December 2005 were £153.6m, with allocated costs of £85.5m, giving a net contribution before unallocated overheads of £68.1m. Generalist products (comprising Institutional, Sub-advisory, Investment Trusts and Pearl Group) attracted revenues of £93.6m in 2005, with allocated costs and net contribution levels of £60.7m and £32.9m respectively. Gross margins before unallocated overheads were 44% for specialist products and 35% for generalist products. Unallocated overheads relate primarily to central costs such as premises and support services expenses.

Based on the source of clients, pan-European income has increased by 2.4%, to £233.4m, on good performance fees from Absolute Return, Horizon and Property Funds, and positive net sales in Horizon and Property Funds. Sales in Absolute Return Funds were flat in 2005, with resurgent equity markets impacting the Absolute Return Fund industry as a whole, particularly in the second half of the year. Income from the US business was £16.0m, up 72.2% on 2004. This increase reflects positive net sales in both our US Mutual and US Property businesses. US Mutual sales in particular continue to make good progress. Income in Asia was up 25.4% to £7.7m. Our Private Capital operations in Asia performed well, and we made steady progress with Horizon Fund sales in this region during the year.

In summary, whilst the Henderson business continues to be largely UK-based, 2005 has been a good year for its overseas operations, particularly during the second half.

Investment performance

Henderson won a total of 18 investment performance awards during 2005, including seven Standard & Poor's first place awards, and the Best UK Investment Trust (Lowland Investment Company) and Best European Investment Trust (Henderson EuroTrust) awards at the Investment Week Investment Trust of the Year Awards.

Management has continued to strengthen investment capabilities during 2005, through the recruitment of a number of key investment professionals, significantly improving fixed income and equities capabilities. This should open up new product opportunities, and facilitate better investment performance across the affected areas, including those areas where performance has already been strong.

David Jacob, Head of Fixed Income, recruited Gareth Quantrill as Head of Credit, Phil Apel as Head of Interest Rate Strategy and Mitesh Sheth as Investment Director of Liability-Driven Investment.

Andrew Formica, Head of Equities, has also strengthened the equities team, through a reorganisation of roles and responsibilities as well as new additions to important areas. These additions include Graham Kitchen as Head of UK Equities, Andy Jones as Director of UK Equities, Andrew Beal as Director of Asia Pacific Equities, Bill McQuaker as the Head of Multi-Manager funds and Paul Casson as Associate Director Pan-European Equities.

In 2005, 55%[3] of funds beat benchmark by asset class. This is the result of strong performance in higher margin product ranges like Horizon (84%), Absolute Return Funds (100%), and US Mutual Funds (100%). Good performance also continued in newer product ranges like Enhanced Index funds (84%) and Property (82%)[3]. Total performance over benchmark was 68% for Equities (2004: 54%) and 41% for Fixed Income (2004: 18%). The performance of the UK Equity and Balanced Pension Funds, which has been poor in recent years, has seen a significant uplift in 2005, with 52% of Institutional funds beating benchmark in the year, 72% in the fourth quarter of 2005. This has resulted in an increase in buy ratings in respect of multi-strategy equity and fixed income offerings.

Investment capabilities and distribution

Henderson has always favoured an active investment management style, and offers a broad range of products. This reduces the exposure of our business to individual product lines, and provides the business with the capability to deliver attractive product offerings under different market conditions. This will increasingly provide us with the opportunity to combine new and conventional investment management techniques across a wide range of products, creating products that can be distributed Wholesale and tailored relatively easily to suit the bespoke requirements of Institutional clients.

In 2005 we added three new Absolute Return Funds to the existing portfolio of eight funds, increasing the total number to 11. By 31 December 2005 these three new funds – the North American Equity Multi-strategy Fund, Henderson Global Currency Absolute Return Fund, and Henderson European Style Rotational Long Short Fund – had combined assets under management totalling £168m, although two of them were only launched in November 2005. Henderson continues to be successful in providing an opportunity for top investment managers to manage both long and short portfolios simultaneously, developing hedge fund managers from within the business. This creates an entrepreneurial culture, whilst providing a strong corporate identity and remuneration structures that help us to retain top managers. We have strict codes of practice in place to ensure that the risk of conflicts of interest associated with managing long and short portfolios simultaneously are mitigated.

In Henderson's Wholesale fund ranges, a number of important advances were made during the year. In recognition of the growing similarities between Continental Europe and the UK, these two distribution businesses were re-organised in 2005 on a pan-European basis. There are now four client-facing distribution teams focused on Institutional, UK Wholesale, Continental Europe Wholesale and Investment Trusts. These distribution teams have been more closely aligned to ensure that a co-ordinated approach is taken to reach global distributors.

Whilst the focus is on using these enhanced capabilities to distribute higher margin products, the nature of the changes is such that both distribution and client servicing capabilities have been improved across the board. As a further consequence of the restructure we have also been able to extract efficiencies out of core support areas. The restructure has served to reinvigorate the distribution teams, creating an opportunistic sales culture capable of capitalising on the improved investment performance that management plans to deliver.

The Horizon range is distributed primarily in Europe and Asia. Two new funds were launched in the range during 2005, the Horizon Global Property Equities Fund and the Horizon Asia Pacific Property Equities Fund. The Global Equity fund was also relaunched as the HHF Global Opportunities Fund. A further six launches are planned for 2006. These 2006 launches will be predominantly in fixed income-based funds, to complement the equity fund launches in the range over the last 18–24 months. Certain of these funds are likely to utilise the UCITS III registration put in place at the end of 2004, which will enable us to bring investment techniques to the Wholesale market traditionally available only to high net worth individuals and Institutional clients.

The focus for the OEIC range has been on creating new pooled products for Institutional clients, aimed at improving performance, client suitability and profitability by utilising our enhanced index expertise. Six OEIC sub-funds were launched in the period, four with an enhanced index strategy. We also launched our Secured Loans Fund in a Qualified Investor Scheme in November 2005, the first to market in the UK with a product of this type. The focus for Wholesale-targeted OEICs has been on product improvement and rationalisation. Meanwhile, significant progress was made in improving Wholesale distribution capabilities in the UK, with distribution networks now established in key regional locations providing new opportunities for distributing products across the UK. The investment performance of certain core funds will be critical in ensuring that we are able to successfully capitalise on these initiatives.

The focus in the US has been on extending distribution networks in what is still, for us, a relatively new market. Three of the five US Mutual funds reached the important milestone of a three year track record for performance purposes during the second half of 2005. The fund range as a whole has continued to deliver strong investment performance, with all eligible funds within the range achieving four Morningstar Ratings at 31 December 2005. The strength of these track records should open up further distribution opportunities in 2006.

Assets under management

Total AUM decreased in 2005 from £69.1bn at the start of the period to £67.7bn at 31 December 2005. Net client outflows of £9.7bn, which included £2.8bn of net outflows from the Pearl Group and £8.8bn from lower margin Institutional businesses, were largely offset by favourable market and foreign exchange rate movements of £8.3bn. Net inflows from higher margin alternative products were £1.9bn. The amount of property business won but not invested at 31 December 2005 was £1.2bn. This balance is not included within assets under management listed below.

Note

3. UK and European property performance represents an estimate from monthly Investment Property Data (IPD) statistics to 31 December 2005. Annualised IPD benchmarks were not yet available at the date of signing this report.

Summary of movements in AUM by distribution channel

	Opening AUM £bn	Net flows £bn	Market/FX £bn	Closing AUM £bn
Retail – open ended	5.7	0.4	1.1	7.2
Retail – closed ended	3.5	(0.1)	0.5	3.9
Institutional	32.0	(7.2)	3.8	28.6
Pearl Group	27.9	(2.8)	2.9	28.0
Total	69.1	(9.7)	8.3	67.7

AUM by type of asset

	31 Dec 2005 £bn	31 Dec 2004 £bn
UK equity	**16.0**	16.3
International equity	**12.6**	11.5
Total equity	**28.6**	27.8
Fixed income	**32.1**	35.1
Property	**6.3**	5.6
Private equity	**0.7**	0.6
Total AUM	**67.7**	69.1

Outlook

Henderson is a well-diversified business. Management's objective is to apply investment expertise where potential exists to improve total fee margins on assets managed. We will continue to focus on improving the quality of earnings, through the protection of the brand by closing non-performing funds, diversifying our performance fee opportunities, and broadening our product range to present Henderson with options under different market scenarios.

We remain committed to further reducing our cost to income ratio, subject to robust investment performance and benign markets during 2006. The improvements to investment talent, and manufacturing and distribution capabilities in the last 12–18 months, provide a good platform for Henderson Global Investors to perform well in 2006.

Corporate

Corporate costs
Corporate costs were £12.8m (2004: £15.6m). These costs include shareholder servicing costs and finance and secretariat functions which are not directly attributable to individual business units. A substantial reorganisation of the Corporate office took place in the first half of 2005 following the sale of the Life Services business. The size of the Corporate office reduced as a number of Corporate staff left or transferred with the Life Services business. Together with reduced shareholder servicing costs Corporate office cost savings in the period were £2.8m which are ahead of the £4m annualised cost savings target announced following the sale of the Life Services business.

Return on Corporate cash
The return on Corporate cash was £13.3m in 2005 (2004: £4.5m). This return arose primarily from Group cash and liquid investments, but excludes returns on investments, including Banca Popolare Italiana (BPI), and cash held by business units to meet regulatory and other strategic requirements.

The return on Corporate cash was favourably impacted during 2005 by the proceeds from the sale of the Life Services business prior to the return of capital to shareholders (£3m interest income). The balance of return relates to cash retained by Corporate office following the sale, to cover inter alia warranties and indemnities provided to the Pearl Group. Interest on cash balances held by Henderson to cover its regulatory and operational requirements is shown separately as finance income within the Henderson Global Investors business unit result.

Pensions
There are three types of pension plan which impact on the continuing operations of the Group: the funded and approved defined benefit plan, which was closed to new members on 15 November 1999, and the funded and approved money purchase plan, together known as the Henderson Group Pension Scheme (the “Scheme”); in addition there are a certain number of smaller unapproved pension top-up plans for executives.

Total net liabilities in respect of post-retirement obligations, before any reduction for tax relief, are £45.6m (2004: £33.9m), as detailed in note 29, retirement benefit obligations. The movement in net liabilities during 2005 was driven principally by two factors: the lowering of the AA corporate bond rate at which the Scheme’s liabilities are discounted, from 5.30% at 31 December 2004 to 4.74% at 31 December 2005; and the appreciation in equity markets during the second half of the year. At the end of 2005, 54% of assets held to back the defined benefit liabilities were invested in UK and International equities. We are currently in discussions with the Scheme Trustees to agree a recovery plan for the Scheme deficit.

Capital
As we indicated at the time of the Interim Results announcement for the half year ended 30 June 2005, the current level of capital held by the Group exceeds what we believe is necessary to run the business and meet the Group’s regulatory requirements. At 30 June 2005 we indicated that the amount of surplus capital was approximately £192m, before allowing for the dividend for the six months to December 2005 and business contingencies such as pension deficit funding.

The surplus capital position at 31 December 2005 has increased to approximately £200m, net of the proposed dividend, pension deficit funding and other business contingencies. It is the Board’s intention to return this capital to shareholders in 2006 in the absence of any compelling acquisition opportunities. We are currently investigating one such opportunity which could potentially enhance the Group’s strategic position. We will update shareholders in due course.

Regulatory requirements
The regulatory environment in Europe (including the UK) is changing, as the EU strives to harmonise regulatory practices across both EU member states and different sectors of the financial services industry through implementation of the Capital Requirements Directive (CRD) on 1 January 2007.

Neither the legislation, nor the timetable for implementation, is as yet finalised. Therefore the full implications of these changes for UK fund managers are not yet clear. However, the FSA has indicated that it does not anticipate that regulatory capital requirements for the industry as a whole in the UK will increase. It has also indicated, along with the UK Treasury, that it intends to limit the practice of “superequivalence”, where UK regulation goes beyond the minimum necessary to comply with EU directives. This should go some way to ensuring that UK fund managers are on an even footing with their European competitors in future.

Henderson Global Investors is currently subject to both solo entity and consolidated capital requirements. Solo requirements are calculated for all UK regulated entities by adding expenditure and asset based requirements together, as determined by guidelines set out by the FSA within the Integrated Prudential Sourcebook for Investment Businesses. Entities regulated by an overseas supervisory body are subject to local requirements. The FSA also requires investment businesses to comply with prudential requirements on a consolidated basis. They represent the aggregate of solo entity requirements, with an additional notional amount calculated on all non-regulated entities within a group. The notional requirement on non-regulated entities is calculated using the same principles as for solo entities.

It is possible for investment businesses to submit a notification to the FSA which exempts them from complying with consolidated requirements, provided certain criteria are met, as set out in Chapter 14 of the Interim Prudential Sourcebook, Consolidated Supervision for Investment Businesses. These criteria preclude any such group from having an entity which deals in investments as principal. Henderson Administration Limited currently performs a principal function in respect of forward foreign exchange deals executed on behalf of clients.

At this time the FSA is unable to grant waivers which will continue to be effective once the CRD has been implemented. It is our view, therefore, that the Group should continue to satisfy consolidated regulatory requirements, although we will keep the matter under review.

The Board believes that the Group's existing regulatory capital structure is reasonably efficient given the scale and mix of its business. As we prepare for the introduction of the CRD we will also consider introducing a prudent level of gearing to the balance sheet.

Financial risk management
The Group has designed a framework to manage the risks of its business, and ensure that the Directors have in place risk management practices appropriate to a listed company. There are clearly defined financial risk management objectives and policies in place, covering asset valuation risk, interest risk, liquidity risk, foreign exchange risk and credit risk. Management of these risks within the Group is governed by the Board and its Committees, as set out more fully in note 16 accompanying the financial statements, Financial Risk Management.

Discontinued operations – impact on 2006 results
Completion of the sale of Towry Law UK is subject to FSA approval which is expected in early April 2006. Should the sale be approved, the Group expects to recognise a profit on the disposal of approximately £10.0m, calculated as the proceeds of £37.0m, less transaction costs and the net assets disposed of at the completion date. At 31 December 2005 these net assets amounted to £25.9m, including goodwill.

DIRECTORS' REPORT

The Directors present their Report to the shareholders for the year ended 31 December 2005.

Principal activities and Business Review
The principal activities of the Group in 2005 were the provision of investment management services. During the year the Group underwent significant change, the details of which are set out in the Business Review on pages 8 to 15.

The Group continues to operate a number of overseas branches.

Review of the year and future developments
The Group's results for the financial period are shown in the consolidated income statement on page 38. A review of the financial year and future developments are covered in the Chairman's and Chief Executive's Statements and the Business Review that precede this report.

Results and dividends
The Group made a profit for the year attributable to equity holders of the parent company of £51.2m in 2005 (2004: loss of £220.1m). The Directors recommend the payment of a dividend in respect of the six months ended 31 December 2005 of 1.39 pence per ordinary share of 10 pence each of the Company (2004: £nil). Dividends are recognised in the accounts in the year in which they are paid, or in the case of a final dividend, when approved by the shareholders. Therefore the amount recognised in the 2005 accounts, as described in note 13, is made up of last year's final dividend (£nil) and this year's interim (£nil).

Reporting
Shares in Henderson Group plc are listed on both the London Stock Exchange and the Australian Stock Exchange (in the form of CDIs) and as such the Company is required to comply with both sets of disclosure requirements.

Post-balance sheet events
The Board of Directors has not received, as at 27 February 2006, being the date on which these financial statements were approved, any information concerning significant conditions in existence at the balance sheet date which have not been reflected in the financial statements as presented.

Substantial shareholdings
At 27 February 2006, in accordance with the provisions of sections 198 to 208 of the Companies Act 1985, the Company had received notification of holdings in the Company's issued share capital from Perpetual Ltd (12.72%), Perennial Value Management Ltd (10.64%), Altima Partners LLP (4.74%) and AMP Ltd (3.73%).

Employees
During 2005, the Group continued its policy of informing and involving employees in matters which concern them and in the achievement of its business goals. The Group has comprehensive processes for consultation and communication involving regular meetings between management and employees, team briefings and the issue of various bulletins. Employee development within the Group is promoted by encouraging staff to gain appropriate professional qualifications and assisting with wider personal development. Specific human resources initiatives vary across the business to reflect business needs and their competitive environment. Employees are encouraged to participate in employee share schemes (as described on page 28).

The Group is committed to providing equal opportunities to all employees irrespective of their sex, sexual orientation, marital status, religion, race or disability. It is the Group's policy to give full and fair consideration to disabled persons with respect to applications for employment, continued employment, training, career development and promotion, having regard to each individual's particular aptitudes and abilities.

Supplier payment policy
It is the policy throughout the Group that payments to suppliers are made in accordance with those terms and conditions agreed between the Group companies and their suppliers, provided that all trading terms and conditions have been complied with. In respect of Group activities, the amounts due to trade creditors at 31 December 2005 represents approximately 30 days of average daily purchases through the year (2004: 31 days). The Company has no trade creditors.

Financial instruments
A statement on the financial risk management objectives and policies can be found in note 16 on page 63.

Corporate Governance
A statement on Corporate Governance appears on pages 20 to 23.

Share capital
Details of movements in authorised and allotted share capital during the year are given in note 20 to the accounts.

Directors
Details of the Board members during the year ended 31 December 2005 and at the date of this report are set out on pages 6 and 7. Roger Yates and Toby Hiscock will, in accordance with the Articles of Association, retire by rotation and offer themselves for re-election at the 2006 Annual General Meeting.

Directors' remuneration and interests
A Report on Directors' Remuneration appears on pages 24 to 33, including details of their interests in shares and share options.

Indemnification and insurance of Directors and officers
The Company provides a Deed of Indemnity to Directors to the extent permitted by UK law whereby the Company is able to indemnify a Director against any liability incurred in proceedings in which he is successful, and against the costs of successfully applying to the Court to be excused for breach of duty where the Director acted honestly and reasonably.

In addition, the Deed of Indemnity provides that Directors will have access to the board/committee papers of the Company for the period of their office and for seven years after ceasing to be a Director for the purpose of defending legal proceedings, and that the Company will maintain Directors' and Officers' Liability insurance cover for the Directors to the extent permitted by law for the period of their office.

During or since the end of the financial year, the Company has paid or agreed to pay premiums in respect of a contract insuring all of the officers (including all Directors) of the Group against certain liabilities. The insurance policy prohibits disclosure of the nature of the liability, the amount of the premium and the limit of liability.

Rounding
In accordance with the Australian Securities and Investments Commission Class Order 98/0100, amounts in this Directors' Report and other sections of this Full Annual Financial Report and Accounts have been rounded to the nearest £0.1m, unless stated otherwise.

Charitable donations
Donations by the Group for community and charitable purposes amounted to £63,000 (2004: £38,000), which comprises social and welfare £26,000 (2004: £22,000); education and international £19,000 (2004: £5,000); and medical and other £18,000 (2004: £11,000). The Group made no political donations, incurred no EU political expenditure and made no contribution to a non-EU political party.

Annual General Meeting
A separate document, the Notice of Annual General Meeting 2006, covering the Annual General Meeting of the Company to be held on 11 May 2006, will be sent to all shareholders and contains an explanation of the business before that meeting.

Independent Auditors
Ernst & Young LLP have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

Directors' statement as to disclosure of information to auditors
The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 6 and 7. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- so far as the Director is aware, there is no information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware; and
- he has taken all the steps he ought to have taken as a Director in order to make himself aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Signed in accordance with a resolution of the Directors

Roger Yates
Chief Executive
27 February 2006

CORPORATE RESPONSIBILITY REPORT

In the 2004 Full Annual Financial Report and Accounts, the Group set out its Corporate Responsibility Policy. In this first Corporate Responsibility Report, we provide more information on the Group's commitment to responsible business conduct with all our stakeholder groups.

Business standards

Corporate governance

As a dual-listed company, the Company supports the high standards of corporate governance contained in:

- the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 and annexed to the Listing Rules of the UK Listing Authority (the Combined Code); and
- the Principles of Good Corporate Governance and Best Practice Recommendations issued by the Australian Stock Exchange Corporate Governance Council (the ASX Principles).

Further details of how we comply can be found within the Corporate Governance Statement on pages 20 to 23 and on our website at **www.henderson.com**

Code of Conduct

The Group is committed to maintaining high standards of business conduct in all its operations and activities. Our Code of Conduct protects the interests of shareholders, customers, employees, and suppliers. Our Code of Conduct, available on our website, applies to all employees and sets a framework for how employees must operate.

Investment management

Environmental, social and ethical issues can impact on us as investors. The way companies respond to these issues can affect their business performance both directly and indirectly. Our Responsible Investment Policy sets out how we exercise our responsibility towards our clients and can be found on our website.

As well as monitoring companies' overall performance on these issues, we undertake in-depth research into key themes. We conduct direct engagement with companies to explore the investment implications of corporate responsibility issues.

The key issues we pursued in 2005 included climate change; stress in the workplace; responsible lending; and tax risk and responsibility.

This analysis feeds into our investment decision-making. Where our analysis shows that a company is not dealing adequately with an important issue, engagement is a way of exercising our influence as a shareholder for improvement. Details of our engagement with companies are published quarterly on the Sustainable and Responsible Investment section of our website.

Corporate governance and voting

The Henderson Group has an active programme of work on corporate governance and voting. This includes ensuring that companies comply with the Combined Code, or explain why they have not done so.

We vote at all UK company meetings where we are shareholders and selected meetings in other countries. Our views on voting issues and details of where we did not vote in favour of board resolutions are published on our website.

Suppliers and service providers

The Group seeks to work with suppliers and contractors who match the Group's corporate responsibility aspirations in the delivery of their products and services. We are committed to ensuring that external contractors who provide services work under appropriate terms and conditions.

The Group is conscious of the impact its procurement policies can have on the environment. In this regard, a number of initiatives were undertaken during 2005 including:

- a commitment to procure 100% recycled paper for all photocopy, printer and business stationery requirements;
- a review of the supply chain to ensure that deliveries are managed as efficiently as possible; and
- a review of supply partners to ensure that there is no conflict between the Group's environmental objectives and their operational policies.

Customers

We are committed to the highest standards of customer care. We seek to meet or exceed industry interpretations of best practice and to ensure that customers experience integrity, quality and care in all dealings with the Group.

We are dedicated throughout the Group to treat customers fairly, through an enduring relationship with customers that aims to deliver:

- investment performance;
- quality service from appropriately trained and competent employees; and
- informative communications which are not misleading, but are clear, fair and accurate.

The Group is required by its Financial Crime Policy to observe high standards of customer identification, to identify and report suspicious transactions, and to ensure that relevant employees receive adequate training.

Environment

We follow responsible environmental management practices. These include systems to limit the use of non-renewable resources and minimise the impact of our operations on the environment.

Climate change

We are focused on reducing greenhouse gas emissions. We are a signatory of the London Sustainable Development Commission's pledge to help reduce London's carbon dioxide emissions to 20% below 1990 levels by 2010.

To achieve this, an energy management system has been implemented at the Group's London headquarters, 4 Broadgate.

We have actively engaged with other major tenants within the Broadgate Estate, through the Broadgate Environmental Best Practices Group, to consider pooling requirements and to secure supplies from renewable sources.

During 2005, the Group carried out a climate change impact study to establish its carbon footprint. This, together with energy management data collected since 2001, shows that the Group has reduced its emissions by 9.7% resulting from the following programmes:

- reduction in energy consumption (5.2%);
- recycling (3.25%); and
- diversion of waste from landfill to incineration (1.25%).

Waste minimisation and management
The Group seeks to minimise waste where possible and has implemented a number of measures including:

- recycling of all waste paper generated;
- elimination of any waste sent to landfill;
- reuse programmes for surplus office furniture, equipment and technology;
- training and awareness programmes for support staff and contractors involved in waste management; and
- active involvement in a number of local and City of London Environmental Best Practice Groups.

In February 2005, the Group was awarded the Chairman's Cup by the City of London Clean City Award Scheme for its waste minimisation and management practices, reuse and recycling programmes implemented in 2004. The Group was also a finalist in the 2005 scheme winning a Platinum Award and placing it in the top 2% of all entrants in the scheme over the past three years.

We are a founding member of the eTree initiative which encourages investors to receive shareholder communications electronically. Every time a shareholder registers with eTree a donation is made to Landcare Australia which supports volunteer groups delivering reforestation projects.

Workplace

The Group recognises the value and contribution employees make to the success and future growth prospects of the business.

We have a full range of human resource policies and procedures to support recruitment, reward and the development of employees. We aim to ensure that these frameworks meet best practice and fully comply with all relevant employment legislation and the provisions and ethos of the Universal Declaration of Human Rights.

Equality and diversity
Our policies ensure that employees can expect a working environment free from all forms of discrimination and harassment. Complaints are investigated thoroughly and dealt with appropriately.

We are an equal opportunities employer and we have extensive human resource and family friendly policies in place. Additionally, the Group gives full and fair consideration to applications from, and the continued employment of, people with disabilities or learning difficulties.

Employee consultation and involvement
We have an active Communications Forum which is an elected body representing all staff. It encourages open two way communication by providing a forum where issues affecting all staff can be discussed and where necessary, raised with the management team. It also provides a forum where management can consult staff and seek views in relation to particular issues. The Communications Forum meets monthly and the Chief Executive attends quarterly.

Employees' views are also sought through an annual employee opinion survey. The results of this survey highlight areas for attention and improvement. Regular employee briefings are carried out by the executive and senior management teams to provide an insight into the business. Additionally, the Chief Executive updates all employees on a quarterly basis and takes questions on the issues of the day.

The Group has a number of all-employee share schemes. Approximately 3% of the Company is owned by employees. More information on these share schemes is available on page 58.

Training and development
Our training policy is designed to invest in employees and equip them with the required skills and capabilities, for the present and for the future. This helps us meet our business objectives and provides for career development. It also ensures a good basis for succession planning. We launched a suite of development workshops which are promoted on the Group intranet.

All employees receive an annual performance appraisal where priorities, including training needs, are identified.

Health and safety
The Group is committed to providing a safe working environment. All employees receive health and safety training on induction. Our health and safety policies are available on the Group intranet and are reviewed annually to ensure that they remain compliant with appropriate regulations.

Managing stress at work
We consider the management of stress in the workplace as part of our Health & Safety policy. Questions related to stress are included in our annual employee opinion survey. We provide training for managers on an annual basis to show them how they can better manage stress. We also offer a 24 hour confidential employee assistance telephone line which provides support, including counselling, to employees on a wide range of issues. We monitor absence from work and carry out return to work interviews to help identify and assist employees with potential stress-related issues.

Employee reward and retention
The Group recognises and rewards performance based on an employee's contribution to the success of the business. The Group has a total reward approach which has a mix of both financial and non-financial elements including various share schemes. More information on these share schemes is available on page 58.

We aim to pay competitively and give greater reward for stretch and superior performance as benchmarked across our industry. We deliver this both through short-term bonuses (usually annual cash bonuses) and for more senior managers through longer-term incentives (generally three to five year equity-based plans). Bonus payments above a certain level tend to have a portion thereof deferred, which provides a retention element to the incentive.

Community

The Group recognises its impact on the local London community in which it operates and is committed to building partnerships within this community.

During 2005, we donated a total of £63,000 supporting charities. Our preferred charity since 1987 is Community Links, the inner city charity running community-based projects in East London. Founded in 1977, the charity now helps over 50,000 vulnerable children, young people and adults every year. Most of its work is delivered in Newham, one of the poorest boroughs in Europe.

We also encourage our employees to get involved in charitable activities and match one-for-one money raised. Included in the total amount supporting charities, we donated £35,000 in employee matching grants during 2005.

The Group continues to be a member of the FTSE4Good UK index.

CORPORATE GOVERNANCE STATEMENT

Combined Code and ASX Principles

The Directors support the high standards of corporate governance contained in the Combined Code and the ASX Principles, as referred to in the Corporate Responsibility Report. The Company complied with the Combined Code and the ASX Principles in 2005, with the exception that remuneration details of the five highest paid (non-Director) executives were not disclosed, as proposed by best practice recommendation 9.1 of the ASX Principles to ensure that these details do not become available to the Company's competitors in the UK as the Company considers this information to be commercially sensitive (see the Additional Remuneration Information on page 34). This Statement, together with the Report on Directors' Remuneration, describes the Company's corporate governance arrangements and how it complies with the Combined Code and the ASX Principles. Further details can be found within the corporate governance section of the Company's website.

The Board

The Board comprises a Non-Executive Chairman, a Chief Executive, one other Executive Director and four Non-Executive Directors. John Roques succeeded Sir William Wells as the Senior Independent Director on 9 June 2005. Although the Chairman, Rupert Pennant-Rea, met the independent criteria on appointment, the Combined Code provides that the test of independence is not appropriate thereafter. The Board considers all of the other Non-Executive Directors, namely, Gerald Aherne, Duncan Ferguson, Anthony Hotson and John Roques to be independent. Each of them is considered to be independent on the basis that they do not have any interest or business or other relationship which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the Company. The Board has considered the criteria proposed by the Combined Code and the ASX Principles in assessing the independence of the Directors. Materiality, as referred to in the ASX Principles, has been assessed on a case-by-case basis by reference to each Director's individual circumstances rather than general materiality thresholds. However, the Board is satisfied that the independent Directors meet a quantitative materiality threshold for independence that no Director has a relationship with the Group which generates or accounts for more than 5% of the Group's revenue or expenses. Biographical details of the Directors are given on pages 6 and 7.

Sir Malcolm Bates and Peter Costain retired from the Board on 28 February 2005, Ian Laughlin resigned from the Board on 13 April 2005, and Sir William Wells retired from the Board on 9 June 2005. The Board decided that, although both Peter Costain and Sir William Wells had served on the Board since April 1994, they should both be considered to be independent for the purposes of the Combined Code and ASX Principles, notwithstanding their length of service. In making this decision, the Board considered that these Directors were independent of management and free of any interest or business or other relationship which could, or could reasonably be perceived to, materially interfere with the exercise of their independent judgement or could otherwise affect their ability to act in the best interests of the Company.

There is a division of responsibility between the Non-Executive Chairman, Rupert Pennant-Rea, who is responsible for the effective operation of the Board, and the Chief Executive, Roger Yates, who is responsible to the Board for the overall management and performance of the Group. The Chairman's other significant commitments (and any changes to them during 2005) are shown in the Board of Directors section on page 6.

Non-Executive Directors are appointed for a fixed term, normally of three years, and any subsequent terms are subject to review by the Nomination Committee. A summary of the remuneration payable to the Non-Executive Directors is set out in the Report on Directors' Remuneration (see pages 24 to 33). The terms and conditions of the appointment of Non-Executive Directors may be viewed on the Company's website.

All newly appointed Directors receive induction on joining the Board. Thereafter, the Company provides the necessary resources for developing and updating the knowledge and capabilities of its Directors. In addition, presentations on different aspects of the Company's business and on financial, legal and regulatory issues, are regularly made to the Board.

During 2005, the Board conducted a formal evaluation, led by the Chairman, of the performance of the Board, Board Committees and individual Directors (including the Chairman). Feedback on collective performance was collated and presented to the Board, with actions to improve Board and Board Committee effectiveness discussed and agreed. The Chairman conducted the annual performance evaluation of each of the Directors through one-to-one meetings, taking into account the views of all Directors. The Senior Independent Director led the annual performance evaluation of the Chairman, by meeting with Non-Executive Directors, taking into account the views of Executive Directors, and giving personal feedback to the Chairman. The performance evaluation of the direct reports of the Chief Executive was undertaken by the Chief Executive and the Remuneration Committee. The Chief Executive's performance was evaluated by the Chairman and the Remuneration Committee.

At the Annual General Meeting (AGM) held on 9 June 2005, Rupert Pennant-Rea, Gerald Aherne, Duncan Ferguson and Anthony Hotson were reappointed as Directors by shareholders. At each AGM, approximately one third of the Directors, and any Director who has served for more than three years without being proposed for reappointment at an AGM, will retire by rotation and may seek reappointment. At the AGM on 11 May 2006, Roger Yates and Toby Hiscock plan to retire and seek reappointment.

Operation of the Board

The Directors met as a Board 13 times in 2005, of which seven were scheduled meetings. Attendance by each of the Directors was:

	Date appointed	Date resigned	Number of meetings held in 2005 while a Director	Number of meetings attended in 2005 while a Director	Percentage of meetings attended in 2005 while a Director
Peter Costain	12/05/1994	28/02/2005	5	4	80%
Sir William Wells	12/05/1994	09/06/2005	8	3	38%
Sir Malcolm Bates	12/03/1996	28/02/2005	5	5	100%
Anthony Hotson	29/11/2002		13	13	100%
Ian Laughlin	28/01/2003	13/04/2005	6	6	100%
Roger Yates	16/06/2003		13	13	100%
Toby Hiscock	11/08/2003		13	13	100%
John Roques	14/01/2004		13	10	77%
Duncan Ferguson	01/07/2004		13	12	92%
Rupert Pennant-Rea	01/10/2004		13	12	92%
Gerald Aherne	01/10/2004		13	11	85%

The Directors are scheduled to meet as a Board at least seven times in 2006. Additional meetings will be held as required, or at the request of a Director. During 2005, the Non-Executive Directors met the Chairman without executives being present, and it is the intention that this should happen again during 2006.

To enable the Directors to perform their role effectively, they are given the means and information necessary for them to make informed decisions and to follow best corporate governance practice. At each of its meetings, the Board receives detailed reports on the various aspects of the business and of any major issues affecting it. All Directors must take decisions objectively in the interests of the Company.

The Board is responsible for all strategic decisions regarding the Company's business, including the approval of commercial strategy, annual budgets, interim and full year financial statements and reports, dividends, accounting policies and all significant capital projects, investments and disposals. A schedule of matters reserved for approval by the Board is reviewed annually and may be viewed on the Company's website. Management is responsible for developing the appropriate business strategy for Board approval and ensuring that strategy is effectively implemented in accordance with an operating plan approved by the Board and within a sound system of internal control.

The Board has approved corporate governance policies, including a policy on trading in the shares of the Company by Directors and employees, a market disclosure policy and a code of conduct which, together, set a framework within which the Directors and other employees are expected to behave to protect the interests of shareholders, customers, employees and suppliers. A summary of the three documents may be viewed on the Company's website.

The Directors are entitled to seek independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors.

Board Committees

The Board has delegated specific responsibilities to three standing Committees of the Board. The membership of the Board Committees and a summary of their main duties and their terms of reference are set out below. The full terms of reference may be viewed on the Company's website.

Audit Committee

John Roques is the Chairman of the Audit Committee, whose other members are Anthony Hotson and Duncan Ferguson (who replaced Sir William Wells on 9 June 2005). The details of the qualifications of the Committee members are set out on pages 6 and 7. The Committee met seven times in 2005. Attendance by each of the members was:

	Date appointed	Date resigned	Number of meetings held in 2005 while a Director	Number of meetings attended in 2005 while a Director	Percentage of meetings attended in 2005 while a Director
Sir William Wells	28/07/1998	09/06/2005	4	3	75%
Peter Costain	28/07/1998	28/02/2005	2	2	100%
Anthony Hotson	28/08/2003		7	6	86%
John Roques	11/06/2004		7	7	100%
Duncan Ferguson	09/06/2005		3	3	100%

The Audit Committee is responsible for making recommendations to the Board on the appointment of the external auditors and the terms of engagement (including audit fees) and for reviewing the performance, independence and objectivity of the external auditors. It receives and reviews reports from management and the external auditors relating to the Company's Annual Report and Accounts and interim reports, although ultimate responsibility for reviewing and approving the Annual Report and Accounts and interim reports remains with the Board. The Audit Committee also receives formal reports from the internal auditor, who attends meetings as required. A copy of the Audit Committee's terms of reference is on the Company's website.

The Audit Committee reviews compliance with legal and regulatory requirements and accounting standards and the form of the statutory accounts and accounting policies. It focuses particularly on assessing the effectiveness of the Group's systems of internal controls and risk management procedures, the internal audit function and the Group's external auditors. The Audit Committee also reviews arrangements for whistleblowing.

Information on the procedures for the selection and appointment of the external auditors and for the rotation of the external audit engagement partner is provided on the Company's website. During 2005, the external auditors provided certain non-audit services. The Company has adopted a Charter of Statutory Auditor Independence, which requires both the Company and the external auditors to take measures to safeguard the objectivity and independence of the external auditors. These measures include a prohibition regarding any non-audit services in respect of specific areas e.g. secondments to management positions or which could create a conflict or perceived conflict. A copy of the Charter is on the Company's website. The external auditors will be asked to attend the Company's AGM on 11 May 2006 and will be available to answer questions about the conduct of the audit and the preparation and content of the auditors' report.

Nomination Committee

Rupert Pennant-Rea succeeded Sir Malcolm Bates as Chairman of the Nomination Committee on 1 March 2005, following Sir Malcolm's retirement from the Board. All the other Non-Executive Directors are now members of the Committee. The Committee met twice in 2005. Attendance by each of the members was:

	Date appointed	Date resigned	Number of meetings held in 2005 while a Director	Number of meetings attended in 2005 while a Director	Percentage of meetings attended in 2005 while a Director
Sir William Wells	28/08/2003	09/06/2005	0	0	–
Sir Malcolm Bates	28/08/2003	28/02/2005	0	0	–
Peter Costain	28/08/2003	28/02/2005	0	0	–
Rupert Pennant-Rea	01/03/2005		2	2	100%
Anthony Hotson	01/03/2005		2	2	100%
Gerald Aherne	12/05/2005		2	2	100%
Duncan Ferguson	12/05/2005		2	2	100%
John Roques	12/05/2005		2	2	100%

The Nomination Committee has responsibility for considering the size, composition and balance of the Board and retirement and appointment of additional and replacement Directors and making appropriate recommendations to the Board on these matters. A copy of the Nomination Committee's terms of reference is available on the Company's website.

In identifying suitable candidates for recommendation for appointment to the Board, the Nomination Committee is concerned to ensure that the Board has available to it Directors with an appropriate mix of expertise and experience. It is the Company's practice to use an external search consultancy to assist the Committee in identifying suitable candidates for Non-Executive Board positions.

Remuneration Committee

Gerald Aherne succeeded Sir William Wells as Chairman of the Remuneration Committee on 9 June 2005. The Committee's other current members are Anthony Hotson and Duncan Ferguson. The Committee met five times in 2005. Attendance by each of the members was:

	Date appointed	Date resigned	Number of meetings held in 2005 while a member	Number of meetings attended in 2005 while a member	Percentage of meetings attended in 2005 while a member
Sir William Wells	28/08/2003	09/06/2005	2	2	100%
Peter Costain	28/10/2003	28/02/2005	1	1	100%
Anthony Hotson	28/08/2003		5	5	100%
Gerald Aherne	01/10/2004		5	5	100%
Duncan Ferguson	09/06/2005		3	3	100%

The Remuneration Committee has the responsibility for making recommendations to the Board on the Company's policy for the remuneration and performance of Executive Directors and for determining, within agreed terms of reference, specific remuneration packages for each of the Executive Directors. These include pension rights, any compensation payments and the implementation of executive incentive schemes. The remuneration of the Non-Executive Directors is determined by the Board after taking account of advice received by remuneration consultants. The Chairman's remuneration is determined by the Chairman of the Remuneration Committee and the other Non-Executive Directors. The Remuneration Committee operates on the principle that members of the executive management should be provided with appropriate incentives to encourage superior performance and should, in a fair and responsible manner, be rewarded for their individual contributions to the success of the Group.

The Report on Directors' Remuneration (see pages 24 to 33) provides details on how the Remuneration Committee exercises these duties. Towers Perrin, acting as remuneration consultants, advises the Remuneration Committee. Towers Perrin does not have any other connection with the Company other than providing compensation data and information on remuneration developments.

Investor relations

The Company values its interaction with shareholders and welcomes the views of both retail and institutional investors and their representative bodies. The Company's website includes online services to help shareholders manage their holding and engage with the Company. Archives of bi-annual market briefings and other Company announcements and presentations are also available on the website. In addition, the Company offers a variety of information and feedback channels including shareholder call centres, email access and shareholder meetings.

The Company publishes its results on both the London Stock Exchange and the Australian Stock Exchange and sends a Summarised Annual Report to all shareholders (unless they have elected to receive the Full Annual Financial Report and Accounts).

All shareholders and CHESS Depositary Interest (CDI) holders were invited to the Extraordinary General Meeting (EGM) on 21 February 2005 to approve, the sale of the Life Services business, the return of cash to shareholders and the reduction of the investor base. The EGM was held in London and, to allow Australian shareholders to attend and participate, was simultaneously broadcast as a satellite meeting to Sydney. All Directors were present. A summary of the questions asked at the EGM and the answers given, together with the results of resolutions, were provided on the Company's website.

All shareholders and CDI holders were also invited to the 2005 AGM, held on 9 June 2005. The AGM was held in London and again, to allow Australian shareholders to attend and participate, was simultaneously broadcast as a satellite meeting to Sydney. All Directors were present. A summary of the questions asked at the AGM and the answers given, together with the results of resolutions put to the AGM, were provided on the Company's website.

A programme, including monthly reporting, is in place to ensure that feedback from shareholders and market participants is communicated to the Executive and Non-Executive Directors. Additionally, the Board is briefed regularly on shareholder issues and, in line with the Combined Code, significant shareholders were offered meetings with Non-Executive Directors.

Financial reporting and going concern

The Directors have acknowledged their responsibilities in the Statement of Directors' Responsibilities in Relation to the Financial Statements (see page 35). After making appropriate enquiries, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore they have continued to adopt the going concern basis in preparing the accounts.

Oversight of internal controls and risk management

The Board has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. The Board considers risk assessment and controls to be fundamental to achieving its corporate objectives within an acceptable risk and reward profile. Throughout 2005, and up until the date of this report, there has been in place an ongoing process for identifying, evaluating and managing significant risks within the Group's control which accords with the guidance set out in the "Turnbull Report – Internal Control: Guidance for Directors on the Combined Code Annexed to the Combined Code". The effectiveness of the Group's system of internal controls is reviewed at least annually by the Board.

Below Board level, the management of risk within the Group is governed by the Audit Committee. There are also a number of management committees chaired by, and consisting of, senior managers that have responsibility for specific areas of risk. These provide forums for resolving and managing all significant regulatory and compliance issues and constructively challenge the relevant business areas to demonstrate that risks have been identified, prioritised and appropriately addressed and to recommend improvements as required. Their activities are overseen by the risk management function, which is responsible for ensuring that they discharge their responsibilities effectively and for raising matters to the attention of the senior management relating to both the operation of risk policies and the business' appetite for risk.

The day-to-day responsibility for the management of risk lies with the Group's line management, who work closely with the risk management function to maintain a risk and control self-assessment process. The risk management function also maintains an incident reporting process and provides management information to the Audit Committee and Henderson Group's senior management team. The compliance function works with the risk management function and the business units to ensure that all regulatory risks have been understood and are being effectively managed.

Additional assurance is provided by the internal audit function, which operates and reports independently of line management.

REPORT ON DIRECTORS' REMUNERATION

Introduction

The Report on Directors' Remuneration of the Group contains the following information:
- a description of the role of the Company's Remuneration Committee;
- a summary of the remuneration policy of the Group including a statement of the Company's policy on Directors' remuneration;
- details of the terms of the service contracts and the remuneration of each Director for the preceding financial year;
- details of the share options and awards under long-term incentive schemes held by the Directors; and
- details of each Director's interest in ordinary shares of the Company.

Corporate Governance

This Report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the Regulations) under the UK Companies Act 1985. The report also meets the requirements of the Listing Rules of the UK Listing Authority and the relevant provisions of the Companies Act 1985. It also sets out how the principles of the Combined Code relating to Executive Directors' remuneration are applied by the Group.

A resolution will be put at the AGM on 11 May 2006 inviting shareholders to consider and approve this Report.

Membership and responsibilities of the Remuneration Committee

Role of the Remuneration Committee

The Remuneration Committee reviews and approves, where appropriate, the Group's remuneration and compensation plans, policies and practices. Its duties are to:
- review and recommend to the Board the Company's remuneration protocols and practices, which are performance based and aligned with the Company's vision, values and overall business objectives;
- determine annually the remuneration of the Board Chairman, the Chief Executive and his direct reports, including Executive Directors;
- approve the terms and conditions of employment and other contractual matters relating to the Group's executive management team; and
- approve the policy and terms of the Group's employee and executive share incentive plans.

The full terms of reference of the Remuneration Committee are available at **www.henderson.com** and on request from the Company Secretary.

No Director or member of the Group's executive management team is involved in any decision on his own remuneration.

Membership

The Remuneration Committee consists entirely of independent Non-Executive Directors. In 2005, it comprised Sir William Wells (Committee Chairman – retired June 2005), Peter Costain (retired February 2005), Anthony Hotson, Duncan Ferguson (appointed June 2005) and Gerald Aherne (appointed Committee Chairman June 2005). At 27 February 2006 the Remuneration Committee consisted of Gerald Aherne (Committee Chairman), Anthony Hotson and Duncan Ferguson.

The Board Chairman and the Chief Executive may attend meetings of the Remuneration Committee at the Remuneration Committee's invitation, save that they may not attend if their own remuneration is under consideration.

Meetings

The Remuneration Committee meets regularly and takes advice from both inside and outside the Group. The Remuneration Committee takes advice on a range of matters, including the scale and composition of the total remuneration package payable in comparable financial institutions to people with similar qualifications, skills and experience.

Internal support is provided to the Remuneration Committee by the Company Secretary and the Director of Human Resources, who are invited to attend and speak at meetings, except when their own remuneration is under consideration.

The Remuneration Committee Chairman and the Chief Executive make recommendations on matters relating to the remuneration of the Executive Directors, and those who report to the Chief Executive. The Board Chairman is additionally consulted in relation to the remuneration of all Executive Directors.

The Remuneration Committee met five times in 2005. Those meetings were fully attended by Committee members.

Advisors

During the year, where considered appropriate, the Remuneration Committee took advice on technical aspects of compensation policy from independent external consultants appointed by the Remuneration Committee. These were Towers Perrin, a specialist remuneration consulting firm who provided advice on executive pay and share plan issues, and Watson Wyatt LLP, who provided advice on pension issues to the Group.

Additional remuneration survey data published by McLagan Partners was presented to the Remuneration Committee and some advice on bonus arrangements was taken from MM&K Limited.

All of the above advisors also do not have any other connection with the Company other than providing compensation data and information on remuneration developments.

Policy statement

Reward policy

The Remuneration Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the Company's business environment and in remuneration practice and so the policy is subject to change.

The Company's remuneration framework is designed to be market competitive and specifically to motivate employees to improve individual and corporate performance, retain key employees and align employee actions with the interests of shareholders. Following the sale of the Life Services business in early 2005, and to reflect the change in strategic focus to asset management, the Remuneration Committee set scorecards and targets to allow for these changes.

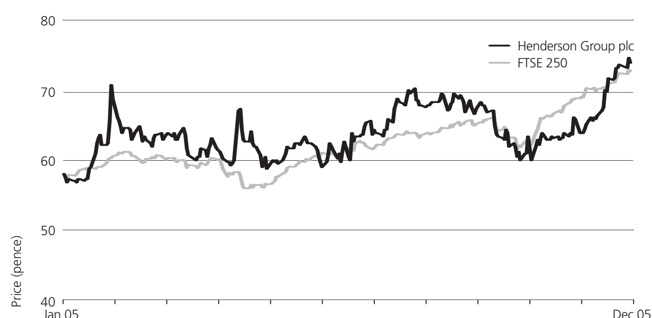
The Company's remuneration framework is based on a total reward approach designed to deliver top quartile pay for top performance. There are three key components:

- basic salary – within appropriate market range;
- annual bonus – paid under a short-term incentive (STI) plan where individuals have the opportunity to receive a bonus based on business and individual performance against targets; and
- long-term incentive – performance-based for senior executives and certain professionals such as key senior fund managers.

Performance graph

The Companies Act 1985 requires the report to include a performance graph comparing the Group's total shareholder return (TSR) performance against that of a broad market index. The graph below shows the Company's unadjusted ordinary share price movement and compares this against the movement in the FTSE 250 index. The graph starts from 4 January 2005 and ends on 30 December 2005.
The FTSE 250 was selected as the most appropriate broad market index since the Company is a constituent member and because it is a widely recognised performance benchmark for UK companies of a similar market capitalisation to that of the Group. The share price increased from 58 pence on 4 January 2005 to 74.25 pence on 30 December 2005 and the graph shows that the Company outperformed the FTSE 250 index for most of this period.

Henderson Group plc relative to FTSE 250



Executive Directors' Remuneration: individual elements

Overall structure
Executive Directors' remuneration comprises:

- basic salary;
- annual bonus;
- pension benefits;
- benefits in kind; and
- the opportunity to participate in Group-wide incentive schemes, such as the Henderson Group plc Long-Term Incentive Plan (LTIP), the Henderson Group plc Restricted Share Plan (RSP) and the Henderson Group plc Sharesave Scheme.

The LTIP and the annual bonus are performance related and the Remuneration Committee regards them as key elements in the Executive Directors' remuneration packages. The Sharesave Scheme is available to all employees and is not performance related. As set out in the UK Listing Particulars, awards to Executive Directors under the RSP will only be made in exceptional circumstances and may be subject to performance conditions. No RSP awards have been made to any Executive Director since listing.

Performance linkage
Each element of the Executive Directors' reward package supports the achievement of key business measures as illustrated in the table below:

Element	Structure	Purpose	Performance measure
Basic salary	Fixed	Reflects the competitive market rate for the job, the individual's contribution and prior contractual arrangements	Experience and qualifications
Annual bonus	Variable	Rewards the delivery of operational goals and financial targets	Return on capital, operating profit, cost ratios, external fundflows and investment performance
Long-term incentive	Variable	Supports superior business performance in relation to competitor companies and aligns executives with shareholders' interests	Relative Total Shareholder Return (TSR)

The Remuneration Committee intends that, for target levels of performance, at least 60% of total compensation (excluding pension) should be performance related. The expected value of awards made under the LTIP was calculated by our advisers, Towers Perrin, using a proprietary methodology. Its methodology considers TSR rank at which payment begins, the payment level at this threshold, the maximum payment under the plan and the rank at which this maximum is achieved. The methodology also takes into account the correlation of the Company's stock with those companies in the peer group, starting from the premise that the value of the shares awarded at the end of the performance period is correlated with the TSR ranking. The Committee is satisfied that this structure constitutes a well considered overall plan for Executive Directors' remuneration. It is kept under regular review to take account of changing circumstances. Incentive payments are not taken into account for pension purposes.

Basic salary
Salaries are reviewed annually for each Executive Director. Salaries in 2005, which were unchanged since the Demerger on 23 December 2003, were as follows:

R.P. Yates	Chief Executive	£600,000 per annum
N.T. Hiscock	Chief Financial Officer	£300,000 per annum

Annual bonus
At the discretion of the Remuneration Committee, each Executive Director may receive a cash bonus subject to the achievement of individual and corporate performance targets established by the Remuneration Committee. Payment of bonuses (if any) will be made to the relevant Executive Director annually, usually in March, conditional upon achievement of the performance targets in the preceding calendar year. The bonus range is zero to a specified maximum with target being the midpoint. The maximum bonus entitlement is based on a percentage of annual basic salary. Maximum entitlements for 2005 performance were unchanged from 2004 and are 200% of salary for the Chief Executive and 150% of salary for the Chief Financial Officer.

For each Executive Director, the corporate performance targets relate to both Company performance measures as set out in the Performance linkage section above and performance measures for individual businesses. The Henderson Group performance measures in 2005 were return on capital, cost ratios, operating profit pre-tax, net external fund flows and investment performance.

The Remuneration Committee and the Board reviews the performance of each Executive Director on an annual basis against these targets.

The Remuneration Committee has examined proposals to introduce a deferral to part of the annual STI bonus paid to Executive Directors. It was concluded that existing long term incentive arrangements were a sufficient and proportionate lock-in and thus determined annual bonuses to Executive Directors will continue to be paid in full.

Long-term incentives
Under the LTIP, the Remuneration Committee may make awards to Executive Directors up to a maximum number of ordinary shares determined by the Remuneration Committee at the date of grant. Vesting of awards is conditional on the achievement of a performance target (see below) measured over a three year period and the Executive Director's continued employment during the performance period. The primary performance measure is TSR, which the Committee believes provides executives with a strong alignment to shareholders' interests. However, for all awards, the Remuneration Committee must be satisfied that the Company's TSR performance reasonably reflects its underlying financial performance over the performance period.

The Company made awards under the LTIP to Executive Directors in April 2005. The aggregate market value of the ordinary shares capable of being acquired under these awards was equivalent to 250% of salary in the case of the Chief Executive and 175% of salary in the case of the Chief Financial Officer.

The Company will be putting a resolution to shareholders at the AGM on 11 May 2006 to alter the maximum percentage of salary that the Chief Executive can be awarded under the LTIP scheme rules to 500% of basic salary (currently 300%). This is because, as disclosed on page 28, the Chief Executive's base salary is being reduced, and the Committee want to be able to maintain the absolute face value of the LTIP awards that can be made to him.

The 2006 LTIP award to the Chief Financial Officer may be made in two parts. Whilst the Company does not expect the annual amount capable of being awarded to change, because the Company's 2005 results' announcement was brought forward to February 2006, technically any 2006 LTIP award would be caught within the restrictions placed upon how much can be awarded in any 12 month period. Therefore the Company will make, if necessary, a top up LTIP award to the Chief Financial Officer later in 2006. To avoid this issue occurring in future years, the Company will be putting a resolution to shareholders at the AGM on 11 May 2006 to amend the LTIP rules governing awards from "any 12 month period" to "calendar year".

The 2004 LTIP award
As disclosed in the 2004 Full Annual Financial Report and Accounts, LTIP awards would normally vest at the end of a three year performance period. However, the Remuneration Committee considered it appropriate, in the circumstances of the sale of the Life Services business and the return of capital to shareholders, to allow part of the 2004 awards granted to employees of the remaining group to vest. The Remuneration Committee took into account that the return of capital achieved an accelerated release of capital from the Life Services business. Furthermore, after completion of the sale of the Life Services business the remaining group would be smaller, with a different business to that which it had been when the awards were granted. The Remuneration Committee determined that two thirds of the 2004 LTIP awards became vested for these employees. This part of the award was subject to the application of the TSR performance condition up to the completion of the sale and this resulted in all of the shares comprised in the two thirds part being vested.

The remaining one third of the 2004 LTIP awards continues to be held subject to the balance of the three year performance period and subject to the satisfaction of the TSR performance condition over that period.

In the case of both the Life Services business and other employees, the awards were exercisable for six months from the date of vesting, and any remaining at the end of that period have now lapsed.

The 2005 LTIP award
The proportion of the 2005 LTIP awards that will vest will be determined by reference to the growth in the Company's TSR over the three year period commencing 1 January 2005, compared to that achieved over the same period by the companies in the FTSE 250 index. If the Company's TSR performance is below the 50th percentile, none of the shares awarded will vest. If the Company's TSR performance is at the 50th percentile, 35% of the shares awarded will vest and if it is at the 75th percentile, 100% of the shares awarded will vest. Vesting between these two points will be calculated on a straight line basis. Additionally awards will only be capable of vesting after 12 April 2008. Similarly, the one third of the 2004 LTIP awards that continue will remain subject to the TSR performance measure. In this case, performance will be measured over the three year period commencing 1 January 2004.

The Remuneration Committee intends to make annual awards under the LTIP to the Executive Directors in 2006.

The Remuneration Committee has also determined that, over time, each Executive Director should be required to maintain a target shareholding of ordinary shares in the Company, equivalent to 100% of base salary, in order to align the interests of Executive Directors more closely with those of shareholders. This is expected to be attained mainly through vesting of awards under the LTIP and, following the partial vesting of the 2004 LTIP, is currently being achieved by the Chief Executive. The Chief Financial Officer has a holding equivalent to 40% of his current base salary.

Changes in 2006
Following the sale of the Life Services business, the Remuneration Committee, using independent advisers, has reviewed the remuneration of the Executive Directors. The Remuneration Committee aims to ensure that the basic salaries of the Executive Directors reflect levels and trends in a group of similar financial institutions. The Committee considers that exceptional performance, whether individual or corporate, should be rewarded through bonus and incentive schemes rather than salary.

The Remuneration Committee has therefore considered all elements of the Chief Executive's package and, taking account of the fact that his old package was contractual, has negotiated new arrangements with him. His package for 2006 incorporates the following:
- Basic salary of £350,000 per annum, reduced from £600,000.
- Short Term Incentive (STI) of up to 600% of new, reduced salary with a target of 300%. On the Chief Executive's old salary of £600,000 the maximum was 200% of salary with a target of 100%. The STI payment depends on what is achieved on five variables which include return on capital, profit before tax, cost to income ratio, investment performance and net fund flows. More than 70% of the weighting of these variables relates to return on capital, profit before tax and the cost to income ratio.
- An STI guarantee of £250,000 per annum will apply for three years.
- The annual face value capable of being awarded in the LTIP will remain the same, at £1.5m.
- The defined benefit pension was based on accruals of 1/30th per annum and on £750,000. Rights accrued under this scheme will be protected, but from 2006 continued participation in the defined benefit scheme will be on a salary of £350,000. In addition, £175,000 per annum will be paid on a monthly basis into a defined contribution pension arrangement.
- Life insurance and termination arrangements, which have been based on the 2005 salary of £600,000, will move to the new salary over the next three years.

The Remuneration Committee is also reviewing the remuneration arrangements of the Chief Financial Officer.

Further to the announcement that Roger Yates has become a Non-Executive Director of IG Group Holdings plc, he will retain the fees of £30,000 per annum paid by IG Group Holdings plc.

All-employee share schemes
The Sharesave Scheme, a savings related share option scheme, is available to all employees. This Sharesave Scheme operates within specific UK tax legislation (including a requirement to finance exercise of the option using the proceeds of a monthly savings contract) and exercise of the option is not subject to satisfaction of a performance target since this is an all-employee scheme. Executive Directors are eligible to participate in the Company's all-employee Sharesave Scheme on the same terms as other employees.

The Henderson Share Incentive Plan (SIP) is an all-employee scheme that operates within specific UK tax legislation and was established following shareholder approval at the 2004 AGM. The SIP represents a further opportunity for Henderson Global Investors employees to increase their share ownership, which is an important tool in attracting and retaining staff in the asset management industry. The SIP enables participants to acquire ordinary shares out of deductions from gross salary, for which the Company may provide matching shares. The SIP also allows for limited annual awards of free shares up to Inland Revenue limits. Executive Directors are not eligible to participate in the SIP.

The Henderson Employee Share Ownership Plan (ESOP) is an opportunity for Henderson Global Investors employees to further increase their ownership in the Group. Employees are able to purchase Henderson Group shares up to a set limit through the Deferred Equity Plan and subject to continued employment over a four year period, the Company provides one further matching share for each share purchased. Executive Directors are not eligible to participate in the ESOP.

Pensions
Retirement benefits are designed to be both market and cost effective. The Company is the sponsoring employer of the Henderson Group Pension Scheme (the Scheme), which has both defined benefit sections (closed to new members) and a defined contribution section. As a result of the statutory cap on earnings, the Company also has unapproved pension arrangements, which apply to certain current and former Group employees. In addition, the Group has pension arrangements in place for its non-UK-based employees, which are in line with market conditions in those regions.

The Executive Directors participate in non-contributory sections of the Scheme providing Scheme benefits on either a defined benefit or defined contribution basis, depending on the date the Executive Director joined the Scheme.

The Chief Executive is entitled to a pension accruing at 1/30th of uncapped pensionable salary, being the greater of £750,000 or his basic salary at the time of leaving pensionable service, for each year of pensionable service. The Scheme will provide the Chief Executive with a pension of 1/30th of pensionable salary in respect of pensionable salary below the earnings cap imposed by the Finance Act 1989 for each year of pensionable service. The earnings cap for 2005/2006 is £105,600. In addition, the Chief Executive participates in an unfunded unapproved retirement benefits scheme which will provide the balance of his pension entitlement.

The Chief Financial Officer is entitled to a pension accruing at 1/45th of pensionable salary up to the earnings cap for each year of pensionable service under the Scheme. Since 23 December 2003, the Chief Financial Officer has participated in an unfunded unapproved pension arrangement to provide benefits in respect of his pensionable earnings above the earnings cap.

As mentioned on page 27, for future service, the pension arrangements for the Chief Executive will alter in 2006.

The Managing Director, Life Services who left the Group on 14 April 2005 as part of the sale of the Life Services business, participated in the money purchase section of the Scheme from 23 December 2003 until 31 March 2005. He received a credit to his money purchase account of 51% of the earnings cap which Watson Wyatt LLP had confirmed was in line with current Inland Revenue limits and broadly comparable to the contribution rate required to fund a pension accruing at 1/30th of the earnings cap for each year of service.

Other benefits and benefits in kind
The Executive Directors are contractually entitled to a lump-sum life assurance benefit of four times salary, permanent health insurance and medical insurance. The Chief Financial Officer is, and the Managing Director of Life Services (MDLS) was, entitled to a car allowance of £11,000 per annum each (pro rata to 13 April 2005 for the Managing Director of Life Services).

The Executive Directors also benefit from indemnity arrangements in respect of their services as Directors, and Directors' and officers' insurance, under separate Deeds of Indemnity.

Contracts and termination provisions
The Company's policy is to employ Executive Directors on one year rolling contracts although, in exceptional circumstances on recruitment, longer initial terms may be approved by the Remuneration Committee. To date, it has not exercised this right. The Remuneration Committee will, consistent with the best interests of the Company, seek to minimise termination payments.

The Executive Directors have service agreements terminable on not less than 12 months' written notice by the Company or on not less than six months' written notice by the relevant Executive Director.

The service agreements allow the Company to suspend the Executive Directors from their duties at any time after notice has been given by either party provided they continue to receive full pay. Under certain circumstances (e.g. serious misconduct), the Company may terminate employment immediately with no liability to make any further payment (other than amounts accrued to the date of termination).

There are no other provisions for compensation payable on early termination in the above contracts. In relation to their participation in incentive related pay, Executive Directors are subject to the rules of the LTIP in the same manner as other participants.

Chairman and Non-Executive Directors

The remuneration of the Board Chairman is determined by the Chairman of the Remuneration Committee and the other Non-Executive Directors, and for other Non-Executive Directors is determined by the Chairman and the Executive Directors on the basis of external independent advice. The Board Chairman and Non-Executive Directors serve the Company under letters of appointment which are terminable by the Company on one month's notice without liability for compensation; they do not have service agreements. It is the Company's policy that the Board Chairman and Non-Executive Directors do not participate in any of the Group's bonus, incentive or pension schemes, nor are they entitled to any retirement benefits. Under their respective letters of appointment:

(a) The annual fee payable to each Non-Executive Director (other than the Board Chairman and the Audit and Remuneration Committee Chairmen) is £40,000.

(b) Rupert Pennant-Rea was appointed as Non-Executive Chairman of the Company with effect from 1 March 2005. His fees are £150,000 per annum (inclusive of all other fees as a director or officer); he is also entitled to a fee of £1,000 per annum for travel expenses.

(c) Duncan Ferguson was entitled to additional fees of £7,500 per annum as Chairman of London Life. He is also entitled to fees of £500 per half day and £1,000 per whole day for attendance at meetings of various subsidiary boards and committees of which he is a director or member, where such attendance is required on days other than Board meeting days.

(d) John Roques is entitled to additional fees of £5,000 per annum as Chairman of the Audit Committee and from June 2005 £5,000 per annum as Senior Independent Director. He is also entitled to fees of £500 per half day and £1,000 per whole day for attendance at the meetings of the boards of Towry Law plc of which he is a director, where such attendance is required on days other than Board meeting days.

(e) Anthony Hotson was entitled to additional fees of £7,500 as Chairman of Towry Law plc. He is also entitled to fees of £500 per half day and £1,000 per whole day for attendance at meetings of various subsidiary boards and committees of which he is a director/committee member where such attendance is required on days other than Board meeting days.

(f) Sir William Wells' appointment letter was varied to confirm that he remained as a Non-Executive Director until June 2005 on an annual fee of £50,000 including £5,000 per annum for his role as Senior Independent Director.

(g) Gerald Aherne is entitled to additional fees of £5,000 per annum as Chairman of the Remuneration Committee from June 2005.

The Chairman, following independent advice, has determined that the fees paid to Non-Executive Directors will be unchanged for 2006. However, an increase of £10,000 per annum (from £5,000 to £15,000) for the Chairmanships of the Audit and Remuneration Committees has been approved effective from January 2006. This reflects the growing amounts of ad hoc and additional work these Committees are involved in.

Tables

The following tables on pages 31 to 33 provide greater detail in respect of each of the Directors' and former Directors' emoluments, pension entitlements and share interests, which have been audited by the Company's auditors.

Directors' emoluments in 2005
The emoluments (cash payments and benefits in kind, but not including any pension and equity incentive award) of the Directors of the Company in respect of the period for which they were in office in the relevant year, including their remuneration in respect of subsidiary undertakings, comprised:

	Salary and fees £'000	Benefits in kind £'000	Annual cash bonus £'000	Current employment arrangement £'000	Legacy arrangements £'000	2005 total £'000	2004 total £'000
Chairman							
R. Pennant-Rea (Chairman and Non-Executive Director) (from 1 March 2005)	133	–	–	133	–	**133**	10
Sir Malcolm Bates (Chairman and Non-Executive Director) (retired 28 February 2005)	25	–	–	25	–	**25**	151
Executive Directors							
R.P. Yates (Chief Executive)	600	73	930	1,603	96	**1,699**	2,789
N.T. Hiscock (CFO)	311	2	349	662	27	**689**	997
I.W. Laughlin (until 13 April 2005) (MDLS)	82	1	23	106	–	**106**	1,005
Non-Executive Directors							
P.J. Costain (until 28 February 2005)	7	–	–	7	–	**7**	44
A.C. Hotson	47	–	–	47	–	**47**	73
Sir William Wells (until 9 June 2005)	23	–	–	23	–	**23**	50
J. Roques	51	–	–	51	–	**51**	46
D. Ferguson	45	–	–	45	–	**45**	24
G. Aherne	44	–	–	44	–	**44**	10
Total	1,368	76	1,302	2,746	123	**2,869**	5,199

Notes
1. There were no amounts paid to the Executive Directors in respect of their qualifying services by way of expenses allowance that was chargeable to UK income tax.
2. Emoluments of all Directors are stated with effect from 1 January 2005 or the date of appointment, if later.
3. The non-cash elements of the Executive Directors' remuneration packages (disclosed in the table above as benefits in kind) consist of the provision of life assurance and private medical insurance.

From 23 December 2003, the Executive Directors ceased to be eligible for further awards under the Henderson Long-Term Value Sharing Incentive Plan (HLTVSIP). Under the HLTVSIP, the Chief Executive and the Chief Financial Officer received awards of phantom equity units in substitution for part of their bonus for the year ended 31 December 2000. Together with matching units this entitled them to receive cash payments on satisfaction of various performance targets relating to return on capital and continued employment, payable over three years with the first payment having been made in January 2004 and the second in January 2005. For the Chief Executive and Chief Financial Officer the 2005 payment was £95,394 and £27,134 respectively. The final payment in this scheme was due January 2006.

Long-Term incentives
(a) Pensions
In accordance with the Regulations, the tables below show the Company's and members' contributions, the increase in accrued entitlement during the year and the accrued entitlement at the end of the year.

(b) Directors' pension entitlements
(i) Defined benefit
The following table gives details of the accrued pension benefit at 31 December 2005 (or retirement, if earlier) for Directors who have participated in the defined benefits section of the UK Scheme during the year to 31 December 2005. The final column represents the Company's funding obligations for 2005.

	Service at 31/12/2005	Accrued benefit at 31/12/2005 £'000	Additional pension earned during year to 31/12/2005 £'000	Transfer value of accrued benefit at 31/12/2005 ("A") £'000	Transfer value of accrued benefit at 31/12/2004 ("B") £'000	The amount of (A-B) less contributions made by Directors during 2005 £'000
R.P. Yates (Chief Executive)	6 years 3 months	156	25	1,696	1,305	391
N.T. Hiscock (CFO)	13 years 8 months	41	8	458	352	106
Total		197	33	2,154	1,657	497

(ii) Defined contribution
The following table gives details of the pension contributions paid or payable by the Company into defined contribution arrangements for the period to 1 April 2005.

	2005 employer contributions £'000	2004 employer contributions £'000
I.W. Laughlin (MDLS)	**15**	51
Total	**15**	51

(c) Directors' share interests
At 31 December 2005 (or date of retirement, if earlier) and at 31 December 2004 the Directors had the following beneficial interests in shares in the Company:

	8 March 2006 No.	31 December 2005 or retirement No.	31 December 2004 No.
Chairman			
R. Pennant-Rea (Appointed Non-Executive Director 1 October 2004 and Chairman 1 March 2005)	48,000	**48,000**	–
Executive Directors			
R.P. Yates (Chief Executive)	1,579,039	**1,579,039**	600,692
N.T. Hiscock (CFO)	156,135	**156,135**	70,954
Non-Executive Directors			
A.C. Hotson	21,500	**21,500**	45,700
J. Roques	12,000	**12,000**	25,000
D. Ferguson	12,000	**12,000**	25,000
G. Aherne	24,000	**24,000**	50,000
Former Directors			
Sir Malcolm Bates (retired 28 February 2005)	n/a	**107,649**	107,649
P.J. Costain (retired 28 February 2005)	n/a	**102,431**	102,431
I.W. Laughlin (retired 13 April 2005)	n/a	**60,291**	60,291
Sir William Wells (retired 9 June 2005)	n/a	**49,500**	104,077
Total		**2,172,545**	1,191,794

(d) Directors' interests in share awards
The following table shows the Executive Directors' interests in the Sharesave and LTIP:

	Interests at 31 December 2004			Awards made or vested during 2005				Interests at 31 December 2005	
	Sharesave No.	Maximum LTIP award No.	Target LTIP award No.	Sharesave vested No.	LTIP vested No.	Maximum LTIP award No.	Target LTIP award No.	Sharesave No.	LTIP No.
R.P. Yates (Chief Executive)	22,656	3,288,031	1,377,685	–	2,192,020	2,449,000	1,026,131	**22,656**	**3,545,011**
N.T. Hiscock (CFO)	22,656	1,052,170	440,859	–	701,446	857,000	359,083	**22,656**	**1,207,724**
I.W. Laughlin (MDLS) (at 13 April 2005)	22,656	964,489	404,121	22,656	964,489	–	–	**–**	**–**
Total	67,968	5,304,690	2,222,665	22,656	3,857,955	3,306,000	1,385,214	**45,312**	**4,752,735**

Notes
1. Under the Sharesave, after 36 monthly contributions of up to £250, Sharesave participants may exercise their options to acquire Henderson Group shares at an issue price of 41.6 pence per share. The option price was set at a 20% discount to the closing mid market value on 2 April 2004. There was no Sharesave plan in 2005.
2. Maximum LTIP award – this is the number of shares initially awarded. The number of shares awarded in 2004 was based on the three month average market value of the shares prior to the date of award, 2 April 2004. The average market price on which the awards were based was 45.62 pence. The number of shares awarded in 2005 was based on the three month average market value of the shares prior to the date of award, 13 April 2005. The average market price on which the awards were based was 61.25 pence.
3. Although the LTIP 2004 award was granted with a three year cycle (1 January 2004–31 December 2006), as discussed in the Long-Term Incentives section for remaining Group employees, for Mr Yates and Mr Hiscock, two thirds vested on the sale of the Life Services business, with the remaining one third award subject to the three year cycle. On exercise, awards will be satisfied by the transfer to participants of shares purchased on market by the LTIP trustee.
4. Target LTIP award – this number reflects the number of shares that would vest on the vesting date, based on an expected level of achievement of the TSR performance target (41.9%) at the time of award.
5. Mr Laughlin exercised his full 2004 LTIP award and his Sharesave on 3 May 2005 and 5 October 2005 respectively after leaving the Group.
6. The 52 week high and low share price in 2005 was 75.00 pence and 56.75 pence respectively. At 30 December 2005, the share price was 74.25 pence.

ADDITIONAL REMUNERATION INFORMATION

Disclosure of non-Director executive remuneration is not required either by UK laws that apply to the Company or by UK corporate governance or best practice guidelines, nor is it market practice in the UK for this information to be disclosed. The Principles of Good Corporate Governance and Best Practice Recommendations issued by the Australian Stock Exchange Corporate Governance Council recommend certain information to be disclosed about the remuneration of the five highest paid non-Director executives. Details of the remuneration of each individual and the value of the component parts of their remuneration have not been disclosed, to ensure that these details do not become available to the Company's competitors in the UK as the Company considers this information to be commercially sensitive. The five highest paid non-Director executives during 2005 were:

Name	Position
Mike Clare	Managing Director, Pan-Europe and Asia
James Darkins	Managing Director, Property
Andrew Formica	Head of Equities
Roger Greville	Managing Director, Private Capital
David Jacob	Head of Fixed Interest

The aggregate annual remuneration for the five executives listed above was £4,073,925 made up of the following:

- basic salary;
- a discretionary annual bonus, which is dependent on stipulated Company, divisional and individual performance measures;
- discretionary performance fees or transaction fee awards awarded in 2005;
- company non-contributory (i.e. the employee does not contribute and the company bears all the costs) pension plan in either a defined benefit or defined contribution section of the plan; and
- other benefits including private medical insurance, car allowance, season ticket loans and life assurance.

In April 2005, the Remuneration Committee made awards to non-Director executives under the LTIP as described on page 58. In 2005, the aggregate market value of the ordinary shares (averaged over the three month period immediately prior to the date of grant) capable of being acquired by any non-Director executives under these awards is a maximum of 125% of salary depending on the role and responsibilities of the relevant executive. The vesting criteria set out on page 58 will apply to these awards. The executives were awarded 2,633,500 shares under the LTIP in April 2005, the vesting of which is described in the long-term incentives section. Non-Director executives are entitled to participate in the Sharesave Scheme and SIP as described on page 58.

Non-Director executives may also be invited to participate in the Deferred Equity Plan under which participants receive part of their annual bonus principally since 2004, in the form of the Company's shares or, exceptionally, an interest in an investment fund at the end of a specified restricted period, subject to the executive continuing to be employed by the Group. The restricted period will normally be one to three years, but cannot be less than one year or more than five years. The investment fund will be units in a UK authorised unit trust, ordinary shares in an investment trust company, shares in the capital of an open-ended investment company or shares in the capital of a societe d'investissement (in all cases the assets of which are managed by a company in the Group).

The structure of the remuneration packages for non-Director executives is designed to support the achievement of the same key measures as for Executive Directors (as set out on page 26), and to ensure that executive pay complies with the Board's remuneration policy (as described on pages 24 to 33).

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Directors are required to prepare financial statements for each financial year that present fairly the financial position, the financial performance and the cash flows of the Company and 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;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and of the Group and that enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT
to the Shareholders of the Henderson Group plc

We have audited the Full Annual Financial Report and Accounts (the "financial statements") of Henderson Group plc ("the Group") for the year ended 31 December 2005 which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Company Balance Sheet, Company Cash Flow Statement and the related notes 1 to 48. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Report on Directors' Remuneration that is described as having been audited.

This report is made solely to the Group members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, the Report on Directors' Remuneration and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Report on Directors' Remuneration to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Report on Directors' Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, Chief Executive's Statement, Board of Directors information, Business Review, Directors' Report, Corporate Responsibility Report, Corporate Governance Statement, and the unaudited parts of the Report on Directors' Remuneration. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Report on Directors' Remuneration to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Report on Directors' Remuneration to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Report on Directors' Remuneration to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2005; and
- the financial statements and the part of the Report on Directors' Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Ernst & Young LLP
Registered auditor
London
27 February 2006

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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	Continuing operations[1] £m	Discontinued operations[2] £m	Eliminations[3] £m	Total[4] £m
Continuing operations					
Income					
Gross fee income and commission receivable on sales	4	273.1	–	(7.3)	265.8
Finance income	4	26.8	–	(2.1)	24.7
Total income		299.9	–	(9.4)	290.5
Commissions payable on sales	4	(25.9)	–	–	(25.9)
Net fee and commission income		274.0	–	(9.4)	264.6
Expenses					
Administration costs	5.1	(201.9)	–	0.4	(201.5)
Other charges	5.2	(5.1)	–	–	(5.1)
Total expenses		(207.0)	–	0.4	(206.6)
Finance costs	7	(3.6)	–	3.0	(0.6)
Net profit before tax from continuing operations		63.4	–	(6.0)	57.4
Taxation	9	(11.5)	–	–	(11.5)
Net profit after tax from continuing operations		**51.9**	**–**	**(6.0)**	**45.9**
Discontinued operations					
Net profit after tax from discontinued operations	36.1	–	14.4	6.0	20.4
Net (loss) after tax on disposal of discontinued operations	35.2	–	(18.6)	–	(18.6)
Net (loss)/profit after tax from discontinued operations		**–**	**(4.2)**	**6.0**	**1.8**
Net profit before tax from all operations		63.4	0.6	–	64.0
Total taxation	9,38	(11.5)	(4.8)	–	(16.3)
Net profit/(loss) after tax from all operations		**51.9**	**(4.2)**	**–**	**47.7**
Attributable to:					
Equity holders of the parent	21.1				51.2
Minority interests – discontinued operations	21.1				(3.5)
					47.7
Continuing earnings per share					
Basic earnings per share	10.2	3.2p			
Diluted earnings per share	10.2	3.2p			

Notes
1. The continuing operations column represents the continuing business of the Group (Henderson Group plc and its subsidiaries) before eliminations.
2. The discontinued operations column represents the discontinued operations of Towry Law International, the Life Services business and Towry Law UK.
3. Eliminations represent the intra-group transactions between the continuing operations and the discontinued operations of the Life Services business up to the date of its disposal on 13 April 2005. Since that date the fee income eliminated as an intra-group transaction has been replaced by the income derived under the new investment management agreements with Pearl Group Limited.
4. The total column represents the continuing and discontinued businesses, net of intra-group transactions.

For the year ended 31 December 2004

	Notes	Continuing operations[1] £m	Discontinued operations[2] £m	Eliminations[3] £m	Total[4] £m
Continuing operations					
Income					
Gross fee income and commission receivable on sales	4	257.2	–	(46.5)	210.7
Finance income	4	22.1	–	(11.1)	11.0
Total income		279.3	–	(57.6)	221.7
Commissions payable on sales	4	(22.3)	–	–	(22.3)
Net fee and commission income		257.0	–	(57.6)	199.4
Expenses					
Administration costs	5.1	(187.7)	–	(2.5)	(190.2)
Other charges	5.2	(5.4)	–	–	(5.4)
Total expenses		(193.1)	–	(2.5)	(195.6)
Finance costs	7	(10.9)	–	10.9	–
Net profit before tax from continuing operations		53.0	–	(49.2)	3.8
Taxation	9	(4.2)	–	–	(4.2)
Net profit/(loss) after tax from continuing operations		**48.8**	**–**	**(49.2)**	**(0.4)**
Discontinued operations					
Net (loss) after tax from discontinued operations	36.1	–	(50.1)	47.4	(2.7)
Net gain after tax on disposal of discontinued operations	35.2	–	13.1	–	13.1
Net (loss) arising on adjustment to fair value less costs to sell on disposal groups	35.2	–	(183.2)	–	(183.2)
Net (loss) after tax from discontinued operations		**–**	**(220.2)**	**47.4**	**(172.8)**
Net profit/(loss) before tax from all operations		53.0	(174.3)	(1.8)	(123.1)
Total taxation	9,38	(4.2)	(45.9)	–	(50.1)
Net profit/(loss) after tax from all operations		**48.8**	**(220.2)**	**(1.8)**	**(173.2)**
Attributable to:					
Equity holders of the parent	21.1				(220.1)
Minority interests – discontinued operations	21.1				46.9
					(173.2)
Continuing earnings per share					
Basic earnings per share	10.2	1.8p			
Diluted earnings per share	10.2	1.8p			

Notes
1. The continuing operations column represents the continuing business of the Group (Henderson Group plc and its subsidiaries) before eliminations.
2. The discontinued operations column represents the discontinued operations of the Cogent business, Towry Law International, Virgin Money Group Limited, the Life Services business and Towry Law UK.
3. Eliminations represent the intra-group transactions between the continuing operations and the discontinued operations. Following the disposal of the Life Services business, the fee income eliminated as an intra-group transaction was replaced by the income derived under the new investment management agreements with Pearl Group Limited.
4. The total column represents the continuing and discontinued businesses, net of intra-group transactions.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Exchange differences on translation of foreign operations	21.1	**(1.5)**	(1.9)
Revaluation reserve transfer on sale of available-for-sale investments	21.1	**3.4**	–
(Losses)/gains on revaluation of available-for-sale financial assets	21.1	**(4.5)**	2.6
Actuarial (losses) on pension schemes	29	**(10.8)**	(25.3)
Tax on items taken directly to equity	23.1	**4.4**	0.4
Net (expense) recognised directly in equity		**(9.0)**	(24.2)
Net profit/(loss) after tax from all operations		**47.7**	(173.2)
Total recognised income and expense		**38.7**	(197.4)
Attributable to:			
Equity holders of the parent	22.1	**42.2**	(244.3)
Minority interests – discontinued operations	36.1	**(3.5)**	46.9
		38.7	(197.4)

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 £m	2004 £m
Assets			
Intangible assets	14	**224.3**	249.0
Investments accounted for using the equity method		**2.0**	2.4
Property, plant and equipment	19	**8.3**	13.2
Deferred tax assets	23.1	**12.8**	2.2
Available-for-sale financial assets	15.1	**96.7**	21.9
Financial assets at fair value through profit or loss	15.1	**0.5**	35.4
Deferred acquisition and commission costs	32	**19.2**	11.6
Trade and other receivables	18	**95.7**	100.2
Cash and cash equivalents	28.2	**487.5**	292.6
		947.0	728.5
Assets held in disposal groups held for sale	36.3	**42.6**	31,879.1
Total assets		**989.6**	32,607.6
Liabilities			
Borrowings	17.1	**–**	0.2
Retirement benefit obligations	29	**45.6**	33.9
Obligations under finance lease	26.2	**–**	1.3
Current tax liabilities		**27.8**	19.3
Provisions	25.1	**66.5**	91.3
Deferred income		**22.0**	18.9
Trade and other payables	24	**163.9**	145.0
		325.8	309.9
Liabilities included in disposal groups held for sale	36.3	**16.7**	30,405.4
Total liabilities		**342.5**	30,715.3
Net assets		**647.1**	**1,892.3**
Capital and reserves			
Share capital	20.2	**115.5**	271.1
Share premium reserve	21.1	**367.2**	1,080.9
Own shares held reserve	21.1	**(4.1)**	(4.0)
Translation reserve	21.1	**(3.4)**	(1.9)
Revaluation reserve	21.1	**(3.0)**	(1.9)
Profit and loss account reserve	21.1	**174.9**	130.8
Henderson Group shareholders' equity		**647.1**	1,475.0
Minority interests – discontinued operations	21.1	**–**	417.3
Total equity	22.1	**647.1**	**1,892.3**

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2006.
They were signed on its behalf by:

Rupert Pennant-Rea
Chairman

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Cash flows from operating activities			
Net profit/(loss) before tax from all operations		**64.0**	(123.1)
Adjustments to reconcile net profit/(loss) before tax from all operations to net cash flows from operating activities:			
Depreciation and impairment of property, plant and equipment		**5.3**	34.7
Impairment/amortisation of goodwill and other intangible assets		**2.1**	143.7
Amortisation of other assets	12.2	**6.3**	1.7
Deferred acquisition cost amortisation – continuing operations		**7.8**	0.3
Deferred acquisition cost amortisation – discontinued operations	37.2.1	**7.7**	35.9
Net (profit) arising from disposal of property, plant and equipment		**(0.1)**	–
Fair value losses/(gains) on financial assets		**128.1**	(1,083.3)
(Gains) from interests in associates		**(0.5)**	(19.1)
Loan interest expense		**24.5**	55.6
Cash flows from operating activities before changes in operating assets and liabilities		**245.2**	(953.6)
Changes in operating assets and liabilities	28.1	**(439.7)**	(136.3)
Tax paid		**(85.8)**	(34.5)
Net cash flows from operating activities		**(280.3)**	**(1,124.4)**
Cash flows from investing activities			
Proceeds from sale or maturity of:			
Property, plant and equipment		**0.6**	1.6
Investment property		**12.1**	1,020.6
Debt or equity instruments and interests in joint ventures		**3,545.3**	22,728.3
Certificates of deposits		**232.5**	1,607.4
Mortgages and other loan repayments from other parties		**221.2**	15.1
Subsidiaries and associates		**(3,260.0)**	192.8
Purchases of:			
Property, plant and equipment		**(3.4)**	(3.8)
Investment property		**(6.6)**	(1,395.9)
Debt or equity instruments and interests in joint ventures		**(2,864.6)**	(24,348.2)
Certificates of deposits		**(124.3)**	(1,593.7)
Mortgages and other loans made to other parties		**(1.0)**	(18.6)
Acquisition of subsidiaries and associates, net of cash acquired		**(0.5)**	(181.7)
Net cash flows from investing activities		**(2,248.7)**	**(1,976.1)**
Cash flows from financing activities			
Proceeds from issue of shares or other equity instruments		**0.6**	118.2
Share issue costs		**–**	(3.5)
Return of cash to shareholders		**(775.3)**	–
Reduction in investor base		**(95.2)**	–
Cash payments to owners to acquire or redeem own shares	21.1	**(6.3)**	(4.0)
Proceeds from short and long-term borrowings		**–**	482.5
Repayments of short and long-term borrowings		**(222.1)**	(5.0)
Amounts due to policyholders on unit-linked investments		**690.7**	1,960.8
Dividends paid to minority interests		**(3.7)**	(8.3)
Interest paid		**(40.3)**	(40.5)
Net cash flows from financing activities		**(451.6)**	**2,500.2**
Effects of exchange rate changes		**1.3**	(42.2)
Net (decrease) in cash and cash equivalents		**(2,979.3)**	**(642.5)**
Cash and cash equivalents at beginning of year		**3,475.8**	4,118.3
Cash and cash equivalents at end of year	28.2	**496.5**	3,475.8

COMPANY BALANCE SHEET

At 31 December 2005

	Notes	2005 £m	2004 £m
Assets			
Current assets			
Current tax assets		**21.7**	–
Trade and other receivables	18	**13.8**	1.6
Cash and cash equivalents	28.3	**258.9**	67.7
		294.4	69.3
Non-current assets			
Investment in subsidiaries	31	**2,659.3**	3,503.0
Financial assets	15.1	**–**	35.0
		2,659.3	3,538.0
Total assets		**2,953.7**	3,607.3
Liabilities			
Current liabilities			
Borrowings	17.2	**971.9**	125.7
Provisions	25.2	**15.2**	38.7
Current tax liabilities		**–**	5.4
Trade and other payables	24	**1,151.8**	1,712.7
		2,138.9	1,882.5
Non-current liabilities			
Borrowings	17.2	**–**	47.0
Total liabilities		**2,138.9**	1,929.5
Net assets		**814.8**	**1,677.8**
Capital and reserves			
Share capital	20.2	**115.5**	271.1
Share premium reserve	21.2	**367.2**	1,080.9
Own shares held reserve	21.2	**–**	(2.3)
Profit and loss account reserve	21.2	**332.1**	328.1
Total equity	22.2	**814.8**	**1,677.8**

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2006.
They were signed on its behalf by:

Rupert Pennant-Rea
Chairman

COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Cash flows from operating activities			
Net (loss) before tax		**(12.7)**	(149.6)
Adjustments to reconcile net (loss) before tax from all operations to net cash flows from operating activities:			
Impairment/amortisation of goodwill and other intangible assets		**692.7**	140.2
Net (profit) arising on financial assets		**(28.0)**	(13.1)
Loan interest expense		**52.4**	39.1
Cash flows from operating activities before changes in operating assets and liabilities		**704.4**	16.6
Changes in operating assets and liabilities			
(Increase) in other assets		**(0.4)**	(61.0)
(Decrease)/increase in other liabilities		**(26.4)**	52.4
Tax received		**–**	26.0
Net cash flows from operating activities		**677.6**	**34.0**
Cash flows from investing activities			
Proceeds from sale or maturity of:			
Loan repayments from other parties		**209.5**	–
Certificates of deposit		**35.0**	–
Purchases of:			
Debt or equity instruments		**(28.4)**	–
Certificates of deposits		**–**	(35.0)
Acquisition of subsidiaries		**–**	(120.3)
Net cash flows from investing activities		**216.1**	**(155.3)**
Cash flows from financing activities			
Proceeds from issue of shares or other equity instruments		**0.6**	118.2
Share issue costs		**–**	(3.5)
Return of cash to shareholders		**(775.3)**	–
Reduction in investor base		**(95.2)**	–
Cash payments to owners to acquire or redeem own shares		**(6.3)**	(2.3)
Repayments of short and long-term borrowings		**(203.9)**	–
New loans raised from subsidiaries		**377.6**	–
Interest paid		**–**	(0.4)
Net cash flows from financing activities		**(702.5)**	**112.0**
Net increase/(decrease) in cash and cash equivalents		**191.2**	**(9.3)**
Cash and cash equivalents at beginning of year		**67.7**	77.0
Cash and cash equivalents at end of year	28.3	**258.9**	67.7

NOTES TO THE FINANCIAL STATEMENTS

1. Authorisation of financial statements and statement of compliance with IFRS

The Group's and Company's financial statements of Henderson Group plc (Company) for the year ended 31 December 2005 were authorised for issue by the Board of Directors on 27 February 2006 and the balance sheets were signed on the Board's behalf by Rupert Pennant-Rea. Henderson Group plc is a public limited company incorporated and domiciled in England. The Company's ordinary shares are traded on the London Stock Exchange and CHESS Depositary Interests are traded on the Australian Stock Exchange.

The Group's and Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Companies Act 1985. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

2. Significant accounting policies

Basis of preparation

This is the first year in which the Group and the Company have prepared their financial statements under IFRS and the comparatives have been restated from UKGAAP to comply with IFRS. The Group issued a press release on 24 June 2005 incorporating its Preliminary IFRS Financial Statements for 2004. This included reconciliations to IFRS from the previously published UKGAAP financial statements, as summarised in note 3. There were no adjustments required to the Company's profit/(loss) or equity on adoption of IFRS.

The accounting policies that follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2005.

The Group and Company financial statements are presented in pounds sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m), except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and the Company as at 31 December each year. The financial statements of all Group subsidiaries other than Henderson Global Investors (Jersey) Limited, which has a year end date of 30 November (see note 30,"Subsidiaries"), are prepared to the same year end date as the parent company. The subsidiary accounts are not all prepared under IFRS. However, all material entities are prepared under either IFRS or UKGAAP. UKGAAP balances reported by subsidiaries are adjusted to meet IFRS requirements for the purposes of these consolidated financial statements.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group has control. Minority interests represent the equity interests in subsidiaries not fully held by the Group.

Interests in Property Limited Partnerships (PLPs), Open-Ended Investment Companies (OEICs) and unit trusts are accounted for as subsidiaries, joint ventures, associates or other financial investments depending on the holdings of the Group and on the level of influence and control that the Group exercises. Strategic shareholder investments in associates where the Group has the ability to exercise significant influence, as well as joint ventures where there is joint control, are accounted for using the equity method.

The 2005 consolidated financial statements include the results of the Life Services business for the period until its disposal on 13 April 2005.

The accounting policies relevant to the continuing and discontinued operations are set out below.

2.1 Significant accounting policies – Continuing operations

Income recognition

Fee and commission income

Fee income includes annual management charges, transaction fees and performance fees. Annual management charges and transaction fees are recognised in the accounting period in which the associated investment management or transaction services are provided. Performance fees are recognised when the prescribed performance hurdles have been achieved and it is probable that the fee will crystallise as a result.

Initial fees and commissions are deferred and amortised over the anticipated period in which services will be provided, determined by reference to the average term of investors in each product on which commissions are earned. Other income is recognised in the accounting period in which services are rendered.

Finance income

Interest income is recognised as it accrues using the effective interest method. Dividend income from investments is recognised on the date that the right to receive payment has been established.

Realised and unrealised gains and losses on investments

Gains and losses (both realised and unrealised) on financial assets designated as at fair value through profit or loss are recognised in the consolidated income statement. Realised and unrealised gains are recognised as part of finance income. Realised and unrealised losses are reported within finance costs.

Gains and losses on financial assets designated as available-for-sale are initially recognised through the consolidated statement of recognised income and expense. Upon disposal, any gain or loss previously taken through the consolidated statement of recognised income and expense is reversed out and the full gain or loss from purchase, after any impairment charge previously recognised, taken through the consolidated income statement.

Realised gains and losses on investments are calculated as the difference between the net sales proceeds and cost or amortised cost. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their original cost, or if they have been previously revalued, the valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the accounting period also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current accounting period.

Goodwill

Goodwill arising on acquisitions, being the excess of the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised in the balance sheet. Goodwill on acquisitions prior to 1 January 2004 is carried at its value on 1 January 2004 (the date of transition to IFRS) less any impairment subsequently incurred. The carrying value of all goodwill is tested annually for impairment, or more frequently if any indicators of impairment arise.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Any impairment is recognised immediately through "other charges" in the consolidated income statement and is not subsequently reversed.

Deferred acquisition and commission costs
For investment management contracts, directly related acquisition costs are deferred to the extent that they are recoverable out of future income. This includes initial commission expenses paid by the fund management business in respect of certain investment products.

These costs are then amortised over the period in which they are expected to be recovered out of margins from matching revenues from related contracts. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability against future margins from the related contracts in force at the balance sheet date.

Property, plant and equipment
Property which is owned and occupied by the Group is stated in the consolidated balance sheet at its revalued amount, being fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation increase is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such assets is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Property depreciation is charged to the income statement on a straight-line basis over the asset's useful economic life of between 25 and 50 years. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to the profit and loss account reserve.

Plant and equipment is valued at cost and depreciated on a straight-line basis over its useful economic life of between two and ten years.

An item of property, plant and equipment is removed upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the consolidated income statement in the year the item is sold or retired.

Financial instruments
Financial assets and liabilities are recognised on the balance sheet when the Group or Company become a party to the contractual provisions of the instrument at fair value adjusted for transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group or Company have also transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the liability is discharged.

Financial assets
Purchases and sales are recognised at the trade date, being the date when the purchase or sale becomes contractually due for settlement. Delivery and settlement terms are usually determined by established practices in the market concerned.

Debt securities, equity securities and holdings in authorised collective investment schemes are designated as either at fair value through profit or loss, including the amendments within the fair value option of IAS 39, or available-for-sale and are measured at subsequent reporting dates at fair value. Where securities are designated at fair value through profit or loss, gains and losses arising from changes in fair value are included in profit or loss for the accounting period. For available-for-sale financial assets, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the accounting period.

Trade receivables, which generally have 30–90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash amounts represent cash in hand and on-demand deposits. Cash equivalents are short-term highly liquid investments with a maturity of 90 days or less from the date of acquisition.

Financial liabilities
Financial liabilities including trade payables are stated at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. A financial liability has been derecognised when the obligation under the liability has been discharged or cancelled or expires.

Derivative financial instruments
The Group uses derivative financial instruments to hedge against market, foreign exchange, liquidity and credit risk.

Derivative financial instruments are classified as held for trading and carried at fair value as assets or liabilities. Fair values are based on quoted market prices. Changes in fair values are recognised in the income statement.

Derivative financial instruments include futures, forwards, options and swap contracts, all of which derive their value mainly from the underlying interest rates, foreign exchange rates, equity and debt instruments.

Fair value estimation
The fair value of financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets is the current bid price. The fair value of investments that are not traded in an active market is determined using valuation techniques including the use of comparable recent arm's-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Investments in subsidiaries
Investments by the Company in subsidiary undertakings are included at cost less any provision for impairment where circumstances indicate that the carrying value may not be recoverable.

Impairment of assets (excluding goodwill)
At each balance sheet date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects a current market assessment of the time value of money and the risks specific to the asset or cash-generating unit.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and it is written down to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Income and sales taxes
The Group provides current tax expense according to the tax laws of each jurisdiction in which it operates, using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is also recognised in equity and not in the income statement.

Expenses and assets are recognised net of the amount of sales tax, except where this tax is not recoverable, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item. Receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority, is included as part of receivables or payables in the balance sheet.

Operating and finance leases
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Other leases are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Borrowings
Borrowings are initially recognised at fair value, being the fair value of the consideration received net of issue costs. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Provisions
Provisions which are liabilities of uncertain timing or amount, are recognised when: the Group has a present obligation, legal or constructive, as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects a current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Foreign currencies
The functional currency of the Company and its UK subsidiaries is pounds sterling. Transactions in foreign currencies are recorded at the rate appropriate at the time of accounting for the transaction. Foreign currency monetary balances at the accounting period end are converted at the rate ruling at that date. Foreign currency non-monetary balances carried at fair value are translated at the rates prevailing at the date when the fair value is determined. Gains and losses arising on retranslation are taken to the consolidated income statement, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations whose functional currency is not pounds sterling are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the accounting period. Exchange differences arising, if any, are taken through the consolidated statement of recognised income and expense to the translation reserve. Such translation differences are recognised in the income statement in the accounting period in which the operation is disposed of.

Employee benefits
The Group provides employees with retirement benefits through both defined benefit and defined contribution plans. The assets of these plans are held separately from the Group's general assets in trustee-administered funds and are valued at fair value. Defined benefit obligations and the cost of providing benefits are determined annually by qualified actuaries using the projected unit credit method. The obligation is measured as the present value of the estimated future cash outflows using a discount rate based on corporate bonds of appropriate duration and quality. The resulting surplus/deficit of defined benefit assets less liabilities is recognised in the consolidated balance sheet. The Group's expense related to these plans is accrued over the employees' service lives, based upon the actuarially determined cost for the accounting period having considered interest costs and the expected return on assets. Actuarial gains and losses are recognised in full in the accounting period in which they occur in the consolidated statement of recognised income and expense. Contributions to the defined contribution scheme are charged to the consolidated income statement as they become payable in accordance with the rules of the scheme.

Other defined benefit post-employment benefits, such as medical care and life insurance, are also provided for certain employees. The cost of such benefits is accrued over the employee's service life, based upon the actuarially determined cost for the accounting period using a methodology similar to that for defined benefit pension plans.

Share-based payment transactions
The Group issues equity-settled and cash-settled share-based payments to certain employees.

Equity-settled share-based payments are measured at fair value at the date of grant and expensed, together with a corresponding increase in equity, on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The expected life of the awards used in the determination of fair value has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

A liability equal to the portion of services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

Treasury shares
Treasury shares held by the Group, including those held by employee benefit trusts, are recorded at cost and deducted from equity.

Equity shares
The ordinary equity shares of 10 pence each are classified as equity instruments. Equity shares issued by the Company are recorded at the proceeds received, net of direct issue costs.

Dividend recognition
Dividend distribution to the Company's shareholders is recognised as a liability in the accounting period in which the dividends are declared and, for the final dividend, when approved by the Company's shareholders at the Annual General Meeting.

2.2. Significant accounting policies – Discontinued operations

Income recognition
Gross premiums written
Long term insurance contract premiums, investment contracts with discretionary participating features, and annuity considerations are credited when they become due, which for single premium business is the date from which the policy is effective. For regular premium contracts, receivables are recorded at the date when payments are due. General business written premiums represent reinstatement premiums that have been earned during the year.

Premiums ceded to reinsurers
Reinsurance premiums are charged when they are payable.

Long term insurance contract claims
Claims payable on maturity are recognised when the claim becomes due for payment and on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the insurance contract liabilities. Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment. Claims payable include the cost of settlement.

Claim recoveries from reinsurers
Reinsurance recoveries are accounted for in the same period as the related claim.

General business claims
General business claims include all claim losses occurring during the year, whether reported or not, including the related handling costs and a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Other intangible assets
Intangible assets acquired in a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to each class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with indefinite useful lives are not amortised. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through other charges. Amortisation is charged on a straight-line basis over the asset's estimated useful life.

Present value of acquired in-force business
The present value of acquired in-force business (PVIF) is recognised in the balance sheet as an asset. To the extent that the PVIF will be recognised as profit over the remaining lifetime of the related in-force policies, it is amortised on a systematic basis, and the discount unwound, over the anticipated lives of the related contracts of the portfolios. The carrying value of the asset is tested annually for impairment. Amortisation and impairment charges are recognised as other charges in the income statement.

Investment property
Investment property, which is property held to earn rentals and/or for capital appreciation, is initially measured at cost including all transaction costs and is subsequently stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in the income statement in the period in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognised in the income statement in the year of derecognition.

Reinsurance assets
The Group cedes insurance risk in the normal course of business in order to limit the potential for losses arising from more risky exposures. Reinsurance does not relieve the originating insurer of its liability. Reinsurance assets represent balances due from reinsurance companies for ceded risks.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Product classification
Contracts in which there is significant insurance risk or which have discretionary participating features have been accounted for as insurance contracts. All other contracts underwritten by insurance subsidiaries are classified as investment contracts. Where insurance contracts contain both an insurance component and an investment component, the Group un-bundles the contract into an insurance component and an investment component.

Investment contract liabilities
Net cash flows from deposits collected and repayments of deposits under investment contracts are accounted for by adjusting the investment contract liability in the balance sheet. Investment contracts are financial liabilities whose fair value is dependent on the fair value of underlying financial assets, derivatives and investment property (unit-linked) and are therefore fair valued.

The fair value of a unit-linked financial liability is determined using the current unit values that reflect the fair values of financial assets contained within the Group's unitised investment funds, multiplied by the number of units attributed to the contract holder at the balance sheet date.

Insurance contract liabilities
Under IFRS4 insurance contract liabilities are measured using accounting policies consistent with those previously adopted under local GAAP. Accounting for insurance business is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers.

Long term insurance contract liabilities
Insurance contract liabilities are approved by the Board of Directors of each respective life company: Pearl, National Provident Life, NPI and London Life following annual investigations by the Head of Actuarial Function of each respective life company.

Participating and non-participating insurance contract liabilities
The provision for participating and non-participating business is calculated initially to comply with the Prudential Sourcebook for Insurers, principally using the gross premium valuation method. The assumptions used in the calculations depend on the circumstances prevailing in each life operation. The provision includes explicit amounts for vested annual bonuses including those relating to the current declaration and makes no provision for future annual or final bonuses. The statutory solvency basis of valuation is then adjusted by eliminating the undistributed surplus carried forward, together with general contingency reserve and reserves required under the Integrated Prudential Sourcebook. The provision which is initially calculated on a statutory solvency basis is adjusted to remove excessively prudent margins required for statutory solvency purposes.

Liability adequacy test
The Group calculates its insurance contract liabilities to ensure that its liabilities (less related deferred acquisition costs and related intangible assets) are adequate. Where liabilities are considered to be inadequate, the Group recognises the entire deficiency through profit for non-profit contracts and unallocated divisible surplus for with-profits contacts.

Long term insurance contract profit recognition and unallocated divisible surplus
Henderson Group plc has adopted the modified statutory solvency basis approach in the determination of profit.

Surpluses arising from the participating long-term insurance contract business, as a result of the annual actuarial valuation of the related assets and liabilities, are subject to appropriation by the directors of the relevant life company subsidiaries to participating policyholders, by way of bonuses, and to shareholders. This determines the profit attributable to shareholders reported in respect of participating business.

Any unappropriated surplus arising in the long-term funds is carried forward in the unallocated divisible surplus. All surplus in other business is attributable to shareholders and included in profit.

The unallocated divisible surplus represents all funds, the allocation of which, to participating policyholders and shareholders, has not been determined at the balance sheet date. Transfers between the unallocated divisible surplus and the income statement represent the changes in these unallocated amounts between balance sheet dates.

General insurance contract liabilities
All classes of business have been discontinued. Provision has been made for obligations that have been incurred that are not expected to be covered by the future profits of the operation, including the expected future investment return on the related assets and their disposal.

Full provision is made for the estimated cost of claims, including claims incurred but not reported after taking into account handling costs, anticipated inflation and settlement trends. Any difference between the estimated provision and subsequent settlement are dealt with in the income statement of later years.

Guarantee fund levies
Provision is made at the balance sheet date for levies declared by the Financial Services Compensation Scheme before completion of the financial statements. Provision is also made if it is more likely than not that a levy will be raised based on premium income, which has already been recognised in the financial statements.

3. First time adoption

This is the first year that the Group has presented its financial statements under IFRS. The Group presented its Preliminary IFRS Report and Accounts for the year ended 31 December 2004 on 24 June 2005. This set out the impact of IFRS on the Group and the Company, including presentation of conversion from UKGAAP to revised IFRS primary statements as at 1 January and 31 December 2004. No further adjustment to the 2004 balances has been necessary in 2005. All figures from 1 January 2005 have been prepared on an IFRS basis, using accounting policies as set out in note 2.

The Group has taken advantage of the following exemptions under IFRS1 "First time adoption of International Financial Reporting Standards":
- business combinations that occurred prior to the date of transition have not been restated in accordance with IFRS3 "Business combinations";
- all goodwill recognised to the date of transition to IFRS, net of cumulative amortisation, is treated as the deemed cost at the date of transition;
- all cumulative actuarial gains and losses on employee defined benefit obligations have been recognised in equity at the date of transition to IFRS;
- the presentation of five year historical information about pension schemes will be applied prospectively from the date of transition to IFRS;
- the designation on initial recognition as financial assets or financial liabilities at fair value through profit or loss or as available-for-sale has been applied prospectively from the date of transition to IFRS;
- cumulative translation differences for all foreign operations have been deemed to be zero at the date of transition to IFRS; and
- fair value of owner-occupied property at the date of transition to IFRS has been used as its deemed cost at that date.

The Group has taken advantage of the exemption available in IFRS4 "Insurance contracts" from the need to disclose comparative information on the following:
- the process used to determine the assumptions;
- the effect of changes in assumptions used to measure insurance assets and liabilities; and
- reconciliations of changes in insurance assets and insurance liabilities.

The Group has taken advantage of the provisions within IFRS5 "Non-current assets held for sale and discontinued operations" to apply this standard to all non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued before 1 January 2005.

The Group has not applied retrospectively the following aspects of IFRS relating to:
- derecognition of financial assets and financial liabilities;
- hedge accounting; and
- estimates.

The Group has applied all new IFRS Standards and Interpretations, which have been issued and are effective for accounting periods beginning on or after 1 January 2005.

3.1 Group

3.1.1 Reconciliation of consolidated equity

	Notes	31 December 2004 £m	1 January 2004 £m
Consolidated shareholders' equity as reported under UKGAAP		1,837.7	1,689.1
IFRS adjustments:			
Retirement benefits	1	(66.6)	(70.0)
Investment contract accounting	2	45.4	62.1
Valuation of investments	3	(6.3)	(9.6)
Insurance contract liabilities	4	4.6	5.4
Contingent capital	5	(199.3)	(59.9)
General insurance	6	2.3	4.7
Goodwill	7	18.9	–
Lease obligations and incentives	8	(3.2)	(3.6)
New subsidiaries	9	(14.7)	(5.7)
Impairment of Life Services	10	(136.6)	–
Deferral of commission income and expenses	11	(1.6)	(1.3)
Performance fee recognition	12	3.2	1.6
Deferred taxation	13	(8.8)	(5.8)
Consolidated total equity as reported under IFRS		1,475.0	1,607.0
Reclassification of minority interests (UKGAAP)	14	83.3	–
Recognition of minority interests in new subsidiaries	9	334.0	299.4
Consolidated equity as reported under IFRS		1,892.3	1,906.4

Explanation of material adjustments to consolidated equity

1. Under IFRS the Group recognises the full net liability on its defined benefit pension scheme in the consolidated balance sheet and takes all actuarial gains and losses through the consolidated statement of recognised income and expense. In addition to this, the Group has revalued its unapproved pension scheme liabilities in accordance with IAS19.
2. Contracts underwritten by insurance subsidiaries that do not meet the definition of an insurance contract under IFRS4 have been accounted for as investment contracts in accordance with IAS39. Under UKGAAP such contracts are accounted for as insurance contracts. This has resulted in a reduction of insurance contract liabilities related to these contracts.
3. Under UKGAAP, Life Services' investments were stated at middle market value and Henderson's investments were stated at the lower of cost and NRV. Under IFRS investments have been revalued to fair value, which is the bid price for assets and the offer price for liabilities.
4. The reduction in the value of Life Services' investments arising from the change in valuation basis (see note 3 above) has resulted in a decrease in insurance contract liabilities.
5. The policyholder funds of National Provident Life Limited and London Life Limited had received contingent loans from their respective parent undertakings, NP Life Holdings Limited and London Life Holdings Limited. Under UKGAAP the long-term insurance contract liabilities are adjusted for the difference arising on consolidation between the carrying value of the contingent loan liability in the relevant life company (which is determined by the approach used to set the long-term insurance contract liabilities in those companies) and the valuation of the contingent loans by the shareholder (representing the best estimate of the Directors of the amounts that will be recoverable from the policyholder funds, based on the market-consistent embedded values of the relevant life companies). On adoption of IFRS, any difference has been written off.
6. Accounting for general insurance in accordance with IFRS4 resulted in the release of an equalisation provision established in accordance with the requirements of the Integrated Prudential Sourcebook for Insurers under UKGAAP.
7. In accordance with the transitional provisions of IFRS1, the Group has chosen to apply IFRS3 prospectively. This has resulted in the value of goodwill arising from previous acquisitions remaining at the UKGAAP value as at 1 January 2004, and the reversal of amortisation charged in 2004, to reflect non-amortisation of goodwill under IFRS. Goodwill is now subject to impairment review in accordance with IFRS3 annually and more frequently where there are indications that the carrying value may not be recoverable.
8. Under IFRS, the Group amortises lease incentives received over the term of the lease rather than over the accounting period to the first rental review. Also, the Group has reclassified certain operating leases as finance leases under IAS17.
9. Application of IAS27 has resulted in a number of PLPs, OEICs, unit trusts and private equity investments being consolidated. This has resulted in the consolidated balance sheet recording a reduction in shareholders' equity as the fair value of the investment has been replaced by their assets and liabilities. Additional minority interests within consolidated equity have also been recognised.
10. The net assets of the Life Services business classified as a disposal group held for sale at 31 December 2004 in accordance with IFRS5 have been impaired at this date to the fair value of consideration received less costs to sell.
11. In accordance with IAS18 initial commission income and expenses in respect of investment products have been recognised over the estimated lifespan of the product to which they relate. IAS1 also requires that all commission income and expenses be shown gross in the income statement.
12. Under UKGAAP, performance fees were recognised on investment management contracts in the accounting period in which the performance fee was formally agreed as payable by the fund board. To comply with IAS18, performance fees are now recognised when the prescribed performance hurdles have been achieved and it is probable that the fee will result.
13. There is an increase in the deferred tax liability carried under IAS12 in the consolidated balance sheet. The adjustments relate to both the impact of other IFRS adjustments on tax balances, and the cessation of discounting of deferred tax balances. The latter was permitted under UKGAAP, but is not under IFRS. The discount recognised to reflect the time value of money on deferred tax assets and liabilities under UKGAAP has also been reversed under IFRS.
14. Minority interests have been reclassified under IFRS to equity.

3.1.2 Reconciliation of consolidated net profit/(loss)

	Notes	2004 £m
Net profit on ordinary activities after taxation as reported under UKGAAP		42.2
IFRS adjustments:		
Retirement benefits	1	28.7
Investment contract accounting	2	(16.7)
Valuation of investments	3	0.7
Insurance contract liabilities	4	(0.8)
Contingent capital	5	(139.4)
General insurance	6	(2.4)
Goodwill	7	18.9
Lease obligations and incentives	8	0.4
New subsidiaries and recognition of minority interests in new subsidiaries	9	33.9
Impairment of Life Services	10	(136.6)
Deferral of commission income and expenses	11	(0.3)
Performance fee recognition	12	1.6
Deferred taxation	13	(3.4)
Net loss after tax from all operations as reported under IFRS		(173.2)

Explanation of material adjustments to consolidated net profit/(loss)

1. Under IFRS the Group recognises the full net liability on its defined benefit pension scheme in the consolidated balance sheet and takes all actuarial gains and losses through the consolidated statement of recognised income and expense. In addition to this, the Group has also revalued its unfunded pension scheme liabilities in accordance with IAS19.
2. Contracts underwritten by insurance subsidiaries that do not meet the definition of an insurance contract under IFRS4 have been accounted for as investment contracts in accordance with IAS39. Under UKGAAP, such contracts are accounted for as insurance contracts. This has resulted in a profit and loss expense being recognised in respect of these contracts.
3. Under UKGAAP, Life Services' investments were stated at middle market value and Henderson's investments were stated at the lower of cost and net realisable value. Under IFRS, investments have been revalued to fair value, which is the bid price for assets and the offer price for liabilities.
4. The reduction in the value of Life Services' investments arising from the change in valuation basis (see note 3 above) has resulted in a decrease in insurance contract liabilities.
5. The policyholder funds of National Provident Life Limited and London Life Limited have received contingent loans from their respective parent undertakings, NP Life Holdings Limited and London Life Holdings Limited. Under UKGAAP, the long-term insurance contract liabilities are adjusted for the difference arising on consolidation between the carrying value of the contingent loan liability in the relevant life company (which is determined by the approach used to set the long-term insurance contract liabilities in those companies) and the valuation of the contingent loans by the shareholder (representing the best estimate of the Directors of the amounts that will be recoverable from the policyholder funds, based on the market-consistent embedded values of the relevant life companies). On adoption of IFRS, the IFRS basis consolidation difference has been written off through the income statement.
6. Accounting for general insurance in accordance with IFRS4 resulted in the release of an equalisation provision established in accordance with the requirements of the Integrated Prudential Sourcebook for Insurers under UKGAAP.
7. In accordance with the transitional provisions of IFRS1, the Group has chosen to apply IFRS3 prospectively. This has resulted in the value of goodwill arising from previous acquisitions remaining at the UKGAAP value as at 1 January 2004 and the reversal of amortisation charged in 2004. Goodwill is now subject to impairment review in accordance with IFRS3 annually and more frequently where there are indications that the carrying value may not be recoverable.
8. Under IFRS, the Group amortises lease incentives received over the term of the lease rather than over the accounting period to the first rental review. Also, the Group has reclassified certain operating leases as finance leases under IAS17.
9. Application of IAS27 has resulted in a number of PLPs, OEICs, unit trusts and private equity investments being consolidated. This has resulted in the consolidated balance sheet recording an additional loss as the fair values of the investments have been replaced by their net assets. An additional loss attributable to minority interests has also been recognised.
10. The net assets of the Life Services business classified as a disposal group held for sale at 31 December 2004 in accordance with IFRS5 have been impaired at this date to the fair value of consideration received less costs to sell.
11. In accordance with IAS18, initial commission income and expenses in respect of investment products have been recognised over the estimated lifespan of the product to which they relate. IAS1 also requires that commission income and expenses be shown gross in the income statement. These balances have been grossed up, but do not impact the equity position of the Group.
12. Under UKGAAP, performance fees were recognised on investment management contracts in the accounting period in which the performance fee was formally agreed as payable by the fund. To comply with IAS18, performance fees are now recognised when the prescribed performance hurdles have been achieved and it is probable that the fee will result.
13. The net effect of the above adjustments results in an increase in the deferred tax liability carried under IAS12 in the consolidated balance sheet. In addition to this, the discount recognised to reflect the time value of money on deferred tax assets and liabilities under UKGAAP has been reversed under IFRS.

3.1.3 Reconciliation of consolidated cash flow statement

	2004			
	As reported under UKGAAP £m	**Include policyholder cash flows (note 1) £m**	**Other (note 2) £m**	**As reported under IFRS £m**
Net cash flows from operating activities	34.7	(1,159.1)	–	(1,124.4)
Net cash flows from investing activities	(135.9)	(1,649.7)	(190.5)	(1,976.1)
Net cash flows from financing activities	107.6	2,392.6	–	2,500.2
Effects of exchange changes	–	(42.4)	0.2	(42.2)
Net increase/(decrease) in cash and cash equivalents	6.4	(458.6)	(190.3)	(642.5)

Explanation of material adjustments to the consolidated cash flow statement

1. The consolidated cash flow statement prepared under IFRS includes all Life Services' long-term business cash transactions which were excluded under UKGAAP.
2. Under IFRS, cash equivalents include short-term highly liquid investments with a maturity of 90 days or less from the date of acquisition. Under UKGAAP such assets were reported in other financial assets and the corresponding cash flows in investing activities.

3.2 Company

3.2.1 Reconciliation of equity

No adjustments were required to equity on adoption of IFRS.

3.2.2 Reconciliation of cash flow statement

No cash flow statement was required to be prepared for the Company under UKGAAP.

4. Income

	Group	
	2005 £m	2004 £m
Gross fee income and commission receivable on sales		
Gross fund management fee income	**265.8**	208.0
Other income	**–**	2.7
	265.8	210.7
Finance income		
Interest on deposits with credit institutions	**24.7**	11.0
Total income	**290.5**	221.7
Commission payable on sales		
Amortisation of capitalised commissions	**(9.7)**	(9.4)
Other commissions	**(16.2)**	(12.9)
	(25.9)	(22.3)
Net fee and commission income	**264.6**	199.4

5. Expenses

5.1 Administration costs

		Group	
	Notes	2005 £m	2004 £m
Employee benefits expense	6.2	**122.7**	118.3
Operating lease expense		**10.7**	6.8
Investment administration		**19.7**	26.6
Information technology		**7.4**	10.7
Office expenses		**4.9**	12.0
Foreign exchange (gains)/losses		**0.1**	(0.1)
Other expenses		**36.0**	15.9
Total administration costs		**201.5**	190.2

5.2 Other charges

		Group	
	Notes	2005 £m	2004 £m
Depreciation of property, plant and equipment	19	**3.0**	5.4
Impairment of goodwill	14.1	**2.1**	–
Total other charges		**5.1**	5.4

There is a difference in relation to the treatment of Towry Law UK in 2004, between the balance sheet, which is treated as continuing and the income statement, which is treated as discontinued. As such a charge of £1.4m for impairment of goodwill has been included in impairment losses in note 14.1 in relation to discontinued operations.

5.3 Auditors' remuneration

	Group	
	2005 **£m**	**2004** **£m**
Statutory audit services	**0.8**	1.7
Statutory regulatory reporting services	**0.1**	0.3
Further assurance services	**0.2**	0.5
Tax advisory services	**0.2**	0.3
Other non-audit services	**0.3**	0.5
Total services	**1.6**	3.3

Included within further assurance services in 2005 is £0.1m (2004: £0.3m) relating to assurance work on the Group's IFRS project.

Other non-audit services in 2005 includes £0.2m in relation to the sale of Towry Law UK whereas in 2004, £0.4m was included in relation to the sale of the Life Services business (note 35.2.4).

6. Employee benefits

6.1 Average employee numbers

The average number of employees of the continuing operations of the Group was as follows:

	Group	
	2005 **no.**	**2004** **no.**
Henderson	**841**	853
Corporate	**40**	60
Total employees	**881**	913

6.2 Analysis of employee benefits expense

Employee benefits expense of the continuing operations comprises:

		Group	
	Notes	**2005** **£m**	**2004** **£m**
Salaries and wages		**98.9**	103.9
Share-based payments	12.2	**6.1**	1.4
Social security costs		**6.2**	6.1
Other pension costs	29	**11.5**	6.9
Total employee benefits		**122.7**	118.3

7. Finance costs

	Group	
	2005 **£m**	**2004** **£m**
Loan interest	**0.6**	–
Total finance costs	**0.6**	–

8. Segmental information

8.1 Group operating income and net assets

Continuing operations
Henderson is an investment manager, operating throughout Europe, also with operations in North America and Asia. Henderson manufactures a broad range of actively managed investment products for institutional and retail investors, across multiple asset classes including equities, fixed income, private equity and property. It also manages the assets of Pearl Group Limited's life funds.

Management operate across product lines, distribution channels, and geographic regions. The Board considers that the risks and rewards to the business are not substantially different across the geographic regions in which Henderson operates so as to warrant separate disclosure. Core equities and fixed income, property, private equity and wholesale funds are sold in most, if not all, of these regions, and are managed in various locations. On this basis, Henderson considers itself to be a single segment investment management business.

Discontinued operations
On 13 April 2005 Henderson Group plc sold the Life Services business (Life Services), which included the life insurance and pension books of Pearl Assurance, London Life, National Provident Life, NPI Limited and HHG Services Limited (Service Company) (note 35.2.4).

The Group also announced on 21 December 2005 that an agreement had been reached with JS&P Holdings Limited for the sale of Towry Law UK (TLUK) and its subsidiaries. This sale remains subject to Financial Services Authority (FSA) approval and as such, has not been reflected in the operating results for the year ended 31 December 2005.

Given the above-mentioned disposals, the results of the Life Services business and TLUK have been classified as discontinued operations. Also included within discontinued operations are the profits/(losses) arising from Virgin Money Group Limited and Towry Law International, which were sold and terminated respectively during 2004 (notes 35.2.2 and 35.2.3).

9. Taxation

	Group	
	2005 £m	**2004 £m**
Current income tax:		
Current year	**29.1**	15.4
Prior year	**(1.6)**	(5.4)
Deferred tax relating to:		
Temporary differences	**(12.1)**	(1.4)
Write downs of previously recognised tax assets	**5.9**	–
Previously unrecognised tax loss, tax credit or temporary difference of a prior period used to reduce:		
Current tax	**(9.8)**	(4.4)
Total taxation charge/(credit)	**11.5**	4.2

Tax (credited) to equity

	Group	
	2005 £m	**2004 £m**
Deferred tax	**(4.4)**	(0.4)
Total tax (credited) to equity	**(4.4)**	(0.4)

9. Taxation (continued)

Reconciliation of tax expense/(income) to the standard rate of corporate tax

	Group	
	2005 £m	**2004 £m**
Net profit/(loss) before tax from continuing operations	**57.4**	3.8
Eliminations	**6.0**	49.2
Net profit/(loss) before tax from all operations – continuing operations	**63.4**	53.0
Tax at the applicable UK corporate tax rate of 30% (2004: 30%) on profit before tax	**19.0**	15.9

The reconciliation of the tax expense of £11.5m (2004: £4.2m) to net profit/(loss) before tax multiplied at 30% is as follows:

	Group	
	2005 £m	**2004 £m**
Total tax expense for continuing operations	**11.5**	4.2
Tax effect of expenses that are not deductible for tax purposes:		
Goodwill impairment	**(0.7)**	–
Other disallowable expenses	**(9.4)**	(2.3)
Release of non-taxable provision	**–**	–
Tax effect of income that is not taxable	**0.2**	–
Current tax losses surrendered for nil value	**–**	(3.6)
Adjustment for prior years (current and deferred)	**7.4**	5.4
Lower tax rates on overseas earnings	**0.2**	2.9
Movement in unprovided deferred tax	**–**	4.9
Utilisation of previously unrecognised tax losses	**9.8**	4.4
Tax at the applicable UK corporation tax rate of 30% (2004: 30%) on net profit/(loss) before tax	**19.0**	15.9

10. Earnings per share

10.1 From all operations

10.1.1 Number of shares

	2005 no. (millions)	**2004 no. (millions)**
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,641.2**	2,645.6
Dilutive potential of:		
Share options	**3.0**	8.4
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,644.2**	2,654.0

Basic and diluted earnings per share have been calculated on the net profit/(loss) attributable to equity shareholders. The difference of 3.0m (2004: 8.4m) 10 pence shares between the weighted average number of shares used in the basic earnings per share and the diluted earnings per share calculations reflects the dilutive impact of the Group's share-based payment schemes (note 12).

The number of shares used is the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

10.1.2 Earnings

	2005 £m	2004 £m
Earnings for the purposes of basic and diluted earnings per share, being net profit/(loss) after tax from all operations attributable to equity holders of the parent	**51.2**	(220.1)

10.1.3 Earnings per share

	2005 pence	2004 pence
Basic	**3.1**	(8.3)
Diluted	**3.1**	(8.3)

10.2 From continuing operations before eliminations
10.2.1 Earnings

	2005 £m	2004 £m
Net profit/(loss) attributable to equity holders of the parent	**51.2**	(220.1)
Adjustments to exclude net loss after tax from discontinued operations	**4.2**	220.2
Adjustments to exclude net loss after tax from eliminations	**–**	1.8
Adjustments to exclude net loss after tax from discontinued operations attributable to minority interest	**(3.5)**	46.9
Earnings from continuing operations for the purpose of basic and diluted earnings per share excluding discontinued operations	**51.9**	48.8

10.2.2 Earnings per share

	2005 pence	2004 pence
Basic	**3.2**	1.8
Diluted	**3.2**	1.8

10.3 From continuing operations after eliminations
10.3.1 Earnings

	2005 £m	2004 £m
Net profit after tax from continuing operations after eliminations	**45.9**	0.4

10.3.2 Earnings per share

	2005 pence	2004 pence
Basic	**2.8**	0.0
Diluted	**2.8**	0.0

10.4 From discontinued operations
10.4.1 Earnings

	2005 £m	2004 £m
Net profit/(loss) after tax from discontinued operations	**1.8**	(172.8)
Adjustments to exclude net loss/(profit) from discontinued operations attributable to minority interests	**3.5**	(46.9)
Net profit/(loss) after tax from discontinued operations	**5.3**	(219.7)

10.4.2 Earnings per share

	2005 pence	2004 pence
Basic	**0.3**	(8.3)
Diluted	**0.3**	(8.3)

11. Directors' emoluments

This information is included in the Report on Directors' Remuneration commencing on page 24.

12. Share-based payments

12.1 Group share-based compensation plans
The following share-based compensation plans were in operation during 2005.

Sharesave Scheme
Eligible employees who wish to purchase shares in Henderson Group plc contribute a monthly amount to a savings account up to a maximum of £250 after tax per month. At the expiration of 36 months' contribution, the employees have the option to use the funds in the account (plus bonus equivalent to 1.7 times monthly saving) to subscribe for shares at a preset price, this being £0.416 per share, a 20% discount to the share price on 2 April 2004. The scheme vests in May 2007. Employees have up to six months after the 36 month period to exercise their options and subscribe for shares. Forfeiture provisions apply in the case of good and bad leavers.

Share Incentive Plan (SIP)
Eligible employees who wish to purchase shares in Henderson Group plc invest a monthly amount up to a maximum of £125 per month, which is deducted from their gross salary. Up to December 2004 each participating employee received, for no additional payment, one free matching share for each share purchased ("partnership share"). From January 2005, for two months, the matching share ratio increased from 1:1 to 2:1 then reverted back to 1:1. Matching shares will be forfeited if purchased (partnership) shares are withdrawn from the trust within one year.

Long-Term Incentive Plan (LTIP)
Under the LTIP, a number of executives were granted performance shares. There have been two grants, 2004 and 2005.

These awards of free shares are granted on condition that the executives remain with the Company for three years and that the Total Shareholder Return (TSR) of the Group (Henderson Group TSR) shares compares favourably to the median of companies that made up the FTSE 250 index as at 1 January 2004 for 2004 awards and 1 January 2005 for 2005 awards. 35% of the shares will vest if the Henderson Group TSR is at the 50th percentile of the FTSE 250 companies, with the full amount of shares granted vesting if the Henderson Group TSR is at or above the 75th percentile of the FTSE 250 companies. No vesting will occur if the Henderson Group TSR is below the 50th percentile of the FTSE 250 companies. The executives are not entitled to vote or receive dividends in respect of these awards until the vesting conditions are met.

100% of awards granted to Life Services employees crystallised on completion of the sale of the Life Services business, subject to performance hurdles being met, whereas two thirds of the awards granted to the remaining Henderson and Towry Law employees vested following the Court approval date for the return of capital, subject to the extent performance hurdles have been met on completion of the sale of the Life Services business. The remaining one third of the 2004 awards held by Henderson and Towry Law employees remain subject to the normal three year performance period and the satisfaction of the TSR performance conditions over that period. On exercise, awards will be satisfied by the transfer to participants of shares purchased on market by the LTIP trustee.

Following the sale of the Towry Law business and subject to the performance hurdles being met, the remaining element of the initial awards granted to Towry Law employees will crystallise (after pro-rating for time).

A phantom LTIP scheme has been set up for non-UK resident Henderson executives, which is the same in all respects except that it will be settled in cash.

Deferred Equity Plan (DEP)
Under the Henderson remuneration policy, there is a requirement for employees who receive short-term incentive awards over a preset threshold to defer an element of their award. All non-hedge-fund deferrals are deferred into Henderson Group plc shares. Hedge fund deferrals are deferred into the hedge fund that provided the performance fee that generated the award. The deferred monies are paid directly to a trustee, who purchases the nominated investments and holds them in trust. The Henderson Group plc shares attract one free matching share for every three shares awarded by the Trustee. There is no matching element for hedge fund deferrals.

Hedge fund deferrals are held in trust for two years on a fully restricted basis. Forfeiture conditions apply in the case of good and bad leavers.

Deferrals into Henderson Group plc shares are also held in trust for a minimum of one year. However, the shares must be held in trust for three years in order to receive the free matching shares.

In March 2004, a number of executives, but not the Executive Directors, were given the opportunity to invest an amount equivalent to their 2003 annual cash bonus into the Company's shares at market price. Each participating executive will receive, for no additional payment, one free share for every three shares held in the plan for a minimum of three years. Forfeiture conditions apply in the case of good and bad leavers.

Employee Share Ownership Plan (ESOP)
In April 2005, the Group launched an Employee Share Ownership Plan managed by the DEP Trustee. This enabled all Henderson UK staff, but not the Executive Directors, to defer part of their post-tax bonus into the plan up to a specified limit. The plan provides one free matching share for every share purchased (awarded by the Trustee). To receive the matching shares, employees must remain in the plan for four years. Forfeiture conditions apply in the case of good and bad leavers.

12.2 Share-based payments through the income statement

	Group	
	2005 £m	**2004 £m**
Sharesave Scheme	**2.3**	0.4
SIP	**0.1**	–
LTIP	**1.5**	1.1
DEP	**2.0**	0.2
ESOP	**0.4**	–
Total expense	**6.3**	1.7

The total expense has been presented within the consolidated income statement as follows:

	Group	
	2005 £m	**2004 £m**
Continuing operations	**6.1**	1.4
Discontinued operations	**0.2**	0.3
Total expense	**6.3**	1.7

The total expense can be analysed between:

	Group	
	2005 £m	**2004 £m**
Amount which is to be settled with equity	**6.2**	1.6
Amount which is to be settled in cash	**0.1**	0.1
	6.3	1.7

Amounts recorded as liabilities for option grants to be settled in cash, based on the fair value of the options granted, totalled £nil at 31 December 2005 (2004: £nil). The intrinsic value of liabilities for which the counterparty's right to cash had vested by 31 December 2005 was £nil (2004: £nil).

12.3 Share options outstanding

Share options outstanding under the Group's share-based compensation plans were as follows:

	2005		2004	
	Options no.	Weighted average exercise price £	Options no.	Weighted average exercise price £
At 1 January	**10,500,505**	**0.416**	–	–
Granted	**–**	**–**	11,518,112	0.416
Exercised (note 20.2)	**(1,465,613)**	**0.416**	(55,517)	0.416
Forfeited	**(3,406,995)**	**0.416**	(962,090)	0.416
At 31 December	**5,627,897**	**0.416**	10,500,505	0.416

The weighted average share price on the date options were exercised during 2005 was £0.64 (2004: £0.53).

There are no options exercisable at 31 December 2005 (2004: nil).

There were no options granted during 2005. The weighted average fair value of options granted during 2004 was £0.22.

At 31 December 2005, the weighted average remaining expected life and remaining contractual life of outstanding awards was 1.4 years (2004: 2.4 years).

These disclosures are applicable only to the Sharesave Scheme.

12.4 Fair values of share-based compensation plans

The fair value amounts for the options granted under the Sharesave Scheme were determined using the Black Scholes option-pricing method, using the following assumptions:

Dividend yield	nil%
Expected volatility	47.4%
Risk free interest rate	4.6%
Expected life	3 years
Weighted average share price	£0.475
Exercise price	£0.416

The Company listed in December 2003 and does not have a sufficient history of price movements for its own volatility calculation to be made. Therefore, volatility has been calculated by taking the average of the volatility of nine of the Company's quoted peers over the preceding three year period. Peers selected were publicly quoted life insurance and fund management companies which were considered to offer suitable coverage in terms of business mix to be a reasonable proxy for volatility for the Company at the time that the options were granted.

Other share schemes involve the grant of shares for £nil consideration. The fair value of these schemes is calculated using the share price at grant date, which is set out in the following table. No adjustments have been made for dividends.

Scheme	Shares granted during the year	Average price £
SIP	898,201	0.63
LTIP	13,930,500	0.61
DEP	7,833,319	0.60
ESOP	5,471,283	0.61

The fair value calculation for the LTIP includes a statistical assessment of the likelihood of the Company achieving performance targets set out in the plan. These performance targets are in respect of the Henderson Group TSR over three years and are as follows:

Criteria	Amount vesting
Henderson Group TSR less than the 50th percentile of the FTSE 250 companies	nil%
Henderson Group TSR at the 50th percentile of the FTSE 250 companies	35%
Henderson Group TSR at or above the 75th percentile of the FTSE 250 companies	100%

For a Henderson Group TSR between the 50th and 75th percentiles, the amount vesting will increase on a linear basis.

13. Dividends

The Directors recommend the payment of a dividend in respect of the six months ended 31 December 2005 of 1.39 pence per ordinary share of 10 pence each of the Company (2004: £nil). Dividends are recognised in the accounts in the year in which they are paid, or in the case of a final dividend when approved by the shareholders, such that the amount recognised in the 2005 accounts is made up of last year's final dividend (£nil) and this year's interim dividend (£nil).

14. Intangible assets

Intangible assets are made up as follows:

	Group	
	2005 £m	**2004 £m**
Goodwill	**224.3**	249.0
	224.3	249.0

14.1 Goodwill

		Group	
	Notes	**2005 £m**	**2004 £m**
Gross amount			
At 1 January		**335.0**	291.9
Acquisition of Towry Law Mortgage Services Limited		**–**	1.4
Acquisition of Towry Law client base		**–**	0.2
Acquisition of Baydrive Group Limited		**–**	0.8
Acquisition of Homann Chilled Food GmbH		**–**	40.7
Disposal of Pradera AM plc		**(1.1)**	–
Attributable to assets included in disposal groups held for sale	47.1	**(107.5)**	–
At 31 December		**226.4**	335.0
Aggregate impairment			
At 1 January		**86.0**	–
Impairment losses – continuing operations		**2.1**	–
Impairment losses – discontinued operations		**–**	2.9
Impairment losses – arising on fair value of Life Services business	35.2.4	**–**	83.1
Attributable to assets included in disposal groups held for sale	47.1	**(86.0)**	–
At 31 December		**2.1**	86.0
Carrying value			
At 1 January		**249.0**	291.9
At 31 December		**224.3**	249.0

The carrying amount of goodwill by cash-generating unit is as follows:

	Group	
	2005 £m	**2004 £m**
Henderson Global Investors	**217.5**	217.5
Towry Law UK	**–**	21.5
Other	**6.8**	10.0
	224.3	249.0

The Group undertakes a full review of all goodwill balances at least annually. Recoverability is assessed by reference to an entity valuation based on a fair value trading basis, using comparable company trading multiples, cross-checked against valuations from discounted cash flows. The EV/EBITDA multiples reflect the ability of fund management companies to generate profit.

The principal carrying amount of goodwill allocated to the parent company in the Henderson Global Investors group as at the period end was £217.5m. In addition, a further £6.8m sits within the Henderson Global Investors group. These balances were assessed at 31 December 2005. There are no indicators of any impairment. Towry Law UK goodwill has been classified within assets held for sale at 31 December 2005. The value of this goodwill, £21.5m, is supported by the terms of the sale agreement with JS&P Holdings Limited.

US Goodwill impairment

As at 31 December 2005, the loss of a number of institutional client contracts in the US, that were purchased in 2000 for £2.6m, prompted a review as to whether the associated goodwill held by Henderson Global Investors North America Inc was impaired. At acquisition there were 14 clients with total assets under management of US$1.4bn, compared to three clients with total assets under management of US$0.1bn at 31 December 2005. It is further anticipated that the three remaining contracts will be lost in 2006. However, should the clients be retained, the reduction in the scale of the business means that the remaining contracts are no longer profitable.

The conclusion of the review determined a need for a write-off of the remaining £2.1m held as goodwill on the balance sheet of Henderson Global Investors North America at 31 December 2005. As at 1 January 2004, £0.5m of the goodwill had been amortised under UKGAAP, leaving £2.1m subject to annual impairment review under IFRS. Nothing other than these contracts was included in the £2.6m purchase price. No other impairments of goodwill have been necessary.

15. Fair value of financial instruments

15.1 Total financial assets and liabilities

		Group			
		Fair value		Carrying value	
	Notes	2005 £m	2004 £m	2005 £m	2004 £m
Financial assets					
Certificates of deposits		**–**	35.0	**–**	35.0
Shares/units in OEICs/unit trusts		**0.5**	0.4	**0.5**	0.4
Financial assets at fair value through profit or loss		**0.5**	35.4	**0.5**	35.4
Available-for-sale financial assets		**96.7**	21.9	**96.7**	21.9
OEIC, unit trust and other trade debtors	18	**44.1**	54.7	**44.1**	54.7
Cash and cash equivalents	28.2	**487.5**	292.6	**487.5**	292.6
Total financial assets		**628.8**	404.6	**628.8**	404.6
Financial liabilities					
Borrowings		**–**	0.2	**–**	0.2
Current tax liabilities		**27.8**	19.3	**27.8**	19.3
Provisions under contractual obligation		**15.1**	25.5	**15.1**	25.5
OEIC, unit trust and other trade creditors	24	**75.4**	56.7	**75.4**	56.7
Total financial liabilities		**118.3**	101.7	**118.3**	101.7

		Company			
		Fair value		Carrying value	
	Notes	2005 £m	2004 £m	2005 £m	2004 £m
Financial assets					
Certificates of deposits		**–**	35.0	**–**	35.0
Financial assets at fair value through profit or loss		**–**	35.0	**–**	35.0
Current tax assets		**21.7**	–	**21.7**	–
Cash and cash equivalents	28.3	**258.9**	67.7	**258.9**	67.7
Total financial assets		**280.6**	102.7	**280.6**	102.7
Financial liabilities					
Borrowings	17.2	**971.9**	172.7	**971.9**	172.7
Current tax liabilities		**–**	5.4	**–**	5.4
Other trade creditors	24	**16.9**	8.8	**16.9**	8.8
Total financial liabilities		**988.8**	186.9	**988.8**	186.9

Certificates of deposits comprise deposits with credit institutions with original maturity of more than three months.

15.2 Impairments of financial assets

During 2005, the Group's investment in Leisure Link Holdings Limited, an available-for-sale financial asset, was impaired. The Directors have reviewed the performance of this investment during 2005 as well as the projections for future performance and have impaired its value from £3.0m at 31 December 2004 to £nil, although the asset has not been derecognised.

16. Financial risk management

Financial risk management objectives and policies for continuing operations

Financial assets principally comprise investments in equity securities, short-term investments, trade and other receivables, cash and cash equivalents. Financial liabilities comprise borrowings for financing purposes, provisions and trade and other payables. The main risks arising from financial instruments are asset valuation risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. Each of these risks is discussed in detail below.

The Group has designed a framework to manage the risks of its business and ensure that the Directors have in place risk management practices appropriate to a listed company. The management of risk within the Group is governed by the Board.

16.1 Asset valuation risk

Asset valuation risk is the risk that a decline in the value of assets adversely impacts on the profitability of the Group, either as a result of an asset not meeting its expected value (which could also create liquidity risk) or through the decline of assets under management generating lower fees. The principal exposures of the Group are in respect of corporate investments held on the balance sheet, and lower management fee revenues that could result from a deduction in asset values. This risk is partially mitigated by asset class diversification.

Corporate investments held on the balance sheet principally comprise shareholdings in Banca Popolare Italiana and associated companies. The combined market value of the BPI Holdings was £62.4m at the end of 2005.

The Group also takes on asset valuation risk in respect of investments made in various Henderson funds, where seed capital is provided to assist with their growth and development. These seed investments are typically, short term in nature (less than a year), and are marked-to-market. The total market value of these investments at 31 December 2005 was £34.3m.

Management monitors exposures to asset valuation risk for corporate investments on an ongoing basis. When considering whether to hedge the asset valuation risk, management considers the likelihood of an asset devaluing and the costs associated with effecting a hedge against the risk. There were no hedges in place for asset valuation risk at the year end.

The Group does not bear the asset valuation risk in respect of those assets managed on behalf of clients. In those limited circumstances where the Group enters into market transactions as an agent for a client, caps are placed on the extent of intra-day and close of business exposure levels.

16.2 Interest rate risk

Interest rate risk is the risk that the Group will sustain losses in revenue through adverse movements in interest rates, due to the effect that such movements have on the value of interest-bearing assets (which is also related to the asset valuation risk discussed above). There is an exposure to interest rates on banking deposits held in the ordinary course of business. In addition, changes in the long-term interest rates affect income prices to varying degrees, primarily depending on the term and coupon rate of the underlying fixed income investments.

16.2.1 Effective interest rates
Effective interest rates applicable to financial assets and liabilities are as follows:

	Group	
	2005 %	**2004 %**
Financial assets		
Deposits with credit institutions	**4.6**	5.1
Financial liabilities		
Borrowings	**–**	3.5

16.2.2 Financial assets and liabilities exposed to fair value and cash flow interest rate risk
At 31 December 2005

	Group			
	Fixed rate £m	**Floating rate £m**	**Not directly exposed to interest rate risk £m**	**Total £m**
Financial assets				
Available-for-sale financial assets	–	–	96.7	96.7
Shares/units in OEICs/unit trusts	–	–	0.5	0.5
OEIC, unit trust and other debtors	–	–	44.1	44.1
Cash and cash equivalents	–	487.5	–	487.5
Total financial assets	–	487.5	141.3	628.8
Financial liabilities				
Current tax liabilities	–	–	27.8	27.8
Provisions under contractual obligations			15.1	15.1
OEIC, unit trust and other creditors	–	–	75.4	75.4
Total financial liabilities	–	–	118.3	118.3

At 31 December 2004

	Group			
	Fixed rate £m	**Floating rate £m**	**Not directly exposed to interest rate risk £m**	**Total £m**
Financial assets				
Available-for-sale financial assets	–	–	21.9	21.9
Certificates of deposits	–	35.0	–	35.0
Shares/units in OEICs/unit trusts	–	–	0.4	0.4
OEIC, unit trust and other debtors	–	–	54.7	54.7
Cash and cash equivalents	–	292.6	–	292.6
Total financial assets	–	327.6	77.0	404.6
Financial liabilities				
Borrowings	–	0.2	–	0.2
Current tax liabilities	–	–	19.3	19.3
Provisions under contractual obligations	–	–	25.5	25.5
OEIC, unit trust and other creditors	–	–	56.7	56.7
Total financial liabilities	–	0.2	101.5	101.7

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

16.3 Liquidity risk
The Group faces funding liquidity risk. Funding liquidity risk is the risk that the Group may be unable to meet its payment obligations. This would be the risk of insufficient cash resources and liquid assets being available to meet liabilities as they fall due.

It is the Group's policy to ensure that it has sufficient access to funds to cover all forecast committed requirements for the next 18 months.

Contractual maturity and repricing profile by class of financial asset and liability
At 31 December 2005

	Group							
	One year or less £m	**After one year to 2 years £m**	**After 2 years to 3 years £m**	**After 3 years to 4 years £m**	**After 4 years to 5 years £m**	**Over 5 years £m**	**No stated maturity £m**	**Total carrying value £m**
Financial assets								
Available-for-sale financial assets	–	–	–	–	–	–	96.7	96.7
Shares/units in OEICs/unit trusts	–	–	–	–	–	–	0.5	0.5
OEIC, unit trust and other debtors	44.1	–	–	–	–	–	–	44.1
Cash and cash equivalents	487.5	–	–	–	–	–	–	487.5
Total financial assets	531.6	–	–	–	–	–	97.2	628.8
Financial liabilities								
Current tax liabilities	27.8	–	–	–	–	–	–	27.8
Provisions under contractual obligations	–	–	8.0	–	–	–	7.1	15.1
OEIC, unit trust and other creditors	75.4	–	–	–	–	–	–	75.4
Total financial liabilities	103.2	–	8.0	–	–	–	7.1	118.3

At 31 December 2004

	Group							
	One year or less £m	**After one year to 2 years £m**	**After 2 years to 3 years £m**	**After 3 years to 4 years £m**	**After 4 years to 5 years £m**	**Over 5 years £m**	**No stated maturity £m**	**Total carrying value £m**
Financial assets								
Available-for-sale financial assets	–	–	–	–	–	–	21.9	21.9
Certificates of deposits	35.0	–	–	–	–	–	–	35.0
Shares/units in OEICs/unit trusts	–	–	–	–	–	–	0.4	0.4
OEIC, unit trust and other debtors	54.7	–	–	–	–	–	–	54.7
Cash and cash equivalents	292.6	–	–	–	–	–	–	292.6
Total financial assets	382.3	–	–	–	–	–	22.3	404.6
Financial liabilities								
Borrowings	–	0.2	–	–	–	–	–	0.2
Current tax liabilities	19.3	–	–	–	–	–	–	19.3
Provisions under contractual obligations	–	–	–	8.0	–	–	17.5	25.5
OEIC, unit trust and other creditors	56.7	–	–	–	–	–	–	56.7
Total financial liabilities	76.0	0.2	–	8.0	–	–	17.5	101.7

16.4 Foreign currency risk
Foreign currency risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates.

The Group's business is impacted through its exposure to non-pounds sterling income and expenses, and assets and liabilities of non-UK subsidiaries. The Group also carries a small foreign exchange position as principal to facilitate the smooth conduct of its client business.

The Group uses foreign currency contracts to eliminate the currency exposure on any individual transactions. A rolling programme of forward currency contracts has been used to hedge the currency fair value of certain Euro-denominated available-for-sale financial assets. The fair value of the currency contracts designated as hedging instruments at the end of 2005 was (£0.5m).

16.5 Credit risk
The Group trades only with recognised creditworthy third parties. With respect to credit risk arising from other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, where the maximum exposure is equal to the carrying amount of those assets.

At 31 December 2005

	Group							
	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Not rated £m	Total £m
Financial assets								
Available-for-sale financial assets	–	–	–	62.4	–	–	34.3	96.7
Shares/units in OEICs/unit trusts	–	–	–	–	–	–	0.5	0.5
OEIC, unit trust and other debtors	–	–	–	–	–	–	44.1	44.1
Cash and cash equivalents	53.7	348.4	84.4	1.0	–	–	–	487.5
Total financial assets	53.7	348.4	84.4	63.4	–	–	78.9	628.8

At 31 December 2004

	Group							
	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Not rated £m	Total £m
Financial assets								
Available-for-sale financial assets	–	–	–	5.7	–	–	16.2	21.9
Shares/units in OEICs/unit trusts	–	–	–	–	–	–	0.4	0.4
OEIC, unit trust and other debtors	–	–	–	–	–	–	54.7	54.7
Cash and cash equivalents	41.5	208.0	43.1	–	–	–	–	292.6
Certificates of deposit	–	35.0	–	–	–	–	–	35.0
Total financial assets	41.5	243.0	43.1	5.7	–	–	71.3	404.6

17. Borrowings

17.1 Group

	2005 £m	2004 £m
Floating rate guaranteed unsecured loan notes	**–**	0.2

17.2 Company
Loans from subsidiaries

	2005 £m	2004 £m
Due within one year	**971.9**	125.7
Due in five years or more	**–**	47.0
	971.9	172.7

Of the borrowings of £971.9m (2004: £172.7m) shown above, £963.7m (2004: £117.6m) is charged at a floating rate linked to LIBOR (three to six months). £8.2m (2004: £37.6m) is interest free, £nil (2004: £17.5m) is charged at a fixed rate of 6.91%. The borrowings are all repayable on demand (2004: £125.7m). During the year loans totalling £47.0m were settled as part of the sale of Life Services. These loans had original maturity dates in excess of five years from the balance sheet date.

18. Trade and other receivables

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Amounts owed from subsidiary	**–**	–	**11.9**	–
OEIC and unit trust debtors	**22.9**	26.0	**–**	–
Accrued income	**44.8**	32.7	**1.7**	1.4
Other trade debtors	**21.2**	28.7	**0.2**	0.2
Prepayments	**6.8**	12.8	**–**	–
	95.7	100.2	**13.8**	1.6

19. Property, plant and equipment

		Group		
	Notes	Owner-occupied property £m	Plant and equipment £m	Total £m
Cost or valuation				
At 1 January 2004		42.9	79.2	122.1
Additions		0.1	3.7	3.8
Disposals		–	(23.0)	(23.0)
Acquisitions through business combinations		18.2	31.6	49.8
Revaluation		(4.9)	–	(4.9)
Assets held in disposal groups held for sale	46	(56.3)	(53.2)	(109.5)
At 31 December 2004		–	38.3	38.3
Additions		–	2.1	2.1
Disposals		–	(0.5)	(0.5)
At 31 December 2005		–	39.9	39.9
Comprising:				
At cost		–	39.9	39.9
Depreciation				
At 1 January 2004		–	49.6	49.6
Charge for the year – continuing operations		0.2	5.2	5.4
Charge for the year – discontinued operations		0.9	13.6	14.5
Impairment losses – arising from fair value of the Life Services business	35.2.4	–	14.8	14.8
Disposals		–	(21.4)	(21.4)
On acquisitions through business combinations		1.9	–	1.9
Assets held in disposal groups held for sale	46	(3.0)	(33.2)	(36.2)
At 31 December 2004		–	28.6	28.6
Charge for the year – continuing operations		–	3.0	3.0
At 31 December 2005		–	31.6	31.6
Net book value at 31 December 2004 (continuing operations)		–	9.7	9.7
Net book value at 31 December 2005 (continuing operations)		–	8.3	8.3

Plant and equipment is valued at cost less depreciation. All items are depreciated on a straight-line basis over their useful economic lives of between two and ten years.

There is a difference on the treatment of Towry Law UK operations in 2004 between the balance sheet, where they are treated as part of the continuing business, and the income statement where they are treated as discontinued. The 2004 consolidated balance sheet shows property, plant and equipment of £13.2m compared to £9.7m above. The difference is represented by the net book value of Towry Law UK's assets of £3.5m. This is a requirement under IFRS 5.

The continuing operations had no interest in owner-occupied property during the 2005 year. In respect of the owner-occupied property held by the discontinued operations, a revaluation was carried out at 31 December 2004 by DTZ Debenham Thorpe. The properties in owner occupation for the purposes of the Group's business were valued on the basis of existing use value. All valuations were carried out in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual.

There is no difference between the carrying amount of each class of property above and the value had the assets been carried at cost less any accumulated depreciation and any accumulated impairment losses.

In accordance with IFRS 1, the Group has chosen to take advantage of the exemption to treat the fair value of owner-occupied property (£42.9m) at 1 January 2004 as its deemed cost at that date. No adjustment to the carrying amounts of these assets reported under UKGAAP was required.

20. Share capital

20.1 Share capital authorised

	Group and Company	
	2005 £m	2004 £m
4,250,000,000 ordinary shares of 10 pence each	**425.0**	425.0

20.2 Share capital allotted

Allotted, called up and fully paid equity shares:

	Group and Company	
	10 pence ordinary shares no.	£m
Shares in issue at 1 January 2004	2,464,049,470	246.4
Capital raising	246,160,000	24.6
Issue of shares for Sharesave Scheme	55,517	–
Issue of shares for SIP	297,647	0.1
Shares in issue at 31 December 2004	2,710,562,634	271.1
Capital reduction	(1,558,403,466)	(155.8)
Issue of shares for Sharesave Scheme	1,465,613	0.1
Issue of shares for SIP	888,436	0.1
Other shares issued in the year	86	–
Shares in issue at 31 December 2005	1,154,513,303	115.5

Ordinary shares in issue in the Company rank pari passu. All of the ordinary shares in issue carry the same right to receive dividends and other distributions declared, made or paid by the Company.

Following the disposal of the Life Services business on 13 April 2005, £775.3m of the sales proceeds received were returned to shareholders in exchange for the cancellation of 1,409,633,940 shares. This return of cash reduced share capital by £140.9m and the share premium account by £634.4m. A further £95.2m of the sales proceeds received from the disposal of the Life Services business was used to cash out the remaining holdings of shareholders with fewer than 1,041 shares and who did not make an election to retain their remaining holding. This resulted in the cancellation of a further 148,769,526 shares, reducing share capital by £14.9m and the share premium account by £80.3m.

During 2005, the Company issued 1,465,613 (2004: 55,517) shares of 10 pence each to certain employees leaving the Group under the Sharesave Scheme (see note 12) for an aggregate consideration of £609,695 (2004: £23,095). During 2005, the Company also issued 888,436 (2004: 297,647) shares of 10 pence each to the employee benefit trust administering the SIP (see note 12) for an aggregate consideration of £561,522 (2004: £144,949).

21. Reserves

21.1 Group

	Share premium £m	Own shares held £m	Capital reserve £m	Translation £m	Revaluation £m	Profit and loss reserve £m	Minority interests £m
At 1 January 2004	1,080.8	–	290.0	–	(4.5)	(5.7)	299.4
Exchange differences on translation of foreign operations	–	–	–	(1.9)		–	–
Purchase of own shares	–	(4.0)	–	–	–	–	–
Transfer of capital reserve	–	–	(290.0)	–	–	290.0	–
Proceeds from capital raising	–	–	–	–	–	90.1	–
Issue of shares for SIP	0.1	–	–	–	–	(0.2)	–
Movement in equity-settled share scheme expenses	–	–	–	–	–	1.6	–
Net (loss)/profit	–	–	–	–	–	(220.1)	46.9
Dividends paid to minority interests	–	–	–	–	–	–	(8.3)
Gains on revaluation of available-for-sale financial assets	–	–	–	–	2.6	–	–
Actuarial (losses) on defined benefit pension schemes	–	–	–	–	–	(25.3)	–
Tax on items taken directly to equity	–	–	–	–	–	0.4	–
Movements in minority interests	–	–	–	–	–	–	79.3
At 31 December 2004	1,080.9	(4.0)	–	(1.9)	(1.9)	130.8	417.3

	Share premium £m	Own shares held £m	Capital reserve £m	Translation £m	Revaluation £m	Profit and loss reserve £m	Minority interests £m
At 1 January 2005	1,080.9	(4.0)	–	(1.9)	(1.9)	130.8	417.3
Exchange differences on translation of foreign operations	–	–	–	(1.5)	–	–	–
Purchase of own shares	–	(6.3)	–	–	–	–	–
Return of cash to shareholders	(634.4)	–	–	–	–	–	–
Reduction in investor base	(80.3)	–	–	–	–	–	–
Issue of shares for SIP	0.5	–	–	–	–	(0.6)	–
Issue of shares for Sharesave Scheme	0.5	–	–	–	–	–	–
Transfer of reserve	–	6.2	–	–	–	(6.2)	–
Movement in equity-settled share scheme expenses	–	–	–	–	–	6.2	–
Net profit/(loss)	–	–	–	–	–	51.2	(3.5)
Dividends paid to minority interests	–	–	–	–	–	–	(3.7)
Revaluation reserve transfer on sale of available-for-sale investments	–	–	–	–	3.4	–	–
Losses on revaluation of available-for-sale financial assets	–	–	–	–	(4.5)	–	–
Actuarial (losses) on defined benefit pension schemes	–	–	–	–	–	(10.8)	–
Tax on items taken directly to equity	–	–	–	–	–	4.4	–
Other movements	–	–	–	–	–	(0.1)	–
Disposal of discontinued operations	–	–	–	–	–	–	(410.1)
At 31 December 2005	367.2	(4.1)	–	(3.4)	(3.0)	174.9	–

Share premium reserve records the difference between the nominal value of shares issued and the full value of the consideration received. The use of this reserve is governed by the Companies Act 1985.

Own shares held reserve includes 6,628,423 (2004: 7,836,224) shares owned by Henderson Group plc Employee Trust and constituted 0.6% (2004: 0.3%) of the Company's allotted share capital at 31 December 2005. These shares had a cost of £4.1m (2004: £4.0m) and a market value of £4.9m (2004: £4.6m).

The HHG PLC Employee Trust 2004, SIP and Henderson Employee Share Trust 2000 are used by the Group to operate the LTIP, SIP and DEP share-based payment schemes respectively. Shares are distributed to employees as and when they vest, in line with the terms of each scheme under the administration of Computershare Trustees Limited, Towers Perrin Share Plan Services Limited and Ogier Trustees Limited (Jersey) respectively, who act as trustees.

Following the vesting of shares under the share-based compensation plans, a transfer was made between the own shares held reserve and the profit and loss reserve. During the year the costs of equity-settled share scheme expenses were expensed with a corresponding increase in equity through the profit and loss reserve. This treatment is consistent in both the Group and the Company.

The capital reserve represents payments received in subsidiary companies as capital contributions from parent companies. On 27 October 2004, £290m was transferred from the capital reserve to the profit and loss account following the liquidation of NPI Finances Limited, a subsidiary company.

Translation reserve comprises differences on exchange arising from the translation of opening balance sheets of subsidiaries whose reporting currency is not pounds sterling, and the differences between the results of these subsidiaries translated at average rates for the reporting period and period end rates. The translation reserve also includes unrealised foreign exchange gains and losses on available-for-sale financial assets.

Revaluation reserve comprises the amount of any gain or loss recognised directly in equity in relation to available-for-sale financial assets.

Upon realisation of a gain or loss previously recognised in the translation or revaluation reserve in respect of available-for-sale financial assets, the amount previously recognised is reversed out and the full amount of the gain or loss is taken to the profit and loss account.

21.2 Company

	Share premium £m	Own shares held £m	Capital £m	Profit and loss reserve £m
At 1 January 2004	1,080.8	–	290.0	88.3
Purchase of own shares	–	(2.3)	–	–
Transfer of capital reserve	–	–	(290.0)	290.0
Proceeds from capital raising	–	–	–	90.1
Issue of shares for SIP	0.1	–	–	(0.2)
Movement in equity-settled share scheme expenses	–	–	–	1.4
Net (loss) attributable to equity shareholders	–	–	–	(141.5)
At 1 January 2005	1,080.9	(2.3)	–	328.1
Issue of shares for SIP	0.5	–	–	(0.6)
Issue of shares for Sharesave Scheme	0.5	–	–	–
Return of cash to shareholders	(634.4)	–	–	–
Reduction in investor base	(80.3)	–	–	–
Purchase of own shares	–	(6.3)	–	–
Transfer of reserve	–	8.6	–	(8.6)
Movement in equity-settled share scheme expenses	–	–	–	6.8
Net profit attributable to equity shareholders	–	–	–	6.4
At 31 December 2005	367.2	–	–	332.1

The own shares held reserve includes nil (2004: 4,046,191) shares owned by the HHG PLC Employee Trust 2004 and constituted 0% (2004: 0.1%) of the Company's allotted share capital at 31 December 2005. These shares had a cost of £nil (2004: £2.3m) and a market value of £nil (2004: £2.4m). All of the shares are under option to employees. A further £nil (2004: £1.7m) of the Company's profit and loss account reserve is non-distributable reflecting the impact of own shares issued and purchased by the Group.

22. Reconciliation of movement in equity

22.1 Group

	2005 £m	2004 £m
Equity at 1 January	**1,892.3**	1,906.4
Total recognised income and expense attributable to equity holders of the parent	**42.2**	(244.3)
Return of cash to shareholders	**(775.3)**	–
Reduction in investor base	**(95.2)**	–
Purchase of own shares	**(6.3)**	(4.0)
Proceeds from capital raising	**–**	114.7
Issue of shares for the Sharesave Scheme	**0.6**	–
Movement in equity-settled share scheme expenses	**6.2**	1.6
Other movements	**(0.1)**	–
Movement in minority interests	**(417.3)**	117.9
Equity at 31 December	**647.1**	1,892.3

22.2 Company

	2005 £m	2004 £m
Equity at 1 January	**1,677.8**	1,705.5
Total recognised income and expense	**6.4**	(141.5)
Return of cash to shareholders	**(775.3)**	–
Reduction in investor base	**(95.2)**	–
Proceeds from capital raising	**–**	114.7
Movement in equity-settled share scheme expenses	**6.8**	1.4
Purchase of own shares	**(6.3)**	(2.3)
Issue of shares for the Sharesave Scheme	**0.6**	–
Equity at 31 December	**814.8**	1,677.8

23. Deferred taxation

23.1 Group

Deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets

	Accelerated (profit)/loss recognition £m	Tax losses £m	Deferred acquisition costs £m	Provisions £m	Accelerated depreciation £m	Total £m
At 1 January 2004	2.7	–	29.8	4.9	2.3	39.7
Credited/(charged) to the consolidated income statement – continuing operations (note 9)	(0.6)	–	–	0.6	1.0	1.0
(Charged) to the consolidated income statement – discontinued operations (note 38)	(0.1)	–	(7.1)	–	–	(7.2)
Credited to equity	–	–	–	0.4	–	0.4
Acquisition of subsidiary	–	3.4	–	1.0	–	4.4
Attributable to discontinued operations (note 40)	(1.1)	(3.4)	(22.7)	(1.0)	–	(28.2)
At 31 December 2004	0.9	–	–	5.9	3.3	10.1
Credited/(charged) to the consolidated income statement	(0.9)	–	–	1.5	(2.3)	(1.7)
Credited to equity through the SORIE	–	–	–	4.4	–	4.4
At 31 December 2005	–	–	–	11.8	1.0	12.8

Deferred tax liabilities

	Accelerated profit recognition £m	Unrealised gains in investments £m	Accelerated tax depreciation £m	Total £m
At 1 January 2004	16.3	31.3	8.4	56.0
(Credited) to the consolidated income statement – continuing operations (note 9)	(0.4)	–	–	(0.4)
Charged/(credited) to the consolidated income statement – discontinued operations (note 38)	0.3	22.3	(1.5)	21.1
Acquisition of subsidiary	–	–	33.7	33.7
Attributable to discontinued operations (note 40)	(8.3)	(53.6)	(40.6)	(102.5)
At 31 December 2004	7.9	–	–	7.9
(Credited) to the consolidated income statement	(7.9)	–	–	(7.9)
At 31 December 2005	–	–	–	–
Net deferred tax asset at 31 December 2004				2.2
Net deferred tax asset at 31 December 2005				12.8

The deferred tax credit in the income statement comprises the following temporary differences:

	Total £m
Accelerated tax depreciation	2.3
Allowance, provisions and losses on financial assets	(1.5)
Profit recognition	(7.0)
(Credited) to the income statement	(6.2)

Deferred tax receivables/liabilities to be recovered/(settled):

	Deferred tax assets £m
At 31 December 2005	
Amounts to be recovered in less than 12 months	0.9
Amounts to be recovered in more than 12 months	11.9
	12.8
At 31 December 2004	
Amounts to be recovered in less than 12 months	1.0
Amounts to be recovered in more than 12 months	1.2
	2.2

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit is probable. Deferred tax assets of £13m (2004: £22m) in respect of trading losses and £13m (2004: £13m) in respect of provisions and other timing differences have not been recognised. These tax losses have no statutory expiry dates.

An unprovided deferred tax liability in respect of unremitted profit of foreign subsidiaries amounted to £8m (2004: £8m).

23.2 Company

Deferred tax assets are recognised only to the extent that the realisation of the related tax benefit is probable. Deferred tax assets of £6m (2004: £6m) in respect of trading losses and £5m (2004: £5m) in respect of capital losses have not been recognised. These tax losses have no statutory expiry dates.

24. Trade and other payables

	Group		Company	
	2005 £m	**2004 £m**	**2005 £m**	**2004 £m**
Amounts owed to subsidiaries	**–**	–	**1,133.7**	1,694.8
OEIC and unit trust creditors	**39.7**	34.6	**–**	–
Other creditors	**35.7**	22.1	**16.9**	8.8
Accruals	**88.5**	88.3	**1.2**	9.1
	163.9	145.0	**1,151.8**	1,712.7

At 31 December 2004 and 31 December 2005 all of the Group trade and other payables relate to amounts to be settled within 12 months.

25. Provisions

25.1 Group

	Restructure £m	Leasehold properties £m	Product mis-selling £m	Staff-related £m	Other £m	Total £m
At 1 January 2005	11.4	17.4	48.4	3.8	10.3	91.3
Additions	4.5	0.2	1.4	0.1	7.7	13.9
Provisions utilised	(11.0)	(6.6)	(9.4)	–	(1.7)	(28.7)
Provisions released	(0.3)	–	–	(3.1)	(2.5)	(5.9)
Attributable to liabilities included in disposal groups held for sale	–	(3.8)	(0.1)	–	(0.2)	(4.1)
At 31 December 2005	4.6	7.2	40.3	0.8	13.6	66.5

The restructure provision of £4.6m (2004: £11.4m) has been made for costs of restructuring management and staffing across the Group and to complete the closure of Towry Law International. It is expected that most of the expenditure will be incurred in 2006.

A leasehold properties provision was made for amounts in respect of the excess of lease rentals and other payments on properties that are currently vacant, or expected to become vacant, over the amounts to be recovered from subletting these properties. The balance is expected to be utilised over the next ten years.

The product mis-selling provision includes a provision of £39.6m (2004: £35.0m) relating to possible claims arising from inappropriate advice given to certain Towry Law International customers. The matters relating to this provision are expected to be settled within the next five years. Further information is disclosed in note 34, contingent liabilities.

The staff-related provision includes £0.7m (2004: £3.8m) relating to long-term staff benefits, expected to be utilised over the next ten years.

Other provisions include £8.0m (2004: £8.0m) for obligations relating to various sale contracts which are expected to be utilised within the next three years.

25.2 Company

	Restructure £m	Product mis-selling £m	Other £m	Total £m
At 1 January 2005	2.5	35.0	1.2	38.7
Additions	–	5.0	0.2	5.2
Provisions utilised	(2.5)	–	(0.1)	(2.6)
Provisions released/transferred	–	(25.0)	(1.1)	(26.1)
At 31 December 2005	–	15.0	0.2	15.2

The restructure provision relates to the restructure of the Corporate office, following the disposal of the Life Services business.

The product mis-selling provision has been established for possible claims arising from inappropriate advice given to certain Towry Law International customers. During the year £25.0m was transferred to Towry Law International Group to fund the settlement of legacy product mis-selling issues. The matters relating to this provision are expected to be settled within the next five years.

The other provision balance of £0.2m comprises the cost of external professional and legal advisors required in renaming and reconstituting the share schemes following the sale of Life Services and the agreed sale of Towry Law UK.

26. Leases

26.1 Operating leases

The Group has entered into certain property leases. The leases have no escalation clauses or renewal or purchase options and no restrictions imposed on them.

The obligations under these non-cancellable operating leases fall due as follows:

	2005 £m	2004 £m
Within one year	**12.4**	2.2
In the second to fifth years inclusive	**37.2**	16.3
In more than five years	**8.4**	67.2
Total	**58.0**	85.7

The total future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date were £3.8m (2004: £4.8m).

Contingent rent recognised as an expense during the year was £nil (2004: £nil).

There are no operating leases held by the Company (2004: nil).

26.2 Finance leases

Reconciliation between the total of future minimum lease payments at the balance sheet date, and their present value:

	2005 £m	2004 £m
Total of future minimum lease payments	–	1.6
Effect of discount	–	(0.3)
Present value of minimum lease payments	–	1.3

The obligations under finance leases fall due:

	Total of future minimum lease payments		Present value of minimum lease payments	
	2005 £m	2004 £m	2005 £m	2004 £m
Within one year	–	0.4	–	0.4
In the second to fifth years inclusive	–	0.8	–	0.6
In more than five years	–	0.4	–	0.3
Total	–	1.6	–	1.3

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date was £nil (2004: £nil).

27. Capital commitments

The Group has no capital commitments for settlement after 31 December 2005 (2004: £nil).

28. Notes to the cash flow statement

28.1 Group changes in operating assets and liabilities

	2005 £m	2004 £m
(Decrease) in insurance liabilities	**(416.6)**	(336.0)
(Decrease) in investment contract liabilities	**(11.8)**	(138.1)
(Increase) in deferred acquisition costs	**(19.4)**	(2.9)
Decrease in present value of acquired in force business	**–**	10.0
Decrease/(increase) in other intangible assets	**4.5**	(5.7)
Decrease in reinsurance assets	**2.2**	49.7
Decrease in other assets	**88.4**	181.4
(Decrease)/increase in other liabilities	**(87.0)**	105.3
Changes in operating assets and liabilities	**(439.7)**	(136.3)

28.2 Group cash and cash equivalents

Cash and cash equivalents consist of cash in hand, cash at bank and short-term investments with financial institutions with original maturity periods of three months or less.

As at 31 December 2005, cash and cash equivalents restricted to use were £nil (2004: £449.4m).

Cash and cash equivalents included in the Group cash flow statement comprise the following balance sheet amounts:

	2005 £m	2004 £m
Cash at bank and in hand	**154.2**	696.1
Cash equivalents	**342.3**	2,779.7
	496.5	3,475.8

Which are recognised in the consolidated balance sheet as:

	Notes	2005 £m	2004 £m
Cash and cash equivalents		**487.5**	292.6
Assets included in disposal groups held for sale	36.3	**9.0**	3,183.2
		496.5	3,475.8

The Group has elected not to seek any borrowing facility at this time (2004: £nil).

28.3 Company cash and cash equivalents

Cash and cash equivalents included in the Company's cash flow statement comprise the following balance sheet amounts:

	2005 £m	2004 £m
Cash at bank and in hand	**22.3**	12.7
Cash equivalents	**236.6**	55.0
	258.9	67.7

29. Retirement benefit obligations

Retirement benefit obligations recognised in the consolidated balance sheet

	Notes	Group 2005 £m	Group 2004 £m
Henderson Group Pension Scheme	29.1	**40.1**	27.0
Henderson Group unapproved pension schemes	29.2	**5.5**	6.9
		45.6	33.9

Pension expense recognised in the consolidated income statement

	Notes	Group 2005 £m	Group 2004 £m
Henderson Group Pension Scheme	29.1	**10.6**	7.6
Henderson Group unapproved pension schemes	29.2	**0.9**	1.3
		11.5	8.9

Included in the 2004 year is £2.0m of recognised provision expense related to TLUK which is the discontinued business at 31 December 2005.

Amounts recognised in the consolidated statement of recognised income and expense

	Notes	Group 2005 £m	Group 2004 £m
Henderson Group Pension Scheme	29.1	**12.7**	24.0
Henderson Group unapproved pension schemes	29.2	**(1.9)**	1.3
		10.8	25.3

29.1 Henderson Group Pension Scheme
As at 31 December 2005, the Group operated one approved pension scheme, the Henderson Group Pension Scheme (the Scheme), for its employees. The Scheme received a past service transfer of £241.2m in April 2005 from the HHG Staff Pension Scheme. The liabilities transferred mirrored those accrued under the HHG Staff Pension Scheme and the transfer was carried out on the basis of a valuation as at the date of agreement to sell the Life Services business. The Scheme is funded by payment of contributions to a separately administered trust fund. The Scheme's appointed investment managers are Henderson Global Investors Limited, Fidelity Investments Life Assurance Limited, Legal & General Assurance and Standard Life Investments Limited. The Scheme is subject to regular valuations by an independent qualified actuary, Watson Wyatt.

The assumptions used for the 2005 (and 2004) IAS19 disclosures have been based on the HHG Staff Pension Scheme actuarial valuation at 31 December 2003, updated by Watson Wyatt in order to assess the assets and liabilities of the Scheme at 31 December 2005 and 31 December 2004. The Scheme assets are stated at their fair value at 31 December 2005 and 31 December 2004.

Reconciliation of present value of defined benefit obligations

	Group	
	2005 £m	2004 £m
At 1 January	**1,851.0**	1,745.0
Present value attributable to disposal groups	**(1,601.2)**	–
Current service cost	**11.3**	14.0
Interest cost	**13.1**	93.0
Employee contributions	**0.1**	–
Past service cost	**0.3**	–
Actuarial loss	**31.6**	79.0
Actual benefit payments	**(5.2)**	(75.0)
Curtailments	**–**	(5.0)
At 31 December	**301.0**	1,851.0

Reconciliation of the fair value of Scheme assets

	Group	
	2005 £m	2004 £m
At 1 January	**1,785.0**	1,675.0
Fair value of Scheme assets attributable to disposal groups	**(1,562.2)**	–
Expected return on Scheme assets	**14.1**	117.0
Actuarial gain	**18.9**	55.0
Company contributions	**10.2**	13.0
Employee contributions	**0.1**	–
Benefits paid from Scheme	**(5.2)**	(75.0)
At 31 December	**260.9**	1,785.0

Reconciliation of defined benefit liability

	Group	
	2005 £m	2004 £m
Present value of defined benefit obligation	**301.0**	1,851.0
Fair value of Scheme assets	**260.9**	1,785.0
Net liability at 31 December	**40.1**	66.0

Pension expense recognised in the consolidated income statement

	Group	
	2005 £m	2004 £m
Current service cost	**11.3**	14.0
Interest cost	**13.1**	93.0
Expected return on Scheme assets	**(14.1)**	(117.0)
Past service cost	**0.3**	–
(Gain) on curtailments	**–**	(5.0)
Total pension expense/(income)	**10.6**	(15.0)
Total pension income in relation to disposal groups	**–**	22.6
Total pension expense in relation to the continuing business	**10.6**	7.6

29. Retirement benefit obligations (continued)

Amounts recognised in the consolidated statement of recognised income and expense (SORIE)

	Group	
	2005 £m	2004 £m
At 1 January	**24.0**	–
Attributable to disposal groups	**(20.2)**	–
Actuarial loss recognised in the SORIE	**12.7**	24.0
At 31 December	**16.5**	24.0

Movements in net liability recognised in the consolidated balance sheet

	Group	
	2005 £m	2004 £m
At 1 January	**66.0**	70.0
Net liability attributable to disposal groups	**(39.0)**	–
Expense/(income) recognised in the consolidated income statement	**10.6**	(15.0)
Contributions paid	**(10.2)**	(13.0)
Actuarial loss recognised in the SORIE	**12.7**	24.0
At 31 December	**40.1**	66.0

Following the sale of the Life Services business on 13 April 2005, the pension scheme deficit relating to that business has been reported within liabilities relating to disposal groups classified as held for sale. The related pension scheme expense has been reported through discontinued operations in the consolidated income statement. Under the current terms of the sale agreement with JS&P Holdings Limited, in respect of Towry Law (UK), the post service liabilities of Towry Law (UK) employees will remain with Henderson Group plc. Towry Law (UK) employees remaining in the Henderson Group Pension Scheme will no longer be active members.

The movement in net liability recognised in the balance sheet has also been reanalysed accordingly, as below:

	Continuing operations £m	Relating to disposal groups £m	Total £m
At 1 January 2004	28.3	41.7	70.0
Income/(expenses) recognised in the consolidated income statement	2.3	(17.3)	(15.0)
Contributions paid	(7.4)	(5.6)	(13.0)
Actuarial loss recognised in the SORIE	3.8	20.2	24.0
At 31 December 2004	27.0	39.0	66.0
Net liability attributable to disposal groups	–	(39.0)	(39.0)
Expenses recognised in the consolidated income statement	10.6	–	10.6
Contributions paid	(10.2)	–	(10.2)
Actuarial loss recognised in the SORIE	12.7	–	12.7
At 31 December 2005	40.1	–	40.1

Scheme assets
The major categories of assets in the final salary section of the Scheme as a percentage of total assets in the final salary section of the Scheme were as follows:

	2005 %	2004 %
Equities	**54**	47
Bonds	**43**	41
Property	**–**	10
Cash	**3**	2
Total	**100**	100

Fair value of the total Scheme assets – final salary section

	Market value		Expected rate of return	
	2005 £m	2004 £m	2005 %	2004 %
Equities	**138.9**	842.0	**8.1**	8.2
Bonds	**109.3**	734.0	**4.3**	4.7
Property	**–**	172.0	**–**	6.9
Cash	**7.9**	37.0	**3.7**	3.6
Total	**256.1**	1,785.0	**6.3**	6.5

The fair value of the 2005 Scheme assets as shown above excludes £4.8m money purchase scheme assets.

The Scheme does not hold any investments in employer related companies.

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, forward looking views of financial markets (as suggested by the yields available) and views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment.

Actual return on Scheme assets

	2005 £m	2004 £m
Actual return on Scheme assets	**33.0**	172.0

Principal actuarial assumptions
(a) Financial assumptions

	2005 % per annum	2004 % per annum
Discount rate	**4.7**	5.3
Expected rate of return on Scheme assets	**6.3**	6.5
Salary increases	**4.4**	4.3
Pension increases:		
Where guarantee is Limited Price Indexation (LPI)	**2.9**	2.8
Where guarantee is fixed	**At fixed rate**	At fixed rate
Inflation	**2.9**	2.8

(b) Demographic assumptions
The demographic assumptions used are those underlying the last formal actuarial valuation of the HHG Staff Pension Scheme as at 31 December 2003, with appropriate adjustments made to reflect the updated member profile of the scheme.

Employer contributions
The Group expects to contribute £3.2m to the Scheme for the year to 31 December 2006, excluding contributions in respect of money purchase members.

29.2 Henderson Group unapproved pension schemes
The Group operates a number of unapproved pension schemes, the details of which are provided below:

The Pearl Executive Scheme. Members of this scheme are also members of the Henderson Group Pension Scheme. However, pensionable earnings under the Henderson Group Pension Scheme are limited to 1/60th for each year of service and the earnings cap, and the Pearl Executive Scheme provides benefits at 1/30th for each year of service with a maximum of two-thirds of salary after 20 years' service based on pensionable earnings above the earnings cap, on an unfunded basis.

The Henderson Top Up Scheme. Members of this scheme are also members of the Henderson Group Pension Scheme. However, pensionable earnings under the Henderson Group Pension Scheme are limited to the earnings cap, and the Henderson Top Up Scheme enables benefits to be based on pensionable earnings without restriction to the earnings cap. These additional uncapped benefits are generally provided on an unfunded basis. However, some members of the Henderson Top Up Scheme also have benefits within a separately administered trust fund (the Henderson Pension Trust), which is a funded arrangement.

There is an unfunded liability in respect of one member, to whom the Company has made a contractual promise to pay a fixed pension from age 60.

Reconciliation of present value of defined benefit obligations

	Group	
	2005 £m	**2004 £m**
At 1 January	**16.6**	7.1
Current service cost	**0.5**	0.4
Interest cost	**0.4**	0.4
Actuarial (gain)/loss	**(1.8)**	1.4
Actual benefit payments	**(0.8)**	(0.1)
Arising on disposal of the Life Services business	**(1.8)**	–
Arising on the (disposal)/acquisition of Homann Chilled Food GmbH	**(7.4)**	7.4
At 31 December	**5.7**	16.6

Homann Chilled Food GmbH relates to a Life Services investment, which was consolidated into the Group balance sheet at 31 December 2004. It is no longer associated with the Group following the sale of Life Services and its pension scheme is unrelated to the Henderson schemes.

The defined benefit obligations at 31 December are split as follows:

	Group	
	2005 £m	**2004 £m**
Pearl Executive Scheme (wholly unfunded)	**4.0**	5.8
Henderson Top Up Scheme (partly funded)	**1.4**	3.1
Individual contractual promise (wholly unfunded)	**0.3**	0.3
Homann Chilled Food GmbH scheme (wholly unfunded)	**–**	7.4
Total	**5.7**	16.6

Reconciliation of the fair value of assets

	Group	
	2005 **£m**	**2004** **£m**
At 1 January	**0.5**	0.4
Actual benefit payments	**(0.4)**	–
Actuarial gain	**0.1**	0.1
At 31 December	**0.2**	0.5

Reconciliation of defined benefit liability

	Group	
	2005 **£m**	**2004** **£m**
Present value of defined benefit obligation	**5.7**	16.6
Fair value of scheme assets	**(0.2)**	(0.5)
Net liability	**5.5**	16.1

Pension expense recognised in the consolidated income statement

	Group	
	2005 **£m**	**2004** **£m**
Current service cost	**0.5**	0.4
Interest cost	**0.4**	0.4
Total pension expense	**0.9**	0.8
Total pension income in relation to disposal groups	**–**	0.5
Total pension expense in relation to the continuing business	**0.9**	1.3

Amounts recognised in the consolidated statement of recognised income and expense (SORIE)

	Group	
	2005 **£m**	**2004** **£m**
At 1 January	**1.3**	–
Actuarial (gain)/loss	**(1.9)**	1.3
At 31 December	**(0.6)**	1.3

Movements in net liability recognised in the consolidated balance sheet

	Group	
	2005 £m	**2004 £m**
At 1 January	**16.1**	6.7
Net liability attributable to Life Services' members	**(1.8)**	–
Arising on (disposal) of Homann Chilled Food GmbH	**(7.4)**	–
Net liability attributable to the continuing business	**6.9**	6.7
Arising on acquisition of Homann Chilled Food GmbH	**–**	7.4
Expense recognised in the consolidated income statement	**0.9**	0.8
Actual benefit payments	**(0.4)**	(0.1)
Actuarial (gain)/loss recognised in the SORIE	**(1.9)**	1.3
At 31 December	**5.5**	16.1

Following the sale of the Life Services business on 13 April 2005, the pension scheme deficit relating to that business has been reported within liabilities included in disposal groups held for sale. The related pension scheme expense has been reported through discontinued operations in the consolidated income statement. The movement in net liability recognised in the consolidated balance sheet has therefore been reanalysed accordingly below, as follows:

	Continuing operations £m	**Relating to disposal groups £m**	**Total £m**
At 1 January 2004	4.4	2.3	6.7
Reclassification	0.6	(0.6)	–
Expense recognised in the consolidated income statement	0.7	0.1	0.8
Actual benefit payments	(0.1)	–	(0.1)
Actuarial loss recognised in the SORIE	1.3	–	1.3
Arising on acquisition of Homann Chilled Food GmbH	–	7.4	7.4
At 31 December 2004	6.9	9.2	16.1
Net liability attributable to disposal groups	–	(9.2)	(9.2)
Expense recognised in the consolidated income statement	0.9	–	0.9
Actual benefit payments	(0.4)	–	(0.4)
Actuarial gain recognised in the SORIE	(1.9)	–	(1.9)
At 31 December 2005	5.5	–	5.5

Scheme assets
The assets within the Henderson Pension Trust are all held in equities. There are no holdings in any investments in employer-related companies.

The overall expected return on assets assumption is derived as the expected return on equities, having considered historical performance analysis; forward looking views of financial markets (as suggested by the yields available); and views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment.

Actual return on scheme assets

	2005 £m	2004 £m
Actual return on scheme assets	**0.1**	0.1

Principal actuarial assumptions
(a) Financial assumptions

	2005 % per annum	2004 % per annum
Discount rate	**4.7**	5.3
Expected rate of return on scheme assets	**8.1**	8.2
Salary increase	**4.4**	4.3
Pension increases:		
Where guarantee is LPI	**2.9**	2.8
Where guarantee is fixed	**At fixed rate**	At fixed rate
Inflation	**2.9**	2.8

(b) Demographic assumptions
The demographic assumptions used are those underlying the last formal actuarial valuation of the schemes as at 31 December 2003, with appropriate adjustments made to reflect the updated member profile of the scheme.

30. Subsidiaries

The directly held subsidiaries of the Company are as follows:

	Country of incorporation/ formation and principal place of operation	Functional currency	% owned 2005	% owned 2004
Henderson Global Investors (Holdings) plc	UK	pounds sterling	**100%**	100%
Henderson Asset Management Limited	UK	pounds sterling	**100%**	100%
Henderson Finances	UK	pounds sterling	**100%**	100%
Henderson Portfolio Managers Limited	UK	pounds sterling	**100%**	100%
HHG Finance Services Limited	UK	pounds sterling	**100%**	100%
HHG International Holdings Limited	UK	pounds sterling	**100%**	100%
HHG Invest plc	UK	pounds sterling	**100%**	100%
Michie European Holdings BV	Netherlands	euros	**100%**	100%
UKLS Financial Planning Limited	UK	pounds sterling	**100%**	100%
UKLS Investment Services 2 Limited	UK	pounds sterling	**100%**	100%
UKLS Investor 1 Limited	UK	pounds sterling	**100%**	100%

30. Subsidiaries (continued)

The principal subsidiaries of the Group, excluding the directly held subsidiaries of the Company shown above, are as follows:

	Country of incorporation/ formation and principal place of operation	Functional currency	% owned 2005	% owned 2004
Henderson Administration Limited	UK	pounds sterling	**100%**	100%
Henderson Fund Management plc	UK	pounds sterling	**100%**	100%
Henderson Global Investors (International Holdings) BV	Netherlands	euros	**100%**	100%
Henderson Global Investors BV	Netherlands	euros	**100%**	100%
Henderson Global Investors (Jersey) Limited	Jersey	pounds sterling	**100%**	100%
Henderson Funds Management (Jersey) Limited	Jersey	pounds sterling	**100%**	100%
Henderson Property Management (Jersey) Limited	Jersey	pounds sterling	**100%**	100%
Henderson Global Investors Limited	UK	pounds sterling	**100%**	100%
Henderson Holdings Limited	UK	pounds sterling	**100%**	100%
Henderson International Holdings Limited	UK	pounds sterling	**100%**	100%
Henderson Investment Funds Limited	UK	pounds sterling	**100%**	100%
Henderson Investment Management Limited	UK	pounds sterling	**100%**	100%
Henderson Management SA	Luxembourg	US dollars	**100%**	100%
Henderson Fund Management Luxembourg (SA)	Luxembourg	euros	**100%**	–
Henderson Property Management (Luxembourg) No1 Sarl	Luxembourg	euros	**100%**	100%
Henderson Global Investors (Japan) KK	Japan	Japanese yen	**100%**	100%
Henderson Global Investors (Singapore) Limited	Singapore	Singapore dollars	**100%**	100%
Henderson Global Investors (Hong Kong) Limited	Hong Kong	Hong Kong dollars	**100%**	100%
Henderson Global Investors (Ireland) Limited	Ireland	euros	**100%**	100%
Henderson Global Investors (Switzerland) Limited	Switzerland	Swiss francs	**100%**	100%
Henderson Global Investors (France) SAS	France	euros	**100%**	100%
Henderson Global Investors Immobilien Austria GmbH	Austria	euros	**65%**	65%
Henderson International Inc	USA	US dollars	**100%**	100%
Henderson Global Investors North America Inc	USA	US dollars	**100%**	100%
Henderson Private Capital (GP) Limited	UK	pounds sterling	**100%**	100%
Henderson Private Capital (India) Private Limited	India	Indian rupees	**100%**	100%
Henderson Equity Partners Limited	UK	pounds sterling	**100%**	100%
Henderson Unit Trusts Limited	UK	pounds sterling	**100%**	100%
Henderson Alternative Investment Advisor Limited	UK	pounds sterling	**100%**	100%
Henderson Enhanced Index (UK GP) Limited	UK	pounds sterling	**100%**	100%
Henderson Enhanced Index (Jersey GP) Limited	Jersey	pounds sterling	**100%**	100%
Henderson Private Capital Limited	UK	pounds sterling	**100%**	100%
Towry Law Financial Services Limited	UK	pounds sterling	**100%**	100%
Towry Law Insurance Brokers Limited	UK	pounds sterling	**100%**	100%
Towry Law plc	UK	pounds sterling	**100%**	100%

The information in the table disclosed above is only in respect of those subsidiaries which principally affect the figures shown in the Group's accounts. There are a number of other subsidiaries and associated undertakings whose business does not materially affect the Group's profits or the amount of its assets. Particulars of these have been omitted for simplification purposes.

Henderson Global Investors (Jersey) Limited ("HGIJL") is the only principal subsidiary undertaking which has a different reporting date to that of the Parent, Henderson Group plc, being 30 November. Management accounts have been prepared as at 31 December 2005 to ensure that all significant events between the balance sheet date of HGIJL and the Parent have been reflected in the Group accounts to 31 December 2005.

31. Investment in subsidiaries

	Company		
	Shares in subsidiaries £m	Loans to subsidiaries £m	Total £m
Cost			
At 1 January 2005	5,357.1	207.4	5,564.5
Additions	60.2	–	60.2
Disposals	(5.0)	–	(5.0)
Repayment of loans with subsidiaries	–	(207.4)	(207.4)
At 31 December 2005	5,412.3	–	5,412.3
Provision for impairment			
At 1 January 2005	(2,061.5)	–	(2,061.5)
Charge for the year	(692.7)	–	(692.7)
Disposals	1.2	–	1.2
At 31 December 2005	(2,753.0)	–	(2,753.0)
Net book value			
At 1 January 2005	3,295.6	207.4	3,503.0
At 31 December 2005	2,659.3	–	2,659.3

	Company		
	Shares in subsidiaries £m	Loans to subsidiaries £m	Total £m
Cost			
At 1 January 2004	5,252.3	297.9	5,550.2
Additions	2,098.1	145.0	2,243.1
Disposals	(1,993.3)	(235.5)	(2,228.8)
At 31 December 2004	5,357.1	207.4	5,564.5
Provision for impairment			
At 1 January 2004	(2,367.9)	(53.0)	(2,420.9)
Charge for the year	(141.1)	–	(141.1)
Disposals	447.5	53.0	500.5
At 31 December 2004	(2,061.5)	–	(2,061.5)
Net book value			
At 1 January 2004	2,884.4	244.9	3,129.3
At 31 December 2004	3,295.6	207.4	3,503.0

The impairment charge for 2004 includes an impairment of £107.1m in the Company's investment in its direct subsidiary, Henderson Finances (formerly Pearl Group Limited) as a result of the sale of the Life Services business to Life Company Investor Group Limited based on the expected consideration to be received from Life Company Investor Group Limited less expected disposal costs. The Company's other shares in subsidiary undertakings were impaired to their net asset values.

During 2004 the Company transferred the ownership of a number of subsidiaries within the Group as part of a Group restructure. The net book value of these shares in the subsidiary undertakings was £206.4m and the aggregate consideration was £219.5m. In addition to this, subsidiary undertakings with the net book value of £1,339.4m were liquidated.

32. Deferred acquisition and commission costs

	2005 £m	2004 £m
At 1 January	**11.6**	8.9
Increase	**19.4**	12.1
Amortisation	**(11.8)**	(9.4)
At 31 December 2004	**19.2**	11.6

Included within the £11.8m amortisation charge in 2005 is £9.7m in respect of amortisation of capitalised commissions, £1.2m (2004: £nil) in respect of various US products that capitalise commissions paid and £0.9m in respect of amortisation of structured product costs in our private equity business over the estimated life of the fund.

33. Related party transactions

33.1 Group
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Group's pension scheme is charged on an arm's-length basis with the costs of administration and investment management services, which amounted to £0.5m in 2005 (2004: £0.6m). There are no outstanding balances due from the pension scheme at 31 December 2005 (2004: £nil).

The Company completed the sale of all its interest in the Life Services business on 13 April 2005. All transactions with the entities comprising the Life Services business have been conducted on normal commercial terms.

AMP Limited (AMP), from which the Group demerged in 2003, retained the right to appoint a Director to the Board for as long as it held at least a 5% shareholding in the Company. Following the resignation of Pat Handley in May 2004, AMP chose not to exercise the right, and on 5 September 2005, AMP sold its remaining 11% shareholding in the Company. Due to the events outlined above, the Company does not consider AMP to be a related party during 2005. During 2004 the Group charged AMP £5.0m in respect of investment management fees. The £4.0m receivable as at 31 December 2004 was settled during 2005. All transactions with AMP are conducted on normal commercial terms.

33.2 Company
The Company had no related party transactions, other than these with wholly owned subsidiaries, which are eliminated on consolidation.

34. Contingent liabilities

The following contingent liabilities existed at 31 December 2005:
(a) in the normal course of business, the Group is exposed to certain legal issues, which involve litigation and arbitration;
(b) in the normal course of business, the Group enters into various types of investment contracts that can give rise to contingent liabilities. These include foreign exchange contracts, financial futures, interest rate derivatives and exchange traded options. These contracts are entered into in the normal management of clients' investment portfolios;
(c) the provision for costs in respect of Towry Law International legacy products is based on a number of assumptions. As at the balance sheet date, discussions are continuing with regulators as regards the resolution of these legacy product issues. However, the Directors are of the opinion that the provisions made are appropriate; and
(d) certain warranties and indemnities were given to Life Company Investor Group Limited in connection with the sale of the Life Services business. The Group has taken out an appropriate level of warranty insurance to limit its potential liability under these warranties, and retained a portion of the proceeds from the sale to cover any potential claims.

35. Acquisitions and disposals of subsidiaries

35.1 Acquisitions
The Group did not acquire any subsidiaries during the year.

35.2 Disposals

	Notes	2005 £m	2004 £m
Gain/(loss) on disposal of discontinued operations		**(18.6)**	13.1
(Loss) arising on adjustment to fair value less costs to sell the Life Services business	35.2.4	**–**	(183.2)
Net (loss) after tax on disposal of discontinued operations		**(18.6)**	(170.1)

The pre-tax gain/(loss) recognised on disposals is analysed as follows:

	Notes	2005 £m	2004 £m
Cogent Investment Operations Limited	35.2.1	**–**	3.0
Virgin Money Group Limited	35.2.2	**–**	18.5
Towry Law International	35.2.3	**–**	(8.4)
Life Services	35.2.4	**(18.6)**	–
		(18.6)	13.1

35.2.1 Cogent Investment Operations Limited
On 2 September 2002, the Group completed the sale of Cogent Investment Operations Limited, a subsidiary. During 2004, £3.0m of unutilised provisions for certain related contract obligations were released. Contract obligations relating to the sale cease by June 2008.

35.2.2 Virgin Money Group Limited
On 27 April 2004, HHG Virgin Holdings Limited's (subsequently renamed HHG (VH) Limited) equity interest in Virgin Money Group Limited was sold to Virgin Group Investment Limited. Also on this date, the loan from Pearl Group Limited to Virgin Money Group Limited was sold to Virgin Management Limited for £90.0m. £50.0m of this consideration was received on completion of the transaction, £20.0m became due 12 months after the date of completion and the final £20.0m was payable 24 months after the date of completion. The net consideration was £75.5m, reflecting the discounting of amounts receivable in future years, provisions in respect of certain indemnities given under the transaction and transaction expenses. A profit of £18.5m was recorded on the disposal. The risk and rewards of the disposal contract were transferred to Life Services on its disposal in April 2005.

35.2.3 Towry Law International
On 27 May 2004, Towry Law announced that it would close its international operations to new business, resulting in a loss of £8.4m arising from costs of terminating those operations. A cash outflow of £6.0m arose in respect of this in 2004.

35.2.4 Life Services
On 9 December 2004, the Company, together with subsidiary companies, entered into an agreement to sell the Life Services business owned by Pearl Group Limited (a direct subsidiary of the Company) to Life Company Investor Group. Following shareholder approval obtained at an Extraordinary General Meeting and regulatory approval given by the FSA, the completion date of the disposal was 13 April 2005.

Life Services comprised principally the life insurance and pensions books of Pearl, London Life, National Provident Life and NPI, which were and remain effectively closed to new business, various unit-linked life insurance companies and HHG Services Limited, which provided administrative services to these businesses. All of these entities were directly or indirectly owned by Pearl Assurance Group Holdings Limited, 100% of whose issued share capital was sold by Pearl Group Limited.

Notes to the Financial Statements (continued)
35. Acquisitions and disposals of subsidiaries (continued)

The transaction resulted in a loss on disposal in 2005 of £18.6m calculated as follows:

	2005 £m
Sale consideration	**1,079.3**
Less: Transaction costs	**(20.5)**
	1,058.8
Net assets disposed of	**(1,077.4)**
Pre-tax (loss) on disposal	**(18.6)**
Tax on loss on disposal	**–**
Post-tax (loss) on disposal	**(18.6)**

Cash received from disposal of Life Services

	2005 £m
Total proceeds from the sale	**1,070.3**
Less: Cash and cash equivalents of subsidiaries sold	**(4,336.9)**
Net cash outflow on disposal	**(3,266.6)**

The cash proceeds differed from sale consideration by £9.0m. This difference related to the acceptance by Henderson Group plc of £31.8m shares in Banca Popolare Italiana as non-cash consideration, and the placing of £22.8m of cash into Escrow in respect of pension scheme payments. Aggregate assets, equity and liabilities of Life Services at the date of disposal were:

	Notes	13 April 2005 £m
Assets		
Intangible assets		66.2
Deferred acquisition costs	45.1	107.4
Property, plant and equipment		69.8
Deferred tax assets	40	27.2
Investment property	44	1,995.0
Current tax assets		4.1
Trade and other receivables		621.9
Cash and cash equivalents		4,336.9
Reinsurance assets	45.3	273.9
Inventories		6.0
Other financial assets		24,729.1
Total assets		32,237.5
Equity		
Minority interests		468.8
Liabilities		
Deferred tax liabilities	40	82.5
Borrowings		1,285.9
Provisions	42	83.0
Net asset value attributable to unit-holders		2,961.7
Investment contract liabilities		4,161.5
Insurance contract liabilities	45.2	21,494.0
Creditors		444.1
Accruals and deferred income		77.7
Finance lease and retirement benefit obligations		100.9
Total liabilities		30,691.3
Net assets		**1,077.4**

This transaction also resulted in a loss of £183.2m, recognised in 2004. This loss comprised an impairment loss of £175.7m, reflecting the write down of net assets of Life Services to the fair value of the consideration received less costs to sell and £7.5m of associated committed transaction costs recognised by the Company at 31 December 2004. A cash outflow of £2.4m arose in respect of this loss in 2004. The impairment loss of £175.7m was recognised against the following assets:

	£m
Goodwill	83.1
Other intangible assets	59.3
Present value of in force business	10.0
Property, plant and equipment	14.8
Inventories	4.6
Prepayments	3.9
	175.7

36. Discontinued operations

On 13 April 2005, Henderson Group plc sold Life Services, which comprised the life insurance and pension books of Pearl, National Provident Life, NPI Limited, London Life and the Service Company (note 35.2.4).

To reflect this disposal, the results of Life Services have been classified as discontinued operations. Also included within discontinued operations are the profits/(losses) arising from Virgin Money Group Limited and Towry Law International, which were sold and terminated during 2004 (notes 35.2.2 and 35.2.3).

On 21 December 2005, Henderson Group plc announced an agreed sale of Towry Law UK. The sale remains subject to approval by the FSA and is expected to be completed in early April 2006.

In accordance with IFRS 5, the results of these operations have been reported within the consolidated income statement as discontinued operations. The assets and liabilities of the Life Services business have been reclassified as assets included in disposal groups held for sale and liabilities included in disposal groups held for sale respectively in the 2004 consolidated balance sheet. The assets and liabilities of Towry Law UK have been reclassified as assets included in disposal groups held for sale and liabilities included in disposal groups held for sale respectively in the 2005 consolidated balance sheet.

36.1 Profit from discontinued operations

	Notes	2005 £m	2004 £m
Income			
Fee and commission income	37.1	**109.5**	132.7
Gross premiums written	37.1	**162.6**	748.8
Premiums ceded to reinsurers	37.1	**(0.2)**	(0.9)
Premiums written net of reinsurance		**162.4**	747.9
Finance income	37.1	**387.1**	2,461.1
Total income		**659.0**	3,341.7
Expenses			
Acquisition costs	37.2.1	**(7.9)**	(46.3)
Administration costs	37.2.2	**(104.5)**	(243.8)
Other charges	37.2.5	**(2.8)**	(17.5)
Total expenses		**(115.2)**	(307.6)
Expenses for policyholder claims and benefits (including change in insurance liabilities)		**(216.7)**	(2,372.8)
Claims recoveries from reinsurers		**0.3**	6.6
Change in investment contract provisions		**(143.8)**	(569.2)
Finance costs	37.3	**(158.4)**	(55.5)
Net profit before tax from discontinued operations		**25.2**	43.2
Tax on the results of discontinued operations	38	**(4.8)**	(45.9)
Net profit after tax from discontinued operations		**20.4**	(2.7)
Attributable to:			
Equity holders of the parent		**23.9**	(49.6)
Minority interests		**(3.5)**	46.9
		20.4	(2.7)

36.2 Discontinued income statement by business segment
For the year ended 31 December 2005

	Life Services £m	Towry Law UK £m	Discontinued operations £m	Eliminations £m	Total £m
Income					
Total fee and commission income	71.1	38.4	109.5	–	109.5
Premiums written net of reinsurance	162.4	–	162.4	–	162.4
Finance income	389.8	0.3	390.1	(3.0)	387.1
Total income	623.3	38.7	662.0	(3.0)	659.0
Expenses					
Acquisition costs	(7.9)	–	(7.9)	–	(7.9)
Administration costs	(76.6)	(34.9)	(111.5)	7.0	(104.5)
Other charges	(1.6)	(1.2)	(2.8)	–	(2.8)
Expenses for policyholder claims and benefits	(216.4)	–	(216.4)	–	(216.4)
Changes in investment contract provisions	(143.8)	–	(143.8)	–	(143.8)
Total expenses	(446.3)	(36.1)	(482.4)	7.0	(475.4)
Finance costs	(160.3)	(0.1)	(160.4)	2.0	(158.4)
Net profit before tax from discontinued operations	16.7	2.5	19.2	6.0	25.2
Supplementary segment information					
Capital expenditure	(1.2)	(0.1)	(1.3)	–	(1.3)
Depreciation and amortisation of segment assets	(1.6)	–	(1.6)	–	(1.6)
Non-cash expenses other than depreciation – provisions	19.7	–	19.7	–	19.7

Geographical segments
For the year ended 31 December 2005

	United Kingdom £m	Continental Europe £m	United States £m	Other overseas £m	Total £m
Total income	659.0	–	–	–	659.0
Total expenses	(475.4)	–	–	–	(475.4)
Finance costs	(158.4)	–	–	–	(158.4)
Operating segment result	25.2	–	–	–	25.2

For the year ended 31 December 2004

	Virgin Money Group Limited £m	Towry Law International £m	Life Services £m	Towry Law UK £m	Discontinued operations £m	Eliminations £m	Total £m
Income							
Fee and commission income	–	4.3	92.5	37.3	134.1	(1.4)	132.7
Premiums written net of reinsurance	–	–	747.9	–	747.9	–	747.9
Finance income	0.6	–	2,453.5	0.1	2,454.2	6.9	2,461.1
Total income	0.6	4.3	3,293.9	37.4	3,336.2	5.5	3,341.7
Expenses							
Acquisition costs	–	–	(46.3)	–	(46.3)	–	(46.3)
Administration costs	–	(39.8)	(197.2)	(38.4)	(275.4)	31.6	(243.8)
Other charges	–	–	(15.0)	(2.5)	(17.5)	–	(17.5)
Expenses for policyholder claims and benefits	–	–	(2,366.2)	–	(2,366.2)	–	(2,366.2)
Changes in investment contract provisions	–	–	(569.2)	–	(569.2)	–	(569.2)
Total expenses	–	(39.8)	(3,193.9)	(40.9)	(3,274.6)	31.6	(3,243.0)
Finance costs	–	–	(65.8)	(0.1)	(65.9)	10.4	(55.5)
Net profit/(loss) before tax from discontinued operations	0.6	(35.5)	34.2	(3.6)	(4.3)	47.5	43.2
Supplementary segment information							
Depreciation and amortisation of segment assets	–	–	(15.0)	–	(15.0)	–	(15.0)
Non-cash expenses other than depreciation – provisions	–	(35.0)	8.0	–	(27.0)	–	(27.0)

Geographical segments
For the year ended 31 December 2004

	United Kingdom £m	Continental Europe £m	United States £m	Other overseas £m	Total £m
Total income	3,337.4	–	–	4.3	3,341.7
Total expenses	(3,203.2)	–	–	(39.8)	(3,243.0)
Finance costs	(55.5)	–	–	–	(55.5)
Operating segment result	78.7	–	–	(35.5)	43.2

36.3 Assets held in disposal groups held for sale and liabilities and equity included in disposal groups held for sale

	Notes	2005 £m	2004 £m
Assets			
Intangible assets	47	**21.7**	69.6
Deferred acquisition costs	45.1	**–**	115.1
Investment property	44	**–**	2,001.6
Property, plant and equipment	46	**2.4**	69.8
Reinsurance assets	45.3	**–**	276.1
Deferred tax assets	40	**–**	28.2
Available-for-sale financial assets	39.1	**–**	30.6
Financial assets at fair value through profit or loss	39.1	**–**	25,443.3
Current tax receivables		**0.3**	–
Inventories		**–**	5.5
Trade and other receivables	39.1	**9.2**	656.1
Prepayments		**–**	–
Cash and cash equivalents	28.2,39.1	**9.0**	3,183.2
Assets held in disposal groups held for sale		**42.6**	31,879.1
Liabilities			
Deferred tax liabilities	40	**–**	102.5
Borrowings	41,39.1	**–**	1,096.9
Retirement benefit obligations		**–**	48.2
Provisions	42	**4.1**	102.7
Current tax liabilities		**–**	49.0
Net asset value attributable to unit-holders	39.1	**–**	2,271.0
Investment contract liabilities	39.1	**–**	4,173.3
Insurance contract liabilities	45.2	**–**	21,912.4
Other creditors		**8.4**	503.6
Accruals and deferred income		**3.2**	84.0
Obligations under finance leases	43.1	**1.0**	61.8
Liabilities included in disposal groups held for sale		**16.7**	30,405.4
Equity			
Minority interests	21.1	**–**	417.3
Equity included in disposal groups held for sale		**–**	417.3

The 2005 assets held in disposal groups held for sale and the 2005 liabilities and equity included in disposal groups held for sale represent the assets and liabilities of Towry Law UK.

Impairments of £4.6m and £3.9m were recognised against inventories and prepayments respectively in adjusting the carrying value of the net assets of the Life Services business to fair value less costs to sell (note 35.2.4).

36.4 Cash flows from discontinued operations

	2005 £m	2004 £m
Net cash flows from operating activities	**(295.9)**	(1,104.2)
Net cash flows from investing activities	**818.8**	(1,816.9)
Net cash flows from financing activities	**630.9**	2,290.1
Net cash inflow/(outflow)	**1,153.8**	(631.0)

36.5 Statement of recognised income and expense from discontinued operations
The following income and expenses were recognised directly in equity relating to discontinued operations:

	2005 £m	2004 £m
Exchange difference on translation of foreign operations	**(0.5)**	–
Gains on revaluation of available-for-sale financial assets	**–**	1.4
Actuarial gain/(loss) on pension schemes	**0.2**	(20.2)
Reversal of previously recognised loss on available-for-sale-financial assets	**3.4**	–
Total income/(expense) recognised directly in equity	**3.1**	(18.8)

37. Income and expenses of discontinued operations

37.1 Income

	2005 £m	2004 £m
Fee and commission income		
Fee income from investment contract business	**16.6**	54.7
Commissions	**38.4**	41.6
Other income	**54.5**	36.4
	109.5	132.7
Gross premiums written		
Long-term business premiums	**162.6**	748.7
Other premiums	**–**	0.1
	162.6	748.8
Less: Premiums ceded to reinsurers	**(0.2)**	(0.9)
Premiums written net of reinsurance	**162.4**	747.9
Finance income		
Interest on deposits with credit institutions	**36.9**	106.2
Interest on fixed interest securities	**247.4**	920.6
Rental income from investment properties	**33.4**	77.6
Interest on other loans	**1.8**	63.4
Dividends	**60.9**	210.1
Realised gains on sale of investments	**6.7**	132.5
Unrealised gains on investments designated as fair value through profit or loss	**–**	950.7
	387.1	2,461.1
Total income	**659.0**	3,341.7

37.2 Expenses

37.2.1 Acquisition costs

	2005 £m	2004 £m
Acquisition costs taken directly to the profit and loss account	**0.2**	10.4
Deferred acquisition cost amortisation and impairment	**7.7**	35.9
	7.9	46.3

37.2.2 Administration costs

	Notes	2005 £m	2004 £m
Employee benefits expense	37.2.4	**34.7**	64.5
Operating lease rentals		**2.4**	2.5
Investment administration fees		**4.7**	47.4
Other expenses		**62.7**	129.4
		104.5	243.8

37.2.3 Average employee numbers

The average number of employees of the discontinued operations was as follows:

	2005 no.	2004 no.
Towry Law International	**21**	118
Life Services	**1,196**	1,612
Towry Law UK	**510**	598
	1,727	2,328

37.2.4 Analysis of employee benefits expense

Employee benefits expense of the discontinued operations comprised:

	Notes	2005 £m	2004 £m
Salaries and wages		**28.0**	73.4
Share-based payments	12.2	**0.2**	0.3
Social security costs		**2.8**	6.6
Other pension costs/(income)		**3.7**	(15.8)
		34.7	64.5

37.2.5 Other charges

	2005 £m	2004 £m
Depreciation of property, plant and equipment	**2.3**	14.5
Impairment of goodwill	**–**	2.9
Amortisation of other intangible assets	**0.3**	0.1
Impairment of property, plant and equipment	**0.2**	–
	2.8	17.5

37.3 Finance costs

	2005 £m	2004 £m
Interest on borrowings	**23.9**	55.4
Interest on finance leases	**0.1**	0.1
Unrealised losses on financial assets designated at fair value through profit or loss	**134.4**	–
	158.4	55.5

38. Taxation of discontinued operations

	2005 £m	2004 £m
Current income tax:		
Current year	**3.5**	69.1
Prior year	**–**	(53.7)
Overseas tax	**–**	2.2
Deferred tax relating to:		
Origination of temporary differences	**1.3**	28.3
Total taxation expense	**4.8**	45.9

Reconciliation of tax expense to the standard rate of corporate tax

	2005 £m	2004 £m
Total tax expense	**4.8**	45.9
Tax attributable to policyholders	**(1.7)**	(47.1)
Tax effect of expenses that are not deductible for tax purposes:		
Goodwill impairment	**(2.1)**	(45.7)
Other disallowable expenses	**–**	(15.4)
Tax effect of income not subject to taxation	**2.1**	13.8
Tax effect of (losses)/gains not subject to taxation	**(5.6)**	4.0
Tax effect of adjustment to fair value less costs to sell on disposal	**–**	(55.0)
Movement in unprovided deferred tax	**(2.4)**	9.6
Income subject to double tax treaty exemptions	**–**	(1.2)
Adjustment for prior years	**–**	23.9
Losses received for nil value	**–**	3.6
Utilisation of previously unrecognised tax losses	**5.1**	11.3
Tax at the applicable UK corporation tax rate 30% (2004: 30%) on profit/(loss) before tax	**0.2**	(52.3)

39. Fair value of financial instruments of discontinued operations

39.1 Total financial assets and liabilities

	Notes	Fair value and carrying value 2005 £m	Fair value and carrying value 2004 £m
Financial assets			
Shares and other variable yield securities		–	7,316.6
Debt securities and other fixed income securities		–	16,697.1
Mortgages and other loans		–	107.6
Short-term investments		–	590.2
Other investments		–	731.8
Financial assets at fair value through profit and loss		–	25,443.3
Available-for-sale financial assets		–	30.6
Trade and other receivables		**9.2**	656.1
Cash at bank and in hand		**9.0**	475.6
Cash equivalents		–	2,707.6
Cash and cash equivalents		**9.0**	3,183.2
Total financial assets		**18.2**	29,313.2
Financial liabilities			
Borrowings	41	–	1,096.9
Insurance contract liabilities		–	2,271.0
Investment contract liabilities		–	4,173.3
Total financial liabilities		–	7,541.2

39.2 Financial risk management of discontinued operations

39.2.1 Financial risk management objectives and policies
Financial assets comprise principally investments in equity securities, gilts, corporate bonds, OEICs, short-term investments, cash and cash equivalents. Financial assets were held to support the policyholder funds of Life Services and to provide an investment return to shareholders. Financial liabilities mainly comprise investment contract liabilities and borrowings for financing purposes. The main risks arising from financial instruments are asset valuation risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. Each of these risks is discussed in detail below.

39.2.2 Asset valuation risk
A major portion of the long-term business of Life Services comprises with-profits products, where the policyholders bear some or all of the risk attributable to the valuation of the assets supporting the long-term funds. Risks attributable to policyholders are managed with a view to ensuring that risks are acceptable taking account of the potential rewards, and the need to meet policyholders' reasonable expectations. A decline in asset valuations through market fluctuations will restrict the size of the unattributed surplus, which can be used to fund future policyholder bonuses and from which transfers to the shareholders are made. While a shortfall of assets against liabilities arising from a fall in asset values may result in bonuses being reduced or withheld on with-profits policies, shareholders' funds within the Life Services business could also be required to be transferred to cover any such shortfalls.

Life Services significantly reduced the volatility of the mismatch between assets and liabilities by reducing the exposure of its long-term funds to growth assets.

In addition to diversification, Life Services also used derivatives to hedge against market movements in asset values, and as a means of effecting changes in exposures to different asset classes. A clearly defined policy exists for the use of all derivatives, together with control frameworks to ensure appropriate dealing, settlement and independent monitoring of such instruments.

For investment contracts, Life Services matched all the assets on which the unit prices are based with assets in the portfolio. There is no asset valuation risk for these contracts.

39.2.3 Interest rate risk

Interest rate risk is the risk that Life Services will sustain losses through adverse movements in interest rates, either through a mismatch of interest-bearing assets and liabilities or the effect such movements have on the value of interest-bearing assets (which is also related to the asset valuation risk discussed above).

Reductions in the level of long-term interest rates may adversely affect the Life Services business. As interest rates reduce, the value of future guarantees will increase. Similarly, policyholder options, which may include, for example, interest rate guarantees, may become more valuable. Conversely, interest rate reductions will also lead to an increase in the value of Life Services fixed interest securities. The extent of the adverse impact will depend on the relative movements of assets and liabilities. In order to reduce this impact, Life Services seeks to back the liabilities with assets whose sensitivity to interest rates is the same as, or similar to, that of the liabilities. To the extent that such asset and liability matching is not practicable or not fully achieved, future returns may fluctuate.

The interest rate risk of Life Services arises from holding financial assets and liabilities in the normal course of business. It is Life Services' intention to mitigate any material interest rate risk with derivative financial instruments.

39.2.4 Liquidity risk

Life Services faces two types of liquidity risk: product/market liquidity risk and fund liquidity risk.

Product/market liquidity risk is the risk that Life Services may not be able to, or cannot easily, unwind or offset a particular position at or near the previous market price because of inadequate market depth or because of disruptions in the marketplace. Life Services bears the risk through its investments in unlisted products such as private capital.

Fund liquidity risk is the risk that Life Services may be unable to meets its payment obligations. This would be the risk of insufficient cash resources and liquid assets being available to meet liabilities as they fall due, as well as the regulatory capital requirements of the FSA.

One of the primary considerations of the Life Services business in determining investment policy is to ensure that the investments can be liquidated to meet liabilities as they fall due, based on actuarial assessment.

39.2.5 Foreign currency risk

Foreign currency risk is the risk that Life Services will sustain losses through adverse movements in currency exchange rates.

Life Services is subject to foreign currency exposure through its non-UK investments. Life Services uses foreign currency contracts to eliminate the currency exposure on any individual transactions. Transactions in excess of £50,000 per deal with greater than six months maturity and where the timing and likelihood of occurrence are certain, are fully hedged.

39.2.6 Credit risk

Life Services trades only with recognised creditworthy third parties. With respect to credit risk arising from other financial assets of the discontinued operations, the Group's exposure to credit risk arises from default of the counterparty, where the maximum exposure is equal to the carrying amount of those assets.

Credit exposure exists with respect to reinsurance to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements. Life Services holds substantial collateral as security under related reinsurance agreements in the form of deposits, securities and/or letters of credits.

40. Deferred taxation of discontinued operations

Deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets

	Group				
	Accelerated loss recognition £m	Tax losses £m	Deferred acquisition costs £m	Provisions £m	Total £m
At 1 January 2005 (note 23.1)	1.1	3.4	22.7	1.0	28.2
Credited/(charged) to the consolidated income statement	–	0.5	(1.5)	–	(1.0)
Balance disposed of during the year	(1.1)	(3.9)	(21.2)	(1.0)	(27.2)
At 31 December 2005	–	–	–	–	–

Deferred tax liabilities

	Group			
	Accelerated profit recognition £m	Unrealised gains in investments £m	Accelerated tax depreciation £m	Total £m
At 1 January 2005 (note 23.1)	8.3	53.6	40.6	102.5
Charged/(credited) to the consolidated income statement	(0.5)	0.8	–	0.3
Provision utilised	–	(20.1)	(0.2)	(20.3)
Balance disposed of during the year	(7.8)	(34.3)	(40.4)	(82.5)
At 31 December 2005	–	–	–	–

The deferred tax charge in the income statement comprises the following temporary differences:

	Total 2005 £m
Accelerated profit recognition	(0.5)
Allowance, provisions and gains on financial assets	0.8
Tax loss carry forward	(0.5)
Other temporary differences	1.5
Charge to the income statement	1.3

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit is probable. Deferred tax assets of £112m (2004: £117m) in respect of trading losses, £21m (2004: £21m) in respect of provisions and other timing differences, £39m (2004: £40m) in respect of realised capital losses and £5m (2004: £5m) in respect of three year funded business have not been recognised as there is insufficient certainty as to the availability of future profits. These tax losses have no statutory expiry dates.

41. Borrowings of discontinued operations

	2005 £m	2004 £m
Subordinated guaranteed bonds (note (a))	–	130.0
Securitised loan – Limited Recourse Bonds 2012 7.39169% (note (b))	–	101.2
Securitised loan – Limited Recourse Bonds 2022 7.5873% (note (b))	–	116.7
Refinancing loan (note (c))	–	295.8
Central London Office Fund (note (d))	–	6.0
Henderson Caspar Property Fund (note (e))	–	327.4
Boat International Group Limited (note (f))	–	6.5
VPS Holdings Limited (note (g))	–	35.0
Homann Chilled Food GmbH (note (h))	–	78.3
Total borrowings	–	1,096.9

Notes

(a) A £100.0m 9.625% subordinated Guaranteed Bond and a £30.0m 9.6257% subordinated Guaranteed Bond were both issued at par in 1996 by a wholly owned subsidiary of National Provident Institution (NPI). On 1 January 2000, NPI demutualised and these guarantees, along with the net proceeds of their issue, were transferred to National Provident Life Limited. The bonds are repayable on a non-instalment basis, on 30 June 2006 and each fifth anniversary thereafter, so long as the bonds are outstanding.

(b) Prior to its acquisition by Life Services, NPI raised £260.0m of capital through the securitisation of embedded value on a block of existing unit-linked and unitised with-profit life and pension policies in 1998. On demutualisation, these were transferred to National Provident Life Limited. The bonds are split between two classes, which rank pari passu. The £140.0m 7.39169% Class A1 Limited Recourse Bonds had an average life of eight years maturing in 2012 and the £120.0m 7.5873% Limited Recourse Bonds had an average life of 18 years maturing in 2022. Amounts relating to the securitisation included within loans represent the principal outstanding less unamortised deferred issued costs. The bonds are repaid out of margins emerging from the securitised block of business and from a collateral fund of £128.0m.

(c) A refinancing loan from Abbey National plc was taken out in relation to the sale of Extra-Income Plan Policies that Abbey National plc financed to the value of the associated property reversions. As part of the arrangement, National Provident Life Limited and NPI Limited have undertaken to indemnify Abbey National plc against profits or losses arising from mortality or surrender experience, which differs from the basis used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next ten to 20 years.

(d) On 29 July 2004, the Central London Office Fund entered into a 364 day loan facility agreement with Lloyds TSB plc which expired on 28 July 2005. The facility is for £10.0m but had temporarily increased to £20.0m until 31 January 2005. Only £6.0m was drawn down as at 31 December 2004. The loan incurs interest at LIBOR plus 0.6% per annum and is payable quarterly at the end of the interest period.

(e) On 6 October 2004, the Henderson Caspar Property Fund entered into a loan agreement with Royal Bank of Scotland plc which expires on 29 October 2012. The loan is split into four tranches. Tranche A is for £126.2m and is payable in unequal quarterly instalments over the life of the loan incurring interest at 6.02% per annum plus Additional Interest Rate Margin (AIRM). Tranche A is repaid by drawing quarterly on a mezzanine facility which incurs interest at LIBOR plus 4% per annum. Tranches B and C are £47.5m each and incur interest at 6.19% per annum plus AIRM and 6.42% per annum respectively. Tranche D is for £44.7m and incurs interest at 6.84% per annum plus AIRM. In addition, a mezzanine facility of £61.5m was drawn down at 31 December 2004. This facility incurs interest at LIBOR plus 4.0% per annum and is payable in full on 29 October 2012.

(f) On 15 October 2004, Boat International Group Limited entered into a multi currency loan facility agreement with Royal Bank of Scotland plc which expires on 31 July 2011. The facility is for £6.5m and the loan accrues interest at LIBOR per annum plus a floating margin per annum which is based on the gearing ratio of the company and the costs of the lender. The interest is payable at the end of each interest period.

(g) On 20 December 2004, VPS Holdings Limited entered into a multi currency loan facility agreement with Royal Bank of Scotland plc which expires on 31 December 2011. The facility is for £35m and the loan accrues interest at LIBOR per annum plus a floating margin per annum which is based on the gearing ratio of the company and the costs of the lender. The interest is payable at the end of each interest period.

(h) On 1 November 2004, Homann Chilled Food GmbH entered into a senior debt facility agreement arranged by BNP Paribas. The facility is split into three tranches held with Bank of Ireland, Rabobank and Dresdner Bank. Tranche A is for €40.0m and is payable in equal quarterly instalments over the life of the loan and incurs interest at Euribor plus 2.25% per annum. The loan expires on 1 November 2011. Tranche B is for €20.0m and incurs interest at Euribor per annum plus 2.75% per annum. €10.0m is payable on 1 May 2012 and €10.0m is payable on 1 November 2012. Tranche C is for €20.0m and incurs interest at Euribor per annum plus 3.25% per annum. €10.0m is payable on 1 May 2013 and €10.0m is payable on 1 November 2013. The company also entered into a mezzanine facility with ICG Intermediate Capital Group plc for €30.0m which incurs interest at Euribor per annum plus 4% per annum cash and Euribor per annum plus PIK per annum. The mezzanine facility is payable in full in 2014. There is also a working capital facility for €15.0m, of which only €0.5m has been drawn down at 31 December 2004. This incurs a 0.75% per annum commitment fee and interest at Euribor per annum plus 2.25% per annum.

41.1 Time period for payment

	Group	
	2005 £m	2004 £m
Payable as follows:		
In one year or less, or on demand	–	8.9
Between one and two years	–	141.1
Between two and five years	–	39.0
In five years or more	–	907.9
	–	1,096.9

41.2 Nature of borrowings

	Group	
	2005 £m	2004 £m
Fixed rate borrowings	–	347.9
Floating rate borrowings	–	453.2
Interest free borrowings	–	295.8
	–	1,096.9

42. Provisions of discontinued operations

	Restructure £m	Investment contract £m	Staff-related £m	Other £m	Total £m
At 1 January 2005	21.5	33.7	20.1	27.4	102.7
Additions	–	(1.6)	–	–	(1.6)
Provisions utilised	(0.3)	(0.3)	(0.3)	(15.6)	(16.5)
Provisions released	–	–	–	(1.6)	(1.6)
Provision disposed of during the year	(21.2)	(31.8)	(19.8)	(10.2)	(83.0)
Attributable to liabilities included in disposal groups held for sale	–	–	–	4.1	4.1
At 31 December 2005	–	–	–	4.1	4.1

The re-structuring provision of £nil (2004: £21.5m) has been made for costs of restructuring management and staff in Life Services principally to complete the closure of the direct sales force operations.

Investment contract provisions of £nil (2004: £33.7m) are held in respect of unit linked contracts within the Life Services Group.

Staff-related provisions include £nil (2004: £20.1m) held in respect of healthcare costs for former employees. This provision has been calculated on the assumption of medical expense inflation of 9.5% (2004: 9.5%) and a valuation interest rate of 4.5% (2004: 4.5%).

The other provision balance of £4.1m relates to Towry Law UK. The provision includes £3.9m in respect of unoccupied and loss-making sub-lease properties.

43. Leases of discontinued operations

43.1 Finance leases

Reconciliation between the total of future minimum lease payments at each balance sheet date, and their present value was as follows:

	2005 £m	2004 £m
Total of future minimum lease payments	**1.2**	71.5
Effect of discount	**(0.2)**	(9.7)
Present value of minimum lease payments	**1.0**	61.8

The obligations under finance leases fall due, as follows:

	Total of future minimum lease payments 2005 £m	Present value of minimum lease payments 2005 £m	Total of future minimum lease payments 2004 £m	Present value of minimum lease payments 2004 £m
Within one year	**0.3**	**0.3**	24.2	24.2
In the second to fifth years inclusive	**0.6**	**0.5**	21.9	20.1
In more than five years	**0.3**	**0.2**	25.4	17.5
Total	**1.2**	**1.0**	71.5	61.8

The total of future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2004 was £8.8m.

The net book value of each class of asset held under finance leases at each year end was:

	2005 £m	2004 £m
Plant and equipment	**0.1**	–
Owner-occupied property	**0.5**	8.8
	0.6	8.8

43.2 Operating leases

The obligations under non-cancellable operating leases fall due:

	2005 £m	2004 £m
Within one year	**0.1**	1.1
In the second to fifth years inclusive	**0.2**	1.1
In more than five years	**1.4**	–
Total	**1.7**	2.2

44. Investment property of discontinued operations

The income and expenses for investment property were as follows:

	2005 £m	2004 £m
Rental income from investment property	**33.4**	77.6
Direct operating expenses (including repairs and maintenance) arising from investment property:		
That generated rental income during the accounting period	**2.6**	11.5
That did not generate rental income during the accounting period	**0.9**	2.7
	36.9	91.8

Fair value

	Total £m
At 1 January 2004	2,359.1
Additions:	
Capitalised expenditure	350.1
Disposals	(734.0)
Net gains from fair value adjustments	26.4
At 31 December 2004	2,001.6
Additions:	
Capitalised expenditure	14.5
Disposals	(7.9)
Net (losses) from fair value adjustments	(13.2)
At date of disposal of Life Services	1,995.0

All properties held by Life Services were valued as at 31 March 2005 and 31 December 2004 by qualified professional valuers from DTZ Debenham Thorpe, Knight Frank LLP or CB Richard Ellis Limited.

Investment properties were valued on the basis of fair value. All valuations were carried out in accordance with the RICS Appraisal and Valuation Manual on an open market value basis. All such valuers are Chartered Surveyors, being members of RICS.

Leasehold properties include £258.8m (2004: £264.5m) property reversions arising from sales of the NPI Extra Income Plan. The reversionary interest is valued as the National Provident Life Limited proportion of the current market value, projected for the lifetime of the policyholder at the assumed future increase in house prices, then discounted back by the valuation rate of interest.

45. Insurance assets and liabilities of discontinued operations

45.1 Deferred acquisition costs

The change in deferred acquisition costs during the period was as follows:

	2005 £m
At 1 January	**115.1**
Amortisation during the period	**(8.7)**
Impairment losses recognised during the period	**1.0**
At date of disposal of Life Services	**107.4**

45.2 Insurance contract liabilities

Methodology

The long-term insurance contract liabilities of Life Services were valued using a gross premium method, allowing for a prudent level of discontinuances. General insurance contract liabilities have been assessed using chain ladder methods. Where there is a notable exposure to long-term asbestos, pollution and health hazard liabilities, external independent actuaries provided best estimate benchmarks. An appropriate prudential margin is applied to all lines of business, as it is recognised that the estimation of certain future claims payments is an inherently uncertain exercise and future experience could be adverse.

The FSA raises matters from time to time that impact on the Group and many others in the industry. These accounts reflect those that the Directors and reporting actuary of Life Services consider to require provisioning based on current regulatory requirements.

Insurance contract liabilities were made up as follows:

	Notes	13 April 2005 £m	2004 £m
Long-term insurance contract liabilities	45.2.1	**20,687.1**	21,089.2
Unallocated divisible surplus	45.2.2	**580.2**	594.7
General insurance contract liabilities	45.2.3	**226.7**	228.5
At date of disposal of Life Services		**21,494.0**	21,912.4

45.2.1 Long-term insurance contract liabilities
The change in long-term insurance contract liabilities during the period was as follows:

	2005 £m
At 1 January	**21,089.2**
Valuation premiums received	**162.2**
Liabilities released on death, surrender and terminations in the period	**(694.7)**
Accretion of interest	**130.6**
Other movements	**(0.2)**
At date of disposal of Life Services	**20,687.1**

45.2.2 Unallocated divisible surplus
The movement in unallocated divisible surplus during the period was as follows:

	2005 £m
At 1 January	**594.7**
Transfer to the income statement	**(14.5)**
At date of disposal of Life Services	**580.2**

The unallocated divisible surplus was in respect of long-term insurance contracts with discretionary participating features.

45.2.3 General insurance contract liabilities
The change in general insurance contract liabilities during the period was as follows:

	2005 £m
At 1 January	**228.5**
Increase in estimated claim losses and expenses incurred in prior years	**(0.8)**
Payments made on claims incurred in prior years	**(4.1)**
Exchange differences	**3.1**
At date of disposal of Life Services	**226.7**

45. Insurance assets and liabilities of discontinued operations (continued)

45.3 Reinsurance assets

Reinsurance assets were made up as follows:

	Notes	2005 £m	2004 £m
Long-term insurance contracts	45.3.1	**75.3**	77.5
General insurance contracts	45.3.2	**198.6**	198.6
At date of disposal of Life Services		**273.9**	276.1

45.3.1 Long-term insurance contract reinsurance assets
The change in reinsurance assets during the period was as follows:

	2005 £m
At 1 January	**77.5**
Valuation premiums received	**1.0**
Liabilities released on death, surrender and terminations in the period	**(4.2)**
Accretion of interest	**1.0**
At date of disposal of Life Services	**75.3**

45.3.2 General insurance contract reinsurance assets
The change in reinsurance assets during the period was as follows:

	2005 £m
At 1 January	**198.6**
Increase in estimated claim losses and expenses incurred in prior years	**(1.1)**
Payments made on claims incurred in prior years	**(2.4)**
Other	**0.6**
Exchange differences	**2.9**
At date of disposal of Life Services	**198.6**

45.4 Principal assumptions

45.4.1 Long-term insurance contract liabilities
Material judgement is required in calculating the liabilities arising from insurance contracts. In particular, there is discretion over the choice of assumptions used. The assumptions are intended to ensure that prudent margins are held that are appropriate but not excessive.

The assumptions are compliant with:
- Interim Prudential Sourcebook Rules 5.6 to 5.17 (subject to certain waivers and modifications approved by the FSA); and
- Professional Guidance – GN8 Version 7.0 dated 30 December 2002.

The assumptions that have the greatest effect on the liabilities arising from insurance contracts are:
- interest rates; and
- mortality rates.

Interest rates

	Valuation interest rates			
	With-profits		Non-profits	
	13 Apr 05 Rate %	31 Dec 04 Rate %	13 Apr 05 Rate %	31 Dec 04 Rate %
Basic life assurance	**3.0 – 3.5**	3.0 – 4.5	**3.28 – 4.5**	3.2 – 4.5
Pensions business	**3.4 – 4.8**	3.0 – 5.03	**3.0 – 4.5**	3.9 – 4.7
Pensions in annuity payment	**4.1 – 4.3**	4.15	**4.4 – 5.06**	4.24 – 5.0
General annuities	**3.4**	4.5	**3.4 – 4.65**	3.25 – 4.75
Unitised with-profits (life)	**3.1 – 4.5**	2.9 – 4.5	**N/A**	N/A
Unitised with-profits (pension)	**3.8 – 4.7**	3.6 – 5.03	**N/A**	N/A
PHI	**N/A**	N/A	**3.34**	3.25 – 4.82

Interest rate
The interest rate assumptions are based upon the yields on the assets backing the liabilities as at the period end, taking into account the following factors:

- economic conditions;
- investment policy;
- restrictions on equity yields;
- risk adjustments for property and corporate bonds;
- restrictions on reinvestment rates; and
- for business valued by the net premium method, interest rate margins to cover expenses and cost of annual bonus.

Mortality rates

	13 April 2005	31 December 2004
Basic life assurance	85% AM/F80 Ult, 100% A67/70 Ult, 100% AM/F92 and 70% ELT 14 (M) all with adjustments	85% AM/F80 Ult, 100% A67/70 Ult, 65%–100% AM/F92 and 70% ELT 14 (M) all with adjustments
Pensions business	65% AM/F80 Ult, 100% A67/70 Ult, 70% AM/F92 and 100% PM/FA92MC (2025) all with adjustments	65% AM/F80 Ult, 100% A67/70 Ult, 70% AM/F92 and 100% PM/FA92MC (2025) all with adjustments
Pensions in annuity payment	72% IML/IFL92, 78%–95% RMV/RFV92 Year of use and 100% PM/FA92MC (2025) all with adjustments	72% IML/IFL92, 78%–95% RMV/RFV92 Year of use and 100% PM/FA92MC (2025) all with adjustments
Unitised with-profits	65%–89% AM/F80 Ult, 100% A67/70 Ult, 100% AM/F92 and 100% PM/FA92MC (2025) all with adjustments	65%–89% AM/F80 Ult, 100% A67/70 Ult, 95%–100% AM/F92 and 100% PM/FA92MC (2025) all with adjustments
PHI	100% CMIR 12 with adjustments	100% CMIR 12 with adjustments

The mortality assumptions are based on published CMI mortality tables. For pensions in annuity payment, the results of Life Services' own experience investigations are taken into account and future improvements in mortality are allowed for.

Persistency
Recent experience is used to form a view of future persistency. A prudent margin for adverse deviation is added to arrive at prudent persistency rates.

45.4.2 General insurance contract liabilities
General insurance contract liabilities are calculated based on claims experience within each book of business, estimating development patterns, recognising experience of similar accounts in the market and conducting claims projections. A large proportion of the general insurance contract liabilities are calculated by external actuarial consultants.

46. Property, plant and equipment of discontinued operations

	Notes	Owner-occupied property £m	Plant and equipment £m	Total £m
Cost or valuation				
At 1 January 2005	19	56.3	53.2	109.5
Additions		0.6	0.7	1.3
Disposals		–	(2.5)	(2.5)
Disposals – Life Services		(54.5)	(47.1)	(101.6)
At date of disposal		2.4	4.3	6.7
Comprising:				
At cost		2.4	4.3	6.7
Depreciation				
At 1 January 2005	19	3.0	33.2	36.2
Charge for the period		0.4	1.9	2.3
Disposals		–	(2.5)	(2.5)
Disposals – Life Services		(1.7)	(30.2)	(31.9)
Impairment losses recognised in profit and loss		–	0.2	0.2
At date of disposal		1.7	2.6	4.3
Net book value				
At 1 January 2005		53.3	20.0	73.3
At date of disposal		0.7	1.7	2.4

Plant and equipment is valued using the cost model approach. All items are depreciated on a straight-line basis over their useful economic lives of between two and ten years.

There is a difference in the treatment of Towry Law UK operations in 2004 between the balance sheet, where they are treated as part of the continuing business, and the income statement where they are treated as discontinued. As such the £2.3m charge for 2005 shown above is not reflected in the consolidated income statement for the continuing business. In addition, the net book value at 1 January 2005 shown above includes £3.5m in relation to Towry Law UK, which is classified as discontinued, but excluded from assets held for sale. This is a requirement under IFRS 5.

47. Intangible assets of discontinued operations

	Notes	2005 £m	2004 £m
Goodwill	47.1	**21.5**	–
Other intangible assets	47.2	**0.2**	69.6
		21.7	69.6

47.1 Goodwill

	2005 £m	2004 £m
Gross amount		
At 1 January	**–**	–
Attributable to assets held in disposal groups held for sale	**107.5**	–
At date of disposal	**107.5**	–
Aggregate impairment		
At 1 January	**–**	–
Attributable to assets held in disposal groups held for sale	**86.0**	–
At date of disposal	**86.0**	–
Carrying value		
At 1 January	**–**	–
At date of disposal	**21.5**	–

47.2 Other intangible assets

	Intangible assets acquired in a business combination with a defined life £m	Intangible assets acquired in a business combination with an indefinite life £m	Development expenditure £m	Total £m
Cost				
At 1 January 2005	44.8	84.2	–	129.0
Additions	–	–	0.2	0.2
Exchange differences	(3.1)	–	–	(3.1)
Disposals	(41.7)	(84.2)	–	(125.9)
At date of disposal	–	–	0.2	0.2
Amortisation				
At 1 January 2005	20.7	38.7	–	59.4
Charge for the year	0.3	–	–	0.3
Disposals	(21.0)	(38.7)	–	(59.7)
At date of disposal	–	–	–	–
Carrying value				
At 1 January 2005	24.1	45.5	–	69.6
At date of disposal	–	–	0.2	0.2

48. Post-balance sheet events

The Board of Directors have not, as at 27 February 2006, being the date the financial statements were approved, received any information concerning significant conditions in existence at the balance sheet date, which have not been reflected in the financial statements as presented.

SHAREHOLDER INFORMATION
As at 8 March 2006

Total number of holders of ordinary shares and their voting rights

The share capital of Henderson Group consisted of 1,154,613,596 ordinary shares held by 145,290 security holders. This included 654,671,095 shares, held by CHESS Depositary Nominees (CDN), quoted on the Australian Stock Exchange (ASX) in the form of CHESS Depositary Interests (CDIs) and held by 133,381 CDI holders. Each registered holder of shares present in person (or by proxy, attorney or representative) at a meeting of shareholders has one vote on a vote taken by a show of hands, and one vote for each fully paid share held on a vote taken on a poll.
CDI holders can instruct CDN to appoint a proxy on their behalf and can direct the proxy how to vote on the basis of one vote per person taken by a show of hands, and one vote per CDI on a vote taken on a poll.

Twenty largest share/CDI holders

		Ordinary shares/CDIs	% of issued capital
1	RBC Dexia Investor Services Australia Nominees Pty Limited	94,651,300	8.20
2	HSBC Global Custody Nominee (UK) Ltd	93,324,060	8.08
3	Vidacos Nominees Ltd	88,062,520	7.63
4	National Nominees Limited	78,921,990	6.84
5	Westpac Custodian Nominees	65,049,874	5.63
6	Chase Nominees Ltd	55,612,854	4.82
7	Citicorp Nominees Pty Limited	55,480,152	4.81
8	J P Morgan Nominees Australia Limited	52,907,237	4.58
9	State Street Nominees Ltd	44,258,713	3.83
10	Nortrust Nominees Limited	34,706,895	3.01
11	Cogent Nominees Pty Limited	31,049,894	2.69
12	ANZ Nominees Limited	26,896,346	2.33
13	Prudential Client HSBC GIS Nominee (UK) Limited	26,493,948	2.29
14	Morstan Nominees Limited	24,386,135	2.11
15	Queensland Investment Corporation	16,773,352	1.45
16	Westpac Financial Services Limited	15,043,404	1.30
17	ING Bank NV	15,000,000	1.30
18	SBS Nominees Limited	14,769,424	1.28
19	AMP Life Limited	13,654,841	1.18
20	The Bank of New York (Nominees) Limited	9,168,639	0.79
Total held by Top 20		856,211,578	74.16
Total shares		1,154,613,596	100.00

Distribution of share/CDI holdings

Categories	Number of holders	% of issued capital
1 – 1,000	124,307	5.66
1,001 – 5,000	17,518	3.26
5,001 – 10,000	1,846	1.20
10,001 – 100,000	1,326	2.90
100,001 and over	293	86.98
Total	145,290	100.00

16,329 share/CDI holders held less than A$500 worth of shares/CDIs, i.e. fewer than 272 shares/CDIs.

Stock exchange listings

Henderson Group is listed on the London Stock Exchange and Henderson Group CDIs are quoted on the Australian Stock Exchange.

Substantial shareholders

Henderson Group has received substantial shareholding notices, sent in accordance with Australian regulatory requirements, from the following:

- Perennial Value Management Limited held 122,834,687 shares/CDIs or 10.64% of Henderson Group's issued capital, as detailed in its substantial shareholding notice sent on 20 January 2006; and
- Perpetual Limited held 146,902,384 shares/CDIs or 12.72% of Henderson Group's issued capital, as detailed in its substantial shareholding notice sent on 15 February 2006.

Total number of options over unissued shares

There were 5,627,897 options over unissued ordinary shares in Henderson Group plc held by 405 option holders.

Restricted securities

There are no restricted securities on issue.

Buy-back

There is no current on-market buy-back.

Company Secretary

Steven O'Brien

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GLOSSARY

AGM
Annual General Meeting

AMP
AMP Limited and its controlled entities

Annuity
A periodic payment made for an agreed period of time (usually up to the death of the recipient) in return for a cash sum. The cash sum can be paid as one amount or as a series of premiums

ASX
Australian Stock Exchange Limited

AUM
Assets Under Management

BPI
Banca Popolare Italiana

CDI
CHESS Depositary Interest representing one ordinary share. These are quoted on the Australian Stock Exchange

CDO
Collatoralised Debt Obligations

CHESS
Clearing House Electronic Subregister System

Companies Act 1985
The UK Companies Act 1985, as amended

Corporations Act 2001
The Australian Corporations Act 2001

CRD
Capital Requirements Directive

ESOP
Henderson Employee Share Ownership Plan

FSA
The Financial Services Authority

Group
Henderson Group plc and its controlled entities

Henderson Group plc
The continuing operations of Henderson Group which comprises Henderson Global Investors (Henderson) and Corporate office

HLTVSIP
Henderson Long-Term Value Sharing Incentive Plan

ISA
Individual Savings Accounts

LIBOR
London Interbank Offered Rate

Life Services
Comprises principally the life insurance and pension books of Pearl, London Life, NPLL and NPIL, which are effectively closed to new business; Life Services also includes the closed general insurance books of Pearl, the pension trustee business of Premier Pension Trustees Limited and the retirement services business operated by NPIL

Life Services business
The legal entities of the life business of the Group which comprise principally (i) the life insurance and pension books of Pearl, London Life, NPLL and NPIL, which are effectively closed to new business, (ii) the unit-linked companies and (iii) the Service Company which provides administrative services to these businesses, all of which are owned (directly or indirectly) by Pearl Assurance Group Holdings Limited, the shares of which were sold to Life Company Investor Group Limited

Liquidity
Net cash flows available for investment in the Consolidated Cash Flow Statement

London Life
London Life Limited

LTIP
Long-Term Incentive Plan

NPI
National Provident Institution

NPIL
NPI Limited

NPLL/National Provident Life
National Provident Life Limited

OEIC
Open-Ended Investment Company

PLP
Property Limited Partnership

Profit before tax
The profit before tax for the year attributable to shareholders of Henderson Group plc (the Company)

RICS
Royal Institution of Chartered Surveyors

RSP
Restricted Share Plan

SIP
Share Incentive Plan

STI
Short-Term Incentive

TSR
Total Shareholder Return

UK or United Kingdom
The United Kingdom of Great Britain and Northern Ireland

For shareholder queries please contact the Henderson Group Share Registry

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