Henderson Group plc

2006

Full Annual Financial Report and Accounts

For the year ended 31 December 2006

HIGHLIGHTS

Henderson Group produced a strong set of results in 2006

Profit before tax of £82.2 million, up 30%

Returned £200 million to shareholders

Share price up 82%

Earnings per share up from 3.2p to 6.3p

Corporate office – in profit

Corporate costs reduced and offset by income earned on Corporate cash balances

Henderson Global Investors – significant growth in revenues and profits

Improved investment performance

Strong inflows into higher margin specialist products

Operating profit up 29%

Cost to income ratio improved to 72.6%

Total margin on fee income improved to 44bps

Henderson Group plc
Company Registration
Number: 2072534

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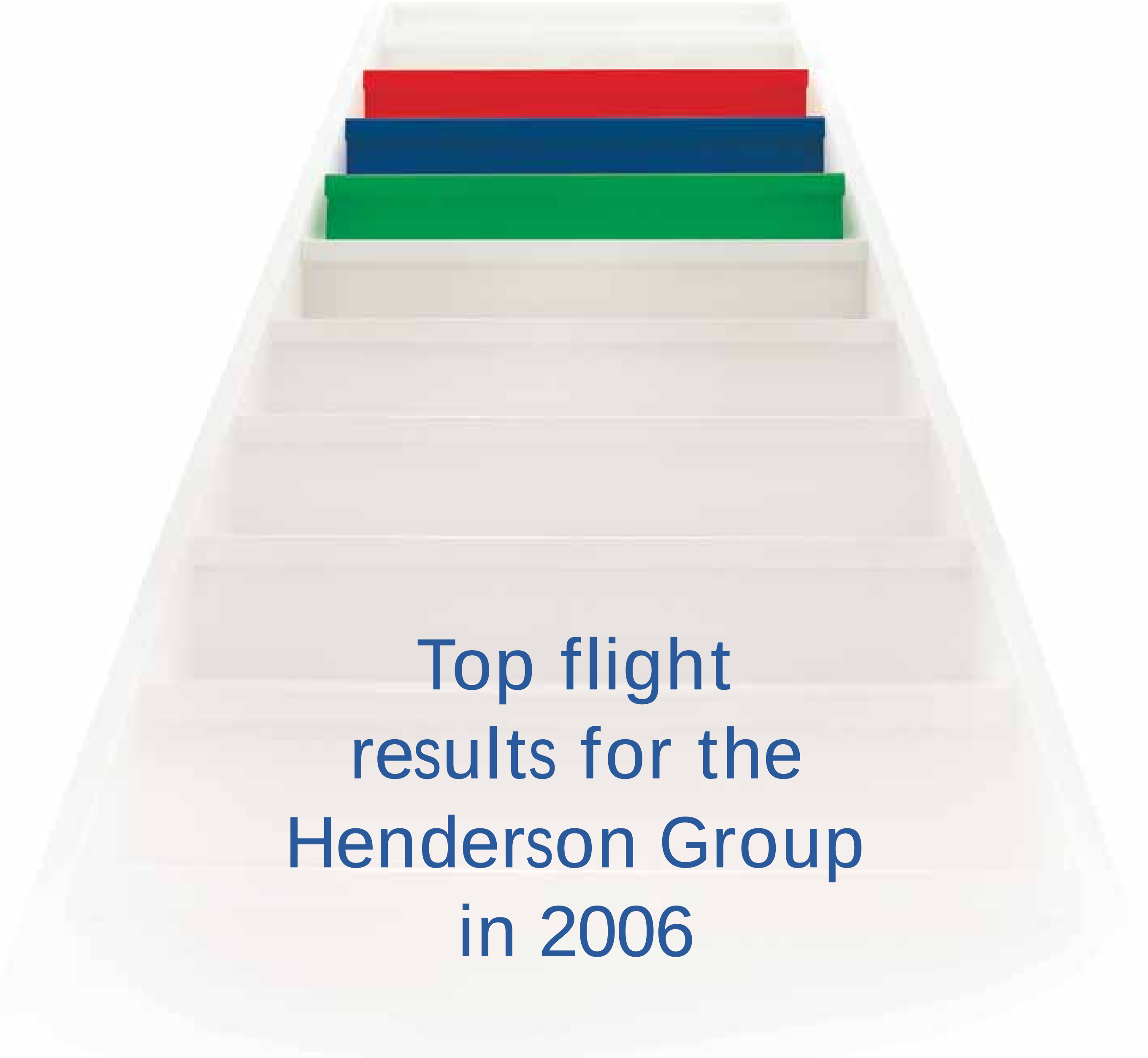
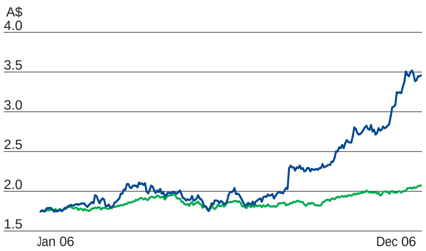


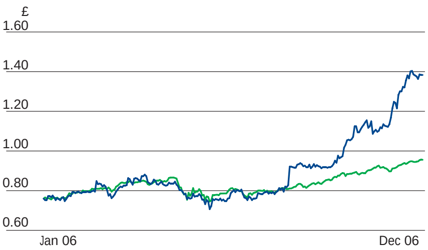
Top flight results for the Henderson Group in 2006

Henderson Group Share Price
CDI vs ASX 200



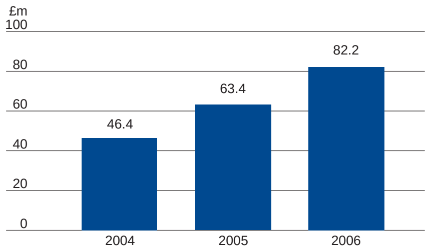
— CDIs on Australian Securities Exchange
— Rebased S&P ASX 200 Price Index

Henderson Group Share Price
Ordinary Shares vs FTSE 250



— Shares on London Stock Exchange
— Rebased FTSE MID 250 Price Index

Henderson Group
Net profit before tax from recurring operations



CHAIRMAN'S STATEMENT

The Group delivered another good result and I remain confident that we will continue to create value for our clients and shareholders.

Rupert Pennant-Rea
Chairman, Henderson Group

Financial progress
In 2006, the Group completed its transformation into a pure fund management business and produced another good financial result. In the year to 31 December 2006, profit (before tax and one-off costs) from continuing operations was £82.2 million, an increase of 30% on 2005. This was mostly due to the increased profitability of Henderson Global Investors, where profit rose by 29%.

Business developments
Several significant events occurred in 2006. At the start of the year, the Board considered buying another fund manager. The acquisition was assessed on a range of criteria, including strategic fit, earnings and value accretion and execution risk. Although the deal would have made strategic sense, the Board felt that the likely cost of winning an auction would not be in the interest of shareholders, so the Group withdrew from the process.

This left the path clear for the Group to proceed with its second capital return. We returned £200 million of surplus capital to shareholders in October 2006, by way of a Court-approved reduction of capital. This was the same method we used for the £871 million return of capital in 2005, after the sale of the Life Services business. On the second occasion, shareholders had 22% of their shares cancelled in return for a cash payment of 78 pence per share (or equivalent).

The sale of Towry Law UK to JS&P Holdings Limited for £37.2 million was announced in December 2005, and completed in May 2006, following regulatory approval. This was the final step in the Group becoming a pure fund manager.

In June 2006, after extensive discussions, Pearl and the Group concluded a number of new Investment Management Agreements (IMAs) and other related agreements. Under the new IMAs, Pearl has greater flexibility over its assets under management, so we cannot predict its future fund flows. However, the IMAs provide for minimum payments from Pearl over the next eight years regardless of asset levels, so the Group has certainty of revenues plus the opportunity to earn performance fees.

In December 2006, our Private Equity business announced the acquisition on behalf of its Private Finance Initiative (PFI) clients of John Laing plc, a major developer and operator of infrastructure projects in the UK. This transaction has added significant higher margin assets under management and is an example of the Group's emphasis on innovative product development.

Capital planning
Last year's capital return, together with its counterpart in 2005, means the Group has returned £1.07 billion to shareholders in the past two years. We stated in 2006 that there was potential for a further return of between £150 million and £200 million in 2007. The UK Financial Services Authority recently granted the Group approval of its waiver application from consolidated supervision. As a result, the Group's financial resources are no longer constrained by inadmissible goodwill. The waiver provides the Group with more flexibility on capital planning so we are now considering a further return to shareholders of approximately £200 million in the second half of 2007.

In addition, we have mentioned before that we would take a prudent approach on gearing the balance sheet in 2007 to enhance the efficiency of the Group's capital position. Subject to market conditions, we are considering a sterling denominated debt issue of between £125 million and £175 million in the first half of 2007.

The Board
There were no changes to the Board's membership last year, so we still have two Executive Directors and five Non-Executive Directors. During 2006, the Board conducted a formal evaluation of its own performance and also that of the Board Committees and individual Directors. Following this exercise, the Directors concluded that the Board and its Committees operate effectively and that each Director is making a valuable contribution to the success of the Group. The Board is of a good size and mix for our business, and satisfies the UK's Combined Code and the Australian Stock Exchange Corporate Governance Council's Principles of Good Corporate Governance.

Dividend
We started paying dividends last year. As we have stated before, we are aiming for a sustainable flow of dividends, so for the time being we will maintain a 50% pay-out ratio. The Board is recommending a final dividend in respect of 2006 of 2.27 pence per share, which we plan to pay on 29 May 2007 to shareholders on the register at 27 April 2007. That will bring the total dividend for 2006 to 3.15 pence per share.

Thank you
I remain confident that all our staff, under the leadership of Roger Yates, will continue to create value for our clients and shareholders. The Board and I thank the management team and staff for their skill and commitment to making the Group a success. And, thanks to you, our shareholders, for your continued support and encouragement during the year.

Roger Yates
Chief Executive, Henderson Group

CHIEF EXECUTIVE'S STATEMENT

Our strategy is to focus on higher margin activities. The strong growth in profits reflects positive momentum in sales, revenues and margins.

The Group made considerable progress on a number of fronts in 2006, resulting in a 30% increase in pre-tax profit to £82.2 million. Earnings per share rose to 6.3 pence per share, before restructure charges, helped by the £200 million capital return to shareholders we undertook in October 2006. In particular, this result was driven by strong investment performance in key funds and by good inflows into higher margin specialist products.

2006 results

Profits in Henderson Global Investors rose 29% to £81.1 million before one-off restructuring costs. The positive revenue impact of £4.3 billion of net flows into higher margin products, more than offset the revenue lost from outflows from Pearl and other lower margin mandates. As a result, total revenues rose 15% and total fee margins increased to 44bps from 37bps in 2005. These higher revenues led to a further improvement in Henderson's cost to income ratio to 72.6% in 2006 from 75.5% in 2005, within our 73% target for 2006.

The bedrock of success in fund management is investment performance. Over the past two years, we have worked hard to deliver a broadly-based improvement in investment results and it is gratifying to see this paying off. Although there remain some weaker areas, in general, performance in 2006 was good, particularly in our specialist products. Thus, in our UK retail range, 79% of funds beat their benchmark in 2006. In our Horizon range of mutual funds, sold to European and Asian clients, this number was 68%, while for North American mutual funds it was 100%.

Similarly, we enjoyed excellent performance in our Property business, where 83% of funds met or exceeded their benchmark, while for our hedge funds the number was 78%. Reflecting these successes, we received a number of industry awards during the year, including the IPE Real Estate Magazine Best Property Investment Manager; the Thomson Financial PFI award for Global Private Equity House of the Year; the Moneywise Magazine best UK Income and Growth Investment Trust; the Lipper Award (for the second successive year) for the best three year performance by a small group in the United States; and the Lipper Award for best fund over three years for the Henderson Pan European Property Securities Fund.

Good investment results also helped generate significant performance fees during 2006, of £37.3 million, up 41% from 2005. It is encouraging that these fees were derived from 52 different funds in a wide variety of asset classes.

It is no coincidence that this positive performance picture helped to drive net inflows into higher margin specialist products. Over the year, these totalled £4.3 billion, including £1.6 billion into mutual funds, £1.7 billion into property, £200 million into hedge funds and £600 million into infrastructure funds. All of these products enjoy higher than average fees which helped to drive our management fee income higher.

Corporate
The effective tax rate for the Group in 2006 was lower than the 30% UK statutory rate. This is due to the utilisation of previously unrecognised deferred tax assets and greater clarity on the level of tax provisioning required for prior years. Although a welcome feature of our results, the lower tax rate is temporary and we expect a return to a more normal corporate rate by 2009/2010.

Interest income earned in Corporate is expected to be lower in 2007 compared to 2006. This is due to the combined effect of lower cash balances, with the Group having returned £1.07 billion to shareholders between May 2005 and October 2006, and potentially taking some debt onto the balance sheet in the first half of 2007.

We remain pleased with our relationship with Banca Popolare Italiana and await the completion of the proposed merger between Banca Popolare Italiana and Banco Popolare di Verona & Novara, scheduled for the first half of 2007. On completion of this merger we expect the gain on our investment in Banca Popolare Italiana to crystallise in the form of some cash but mainly shares in the merged bank.

Restructuring
In the past three years, our strategy has been to develop and build a set of specialist, higher margin activities. This strategy is working and the financial results of the Group reflect the positive momentum in sales, revenues and margins. While we are confident of the direction in which the business is moving, we made some changes to the organisational structure in the second half of 2006, to help accelerate the pace of development. Specifically, we created a Listed Assets business managed by Andrew Formica and David Jacob, with its own distribution activities and associated marketing and product support areas. We also integrated Property distribution into the existing Pan-European Property business managed by James Darkins. These changes will align investment management and distribution more closely and help improve everything we do, from product development to client relationships. The cost of the changes was £7.8 million, which we have charged to profit as a one-off restructure cost. Our activities in North America, Private Equity and Asia were not affected.

People
The high calibre of our investment professionals and support staff is central to the improving performance of the Group. We have managed to attract and retain key staff though competition is fiercer than ever. We believe that our remuneration structures make the Group an attractive place to work. In 2006, we continued to expand the range of share incentive schemes available to staff and we have been pleased with the enthusiasm with which staff have signed up. Employee ownership currently stands at around 10% of our issued share capital. It remains a priority for us to increase staff share ownership further.

Outlook
Our strategy of growing revenues and profits from higher margin specialist investment business delivered strong financial results in 2006 and, assuming benign markets, we expect to make further progress in 2007. We see opportunities to further grow our Wholesale, Hedge Funds and Property businesses, all of which should be positive for revenues. As regards assets under management, we expect continued outflows from Pearl, though the revenue impact is mitigated by the agreement on revenues we reached with Pearl in 2006. Overall, we expect higher revenues to deliver a further improvement in the cost to income ratio to 70% in 2007.

Meanwhile, we will continue to return excess capital to shareholders and expect to return approximately £200 million in the second half of 2007. This, combined with the introduction of some debt onto the balance sheet, will further enhance our return on equity, a key measure of shareholder value creation.

BOARD OF DIRECTORS

Board members

At 27 February 2007, 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.

Non-Executive Chairman

Rupert Pennant-Rea

BA (Econ), MA (Econ), age 59 – Chairman and Non-Executive Director. Non-Executive Director since October 2004 and Chairman since March 2005. Chairman of the 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. 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 49 – 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 25 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 47 – Chief Financial Officer. Executive Director since August 2003.

Experience:

Chief Financial Officer since May 2003. Prior to that, Mr Hiscock held a number of senior internal audit and finance roles after joining the Company in 1992. He is a qualified chartered accountant with 26 years' experience in the accounting profession. Before 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 61 – Non-Executive Director since October 2004. Chairman of the Remuneration Committee since June 2005 and a member of the 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 appointed as a Non-Executive Director of both Hadleigh plc and Majedie Investments plc during the year. 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 64 – Non-Executive Director since July 2004. A member of the Nomination Committee since May 2005 and of the Audit and the 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.


Rupert Pennant-Rea


Roger Yates


Toby Hiscock


Gerald Aherne


Duncan Ferguson


Anthony Hotson

Non-Executive Director

Anthony Hotson

MPhil (Oxon), MA (Oxon), MA (London), PhD (London), age 53 – Non-Executive Director since November 2002. Member of the Audit Committee since August 2003, the Remuneration Committee since August 2003 and the Nomination Committee since March 2005.

Experience:

Dr 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. He was Chairman of Towry Law plc, a Henderson Group company, until its sale in May 2006, and recently joined the board of Swinglehurst Limited.

Non-Executive Director

John Roques

CA, age 68 – Non-Executive Director since January 2004. Chairman of the Audit Committee since June 2004 and a member of the Nomination Committee since May 2005. He was appointed Senior Independent Director on 9 June 2005.

Experience:

Mr Roques is also a Non-Executive Director of BBA Aviation 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). He was Chairman of the Portman Building Society and also a Non-Executive Director of Towry Law plc until May 2006.


John Roques

Resignations

There have been no resignations since the Full Annual Financial Report and Accounts for the year ended 31 December 2005 were prepared.

DIRECTORS' REPORT

The Directors present their Report to shareholders for the year ended 31 December 2006.

Business review

Group result

The results of the Group comprise three components:

- the core investment management component, Henderson Global Investors (Henderson);
- the Corporate Office (Corporate), responsible for dealing with the requirements of being a dual listed company; and
- discontinued operations.

The Group's net profit before tax from continuing operations, before one-off restructure costs, for the year to 31 December 2006 was £82.2m, an increase of £18.8m (30%) on the year to 31 December 2005 (£63.4m). Henderson delivered a 29% increase in net profit before tax to £81.1m in FY06 (FY05: £62.9m), which is set out in more detail on page 9. Corporate made a profit of £1.1m (FY05: £0.5m), comprising a return from Corporate cash balances of £12.6m compared to £13.3m in FY05 and Corporate costs of £11.5m in FY06, down 10% from £12.8m in FY05. There were no movements in the results of discontinued operations during 2H06. The loss of £2.0m before tax (FY05: £0.6m profit) in 1H06, represented a profit of £9.7m in respect of Towry Law UK and a loss of £11.7m in respect of the Life Services business.

The results of the Group for the year ended 31 December 2006 are summarised below, with comparatives:

	Year to 31 Dec 2006 £m	**Year to 31 Dec 2005 £m**
Henderson	**81.1**	62.9
Corporate	**1.1**	0.5
Profit before tax from recurring operations [1]	**82.2**	63.4 [2]
One-off restructure costs	**(7.8)**	–
Net profit before tax from continuing operations	**74.4**	63.4
Net (loss)/profit before tax from discontinued operations [3]	**(2.0)**	0.6
Net profit before tax from all operations	**72.4**	64.0
Taxation – continuing operations	**(11.1)**	(11.5)
Taxation – discontinued operations	**(0.1)**	(4.8)
Total taxation	**(11.2)**	(16.3)
Net profit after tax from all operations	**61.2**	47.7
Attributable to:		
Equity holders of the parent	**61.1**	51.2
Minority interests	**0.1**	(3.5)
	61.2	47.7
Henderson		
Assets under management	**£61.9bn**	£67.7bn
Cost to income ratio	**72.6%**	75.5%

Group taxation
The corporate income tax charge for the year is £11.1m for continuing operations and £0.1m for discontinued operations, giving an effective tax rate of 14.9% for continuing operations and 15.5% for the Group overall.

The primary reason for the effective tax rate being less than the statutory rate of 30% is the utilisation of previously unrecognised deferred tax assets triggered, in part, by the settlement in the fourth quarter of 2006 of a number of prior year tax matters with UK tax authorities.

Notes
1. Before eliminations between continuing and discontinued operations in the year to 31 December 2005.
2. Before elimination of intra-group transactions between continuing and discontinued operations up to the date of disposal in 2005 (£6.0m profit), primarily in respect of fund management fees paid from Pearl Group to Henderson.
3. Includes results of discontinued operations to the date of disposal; gains/(losses) on disposal of discontinued operations; and crystallised warranty claims in respect of discontinued operations.

Henderson result

Henderson's strategy is to build a scaleable, profitable, active investment management business based on core equity and fixed interest investment capabilities. The focus is on growing assets under management (AUM) in higher margin specialist products such as Absolute Return Funds, Wholesale Funds for retail investors (UK OEICs and unit trusts, Horizon SICAV Funds and US Mutual Funds), Collateralised Debt Obligation (CDOs) Funds, and Private Equity Funds.

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;
- deliver improvements to the cost to income ratio.

The business is predominantly Pan-European, but has a growing presence in the US and Asia.

Improved FY06 result – 29% up on FY05
Net profit before tax for Henderson in FY06 was £81.1m, up 29% from £62.9m in FY05. This performance reflects management's continued focus on improving fee margins on AUM which increased from 37.0bps in FY05 to 43.5bps in FY06. Management fee and net margins have improved from 29.4bps in FY05 to 34.0bps in FY06, and from 9.4bps in FY05 to 12.5bps in FY06 respectively.

Summarised income statement of Henderson

	Year to 31 Dec 2006 £m	Year to 31 Dec 2005 £m
Management fees (net of commissions payable)	**221.2**	196.3
Transaction fees	**24.6**	24.4
Performance fees (net of fund manager bonuses)	**37.3**	26.5
Total fee income	**283.1**	247.2
Investment income	**12.6**	9.9
Total income	**295.7**	257.1
Operating expenses	**(211.8)**	(189.1)
Depreciation and amortisation	**(2.8)**	(5.1)
Total expenses	**(214.6)**	(194.2)
Operating profit before tax	**81.1**	62.9
Margins on average AUM [1]		
Average AUM (£bn)	**65.1**	66.9
Total fee margin (bps)	**43.5**	37.0
Management fee margin (bps)	**34.0**	29.4
Net margin (bps)	**12.5**	9.4

Note
1. Margins on average AUM are calculated by dividing the appropriate income or profitability measure by the corresponding AUM and are expressed in basis points (bps).

Total fee income in FY06 was £283.1m, up 15% from £247.2m in FY05. Management fee income increased by 13% to £221.2m in FY06 due to growth in higher margin business lines and improved markets compared to FY05. This was partially offset by revenue losses associated with Institutional client outflows, and natural run-off of the Pearl Group (Pearl). Transaction fee income was maintained, at £24.6m. Net performance fees increased by 41% to £37.3m in FY06, reflecting strong performance in key products and increasing performance fee diversity.

Absolute Return Funds, Horizon Funds, US Mutual Funds, CDOs and Property Funds have all contributed to the positive change in product mix and improved margins.

Operating expenses increased by 12% to £211.8m in FY06. A reduction in costs across most expense categories was offset by increased staff and IT costs. The increase in staff costs was almost entirely in respect of variable remuneration schemes, including share schemes. Bonus scheme costs rose in line with the improved operating performance of the business. Management remains committed to increasing the level of employee share ownership across the business in order to align employee and shareholder interests. The current degree of employee share ownership, if all schemes in place at 31 December 2006 vest, is approximately 10%.

The increase in IT costs was mainly due to the cost of upgrading the derivatives trading platform and the ongoing cost of investment management-related services previously paid for under 'soft commission' arrangements.

Overall, the increase in total income more than offset the higher costs in FY06, resulting in an improvement in the cost to income ratio from 75.5% in FY05 to 72.6% in FY06, excluding one-off restructure costs.

Assets under management (AUM)
Total AUM decreased in FY06 from £67.7bn at the start of the year to £61.9bn at 31 December 2006. Net client outflows of £10.1bn included £8.7bn of net outflows in respect of Pearl (including £4.4bn of low margin non-profit annuity business); £3.3bn from lower margin Institutional business; and a £2.4bn outflow in relation to low margin Virgin Money Group business. The Virgin Money Group outflow was in accordance with the sale of the Group's interest in Virgin Money Group which completed on 27 April 2004. Lower margin outflows were more than offset in revenue and profit terms by net inflows into higher margin products, totalling £4.3bn. In addition, there were favourable market and foreign exchange rate movements of £4.3bn. The amount of high margin property business won but not invested at 31 December 2006 stood at approximately £1.8bn. This balance is not included within AUM listed below.

Summary of movements in AUM

	Opening AUM 31 Dec 2005 £bn	Net flows 1H06 £bn	Net flows 2H06 £bn	Net flows FY06 £bn	Market/FX FY06 £bn	Closing AUM 31 Dec 2006 £bn
Lower margin business	17.4	(2.9)	(0.4)	(3.3)	0.9	15.0
Higher margin business	19.9	2.0	2.3	4.3	2.2	26.4
	37.3	(0.9)	1.9	1.0	3.1	41.4
Pearl Group [1]	28.0	(1.5)	(7.2)	(8.7)	1.2	20.5
Virgin Money Group [2]	2.4	(2.4)	–	(2.4)	–	–
Total	**67.7**	**(4.8)**	**(5.3)**	**(10.1)**	**4.3**	**61.9**

Summary of AUM by type of asset

	31 Dec 2006 £bn	31 Dec 2005 £bn
UK equity	**13.7**	16.0
International equity	**14.3**	12.6
Total equity	**28.0**	28.6
Fixed interest	**24.6**	32.1
Property	**8.0**	6.3
Private equity	**1.3**	0.7
Total AUM	**61.9**	67.7

Notes
1. Henderson has an agreement to manage Pearl's assets until April 2015. The agreement provides for certain minimum revenues regardless of the level of AUM.
2. Virgin Money Group was included within Institutional funds in the Full Annual Financial Report and Accounts for the year ended 31 December 2005. The loss of the mandate was anticipated after the Group disposed of its 50% stake in Virgin Money Group in April 2004.

Business line contributions
Henderson offers a broad range of products which are sold in the UK, Continental Europe, North America and Asia. We believe this reduces the exposure of our business to individual product lines and enables us to deliver attractive product offerings under different market conditions.

During 2H06, Henderson restructured the way its business is configured, to improve management accountability and provide greater focus on operating margins. There are now five areas within the fund management business: Pan-European Listed Assets, Pan-European Property, Private Equity, North America and Asia. Investment and distribution functions lie within each of these areas, although cross-selling is encouraged. The North America and Asia businesses, for example, rely to some extent on the investment capabilities of the Pan-European Listed Assets team, which manages all Absolute Return Funds, the Horizon fund range, and the US Mutual fund range. Each area is supported by central services. The £7.8m one-off restructure costs associated with this restructure will produce savings which will be reinvested in the business.

Henderson's main focus remains on expanding specialist capabilities. The revenue margins and net contribution from these capabilities are, typically, significantly higher than for more generalist product areas. Revenues from specialist products for FY06 were £201.7m (FY05: £153.6m), with allocated costs of £104.7m (FY05: £85.5m), giving a net contribution to overheads of £97.0m (FY05: £68.1m). Generalist products (including Institutional, Investment Trusts and Pearl) generated revenues of £81.4m in FY06 (FY05: £93.6m), with allocated costs and net contribution levels of £53.5m (FY05: £60.7m) and £27.9m (FY05: £32.9m) respectively.

Market focus
The second half of the year has built on a strong first half, delivering in total a significant improvement on the FY05 results. Our investment in people and infrastructure in North America and Continental Europe in particular has seen profitability in these regions improve markedly during the period.

Income attributable to the Pan-European business increased by 13.7% to £265.4m, due to a combination of strong performance fees and positive net sales in high margin product ranges. The region accounted for £3.0bn of the £4.3bn net inflows into higher margin products. During 2006, we opened an office in Madrid to add to our existing Continental European offices in Paris, Frankfurt, Milan, Luxembourg, Zurich, Vienna and Amsterdam. These offices increasingly operate as platforms for distribution into other countries, such as in Scandinavia and Eastern Europe.

The US business increased its income base by 31.8% to £21.1m, with net sales of US Mutual Funds (£0.7bn), markets, and the success of the US Property business all contributing. Henderson ranked 7th by net sales of International and Global Funds in the US market in 2006. Our European Focus and Japan-Asia Focus US Mutual Funds captured 44% and 85% of sales in their target sectors respectively. The priority for US Wholesale continues to be the deepening of relationships with current distributors. Strong mutual fund sales in 1H06 (net £0.4bn) have been maintained throughout FY06 (£0.7bn), at more than twice those of FY05. US Mutuals AUM increased to £1.6bn at 31 December 2006 (31 December 2005: £0.8bn). We expect this business to continue to grow strongly in 2007.

Our Asian offices also performed well in FY06, with revenues up 19.0% to £9.2m (including Private Equity). AUM sourced in the region increased by 42% to £1.5bn. The Horizon range, originally focused on Continental Europe, is increasingly distributed in Asia. Our business there, headquartered in Singapore, improved distribution relationships in Hong Kong, Taiwan and Malaysia in particular. For 2007, we have plans to offer toshin funds to Japanese retail investors and are evaluating the Korean market.

Product focus
The Listed Assets business enjoyed a good 2006 in terms of funds flows, particularly during 2H06. Aggregate net inflows of higher margin products for the Listed Asset business during FY06 were £2.1bn as detailed below:

- Absolute Return Funds continue to grow both in terms of AUM and by number of funds. AUM at 31 December 2006 amounted to US$3.2bn (£1.7bn), up more than 50% on the beginning of 2006. Three new Absolute Return Funds were launched in 2H06, the Special Situations fund, the Total Return fund, and the Henderson Asia-Pacific Equity Multi-strategy fund, taking the total number of Absolute Return Funds launched in 2006 to six. There are now 17 funds in the range;

- our Wholesale funds business (Horizon range, US Mutuals and UK OEIC range) continues to perform well, with total AUM growing to £8.9bn (FY05: £6.1bn), including net inflows in the period of £1.7bn (FY05: £0.4bn):
  - two new Horizon funds were launched, the Asia Dividend Income and Pan European Alpha Plus funds, taking the total number in the range to 18. In addition, the Global Bond and Global High Yield Bond funds were restructured during 2H06, becoming the Horizon Absolute Return Fixed Income and Strategic Yield funds respectively. The restructure enables these funds to employ their UCITSIII capabilities, capitalising on our strength in long–short techniques. It was an exceptional year for Horizon's Property Securities funds as recognised in the Lipper Award for three year fund performance;
  - we launched two new US Mutual funds in November 2006, the Global Equity Income Fund and the Global Opportunities Fund. The Global Opportunities Fund employs a similar investment process to Henderson's flagship International Opportunities Fund, but includes an allocation to North American equities. December 2006 saw record net sales for the month across all our Mutual funds, helped by continued strong investment performance. Early indications for 2007 are also positive; and
  - our UK OEIC range continues to improve with four core sub-funds now having top quartile performance over three years. Gross sales continue to be positive compared to 2005 but, as in 1H06, outflows in respect of legacy Pearl business have offset these sales.

- during FY06, sentiment towards our Institutional business continued to improve, with Henderson receiving 17 consultant upgrades. Institutional net outflows amounted to £0.4bn in 2H06, compared to £2.9bn in 1H06 and £4.4bn in 2H05. Net inflows in products such as CDOs, where performance fee opportunities exist, continued, including £0.2bn in respect of the launch of the new Aquilae II fund. Although these inflows were more than offset by outflows, the overall revenue impact was positive;

- in July 2006, the Investment Trust business launched its first new Investment Trust in six years, Global Property Companies Limited, as well as 'ItsHenderson' – an innovative dealing platform for private investors allowing them to manage all of their investment trust dealing, PEPs and ISAs from one source; and

- the signing of revised IMAs with Pearl occurred on 30 June 2006. These IMAs give Pearl greater flexibility with regard to the allocation of its assets, together with revenue protection for Henderson. Pearl AUM fell by £7.5bn to £20.5bn during 2006, including £8.7bn of net outflows. £1.5bn of these outflows arose in 1H06, with a further £4.4bn of outflows from the non-profit annuity portfolio in 2H06. These outflows were low margin. During 1H06 the £2.4bn Virgin Money Group mandate was terminated, in accordance with the sale agreement from 2004. Like Pearl, this business was low margin.

Pan-European Property manufacturing and distribution have been consolidated under one team as part of the 2H06 restructure of the business. The primary objectives for 2006 were to invest a significant proportion of existing capital commitments from clients, as fees are not earned on Property funds until they are invested, whilst continuing to deliver excellent investment performance.

Committed but uninvested capital (including gearing) was £1.2bn at 31 December 2005. This had risen to £2.5bn at 30 June 2006. In total, £1.7bn has been invested during FY06, £0.9bn of which was invested in 2H06. This is 2.5 times the amount invested during FY05. Uninvested commitments at 31 December 2006 (including gearing) were £1.8bn. Two new funds were also established in 2006, along with a new property investment vehicle in Italy.

The Private Equity business performed well in 2006. During the second half £574m was raised for a new Private Finance Initiative (PFI) fund which, in addition to a £330m fund raised in 2005, was used to fund the acquisition of John Laing plc and its subsidiaries. The acquisition has added significantly to the Private Equity revenue base and enhanced its reputation, which was recognised by Henderson winning the Thomson Financials 'Global Private Equity House of the Year' award for 2006.

In Asia, our Private Equity business has also made good progress, generating carried interest in 2H06 for the Group from strong performance in the Henderson Asia Pacific Equity Partners 1 Fund. The launch of a second fund is currently being considered. Other Private Equity operations in Europe continue to run off.

Investment performance
Performance in the year improved on FY05, with 59% of funds beating their benchmarks (FY05: 55%). This included good Wholesale performance, 77% (FY05: 74%), and steady Institutional performance of 50% (FY05: 52%). Performance over benchmark was 67% for Equities (FY05: 68%) and 59% for Fixed Income (FY05: 41%).

Specialist listed asset products performed particularly well against their benchmarks, with Absolute Return Funds (78%), US Mutual Funds (100%), Horizon (68%), and OEICs (79%) all well above average. The US Mutual fund range has continued to deliver strong investment performance, with all funds above benchmark and 99% of eligible funds by value achieving at least four Morningstar ratings at 31 December 2006. The performance of UK Equity and Balanced pension funds continued to improve, and the performance of our pooled and segregated insurance assets has improved significantly.

Pan-European Property performance is subject to annual Investment Property Databank (IPD) benchmarks. The last available IPD benchmarks, relating to 2005, were released in April 2006, when 90% of Henderson Property funds outperformed. We expect the figure for 2006 to be approximately 80% for Pan-European Property performance.

US Property outperformance of its respective benchmarks, for 2006, is expected to be approximately 100%.

Henderson won a total of 15 investment performance awards during FY06 (FY05: 18), including the IPE Real Estate Magazine 'Best Property Investment Manager' award and the Lipper 'Best Three Year Performance by a Small Fund Group' award for the second year running.

Corporate result

Corporate costs
Corporate costs amounted to £11.5m in FY06 (FY05: £12.8m). These costs include shareholder servicing costs and finance and secretariat functions, which are not directly attributable to individual business units. FY06 costs also reflected expenses of £2.0m associated with a strategic acquisition opportunity, which was not pursued, and the renegotiation of Pearl IMAs in 1H06.

Return on Corporate cash
The return on Corporate cash was £12.6m in FY06 (FY05: £13.3m). This return arose primarily from Group cash and liquid investments. It excludes returns on Henderson investments, including Banca Popolare Italiana, and on Henderson cash held to meet regulatory and other strategic requirements, which form part of Henderson revenues analysed on page 9.

Pensions
There are three types of pension plan within the Group: the funded and approved defined benefit plan, which closed to new members on 15 November 1999; the funded and approved money purchase plan; and a number of smaller unapproved pension top-up plans for executives. The first two plans together form the Henderson Group Pension Scheme (the Scheme).

The net liability in respect of post-retirement obligations at 31 December 2006, before tax relief, was £10.4m (30 June 2006: £42.8m). The movement in the liability during 2H06 is principally due to:

- a special payment to the Scheme by the Group of £40m on 13 December 2006, as agreed with the Scheme Trustee in relation to the capital reduction undertaken by the Group on 24 October 2006. This payment was largely funded from the sale proceeds of Towry Law UK and will be followed by two more special payments of £20m each in October 2007 and 2008 respectively; partially offset by

- the impact of a 0.1% reduction in 2H06 in the AA Corporate Bond discount rate used to value the Scheme's liabilities.

The Company has reached agreement with the Trustee on the future funding principles and schedule of contributions for the Scheme. In summary, the Scheme is intended to be funded to at least 106% of its liabilities on an IAS 19 basis, after taking account of the £80m of special contributions and regular contributions to the Scheme. In addition, a Liability Driven Investment (LDI) strategy will be adopted for Scheme assets backing defined benefit liabilities. 50% of Scheme assets will be held in a risk reducing portfolio, comprising bonds broadly matching the liability profile of the Scheme with hedging of inflation and interest rate risks, and 50% of assets will be invested in a well-diversified risk-seeking portfolio. These changes will significantly reduce the market risk of the Scheme and give the Scheme exposure to some of Henderson's most highly rated investment professionals.

Regulatory requirements
During 2006, Henderson successfully applied to the UK Financial Services Authority for a waiver from Consolidated Supervision, under section 8.4 of the new Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). The waiver is valid for five years, ending on 31 December 2011. UK regulated entities within the Group will continue to meet their solo prudential capital requirements. However, consolidated capital requirements will be satisfied by the Company's financial resources rather than Group resources. In practice, this means that the Group's regulatory capital surplus as at 1 January 2007 will increase by £357m, representing the Group's intangible goodwill (£224m) and the higher Tier 1 capital balances of the Company as compared to the Group (£171m), partially offset by the requirement to hold capital against the Group's contingent liabilities (£38m). These contingent liabilities relate to the tax warranties and indemnities outstanding from the sale of the Life Services business and Towry Law UK in 2005 and 2006 respectively.

From 1 January 2007, all UK regulated entities within the Group are required to meet the Pillar 1 (fixed overhead) capital requirements set out in the new Capital Requirements Directive (Directive). From 1 January 2008, the Group will also be required to comply with the Pillar II (operational risk) and the Pillar III (market disclosure) requirements of the Directive. Based on work conducted to date and our current business model, we expect the regulatory capital requirement of the Group to remain broadly the same as at 31 December 2006, approximately £75m.

Capital
The Group returned approximately £200m surplus capital to shareholders on 24 October 2006, by way of a capital reduction.

22% of the issued share capital of the Group was cancelled as at that date. This return, coupled with the £871m returned in 2005, means that the entire £1.07bn cash proceeds from the sale of the Life Services business have now been returned to shareholders. Following the successful waiver application, we anticipate a further return of approximately £200m in 2H07.

In addition, the Group made two dividend payments during 2006. On 26 June 2006 a £16.1m maiden dividend (1.39 pence or equivalent per share) was paid in respect of 2H05 profits. On 24 October 2006 a £10.1m interim dividend (0.88 pence or equivalent per share) was paid in respect of 1H06 profits.

2006 final dividend
The Board has recommended the payment of a £20.5m final dividend (2.27 pence or equivalent per share) in respect of 2H06 profits. Approval of this dividend will be sought at the AGM on 3 May 2007. Payment will be made on 29 May 2007.

Debt issuance

As previously indicated, the Board considers 2007 to be the appropriate time to introduce a prudent level of gearing to the Group balance sheet, in order to improve its efficiency. The Group expects to be in a position to undertake a sterling issuance of between £125m and £175m during 1H07, subject to favourable market conditions.

Employees

During 2006, the Group continued its policy of informing and involving employees in matters which concern them and in the achievement of its business goals, as well as the factors which can affect the Group's performance. 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 resource 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 53).

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.

Corporate governance and corporate responsibility

A statement on corporate governance appears on pages 19 to 22 and a statement on corporate responsibility including, where appropriate, information relating to environmental matters, appears on pages 16 to 18.

Risk management

The Group has established a framework to manage the risks of its business with practices appropriate to a listed company.

Below Board level, the management of risk within the Group is governed by the Audit Committee which considers the principal corporate risks facing the Group, the inherent exposures that lie within these risks and the effectiveness with which they are being managed. The Audit Committee reviews regular reports from management, internal audit, compliance and legal functions in order to ensure that these risks are being monitored and controlled in an effective manner.

The day-to-day management of risk is the responsibility of the Henderson Management Team, which has approved a risk management framework and structure that has been established by the Risk Management Services function. This framework defines the Group's Risk Management policies and sets out the methodology for the identification, assessment, mitigation and reporting of risks. This framework has been designed in order to ensure that risk management is embedded within the business culture and operations of the organisation.

Local management is responsible for operational risk controls and, depending on the size and complexity of the business unit, risk and control profiles have been created and captured on an on-line risk management system. Management is required to confirm on a monthly basis that the key controls have operated effectively.

The Henderson Management Team receives regular reports from Risk Management Services outlining the risk profiles of the business units within the Group and highlighting any matters that give cause for concern, together with the appropriate remedial action to be taken.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are financial risks, namely price risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. Additional information on risk management objectives and policies are included in the Notes to the Financial Statements, note 15 Financial risk management.

Discontinued operations

There were no movements in the results of discontinued operations during 2H06. Movements in 1H06 were as follows:

- a warranty claim from Pearl of €17m (£11.7m), agreed on 30 June 2006 under the terms of the Life Services sale agreement, recognised as a charge in the consolidated income statement. This amount was settled by the Group on 11 July 2006 in respect of all outstanding non-tax-based warranties and indemnities in relation to the sale of Life Services;
- a pre-tax profit of £9.5m on the disposal of Towry Law UK, which completed on 3 May 2006. The profit comprised disposal proceeds of £37.2m, less £26.1m net assets disposed of and £1.6m costs of sale; and
- a £0.2m profit from Towry Law UK up to the date of its disposal (FY05: £2.5m). Taxation payable of £0.1m arose on this profit.

These items resulted in a loss before tax from discontinued operations in FY06 of £2.0m (FY05: £0.6m profit).

With the completion of the sale of Towry Law UK and the Life Services business, and the closure of Towry Law International, all non-investment management businesses have been discontinued. The impact of those businesses on the future results of the Group will be limited to the recognition of any claims crystallising under remaining warranties or indemnities in connection with both disposals and any surplus or deficit arising in respect of the Towry Law International run-off provisions.

Outlook

Henderson is well placed to deliver further income and profit growth in 2007, subject to benign markets. We will continue to focus on growth in specialist products, whilst we expect the Institutional business to stabilise. Pearl flows remain harder to predict, given the freedom they have to allocate assets, however, our revenues are protected under the revised agreement.

On capital planning, we expect to complete a further return in 2H07. The Board also intends to introduce a prudent level of gearing in 1H07, subject to favourable market conditions, to improve balance sheet efficiency. Further updates on these matters will be provided during the coming year.

The emphasis on higher margin products will continue to drive revenues and profitability up and, as a result, we anticipate that the cost to income ratio for 2007 will improve to approximately 70%.

Future developments

The Group's results for the year are shown in the consolidated income statement on page 34. A review of the financial year and future developments is covered in the Business review above and additionally in the Chairman's and Chief Executive's Statements.

Principal activities

The principal activities of the Group in 2006 were the provision of investment management services.

Branches

The Group continues to operate a number of overseas branches.

Reporting

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

Events after the balance sheet date

The Board of Directors has not received, as at 27 February 2007, 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 2007, in accordance with the provisions of Rule 5 of the Disclosure and Transparency Rules (previously sections 198 to 208 of the Companies Act 1985), the Company had received notification of holdings in the Company's issued share capital from:

	Percentage of total voting rights
Perpetual Limited	11.39%
IOOF Holdings Limited	7.04%
Barclays plc	5.74%
ING Australia Holdings Limited	5.25%
AMP Limited	3.85%
Legal & General plc	3.45%
Brahman Capital Corp	3.07%
Commonwealth Bank of Australia	3.03%

Supplier payment policy

Paragraph 12(3) of Schedule 7 to the Companies Act 1985 requires the disclosure of trade creditor payment days. Disclosure is required by the Company rather than the Group. The Company has no trade creditors. However it is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between Group companies and their suppliers, provided that all trading terms and conditions have been complied with. The Group does not follow any code or standard on payment practice. In respect of Group activities, the amounts due to trade creditors at 31 December 2006 represent approximately 30 days of average daily purchases through the year (2005: 30 days).

Financial instruments

A statement on the financial risk management objectives, policies and related matters in relation to the use of financial instruments, including policies for hedging and the exposure to price, credit and liquidity risk, can be found in note 15 of the Notes to the Financial Statements.

Share capital

Details of movements in authorised and allotted share capital during the year, including the purchase of own shares by the Company and the UK Court approved capital reduction completed during the year, are given in notes 19 and 20 of the Notes to the Financial Statements.

Directors

Details of the Board members who served during the year and at the date of this report are set out on pages 6 and 7. Duncan Ferguson and John Roques will, in accordance with the Company's articles of association, retire by rotation and offer themselves for reappointment at the 2007 Annual General Meeting.

Directors' remuneration and interests

A report on Directors' remuneration appears on pages 23 to 29, including details of their interests in shares, share options or any right to subscribe for shares in the Company.

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 £51,000 (2005: £63,000), which comprised social and welfare £20,000 (2005: £26,000); education and international £8,000 (2005: £19,000); and medical and other £23,000 (2005: £18,000).

Political donations

The Group made no political donations, incurred no EU political expenditure and made no contribution to a non-EU political party during the year.

Annual General Meeting

A separate document, the Notice of Annual General Meeting 2007, covering the Annual General Meeting of the Company to be held on 3 May 2007, will be sent to all shareholders and contains an explanation of the business before that meeting.

Independent auditors

Ernst & Young LLP has indicated its willingness to continue in office and a resolution that it be reappointed will be proposed at the 2007 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 relevant audit information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit 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 2007

CORPORATE RESPONSIBILITY REPORT

This is the Group's second Corporate Responsibility Report in which we describe our commitment to responsible business conduct during the past year.

The Group, its Board and senior management are committed to ensure responsible interactions with employees, customers, suppliers, shareholders, communities and the wider environment. We have developed policies and activities to address key issues in four broad areas – business standards, the environment, workplace and the community.

Our commitment and efforts to ensure good corporate responsibility practices have been recognised externally through our continued inclusion in the FTSE4Good UK Index.

Business standards

Corporate governance
We support 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 in the Corporate Governance Statement on pages 19 to 22 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
Responsible Investment describes the work we do pertaining to corporate governance and corporate responsibility in the companies in which we invest on behalf of clients. Our Responsible Investment Policy, available on our website, sets out how we do this.

The way companies respond to corporate responsibility issues can affect their business performance both directly and indirectly. We have a standing Responsible Investment Committee which ensures that these issues are considered in an integrated manner. This Committee is chaired by the Head of Equities, Andrew Formica, and consists of representatives from the various business functions. Our work enables us to assist UK pension funds to fulfil the requirement under the UK Pensions Act to include a policy on social, environmental and ethical issues and on voting in their Statement of Investment Principles. In addition, we provide a range of specialist Sustainable and Responsible Investment (SRI) funds.

We conduct direct engagement with companies to explore the investment implications of corporate responsibility issues. As well as monitoring companies' overall performance on corporate responsibility issues, we undertake in-depth research into key themes. The key themes we pursued in 2006 included climate change, responsible lending, health and human capital management. 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. We publish details of our engagement with companies quarterly on the SRI section of our website.

The Group also supports co-operative action amongst investors to address market-wide issues. We are a member of the United Nations Environment Programme's Finance Initiative (UNEPFI), the Institutional Investor Group on Climate Change (IIGCC) and the Pharmaceutical Shareowner's Group (PSG). We also support the Carbon Disclosure Project (CDP). In May 2005, we became a founding signatory to the United Nations Principles for Responsible Investment, a voluntary and aspirational framework incorporating environmental, social and corporate governance issues into mainstream investment decision-making and ownership practices. We were amongst the first signatories to state publicly how we will implement these principles.

Corporate governance and voting
The 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 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. Outside the UK, we vote according to the requirements of our clients or fund managers.

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 maintained during 2006 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 to treat customers fairly, through an enduring relationship with customers that aims to deliver:

- investment performance;
- protection for customers from inappropriate risk;
- quality service from appropriately trained and competent employees; and
- informative communications that are fair, clear, accurate and not misleading.

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 continue to 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
The Group's policy is to minimise any adverse impact on climate change. Reduction targets for Greenhouse Gas emissions of 20% by 2010 have been established in line with our pledge to the London Sustainable Development Commission following the UK's ratification of the Kyoto Protocol.

We also adopted a new policy to become a CarbonNeutral Company® which took effect in January 2007. After measuring the Group's carbon footprint for 2006, our principal reduction strategy is to lower the use of energy resources, mainly gas and electricity, and switch to renewable energy sources where possible. Unavoidable carbon dioxide emissions that the Group produces are offset through international carbon dioxide-saving projects, such as building renewable energy sources in developing countries.

To assist this objective and measure performance, a data-gathering system has been rolled out across the Group's office network. This will enable us to compare emissions against our baseline for each of the Group's offices and against our domestic and international business travel profile.

In 2006, the London Headquarters made good progress in its programme to reduce energy consumption by implementing a number of projects, including installation of energy efficient lighting and modifications to office cooling systems which, combined, are expected to reduce electricity consumption by 20% in 2007.

We also entered into a contract for the supply of 100% renewable electricity for the London Headquarters, thus eliminating the greatest single contributor to our greenhouse gas emissions.

In 2006, the Group further developed its Climate Change Impact Study to incorporate all of its office network and activities. Our total emissions for 2006 were 4,691 tonnes. These emissions are expected to reduce by 45% in 2007 as a result of the above-mentioned reduction and renewable procurement initiatives.

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 by delivering it to a local mill and procuring 100% recycled paper supplies from the same mill;
- elimination of any waste sent to landfill by segregating it at source and recycling as much as possible;
- reuse programmes for surplus office furniture, equipment and technology;
- training and awareness programmes for support staff and contractors involved in waste management;
- active involvement in a number of local and City of London Environmental Best Practice Groups;
- the creation and development of an Environmental Homepage on the intranet; and
- procurement quality recycled stationery – 81% of current office stationery spend is on recycled or environmentally friendly products.

For the fourth year in a row, the Group received recognition for its environmental achievements. In January 2007, we were awarded a Special Commendation by the City of London 2006 Clean City Award Scheme. The Scheme had over 1,300 participants comprising most of the major occupiers in the City of London.

Through the eTree initiative in Australia, of which Henderson Group is a founding member, we aim to reduce printed investor communications and encourage shareholders to receive communications electronically. Every time a shareholder registers with eTree, the Group makes a donation to Landcare Australia. In 2006, the Group donated just over £700 to the eTree initiative. In line with the EU Transparency Obligations Directive, we will table a special resolution at our 2007 Annual General Meeting which, if approved, will remove the obligation to send paper copies of shareholder documents. These documents will be, as in the past, available on the Group website and paper copies will be provided, on request, to any shareholder.

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 discrimination and harassment. We are an equal opportunities employer and we have extensive human resource and family friendly policies in place. In 2006, for example, we introduced childcare vouchers. 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
The Communications Forum is an elected body representing all staff and provides a platform where issues affecting staff can be discussed and, if needed, raised with the management team. It also provides a platform for management to consult with 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 which, in 2006, had a response rate of over 70%. The results of this survey highlight areas for attention and improvement. Regular employee briefings are carried out by senior management to provide an insight into the business. Additionally, the Chief Executive holds quarterly staff briefings.

Training and development
Our training policy is designed to invest in employees and equip them with 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 have a suite of development workshops and this was enhanced further in 2006 when we launched a management leadership programme. All training and development opportunities are promoted on the Group intranet. We use annual performance appraisals as an opportunity to identify priorities including training needs.

Health and safety
We are 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.

Management of stress at work
We consider the management of stress in the workplace as part of our health and safety policy. We include questions related to stress in our annual employee opinion survey and we provide training for managers on an annual basis to help them better manage stress. Furthermore, we provide a 24-hour confidential employee assistance telephone line which provides support to employees on a wide range of issues. We monitor absence from work to early identify possible stress-related absences and carry out return-to-work interviews to 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.

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 four-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.

The Group is committed to employees having a significant equity stake in the business. We have a number of existing all-employee share schemes and continue to look at more ways in which we can build employee share ownership. Currently, approximately 10% of the Company is owned by employees, up from 3% in 2005. More information on these share schemes is available on page 53.

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 2006, we donated a total of £51,000 for community and charitable purposes.

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 the money raised. £21,000 of employee-matching grants were made during 2006.

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 on page 16 of the Corporate Responsibility Report.

The Company complied with the Combined Code and the ASX Principles in 2006, 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. This is 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 30). 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 other Non-Executive Directors. Although the Chairman, Rupert Pennant-Rea, met the independence 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. John Roques is the Senior Independent Director.

There is a division of responsibility between the Chairman, 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 2006) 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 23 to 29). 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 2006, the Board conducted a formal evaluation of the performance of the Board, Board Committees and individual Directors (including the Chairman). The performance of the Board was assessed by each Director completing a questionnaire which had been previously approved by the Chairman. The questionnaire focused upon a number of key areas including Board composition, conduct of Board meetings, Group strategy and communication. The performance of the Board Committees was assessed in the same way, except that Directors only provided feedback in respect of those Committees of which they regularly attended meetings during 2006. The results of the evaluation for both the Board and the Board Committees were collated by the Company Secretary and presented to the Board. The Board reviewed the results and agreed what actions should be taken, including the Board receiving more presentations from senior employees (rather than only the Executive Directors) and changes in the way the Group's strategy is reviewed by the Board.

The Chairman conducted the annual performance evaluation of each of the Directors through one-to-one meetings. In assessing each Director's performance, the Chairman took into account the views that each Director had expressed regarding the contributions made by the other Directors. The Chairman's performance evaluation was led by the Senior Independent Director. This involved each Director completing a questionnaire which focused upon the Chairman's performance. The Senior Independent Director then met with each Director (excluding the Chairman) and evaluated the Chairman's performance, taking account of the results of the questionnaires. The Senior Independent Director later agreed his findings at a meeting with only other Non-Executive Directors present and then met with the Chairman to discuss the outcome of the evaluation. 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.

Following this detailed performance evaluation, the Directors have concluded that the Board and its Committees operate effectively and consider that each Director is making a valuable contribution to the overall success of the Group.

At the Annual General Meeting (AGM) held on 11 May 2006, shareholders reappointed Roger Yates and Toby Hiscock as Directors. 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. John Roques and Duncan Ferguson plan to retire and seek reappointment at the AGM on 3 May 2007.

Operation of the Board

The Directors met as a Board ten times in 2006, of which seven were scheduled meetings. Attendance by each of the Directors was:

	Date appointed	Number of meetings held in 2006 while a Director	Number of meetings attended in 2006 while a Director	Percentage of meetings attended in 2006 while a Director
Anthony Hotson	29/11/2002	10	10	100%
Roger Yates	16/06/2003	10	10	100%
Toby Hiscock	11/08/2003	10	10	100%
John Roques	14/01/2004	10	10	100%
Duncan Ferguson	01/07/2004	10	9	90%
Rupert Pennant-Rea	01/10/2004	10	10	100%
Gerald Aherne	01/10/2004	10	10	100%

The Directors are scheduled to meet as a Board at least seven times in 2007. Additional meetings will be held as required, or at the request of a Director. During 2006, the Non-Executive Directors met the Chairman without the Executive Directors being present and it is the intention that this should happen again during 2007.

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. The Chief Executive and his management team are responsible for developing the appropriate business strategy and, once approved by the Board, for ensuring that the strategy is effectively implemented in accordance with the approved operating plan and within a sound system of internal control.

The Board has approved corporate governance policies. These include 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. Summaries 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. Their full terms of reference may be viewed on the Company's website.

Audit Committee

John Roques is the Chairman of the Audit Committee. The other members are Anthony Hotson and Duncan Ferguson. All members of the Committee have 'recent and relevant financial experience' and 'financial expertise' as recommended by the Combined Code and the ASX Principles respectively. The details of the qualifications of the Committee members are set out on page 7. The Committee met seven times in 2006. Attendance by each of the members was:

	Date appointed	Number of meetings held in 2006 while a Director	Number of meetings attended in 2006 while a Director	Percentage of meetings attended in 2006 while a Director
Anthony Hotson	28/08/2003	7	7	100%
John Roques	11/06/2004	7	7	100%
Duncan Ferguson	09/06/2005	7	6	86%

The Audit Committee is responsible for making recommendations to the Board on the appointment of the external auditor and their terms of engagement (including audit fees) and for reviewing the performance, independence and objectivity of the external auditor. It receives and reviews reports from management and the external auditors relating to the Company's Annual Financial Report and Accounts and interim reports.

However, ultimate responsibility for reviewing and approving the Full Annual Financial Report and Accounts and interim reports remains with the Board. The Audit Committee also receives formal reports from the internal auditor, who attends all meetings. Both the internal and external auditors meet with the Non-Executive Directors (without the Executive Directors present) at least annually.

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 system of internal control 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. 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 (eg secondments to management positions) or which could create a conflict or perceived conflict. Details of the non-audit services provided by the external auditor were approved by the Audit Committee during the year. A copy of the Charter is on the Company's website. The external auditor will be asked to attend the Company's AGM on 3 May 2007 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 is the Chairman of the Nomination Committee. All the other Non-Executive Directors are members of the Committee and the Executive Directors attend the meetings. The Committee met twice in 2006. Attendance by each of the members was:

	Date appointed	Number of meetings held in 2006 while a Director	Number of meetings attended in 2006 while a Director	Percentage of meetings attended in 2006 while a Director
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, the retirement and appointment of additional and replacement Directors and making appropriate recommendations to the Board on these matters. In identifying suitable candidates for recommendation for appointment to the Board, the Nomination Committee is responsible for ensuring 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. Once a year, the Committee reviews succession planning for senior management.

Remuneration Committee

Gerald Aherne is the Chairman of the Remuneration Committee. The other members are Anthony Hotson and Duncan Ferguson. The Committee met four times in 2006. Attendance by each of the members was:

	Date appointed	Number of meetings held in 2006 while a Director	Number of meetings attended in 2006 while a Director	Percentage of meetings attended in 2006 while a Director
Anthony Hotson	28/08/2003	4	4	100%
Gerald Aherne	01/10/2004	4	4	100%
Duncan Ferguson	09/06/2005	4	3	75%

The Remuneration Committee has responsibility for making recommendations to the Board on the Company's policy for the remuneration and performance of Executive Directors, the direct reports of the Executive Directors and staff generally 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 Committee operates on the principle that members of 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 23 to 29) provides details on how the Remuneration Committee exercises these duties and from which advisors the Committee took advice.

Investor relations

The Company values its interaction with the investor community 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 biannual 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 financial results on both the London Stock Exchange and the Australian Securities Exchange and sent a Summarised Annual Report to all shareholders (unless they elected to receive the Full Annual Financial Report and Accounts) in 2006.

All shareholders and CHESS Depositary Interest (CDI) holders were invited to the 2006 AGM, held on 11 May 2006. The AGM was held in London and, to allow Australian shareholders to attend and participate, was simultaneously broadcast as a satellite meeting to Sydney. 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.

All shareholders and CDI holders were also invited to the Extraordinary General Meeting (EGM) on 31 August 2006 to approve a return of capital to shareholders. The EGM was held in London and, again, to allow Australian shareholders to attend and participate, was simultaneously broadcast as a satellite meeting to Sydney. 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.

A programme, including monthly reporting, is in place to ensure that feedback from shareholders and market participants is communicated to the Directors. Additionally, the Board is briefed regularly on shareholder issues. In 2006, in line with the Combined Code, the Chairman met with a number of the Company's largest shareholders and other significant shareholders met with or were offered meetings with the 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 31). 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.

Supervision of internal controls and risk management

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The system of internal control 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 2006, 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'. Necessary action has been taken, or is being taken, to remedy any significant failings or weaknesses identified by this process. The effectiveness of the Group's system of internal control is reviewed at least annually by the Board.

Risk management

The effectiveness of the Group's system of internal control is reviewed in order to safeguard the Group's assets and shareholders' investments. This system addresses governance, financial controls, the risk management framework and operational, regulatory and compliance requirements.

An internal control compliance certification process is conducted quarterly throughout the Group. It is completed by business managers to confirm adequacy of controls and their compliance with Company policies, laws, rules and regulations. Quarterly risk reports are provided to the Board through the Audit Committee, covering risks of Group significance, including credit risk, market risk and operational risk. Regular reports are also made to the Audit Committee by management, internal audit and the compliance and legal functions covering, in particular, financial controls, compliance and operational controls.

The Board considers that this reporting framework gives it sufficient information upon which to monitor the Group's system of internal control and review its effectiveness.

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 who have responsibility for specific areas of risk. These provide forums for resolving and managing significant risk, regulatory and compliance issues. Their activities are overseen by the risk management function, which is responsible for ensuring that they discharge their responsibilities effectively and for bringing matters to the attention of senior management.

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 senior management. 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 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 and the ASX Principles (as referred to in the Corporate Responsibility Report) relating to Executive Directors' remuneration are applied by the Group.

A resolution will be put at the AGM on 3 May 2007 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 on the Company's website.

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. During 2006, and as at 27 February 2007, the Committee comprised 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 four times in 2006.

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 which provided advice on executive pay and share plan issues, and Watson Wyatt LLP, which provided advice on pension issues to the Group.

Additional remuneration survey data published by McLagan Partners was also presented to the Remuneration Committee.

None of the above advisors has any connection with the Company other than providing compensation data and information on remuneration developments.

Policy statement

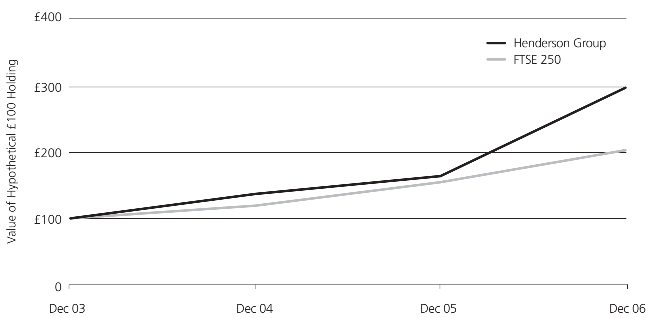
Reward policy
The Remuneration Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the Company's business environment and in remuneration practice and so the policy is subject to change.

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.

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 – paid 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.

Total Shareholder Return (TSR) performance
The graph below shows the growth in value of a hypothetical £100 holding in the Group's shares since December 2003 compared to the FTSE 250, which is the most appropriate index.



Source: Graph provided by Towers Perrin and calculated according to a methodology that is compliant with the requirements of Schedule 7A to the Companies Act 1985.
Data Sources: FTSE and Datastream

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 certain 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 of the Company, since listing in December 2003.

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, fund flows 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 the Group's advisor, 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 the overall structure constitutes a well-considered set of arrangements for Executive Directors' remuneration. It is kept under review to take account of changing circumstances and will be formally reviewed by the Board in 2007. Incentive payments are not taken into account for pension purposes.

Basic salary

Salaries are reviewed annually for each Executive Director. In 2006, the salary of the Chief Executive reduced to £350,000 per annum, from £600,000 per annum in 2005 and the salary of the Chief Financial Officer remained unchanged at £300,000 per annum for both 2006 and 2005.

Roger Yates is also a Non-Executive and Senior Independent Director of IG Group Holdings plc and he retains the fees of £30,000 per annum paid by IG Group Holdings plc.

Annual bonus

At the discretion of the Remuneration Committee, each Executive Director may receive a cash bonus subject to the achievement of performance targets established by the Remuneration Committee. Payment of bonuses (if any) will be made to the relevant Executive Director annually, usually in February, conditional upon achievement of the performance targets in the preceding calendar year, though the Remuneration Committee has the flexibility to take into account other factors in determining any bonus. 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. The maximum entitlements for 2006 performance increased from 2005 and are 600% of salary for the Chief Executive (2005: 200%) as fully disclosed in the 2005 Report on Directors' Remuneration and 200% of salary for the Chief Financial Officer (2005: 150%).

For each Executive Director, the corporate performance targets relate to Company performance measures as set out in the performance linkage section above. The Henderson Group performance measures in 2006 were return on capital, cost ratios, pre-tax operating profit, net fund flows and investment performance. Approximately 70% of the weighting of these variables relates to return on capital, profit before tax and the cost to income ratio.

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

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 and the Remuneration Committee must be satisfied that the Company's TSR performance reasonably reflects its underlying financial performance over the performance period.

Shareholders passed a resolution at the AGM on 11 May 2006 to alter the maximum percentage of salary that the Chief Executive can be awarded under the LTIP rules to 500% of basic salary (formerly 300%). As disclosed in the 2005 Report on Directors' Remuneration, the Chief Executive's basic salary was reduced from £600,000 to £350,000 per annum and the Committee wanted the ability to maintain the absolute face value of the LTIP awards that could be granted to him.

The Company made awards under the LTIP to Executive Directors in May 2006. The aggregate market value of the ordinary shares capable of being acquired under these awards was equivalent to 428% of salary in the case of the Chief Executive and 175% of salary in the case of the Chief Financial Officer.

The Remuneration Committee intends to make an award under the LTIP to the Executive Directors in 2007.

The 2006 LTIP award

The proportion of the 2006 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 2006, compared to that achieved over the same period by the companies in the FTSE 250 index at the same start date. 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 latter two points will be calculated on a straight-line basis. Additionally, awards will only be capable of vesting after 2 March 2009.

The 2005 LTIP award

The awards made in 2005 continue to be held, subject to the TSR performance condition, until the end of 2007.

The 2004 LTIP award

As disclosed in the 2004 and 2005 Full Annual Financial Report and Accounts, the LTIP awards would normally vest at the end of a three-year performance period. However, in 2005 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 two-thirds of the 2004 awards granted to employees of the remaining group to vest in 2005.

The remaining one-third of the 2004 LTIP awards will vest in April 2007. The amount that will vest was determined by the satisfaction of the TSR performance condition over the prior three calendar years, which has resulted in 100% of the shares in the award being capable of exercise.

Shareholding requirement

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 is currently being achieved by the Chief Executive. The Chief Financial Officer has a holding equivalent to 55% of his current base salary.

Changes in 2007

In line with good practice, the Remuneration Committee reviews the Directors' remuneration arrangements, particularly the incentive arrangements, from time to time. In 2007, a formal review of the LTIP arrangements is planned and the outcome of this review will be provided to shareholders at the appropriate time.

All-employee share schemes

The Sharesave Scheme, a savings-related share option scheme, is available to all employees. It 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 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 provides matching shares. The SIP also allows for limited annual awards of free shares up to the UK tax authority limits. Executive Directors are not eligible to participate in the SIP.

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

All Company share awards are made through on-market purchases except for Sharesave and an element of the SIP which are satisfied by issuing shares. The current dilution by such plans amounts to 0.6% of issued share capital.

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 a defined benefit section (closed to new members) and a defined contribution section. As a result of the UK statutory cap on earnings, the Group 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 a defined benefit basis.

The Chief Executive is entitled to a pension accruing at 1/30th of uncapped pensionable salary 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 (2006/2007: £108,600) for each year of pensionable service with the balance provided by participation in an unfunded unapproved retirement benefits scheme. In addition, the Chief Executive receives an annual contribution of up to £175,000 towards a self-invested personal pension. Whilst he is a Director, the investment holdings are required to be in products of Henderson Global Investors.

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.

In 2006, the Board consulted with employees and agreed with the Trustees to alter future benefits for all employees (including Executive Directors) in both the defined benefit and defined contribution sections.

The defined benefit section was closed to new members in 1999, but with effect from 2007 any growth in existing members' salary will be restricted for pension purposes to the lower of inflation or 2.5% per annum. In addition, for service accrued from 2007, increases to pensions in payment will also be restricted to the lower of inflation or 2.5% per annum.

The defined contribution section was created in 1999 and allows, for some staff, an element of annual bonuses to be considered pensionable. This will be phased out by 2009 so that only basic salary will be pensionable.

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 entitled to a car allowance of £11,000 per annum.

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 that they continue to receive full pay. Under certain circumstances (eg 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 other 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 other Non-Executive Directors serve the Company under letters of appointment that 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 other 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:

- the annual fee payable to each Non-Executive Director (other than the Board Chairman and the Audit and Remuneration Committee Chairmen) is £40,000;
- Rupert Pennant-Rea is Non-Executive Chairman of the Company. 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;
- John Roques is entitled to additional fees of £15,000 per annum as Chairman of the Audit Committee and £5,000 per annum as Senior Independent Director;
- Gerald Aherne is entitled to additional fees of £15,000 per annum as Chairman of the Remuneration Committee; and
- Anthony Hotson was entitled to additional fees in connection with Towry Law UK, of which he was Chairman until May 2006.

The Chairman has determined that the fees paid to Non-Executive Directors will again be unchanged for 2007. However, a review of fees using independent advisors will take place in 2007.

The following tables provide greater detail in respect of each of the Directors' emoluments, pension entitlements and share interests, which have been audited by the Company's auditor.

Directors' emoluments in 2006

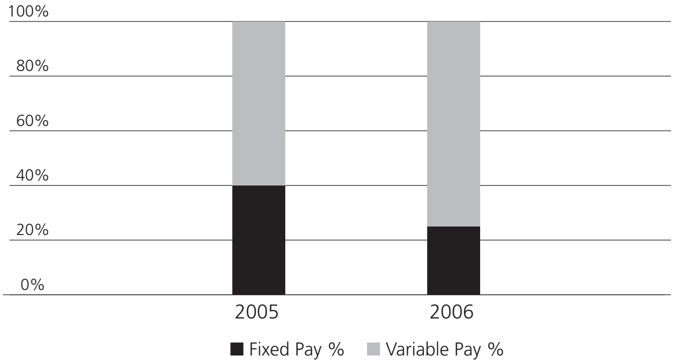
The emoluments (cash payments and benefits in kind, but not including any pension and equity incentive award) of the Directors of the Company in respect of the period for which they were in office in the relevant year, including their remuneration in respect of subsidiary undertakings, comprised:

	Salary and fees £'000	Benefits in kind £'000	Annual cash bonus £'000	Current employment arrangement £'000	Legacy arrange-ments £'000	Other £'000	2006 total £'000	2005 total £'000
Chairman								
R. Pennant-Rea (Chairman and Non-Executive Director)	150	–	–	150	–	–	**150**	133
Executive Directors								
R.P. Yates (Chief Executive)	350	102	1,800	2,252	80	187	**2,519**	1,699
N.T. Hiscock (Chief Financial Officer)	311	3	556	870	23	–	**893**	689
Non-Executive Directors								
A.C. Hotson	47	–	–	47	–	–	**47**	47
J. Roques	60	–	–	60	–	–	**60**	51
D. Ferguson	40	–	–	40	–	–	**40**	45
G. Aherne	55	–	–	55	–	–	**55**	44
Total	1,013	105	2,356	3,474	103	187	**3,764**	2,708

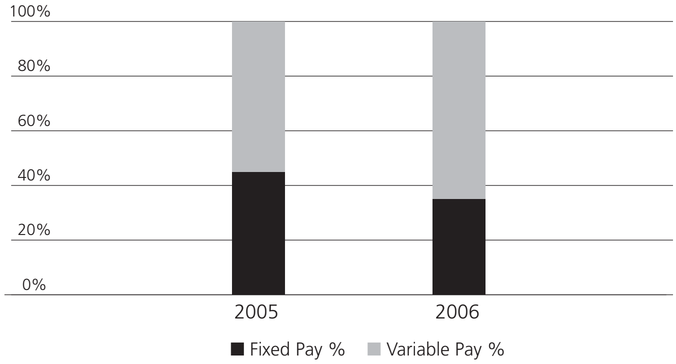
Notes
1. There were no amounts paid to the Executive Directors in respect of their qualifying services by way of expenses allowance that was chargeable to UK income tax.
2. Emoluments of all Directors are stated with effect from 1 January 2006.
3. The non-cash elements of the Executive Directors' remuneration packages (disclosed in the table above as 'benefits in kind') consist of the provision of life assurance and private medical insurance. The payment under 'other' relates to a rebate of hedge fund commission charges and contribution towards a self-invested personal pension.

The charts below illustrate the fixed and variable elements of the Executive Directors' emoluments for 2005 and 2006.

Total emoluments – Chief Executive



Total emoluments – Chief Financial Officer



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 2006 payment was £79,698 and £22,669 respectively and this was the final payment in this legacy scheme.

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
Defined benefit
The following table gives details of the accrued pension benefit at 31 December 2006 for Directors who have participated in the defined benefits section of the Scheme during the year to 31 December 2006. The final column represents the Company's funding obligations for 2006.

	Service at 31 Dec 2006	Accrued benefit at 31 Dec 2006 £'000	Additional pension earned during year to 31 Dec 2006 £'000	Transfer value of accrued benefit at 31 Dec 2006 (A) £'000	Transfer value of accrued benefit at 31 Dec 2005 (B) £'000	The amount of (A-B) less contributions made by Directors during 2006 £'000
R.P. Yates (Chief Executive)	7 years 3 months	168	12	1,986	1,696	290
N.T. Hiscock (Chief Financial Officer)	14 years 8 months	49	8	580	458	122
Total		217	20	2,566	2,154	412

(c) Directors' share interests[1]
At 27 February 2007 and at 31 December 2006 and 2005, the Directors had the following beneficial interests in shares in the Company[2]:

	27 Feb 2007 no.	31 Dec 2006 no.	31 Dec 2005 no.
Chairman			
R. Pennant-Rea	37,440	37,440	48,000
Executive Directors			
R.P. Yates (Chief Executive)	1,231,650	1,231,650	1,579,039
N.T. Hiscock (Chief Financial Officer)	121,785	121,785	156,135
Non-Executive Directors			
A.C. Hotson	16,770	16,770	21,500
J. Roques	9,360	9,360	12,000
D. Ferguson	9,360	9,360	12,000
G. Aherne	18,720	18,720	24,000
Total	1,445,085	1,445,085	1,852,674

Notes
1. As part of the 2006 return of cash, all Directors had 22% of their shareholdings cancelled in October 2006.
2. Beneficial interests in the table above represent shares held by a Director, either directly or through a nominee, and any holdings of their spouse and children under 18. They do not include any awards held in the Sharesave or LTIP.

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

	Interests at 31 Dec 2005			Awards made or vested during 2006				Interests at 31 Dec 2006	
	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.**	**Maximum LTIP no.**
R.P. Yates (Chief Executive)	22,656	3,545,011	1,485,359	–	–	1,818,000	761,742	22,656	5,363,011
N.T. Hiscock (Chief Financial Officer)	22,656	1,207,724	506,036	–	–	636,500	266,694	22,656	1,844,224
Total	45,312	4,752,735	1,991,395	–	–	2,454,500	1,028,436	45,312	7,207,235

Notes
1. Under the Sharesave Scheme, after 36 monthly contributions of up to £250, Sharesave participants may exercise their options to acquire Henderson Group plc 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. Although a Sharesave plan was offered to all employees in 2006, the Executive Directors were ineligible to participate, already having the maximum monthly savings allowed by the UK tax authority limits.

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. The number of shares awarded in 2006 was based on the three-month average market value of the shares prior to the date of award, 2 March 2006. The average market price on which the awards were based was 82.50 pence.

3. Although the LTIP 2004 award was granted with a three-year cycle (1 January 2004 to 31 December 2006), as discussed in the long-term incentives section 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. The 52-week high and low share price in 2006 was 139.75 pence and 70.50 pence respectively. At 29 December 2006, the share price was 137.75 pence.

ADDITIONAL REMUNERATION INFORMATION

Disclosure of non-Director executive remuneration is neither required 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 ASX 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 2006 were:

Name	Position
James Darkins	Managing Director, Property
Andrew Formica	Co-Managing Director, Listed Assets and Head of Equities
Shirley Garrood	Chief Operating Officer
Roger Greville	Managing Director, Private Equity
David Jacob	Co-Managing Director, Listed Assets and Head of Fixed Interest

The aggregate annual remuneration for the executives listed above was £6,100,671 made up of the following:

- basic salary;
- a discretionary annual bonus, which is dependent on stipulated Company, divisional and individual performance measures;
- discretionary performance fee or transaction fee awards in 2006;
- company non-contributory (ie the employee does not contribute and the Company bears all the costs) pension plan in the defined contribution section of the plan;
- other benefits including private medical insurance, car allowance, season ticket loans and life assurance and free shares under the SIP; and
- payments in respect of a legacy share plan, vesting of discretionary share plan awards, refund of commission charges on mandatory deferral into hedge funds and cash payment of SIP dividend awards that exceeded the UK tax authority annual dividend limit.

In April 2006, the Remuneration Committee made awards to non-Director executives under the LTIP as described on page 25. In 2006, 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 25 will apply to these awards. The executives were awarded 1,824,500 shares under the LTIP in April 2006, the vesting of which is described in the long-term incentives section of the Report on Directors' Remuneration on page 25. Non-Director executives are entitled to participate in the Sharesave Scheme and SIP as described on page 25.

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 24), and to ensure that executive pay complies with the Board's remuneration policy (as described on pages 23 to 29).

Signed on behalf of the Board

Gerald Aherne
Chairman of the Remuneration Committee
27 February 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

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

The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and 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;
- 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 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT
to the members of Henderson Group plc

We have audited the Group and parent company financial statements (the 'financial statements') of Henderson Group plc for the year ended 31 December 2006, which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Company Statement of Recognised Income and Expense, Company Balance Sheet, Company Cash Flow Statement and the related notes 1 to 45. 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 Company's 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 Company's members those matters we are required to state to them in an auditor's 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 Company and the Company'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' responsibilities 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 (IFRS) as adopted by the European Union are 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, as regards the Group financial information, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 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 Chairman's Statement, Chief Executive's Statement, Board of Directors information, 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 misstatements 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 and Company'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 2006 and of its profit for the year then ended;
- the parent 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 parent company's affairs as at 31 December 2006;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and as regards the financial statements Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London
27 February 2007

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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 £m	2005[1] Restated £m
Continuing operations			
Income			
Gross fee income and commission receivable on sales	3	**372.8**	283.3
Finance income	3	**25.2**	24.7
Total income		**398.0**	308.0
Commissions and fees payable against income	3	**(89.7)**	(43.4)
Net fee and commission income		**308.3**	264.6
Expenses			
Administration costs	4.1	**(223.3)**	(201.5)
Other charges	4.2	**(2.8)**	(5.1)
Total expenses before finance costs and one-off restructure costs		**(226.1)**	(206.6)
Finance costs	6	**–**	(0.6)
Net profit before tax and one-off restructure costs		**82.2**	57.4
One-off restructure costs		**(7.8)**	–
Net profit before tax from continuing operations		**74.4**	57.4
Taxation	8	**(11.1)**	(11.5)
Net profit after tax from continuing operations		**63.3**	45.9
Discontinued operations[2]			
Net (loss)/profit before tax from discontinued operations	35.1	**(11.5)**	25.2
Net profit/(loss) before tax on disposal of discontinued operations	34.2	**9.5**	(18.6)
Net (loss)/profit before tax from discontinued operations		**(2.0)**	6.6
Taxation	37	**(0.1)**	(4.8)
Net (loss)/profit after tax from discontinued operations		**(2.1)**	1.8
Total continued and discontinued operations			
Net profit before tax from all operations		**72.4**	64.0
Total taxation		**(11.2)**	(16.3)
Net profit after tax from all operations		**61.2**	47.7
Attributable to:			
Equity holders of the parent	20.1	**61.1**	51.2
Minority interests	20.1	**0.1**	(3.5)
		61.2	47.7
Dividends			
Dividends declared and charged to equity in the year[3]	12	**26.2**	–
Dividends proposed (2.27 pence per share)	12	**20.5**	–
Basic and diluted earnings per share			
Earnings per share from all operations	9.1.2	**5.5p**	3.1p
Earnings per share from continuing operations	9.2.2	**5.7p**	3.2p
Earnings per share from continuing operations before restructure costs	9.4.2	**6.3p**	3.2p

Notes

1. The 2005 comparatives represent the total profit and loss for the year, net of intra-group transactions between continuing and discontinued operations and have been restated as detailed in note 2.1 Changes in accounting policies.
2. Discontinued operations comprise Towry Law International, the Life Services business and Towry Law UK. There were no intra-group transactions between the continuing and discontinued businesses that required elimination in the current year.
3. Dividends paid in respect of 2H05 profits 1.39 pence per share, and 1H06 profits 0.88 pence per share.

For the year ended 31 December 2005

	Notes	Continuing operations [1] Restated £m	Discontinued operations [2] £m	Eliminations [3] £m	Total [4] Restated £m
Continuing operations					
Income					
Gross fee income and commission receivable on sales	3	290.6	–	(7.3)	283.3
Finance income	3	26.8	–	(2.1)	24.7
Total income		317.4	–	(9.4)	308.0
Commissions and fees payable against income	3	(43.4)	–	–	(43.4)
Net fee and commission income		274.0	–	(9.4)	264.6
Expenses					
Administration costs	4.1	(201.9)	–	0.4	(201.5)
Other charges	4.2	(5.1)	–	–	(5.1)
Total expenses		(207.0)	–	0.4	(206.6)
Finance costs	6	(3.6)	–	3.0	(0.6)
Net profit before tax from continuing operations		63.4	–	(6.0)	57.4
Taxation	8	(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	35.1	–	14.4	6.0	20.4
Net loss after tax on disposal of discontinued operations	34.2	–	(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	8, 37	(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	20.1				51.2
Minority interests – discontinued operations	20.1				(3.5)
					47.7
Continuing earnings per share					
Basic earnings per share	9.2.2	3.2p			
Diluted earnings per share	9.2.2	3.2p			

Notes
1. The continuing operations column represents the continuing business of the Group before eliminations and has been restated as detailed in note 2.1 Changes in accounting policies.
2. The discontinued operations column represents the discontinued operations of Towry Law International, the Life Services business and Towry Law UK.
3. Eliminations represent 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 original agreements with Pearl.
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 2006

	Notes	2006 £m	2005 £m
Exchange differences on translation of foreign operations	20.1	**(0.6)**	(1.5)
Exchange differences on translation of available-for-sale financial assets	20.1	**(1.2)**	–
Translation reserve transfer on sale of available-for-sale financial assets	20.1	**0.4**	–
Revaluation reserve transfer on sale of available-for-sale financial assets	20.1	**–**	3.4
Gains/(losses) on revaluation of available-for-sale financial assets	20.1	**32.9**	(4.5)
Actuarial losses on pension schemes	20.1, 28	**(4.7)**	(10.8)
Tax on items taken directly to equity	20.1	**1.4**	4.4
Net income/(expense) recognised directly in equity		**28.2**	(9.0)
Net profit after tax from all operations		**61.2**	47.7
Total recognised income and expense		**89.4**	38.7
Attributable to:			
Equity holders of the parent	21.1	**89.3**	42.2
Minority interests – continuing operations	20.1	**0.1**	–
Minority interests – discontinued operations	35.1	**–**	(3.5)
		89.4	38.7

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 £m	2005 £m
Assets			
Intangible assets	13	**224.3**	224.3
Investments accounted for using the equity method		**2.7**	2.0
Plant and equipment	18	**6.6**	8.3
Deferred tax assets	22	**13.2**	12.8
Available-for-sale financial assets	14	**112.2**	96.7
Financial assets at fair value through profit or loss	14	**0.2**	0.5
Deferred acquisition and commission costs	31	**20.7**	19.2
Trade and other receivables	17	**156.4**	95.7
Cash and cash equivalents	27.2	**309.1**	487.5
		845.4	947.0
Assets held in disposal groups held for sale	35.3	**–**	42.6
Total assets		**845.4**	989.6
Liabilities			
Retirement benefit obligations	28	**10.4**	45.6
Provisions	24.1	**42.3**	66.5
Deferred income		**29.7**	22.0
Current tax liabilities		**35.0**	27.8
Trade and other payables	23	**232.1**	163.9
		349.5	325.8
Liabilities included in disposal groups held for sale	35.3	**–**	16.7
Total liabilities		**349.5**	342.5
Net assets		**495.9**	647.1
Capital and reserves			
Share capital	19.2	**90.2**	115.5
Share premium reserve	20.1	**193.7**	367.2
Treasury shares	20.1	**(1.9)**	–
Own shares held reserve	20.1	**(29.9)**	(4.1)
Translation reserve	20.1	**(4.8)**	(3.4)
Revaluation reserve	20.1	**29.9**	(3.0)
Profit and loss account reserve	20.1	**218.6**	174.9
Shareholders' equity		**495.8**	647.1
Minority interests	20.1	**0.1**	–
Total equity	21.1	**495.9**	647.1

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2007.
These were signed on its behalf by:

Rupert Pennant-Rea
Chairman

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Net profit before tax from all operations		**72.4**	64.0
Adjustments to reconcile net profit before tax from all operations to net cash flows from operating activities:			
– depreciation and impairment of property, plant and equipment – continuing operations	18	**2.8**	3.0
– depreciation and impairment of property, plant and equipment – discontinued operations	43	**0.3**	2.3
– impairment of goodwill and other intangible assets – discontinued operations	44.1	**0.7**	2.1
– share-based payments	11.2	**15.1**	6.3
– net deferred acquisition cost and deferred income amortisation – continuing operations		**2.1**	7.8
– deferred acquisition cost amortisation – discontinued operations	36.2.1	**–**	7.7
– net profit arising from disposal of subsidiaries	34.2	**(9.5)**	–
– net profit arising from disposal of property, plant and equipment		**–**	(0.1)
– fair value (gains)/losses on financial assets		**(5.8)**	128.1
– contributions to the defined benefit pension scheme	28.1	**(40.0)**	–
– share of net profit of associates		**(1.3)**	(0.5)
– movement in minority interests		**0.1**	–
– loan interest expense		**–**	24.5
Cash flows from operating activities before changes in operating assets and liabilities		**36.9**	245.2
Changes in operating assets and liabilities	27.1	**(12.4)**	(439.7)
Tax paid		**(2.8)**	(85.8)
Net cash flows from operating activities		**21.7**	(280.3)
Cash flows from investing activities			
Proceeds from sale or maturity of:			
– property, plant and equipment		**–**	0.6
– investment property		**–**	12.1
– debt or equity instruments and interests in joint ventures		**55.3**	3,545.3
– certificates of deposits		**–**	232.5
– mortgages and other loan repayments from other parties		**–**	221.2
– subsidiaries and associates		**25.8**	(3,260.0)
Dividends from associates		**0.6**	–
Purchases or acquisition of:			
– property, plant and equipment		**(1.1)**	(3.4)
– investment property		**–**	(6.6)
– debt or equity instruments and interests in joint ventures		**(33.1)**	(2,864.6)
– certificates of deposits		**–**	(124.3)
– mortgages and other loans made to other parties		**–**	(1.0)
– subsidiaries and associates, net of cash acquired		**–**	(0.5)
Net cash flows from investing activities		**47.5**	(2,248.7)
Cash flows from financing activities			
Proceeds from issue of shares or other equity instruments		**0.5**	0.6
Return of cash to shareholders	21.1	**(199.6)**	(775.3)
Reduction in investor base		**–**	(95.2)
Cash payments to owners to acquire or redeem treasury shares	20.1	**(1.9)**	–
Cash payments to owners to acquire or redeem own shares	20.1	**(28.8)**	(6.3)
Repayments of short and long-term borrowings		**–**	(222.1)
Amounts due to policyholders on unit-linked investments		**–**	690.7
Dividends paid to equity shareholders	12	**(26.2)**	–
Dividends paid to minority interests		**–**	(3.7)
Interest paid		**–**	(40.3)
Net cash flows from financing activities		**(256.0)**	(451.6)
Effects of exchange rate changes		**(0.6)**	1.3
Net decrease in cash and cash equivalents		**(187.4)**	(2,979.3)
Cash and cash equivalents at beginning of year		**496.5**	3,475.8
Cash and cash equivalents at end of year	27.2	**309.1**	496.5

COMPANY STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Actuarial losses on pension schemes	20.2	**(7.6)**	–
Tax on items taken directly to equity	20.2	**2.3**	–
Net expense recognised directly in equity		**(5.3)**	–
Net profit after tax from all operations		**100.7**	6.4
Total recognised income and expense	21.2	**95.4**	6.4

COMPANY BALANCE SHEET

At 31 December 2006

	Notes	2006 £m	2005 £m
Assets			
Current assets			
Current tax assets		**18.3**	21.7
Deferred tax assets	22	**2.3**	–
Trade and other receivables	17	**223.6**	13.8
Cash and cash equivalents	27.3	**110.1**	258.9
		345.3	294.4
Non-current assets			
Investment in subsidiaries	30	**2,461.8**	2,659.3
Total assets		**2,816.1**	2,953.7
Liabilities			
Current liabilities			
Borrowings	16	**970.3**	971.9
Retirement benefit obligations	28	**5.0**	–
Provisions	24.2	**14.9**	15.2
Trade and other payables	23	**1,159.2**	1,151.8
Total liabilities		**2,149.4**	2,138.9
Net assets		**666.7**	814.8
Capital and reserves			
Share capital	19.2	**90.2**	115.5
Share premium reserve	20.2	**193.7**	367.2
Treasury shares	20.2	**(1.9)**	–
Own shares held reserve	20.2	**(29.9)**	–
Profit and loss account reserve	20.2	**414.6**	332.1
Total equity	21.2	**666.7**	814.8

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2007.
These were signed on its behalf by:

Rupert Pennant-Rea
Chairman

COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Net profit/(loss) before tax		**93.6**	(12.7)
Adjustments to reconcile net loss before tax from all operations to net cash flows from operating activities:			
– impairment of goodwill and other intangible assets		**197.5**	692.7
– share-based payments		**15.1**	–
– dividends received from subsidiaries[1]		**(266.3)**	–
– net profit arising on financial assets		**–**	(28.0)
– loan interest expense		**54.6**	52.4
Cash flows from operating activities before changes in operating assets and liabilities		**94.5**	704.4
Changes in operating assets and liabilities			
Decrease/(increase) in other assets		**56.6**	(0.4)
Decrease in other liabilities		**(74.6)**	(26.4)
Net cash flows from operating activities		**76.5**	677.6
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)
Net cash flows from investing activities		**–**	216.1
Cash flows from financing activities			
Proceeds from issue of shares or other equity instruments		**0.5**	0.6
Return of cash to shareholders	21.2	**(199.6)**	(775.3)
Reduction in investor base		**–**	(95.2)
Cash payments to owners to acquire or redeem own shares	20.2	**–**	(6.3)
Repayments of short and long-term borrowings		**–**	(203.9)
New loans raised from subsidiaries		**–**	377.6
Dividends paid to equity shareholders	12	**(26.2)**	–
Net cash flows from financing activities		**(225.3)**	(702.5)
Net (decrease)/increase in cash and cash equivalents		**(148.8)**	191.2
Cash and cash equivalents at beginning of year		**258.9**	67.7
Cash and cash equivalents at end of year	27.3	**110.1**	258.9

Note
1. Included in net operating profit for the year were dividends declared by the Company's subsidiaries in 2006 of £335.7m. £266.3m is still outstanding at the end of the year and is reflected as a movement in the inter-company balance.

NOTES TO THE FINANCIAL STATEMENTS – GROUP AND COMPANY

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

The Group and Company financial statements of Henderson Group plc for the year ended 31 December 2006 were authorised for issue by the Board of Directors on 27 February 2007 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 Securities 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 Company has taken advantage of the exemption under section 230 of the Companies Act 1985 not to present its own income statement within these financial statements.

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
The Group's and Company's financial statements have been prepared on the historical cost basis, except for certain financial instruments that have been measured at fair value.

The Group's and Company's 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 Henderson Group plc and its subsidiaries as at 31 December each year. The financial statements of all the Group's subsidiaries other than Henderson International Holdings Limited, which has a year end date of 30 November (see note 29 Subsidiaries), are prepared to the same year end date as the parent company. The subsidiary accounts are not all prepared under IFRS. However, the accounts of all the material entities are prepared under either IFRS or UK GAAP. Where prepared under UK GAAP, balances reported by subsidiaries are adjusted to meet IFRS requirements for the purposes of the 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 had control. Minority interests represent the equity interests in subsidiaries not fully held by the Group.

The 2006 consolidated financial statements include the results of Towry Law UK for the period until its disposal on 3 May 2006. The 2005 consolidated financial statements include the results of the Life Services business for the period until its disposal on 13 April 2005.

Interests in Property Limited Partnerships, 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.

2.1 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

Restatement of prior year comparatives
The Group has modified its disclosure of income and related expenses by disclosing gross fee income inclusive of fees payable against income (previously shown net). The prior year consolidated income statement has been restated by grossing up both 'gross fee income and commission receivable on sales' and 'commissions and fees payable against income' by £17.5m. There is no effect on the prior year net profit before tax from continuing operations or the balance sheet as at 31 December 2005.

IAS 39 Amendments – Financial Instruments: Recognition and Measurement
The Group has adopted the amendment for the fair value option (issued June 2005). The amendment restricts the use of the option previously in place to designate any financial asset or financial liability to be measured at fair value through the profit or loss. The only financial assets measured at fair value through the profit or loss are the manager box positions in OEICs and unit trusts which meet the criteria under the amended standard as they are managed on a fair value basis. The amendment did not have any impact on the financial statements.

2.2 Significant accounting judgements, estimates and assumptions

Judgements
In the process of applying the Group's accounting policies, management has made no significant judgements, apart from those involving estimations and assumptions, which are summarised below.

Estimates and assumptions
The key estimates and assumptions that may give rise to a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill
Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires management to prepare an entity valuation based on a fair value less costs-to-sell basis. The estimation required in the selection of the comparable company trading multiples is mitigated by the use of external professional valuers and through cross-checking against valuations based on discounted cash flows. The carrying amount of goodwill at 31 December 2006 and 2005 is £224.3m as detailed in note 13 Intangible assets.

Deferred tax assets
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised tax losses at 31 December 2006 was nil (2005: nil). The unrecognised deferred tax assets at 31 December 2006, arising from tax losses was £10m (2005: £13m) and arising from other timing differences not recognised was £6m (2005: £13m).

Pension and other post-employment benefits
The costs of and period end obligations under defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such

estimates are subject to significant uncertainty. The estimation of the present value of defined benefit obligations at 31 December 2006 is £317.2m (2005: £301.7m) and the net retirement obligations included in the Group balance sheet are £10.4m (2005: £45.6m). Further details are given in note 28 Retirement benefit obligations.

Provisions
By their nature, provisions often include significant levels of estimation by management. The nature and amount of the provisions included in the Group balance sheet of £42.3m (2005: £66.5m) are detailed in note 24 Provisions and amounts not provided for are disclosed in note 33 Contingent liabilities.

Accrued income and expenses
Accruals are based on latest available information and involve a degree of estimation. The most significant estimations relate to the accrual of performance fees. The Group's policy is to accrue 95% of the expected fee calculation on satisfaction of the recognition criteria it has established for performance fees, with the balance of 5% credited on cash settlement by the client.

The most significant expense accruals at year end relate to bonus and other variable remuneration scheme costs. These are based on a top-down review of the performance of the business, in tandem with a bottom-up assessment of the entitlements of each staff member. The outcome is independently assessed by the Remuneration Committee, chaired by Gerald Aherne, a Non-Executive Director.

Share-based payment transactions
Equity-settled share-based payments are measured at fair value at the date of grant and expensed based on the Group's estimate of shares that will eventually vest.

2.3 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 rate 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 financial assets
Gains and losses (both realised and unrealised) on financial assets measured at fair value through profit or loss are recognised in the consolidated income statement as either finance income or finance costs.

Unrealised 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, is taken through the consolidated income statement.

Realised gains and losses on financial assets are calculated as the difference between the net sales proceeds and cost or amortised cost. Unrealised gains and losses on financial assets represent the difference between the valuation of financial assets 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 financial asset 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 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 assessed by reference to an entity valuation based on a fair value less cost to sell basis, using comparable company trading multiples, cross-checked against valuations from discounted cash flows. Where the fair value of the goodwill is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of an entity or sub-group and the entity or sub-group or part thereof is disposed of, the goodwill associated with the entity or sub-group disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. 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.

Placement fees are deferred and amortised over the expected investment period of the fund. Where the actual investment period is significantly shorter than expected, the amortisation rate is accelerated accordingly.

Financial instruments
Financial assets and liabilities are recognised on the balance sheet, when the Group becomes a party to the contractual provisions of an 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 has also transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the liability is discharged.

Financial assets
Purchases and sales of financial assets 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, or available-for-sale, and are measured at subsequent reporting dates at fair value. The Group determines the classification of its financial assets on initial recognition. Financial assets classified at fair value through profit or loss comprise assets held for trading, namely the manager box positions in OEICs and unit trusts, which are managed on a fair value basis. Where securities are designated at fair value through profit or loss, gains and losses arising from changes in fair value are included in the income statement 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 the consolidated income statement for the accounting period.

Trade receivables, which generally have 30–90 day payment 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 rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. A financial liability is derecognised when the obligation under the liability has been discharged or cancelled or has expired.

Derivative financial instruments and hedging
The Group may, from time to time, use derivative financial instruments to hedge against market, foreign exchange, liquidity and credit risk.

Derivative financial instruments are classified as assets when the fair value is positive or as liabilities when the fair value is negative. Fair values are based on quoted market prices.

At the inception of a hedge, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they have been effective throughout the financial reporting periods for which they were designated.

The forward currency contracts used to hedge the currency fair value of certain Euro and US dollar denominated available-for-sale financial assets have been classified as fair value hedges. The change in the fair value of a hedging derivative is recognised in the income statement. The change in fair value of the hedged item, attributable to the risk hedged, is recorded as part of the carrying value of the hedged item and is also recognised in the income statement by way of transfer from reserves.

Any gains or losses arising from changes in the fair value of derivatives during the year that do not qualify for hedge accounting are taken directly to the consolidated income statement.

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 financial assets 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 held at cost less any permanent diminution in value 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, being the higher of an asset'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.

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.

Operating leases
All 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.

Income and sales taxes
The Group provides for 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 expenses. 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.

Plant and equipment
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 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.

Assets and liabilities included in disposal groups held for sale
Assets and liabilities are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the disposal group is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The net assets of disposal groups are measured at the lower of carrying amount and fair value less costs to sell. Fair value is determined by reference to available market data at the balance sheet date, or in the case of disposals already under negotiation, by reference to the negotiated sale price.

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 available-for-sale equity securities where the changes in fair value are recognised directly in equity and any exchange component of the change in fair value is also 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 at 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 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. The valuation methodology and assumptions are disclosed in note 11.4 Fair values of share-based compensation plans.

Equity-settled share-based payments are measured at the fair value of the equity instruments granted 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.

The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until vesting, with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

Treasury shares
Treasury shares comprise own equity shares reacquired by the Company, are recorded at cost and are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Where the sales proceeds exceed the cost of the shares, the excess is transferred to the share premium reserve.

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 or fair value received, with the excess of the amount received over the nominal value being credited to the share premium reserve. Direct issue costs net of tax are deducted from equity. When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity.

Dividend recognition
Dividend distributions to the Company's shareholders are recognised in the accounting period in which the dividends are declared and, in the case of the final dividend, when these are approved by the Company's shareholders at the AGM.

2.4 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.

2.5 Future changes in accounting policies

During the course of the year, the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), have issued a number of new accounting standards, amendments to existing standards and interpretations. The following new standards and interpretations are not applicable to these financial statements and are effective for future accounting periods. The Directors do not anticipate that the adoption of these standards will materially impact the Group's financial statements. They will, however, give rise to additional disclosures. The Group plans to apply these standards in the reporting period in which they become effective.

IFRS 7 Financial Instruments: Disclosures – effective for periods commencing on or after 1 January 2007
IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

IAS 1 Presentation of Financial Statements – effective for periods commencing on or after 1 January 2007
This amendment will require the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

IFRS 8 Operating Segments – effective for periods commencing on or after 1 January 2009
IFRS 8, which replaces IAS 14 'Segment Reporting', requires the Group's disclosures to reflect the information which management uses internally for evaluating the performance of operating segments and allocating resources to those segments.

IFRIC 11 IFRS 2 Group and Treasury Share Transactions – effective for periods commencing on or after 1 March 2007
IFRIC 11 requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled payment transaction, regardless of how the equity instruments are obtained. The interpretation also provides guidance on whether subsidiaries should account for such schemes in their own financial statements when their employees receive rights to equity instruments of the parent company. Upon adoption, this interpretation will impact disclosure in the Company's accounts and the separate accounts of the Group's subsidiaries with which equity-settled payment arrangements are contracted.

3. Income

	Group 2006 £m	Restated 2005 £m
Gross fee income and commission receivable on sales		
Gross fee income	**372.8**	283.3
Finance income		
Interest on deposits with credit institutions	**21.8**	24.7
Income from investments	**3.4**	–
Gain on fair value hedges	**1.2**	–
Translation reserve transfer relating to effectively hedged exchange losses (note 20.1)	**(1.2)**	–
	25.2	24.7
Total income	**398.0**	308.0
Commission and fees payable against income		
Amortisation of capitalised commissions	**(12.9)**	(9.7)
Other commissions and fees payable against income	**(76.8)**	(33.7)
	(89.7)	(43.4)
Net fee and commission income	**308.3**	264.6

4. Expenses

4.1 Administration costs

	Note	Group 2006 £m	2005 £m
Employee benefits expense	5.2	**145.0**	122.7
Operating lease expense		**8.6**	10.7
Investment administration		**19.2**	19.7
Information technology		**10.9**	7.4
Office expenses		**7.2**	4.9
Foreign exchange losses		**0.6**	0.1
Other expenses		**31.8**	36.0
Total administration costs		**223.3**	201.5

4.2 Other charges

	Notes	Group 2006 £m	2005 £m
Depreciation of plant and equipment	18	**2.8**	3.0
Impairment of goodwill	13	**–**	2.1
Total other charges		**2.8**	5.1

4.3 Auditors' remuneration

	Group 2006 £m	Group 2005 £m
Fees payable to the Group's auditors for the audit of the Group's annual consolidated financial statements	**0.2**	0.3
Fees payable to the Group's auditors and its associates for other services:		
– statutory audit of the Group's subsidiaries	**0.5**	0.6
– other services pursuant to legislation	**0.2**	0.3
– tax services	**0.2**	0.2
– services relating to corporate finance transactions entered into by or on behalf of the Group	**0.1**	0.1
– other services	**–**	0.2
Total services	**1.2**	1.7

The above analysis reflects the amounts billed by Ernst & Young LLP in the respective periods. Included in the fees payable to the Group's auditors for the audit of the Group's annual consolidated financial statements, are fees of £30,000 (2005: £30,000) for the audit of the Company's statutory financial statements.

5. Employee benefits

5.1 Average employee numbers

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

	Group 2006 no.	Group 2005 no.
Henderson	**867**	841
Corporate	**26**	40
Total employees	**893**	881

5.2 Analysis of employee benefits expense

Employee benefits expense for continuing operations comprises:

	Notes	Group 2006 £m	Group 2005 £m
Salaries and wages (including bonuses)		**112.7**	98.9
Share-based payments	11.2	**11.8**	6.1
Social security costs		**11.6**	6.2
Other pension costs	28	**8.9**	11.5
Total employee benefits		**145.0**	122.7

Employees' contracts of employment are with certain subsidiary companies, primarily Henderson Administration Limited; accordingly, there are no employee benefits disclosures relating to the Company.

6. Finance costs

	Group 2006 £m	2005 £m
Loan interest	–	0.6
Total finance costs	–	0.6

7. Segmental information

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 interest, property and private equity. It also manages the assets of Pearl's life funds.

Management operates 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 interest, 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 3 May 2006, the Group completed the sale of Towry Law UK and its controlled entities (Towry Law UK Group) to JS&P Holdings Limited. The results of the Towry Law UK Group have therefore been classified as discontinued operations.

Also included within discontinued operations are the profits/(losses) arising from the closure of Towry Law International, which occurred during 2004, and the Life Services business, which was sold during 2005.

8. Taxation

	Group 2006 £m	Group 2005 £m
Current income tax:		
– current year	**25.4**	29.1
– prior year	**(1.9)**	(1.6)
Deferred tax relating to:		
– temporary differences	**1.0**	(12.1)
– 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	**(13.4)**	(9.8)
Total taxation expense	**11.1**	11.5

Tax credited to equity

	Group 2006 £m	Group 2005 £m
Deferred tax	**1.4**	4.4
Total tax credited to equity	**1.4**	4.4

Reconciliation of net profit before tax at standard rate of corporate tax to tax expense

The reconciliation of the net profit before tax multiplied at 30% to the tax expense of £11.1m (2005: £11.5m) is as follows:

	Group 2006 £m	Group 2005 £m
Net profit before tax from continuing operations	**74.4**	57.4
Intra-group eliminations with discontinued operations	**–**	6.0
Net profit before tax from continuing operations – before eliminations	**74.4**	63.4
Tax at the applicable UK corporation tax rate of 30% (2005: 30%) on net profit before tax	**22.3**	19.0
Tax effect of expenses that are not deductible for tax purposes:		
– goodwill impairment	**–**	0.7
– other disallowable expenses	**3.7**	9.4
Tax effect of income that is not taxable	**–**	(0.2)
Adjustment for prior years (current and deferred)	**(1.9)**	(7.4)
Higher/(lower) tax rates on overseas earnings	**0.4**	(0.2)
Utilisation of previously unrecognised tax losses	**(13.4)**	(9.8)
Total tax expense for continuing operations	**11.1**	11.5

9. Earnings per share

Number of shares for the purpose of calculating the earnings per share:

	2006 no. (millions)	2005 no. (millions)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,102.8**	1,641.2
Dilutive potential of:		
– share options	**2.9**	3.0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,105.7**	1,644.2

Basic and diluted earnings per share have been calculated on the net profit attributable to equity shareholders. The difference of 2.9m (2005: 3.0m) 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 11 Share-based payments).

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.

9.1 From all operations

9.1.1 Earnings

	2006 £m	2005 £m
Earnings for the purposes of basic and diluted earnings per share, being net profit after tax from all operations attributable to equity holders of the parent	**61.1**	51.2

9.1.2 Earnings per share

	2006 pence	2005 pence
Basic	**5.5**	3.1
Diluted	**5.5**	3.1

9.2 From continuing operations before eliminations

9.2.1 Earnings

	2006 £m	2005 £m
Net profit attributable to equity holders of the parent	**61.1**	51.2
Adjustments to exclude net loss after tax from discontinued operations	**2.1**	4.2
Adjustments to exclude net loss after tax from discontinued operations attributable to minority interests	**–**	(3.5)
Earnings from continuing operations for the purpose of basic and diluted earnings per share	**63.2**	51.9

9.2.2 Earnings per share

	2006 pence	2005 pence
Basic	**5.7**	3.2
Diluted	**5.7**	3.2

9.3 From continuing operations after eliminations

9.3.1 Earnings

	2006 £m	2005 £m
Net profit after tax from continuing operations after eliminations	**63.2**	45.9

9.3.2 Earnings per share

	2006 pence	2005 pence
Basic	**5.7**	2.8
Diluted	**5.7**	2.8

9.4 From continuing operations before eliminations and restructuring costs

9.4.1 Earnings

	2006 £m	2005 £m
Net profit after tax from continuing operations after eliminations	**63.2**	45.9
Restructuring costs, after tax at the effective rate of taxation	**6.6**	–
Net profit after tax from continuing operations after eliminations and excluding restructuring costs	**69.8**	45.9

9.4.2 Earnings per share

	2006 pence	2005 pence
Basic	**6.3**	3.2
Diluted	**6.3**	3.2

9.5 From discontinued operations

9.5.1 Earnings

	2006 £m	2005 £m
Net (loss)/profit after tax from discontinued operations	**(2.1)**	1.8
Adjustments to exclude net loss/(profit) from discontinued operations attributable to minority interests	**–**	3.5
Net (loss)/profit after tax from discontinued operations	**(2.1)**	5.3

9.5.2 Earnings per share

	2006 pence	2005 pence
Basic	**(0.2)**	0.3
Diluted	**(0.2)**	0.3

10. Directors’ emoluments

This information is included in the Report on Directors’ Remuneration commencing on page 23.

11. Share-based payments

11.1 Group share-based compensation plans

The following share-based compensation plans were in operation during 2006.

Sharesave Scheme (SAYE)
A second Sharesave scheme (2006 SAYE) was introduced during the year to supplement the original plan introduced in 2004 (2004 SAYE). Employees may participate in more than one scheme up to the maximum of £250 per month.

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 in the 2006 SAYE can choose to exercise their share options using the funds in their account, together with a bonus, equivalent to 1.4 (2004 SAYE: 1.7) times the monthly saving amount, to subscribe for shares at a preset price, this being £0.696 (2004 SAYE: £0.416) per share, a 20% discount to the share price on 5 April 2006 (2004 SAYE: 2 April 2004). The 2006 SAYE vests in May 2009 (2004 SAYE: 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 approved and unapproved 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, which is deducted from their gross salary. From inception of the plan, each participating employee received, for no additional payment, one free matching share for each share purchased (partnership share). In the months of January 2005 and February 2005 and then from April 2006, to further the aim of increasing employee share ownership, the matching share ratio increased from 1:1 to 2:1. 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 three grants, being in 2004, 2005 and 2006. 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) compares favourably to the median of companies that made up the FTSE 250 Index as at 1 January 2004 for 2004 awards, 1 January 2005 for 2005 awards and 1 January 2006 for the 2006 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, nor are they allowed to pledge, hedge or assign the expected awards in any way.

Following the sale of Towry Law UK, which completed on 3 May 2006, 37% of the remaining element of the initial awards granted to Towry Law employees crystallised and the remaining 63% lapsed.

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

Restricted Share Plan (RSP)
The Restricted Share Plan is a scheme that allows employees to receive shares in Henderson Group plc for nil consideration at a future point, usually three years. The awards are made typically for staff recruitment and retention purposes. They may or may not contain a performance hurdle, and are expensed evenly over the vesting period. The Remuneration Committee must approve all awards and the vesting of awards. On vesting, in order to obtain the shares, the employee must satisfy any tax and national insurance obligations.

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. 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.

Hedge-fund deferrals are deferred into the hedge fund that provided the performance fee that generated the award. Hedge-fund deferrals are held in trust for two years on a fully restricted basis. Forfeiture conditions apply in the case of approved and unapproved leavers. Deferrals into Henderson Group plc shares are 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. There is no matching element for hedge-fund deferrals.

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 approved and unapproved 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. The plan was offered again in 2006 on exactly the same basis except employees must remain in the plan until June 2009. Forfeiture conditions apply in the case of approved and unapproved leavers.

11.2 Share-based payments through the income statement

	Group 2006 £m	Group 2005 £m
Sharesave Scheme	**0.5**	0.2
SIP	**1.4**	0.1
LTIP	**3.3**	1.5
RSP	**2.8**	2.1
DEP	**1.1**	2.0
ESOP	**2.7**	0.4
Total expense	**11.8**	6.3

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

	Group 2006 £m	Group 2005 £m
Continuing operations	**11.8**	6.1
Discontinued operations	**–**	0.2
Total expense	**11.8**	6.3

The total expense can be analysed between:

	Note	Group 2006 £m	Group 2005 £m
Amount which is to be settled with equity	21.1	**15.1**	6.2
Equity settled performance fee bonuses recognised within 'commissions and fees payable against income'		**(5.5)**	–
		9.6	6.2
Amount which is to be settled in cash		**2.2**	0.1
		11.8	6.3

11.3 Share options outstanding – Sharesave Scheme

Share options outstanding under the Group's Sharesave compensation plan are as follows:

	2006 Options no.	2006 Weighted average exercise price £	2005 Options no.	2005 Weighted average exercise price £
At 1 January	**5,627,897**	**0.416**	10,500,505	0.416
Granted	**1,622,553**	**0.632**	–	–
Exercised (note 19.2)	**(1,275,451)**	**0.416**	(1,465,613)	0.416
Forfeited	**(1,005,770)**	**0.440**	(3,406,995)	0.416
At 31 December	**4,969,229**	**0.482**	5,627,897	0.416

The weighted average share price on the date options were exercised during 2006 was £0.98 (2005: £0.64).

There are no options exercisable at 31 December 2006 (2005: nil).

The weighted average fair value of options granted during 2006 was £0.24. There were no options granted during 2005.

At 31 December 2006, the weighted average remaining expected and contractual life of outstanding awards was 1.0 year (2005: 1.4 years).

11.4 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:

	2004 SAYE	2006 SAYE
Dividend yield	nil%	3.5%
Expected volatility	47.4%	45.0%
Risk free interest rate	4.6%	4.25%
Expected life	3 years	3 years
Weighted average share price	£0.475	£0.790
Exercise price	£0.416	£0.632

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	2,698,125	0.89
LTIP	9,263,500	0.83
RSP	2,295,756	0.98
DEP	6,360,000	0.77
ESOP	6,202,934	0.92

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.

12. Dividends paid and proposed

	Group and Company			
	2006 £m	2006 pence per share	2005 £m	2005 pence per share
Dividends declared and paid, on ordinary shares of 10 pence each:				
Final dividend for 2005	**16.1**	**1.39**	–	–
Interim dividend for 2006	**10.1**	**0.88**	–	–
Total dividends paid	**26.2**		–	
Dividends proposed but not recognised, on ordinary shares of 10 pence each, for approval by the shareholders at the AGM:				
Final dividend for 2006	**20.5**	**2.27**		

13. Intangible assets

Intangible assets are made up as follows:

	Group 2006 £m	Group 2005 £m
Goodwill	**224.3**	224.3

	Notes	Group 2006 £m	Group 2005 £m
Gross amount			
At 1 January		**226.4**	335.0
Disposal of Pradera AM plc		**–**	(1.1)
Attributable to assets included in disposal groups held for sale	44.1	**–**	(107.5)
At 31 December		**226.4**	226.4
Aggregate impairment			
At 1 January		**2.1**	86.0
Impairment losses – continuing operations		**–**	2.1
Attributable to assets included in disposal groups held for sale	44.1	**–**	(86.0)
At 31 December		**2.1**	2.1
Carrying value			
At 1 January		**224.3**	249.0
At 31 December		**224.3**	224.3

The carrying amount of goodwill arose on acquisition of the following:

	Group 2006 £m	Group 2005 £m
Henderson Global Investors (Holdings) plc	**217.5**	217.5
Henderson Global Investors (Northern America) Inc.	**6.8**	6.8
	224.3	224.3

The Group undertakes a full review of all goodwill balances at least annually. The valuation as at 31 December 2006 is based on the average earnings before interest, tax, depreciation and amortisation (EBITDA) of selected traditional UK asset management companies. The key variable in the market valuation is the Company share price. In order for the recoverable amount to fall below its carrying amount, a substantial decrease in the current market value is required.

The principal carrying amount of goodwill arising from the original purchase of Henderson, allocated to Henderson Global Investors (Holdings) plc, remains unchanged at £217.5m as at the year end. A further £6.8m sits within the Henderson Global Investors group in relation to the purchase of Henderson Global Investors (North America) property business. These balances were assessed at 31 December 2006 and there are no indicators of any impairment.

The loss of a number of institutional client contracts in the US in 2005 prompted an impairment review that determined the need to write off the remaining £2.1m held as goodwill in relation to the US institutional business at 31 December 2005.

14. Fair value of financial instruments

Total financial assets and liabilities

		Group			
		Fair value		Carrying value	
	Notes	2006 £m	2005 £m	2006 £m	2005 £m
Financial assets					
Shares/units in OEICs/unit trusts		**0.2**	0.5	**0.2**	0.5
Financial assets at fair value through profit or loss		**0.2**	0.5	**0.2**	0.5
Available-for-sale financial assets		**112.2**	96.7	**112.2**	96.7
OEIC, unit trust and other trade debtors and derivatives	17	**96.4**	44.1	**96.4**	44.1
Cash and cash equivalents	27.2	**309.1**	487.5	**309.1**	487.5
Total financial assets		**517.9**	628.8	**517.9**	628.8
Financial liabilities					
Current tax liabilities		**35.0**	27.8	**35.0**	27.8
Provisions under contractual obligations		**13.6**	15.1	**13.6**	15.1
OEIC, unit trust and other trade creditors	23	**112.4**	75.4	**112.4**	75.4
Total financial liabilities		**161.0**	118.3	**161.0**	118.3

		Company			
		Fair value		Carrying value	
	Notes	2006 £m	2005 £m	2006 £m	2005 £m
Financial assets					
Current tax assets		**18.3**	21.7	**18.3**	21.7
Cash and cash equivalents	27.3	**110.1**	258.9	**110.1**	258.9
Total financial assets		**128.4**	280.6	**128.4**	280.6
Financial liabilities					
Borrowings	16	**970.3**	971.9	**970.3**	971.9
Other trade creditors	23	**9.9**	16.9	**9.9**	16.9
Total financial liabilities		**980.2**	988.8	**980.2**	988.8

Debtor and creditor balances, included in the tables above, comprise mainly current balances and accordingly the fair value of these assets and liabilities is considered to be materially equal to the carrying value after taking into consideration any likely impairments.

15. 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, and 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 price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. Each of these risks is discussed in detail below. As the Group monitors financial risks on a consolidated basis, separate disclosures for the Company are not considered meaningful and have been excluded.

The Group has designed a framework to manage the risks of its business and to 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.

15.1 Price risk

Price 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 reduction 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 with a market value as at 31 December 2006 of £81.4m (2005: £62.4m).

The Group also takes on price 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. It is not usually possible or appropriate to hedge the market exposure of seed investments, as they are typically in place to demonstrate alignment with client interests. The total market value of these investments at 31 December 2006 was £30.1m (2005: £34.3m).

Management monitors exposures to price risk for corporate investments on an ongoing basis. Movements in significant investments are monitored daily and any material change in value (5%) is acted on appropriately. When considering whether to hedge the price 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 price risk at the year end.

In the very limited circumstances in which the Group enters into market transactions as principal for a client, caps are placed on the extent of any intra-day and close of business exposures.

15.2 Interest rate risk

Interest rate risk is the risk that the Group will sustain losses from adverse movements in interest bearing assets. The Group does not currently hold any fixed income investments and its fixed rate deposits have maturities of 90 days or less. There is an exposure to interest rates on banking deposits held in the ordinary course of business, which is continually monitored to ensure that the Group is maximising its interest earning potential within accepted liquidity and credit constraints.

15.2.1 Effective interest rates

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

	Group	
	2006 **%**	**2005** **%**
Financial assets		
Deposits with credit institutions	**4.6**	4.6

15.2.2 Financial assets and liabilities exposed to fair value and cash flow interest rate risk

At 31 December 2006

	Group			
	Fixed rate £m	Floating rate £m	Not directly exposed to interest rate risk £m	Total £m
Financial assets				
Shares/units in OEICs/unit trusts	–	–	0.2	0.2
Available-for-sale financial assets	–	–	112.2	112.2
OEIC, unit trust and other trade debtors and derivatives	–	–	96.4	96.4
Cash and cash equivalents	–	309.1	–	309.1
Total financial assets	–	309.1	208.8	517.9
Financial liabilities				
Current tax liabilities	–	–	35.0	35.0
Provisions under contractual obligations	–	–	13.6	13.6
OEIC, unit trust and other trade creditors	–	–	112.4	112.4
Total financial liabilities	–	–	161.0	161.0

At 31 December 2005

	Group			
	Fixed rate £m	Floating rate £m	Not directly exposed to interest rate risk £m	Total £m
Financial assets				
Shares/units in OEICs/unit trusts	–	–	0.5	0.5
Available-for-sale financial assets	–	–	96.7	96.7
OEIC, unit trust and other trade 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 trade creditors	–	–	75.4	75.4
Total financial liabilities	–	–	118.3	118.3

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.

15.3 Liquidity risk

The Group is exposed to liquidity risk, namely that it may be unable to meet its payment obligations as they fall due.

The liquidity of the Group is managed on a daily basis by the Group Finance department, to ensure that the Group always has sufficient cash and/or highly liquid assets available to meet its liabilities. The Group Finance department also monitors and controls the use of the Group's non-operating capital resources. It is the Group's policy to ensure that it has access to funds to cover all forecast commitments for the next 18 months.

Dedicated personnel are responsible for external market and liquidity reporting as required by the regulatory authorities.

Contractual maturity and repricing profile by class of financial asset and liability

At 31 December 2006

	Group							
	1 year or less £m	After 1 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								
Shares/units in OEICs/unit trusts	–	–	–	–	–	–	0.2	0.2
Available-for-sale financial assets	–	–	–	–	–	–	112.2	112.2
OEIC, unit trust and other trade debtors	96.4	–	–	–	–	–	–	96.4
Cash and cash equivalents	309.1	–	–	–	–	–	–	309.1
Total financial assets	405.5	–	–	–	–	–	112.4	517.9
Financial liabilities								
Current tax liabilities	35.0	–	–	–	–	–	–	35.0
Provisions under contractual obligations	–	8.0	–	–	–	–	5.6	13.6
OEIC, unit trust and other trade creditors	112.4	–	–	–	–	–	–	112.4
Total financial liabilities	147.4	8.0	–	–	–	–	5.6	161.0

At 31 December 2005

	Group							
	1 year or less £m	After 1 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								
Shares/units in OEICs/unit trusts	–	–	–	–	–	–	0.5	0.5
Available-for-sale financial assets	–	–	–	–	–	–	96.7	96.7
OEIC, unit trust and other trade 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 trade creditors	75.4	–	–	–	–	–	–	75.4
Total financial liabilities	103.2	–	8.0	–	–	–	7.1	118.3

15.4 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-sterling income and expenses and assets and liabilities of non-UK subsidiaries as well as assets and liabilities denominated in currency other than sterling. The currency exposure is managed by limiting the Group's net exposure to individual foreign currencies to pre-determined limits through forward currency contracts. The Group also uses foreign currency contracts to eliminate the currency exposure on certain individual transactions. In addition, the Group carries a small foreign exchange position as principal to facilitate the smooth conduct of its client business.

A rolling programme of forward currency contracts has been implemented to hedge the currency exposures arising from investments in Banca Popolare Italiana and the Henderson North American Property Fund, with year end market values of €120.8m and US$29.0m respectively (see note 15.6 Hedging activities).

Foreign currency risk is managed by Group Finance (incorporating Treasury operations), whereby foreign currency balances are monitored closely and, where cost-effective, hedging options are considered. Firstly, the Group seeks to use natural hedges, namely other financial assets and liabilities of opposite value denominated in the same currency. Where there is a mismatch, material currency flows which are reasonably certain are hedged. Where there is insufficient certainty the currency is translated back into sterling on receipt.

15.5 Credit risk

The Group has an established credit policy, to ensure that it only trades with counterparties that are able to meet strict minimum rating requirements at levels that are consistent with its agreed risk appetite. Counterparty limits are reviewed and set centrally by the Credit Risk Committee. Local management is responsible for ensuring that they remain within these limits and Risk Management Services monitor and report any exceptions to these guidelines.

The risk management function is responsible for reporting exposures to the Audit Committee on a quarterly basis and for ensuring that any credit concerns are raised and actions taken to mitigate these risks.

At 31 December 2006

	Group							
	AAA £m	**AA £m**	**A £m**	**BBB £m**	**BB £m**	**B £m**	**Not rated £m**	**Total £m**
Financial assets								
Shares/units in OEICs/unit trusts	–	–	–	–	–	–	0.2	0.2
Available-for-sale financial assets	–	–	–	–	–	–	112.2	112.2
OEIC, unit trust, trade debtors and derivatives	–	–	–	–	–	–	96.4	96.4
Cash and cash equivalents	82.9	182.9	43.0	0.3	–	–	–	309.1
Total financial assets	82.9	182.9	43.0	0.3	–	–	208.8	517.9

At 31 December 2005

	Group							
	AAA £m	**AA £m**	**A £m**	**BBB £m**	**BB £m**	**B £m**	**Not rated £m**	**Total £m**
Financial assets								
Shares/units in OEICs/unit trusts	–	–	–	–	–	–	0.5	0.5
Available-for-sale financial assets	–	–	–	–	–	–	96.7	96.7
OEIC, unit trust and other trade 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	1.0	–	–	141.3	628.8

15.6 Hedging activities

At 31 December 2006, the Group held two forward exchange contracts to hedge the foreign currency risk arising from the investment in Euro and US dollar denominated shareholdings described in note 15.4 Foreign currency risk.

The forward exchange contracts were assessed to be effective fair value hedges and the net realised/unrealised gain for the year of £1.2m has been included in the consolidated income statement. An equivalent amount of £1.2m, being the portion of the unrealised foreign exchange loss on available-for-sale investments relating to the hedge, has been transferred from the translation reserve on the balance sheet to the consolidated income statement (see note 20.1 Reserves – Group).

	Group					
	2006			2005		
	Notional amount £m	**Assets £m**	**Liabilities £m**	**Notional amount £m**	**Assets £m**	**Liabilities £m**
Fair value hedges						
Forward exchange contracts at fair value	**58.9**	**0.2**	**–**	45.0	0.3	–

16. Borrowings

	Company 2006 £m	Company 2005 £m
Loans from subsidiaries – due within one year	**970.3**	971.9

Of the borrowings of £970.3m (2005: £971.9m) shown above, £963.7m (2005: £963.7m) is charged at a floating rate linked to LIBOR (three to six months) and £6.6m (2005: £8.2m) is interest-free. The borrowings are all repayable on demand.

17. Trade and other receivables

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Amounts owed from subsidiaries	**–**	–	**223.2**	11.9
OEIC and unit trust debtors	**82.2**	22.9	**–**	–
Derivative financial instruments	**0.2**	–	**–**	–
Accrued income	**54.8**	44.8	**0.4**	1.7
Other trade debtors	**14.0**	21.2	**–**	0.2
Prepayments	**5.2**	6.8	**–**	–
	156.4	95.7	**223.6**	13.8

18. Plant and equipment

	Group 2006 £m	Group 2005 £m
Cost		
At 1 January	**39.9**	38.3
Additions	**1.1**	2.1
Disposals	**(0.6)**	(0.5)
At 31 December	**40.4**	39.9
Depreciation		
At 1 January	**31.6**	28.6
Charge for the year	**2.8**	3.0
Disposals	**(0.6)**	–
At 31 December	**33.8**	31.6
Net book value at 31 December	**6.6**	8.3

Included in cost as at 31 December 2006 are fully depreciated assets amounting to £24.3m.

19. Share capital

19.1 Share capital authorised

	Group and Company 2006 £m	2005 £m
2,437,388,471 (2005: 2,691,596,579) ordinary shares of 10 pence each	**243.7**	269.2

19.2 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 2005	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
Capital reduction	(254,208,108)	(25.4)
Issue of shares for Sharesave Scheme	1,275,451	0.1
Issue of shares for SIP	424,094	–
Other shares issued in the year	91	–
Shares in issue at 31 December 2006	902,004,831	90.2

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.

UK Court approval was received on 4 October 2006 for the cancellation of shares and reduction of the share premium reserve. Under this transaction, £198,282,324 was returned to shareholders in exchange for the cancellation of 254,208,108 shares. The return of cash reduced the share capital by £25.4m and the share premium reserve by £172.9m.

Following the disposal of the Life Services business, £870.5m was returned to shareholders on 6 May 2005, in exchange for the cancellation of 1,558,403,466 shares. This return of cash reduced share capital by £155.8m and the share premium reserve by £714.7m.

During 2006, the Company issued 1,275,451 (2005: 1,465,613) shares of 10 pence each to certain employees leaving the Group under the Sharesave Scheme (see note 11 Share-based payments) for an aggregate consideration of £531,192 (2005: £609,695). During 2006, the Company also issued 424,094 (2005: 888,436) shares of 10 pence each to the employee benefit trust administering the SIP (see note 11 Share-based payments) for an aggregate consideration of £355,402 (2005: £561,522).

20. Reserves

20.1 Group

	Share premium £m	Treasury shares £m	Own shares held £m	Translation £m	Revaluation £m	Profit and loss £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 Sharesave Scheme	0.5	–	–	–	–	–	–
Issue of shares for SIP	0.5	–	–	–	–	(0.6)	–
Transfer of reserve	–	–	6.2	–	–	(6.2)	–
Movement in equity-settled share scheme expenses	–	–	–	–	–	6.2	–
Net profit/(loss) after tax	–	–	–	–	–	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	–
Exchange differences on translation of foreign operations	–	–	–	(0.6)	–	–	–
Translation reserve transfer on sale of available-for-sale financial assets	–	–	–	0.4	–	–	–
Purchase of own shares	–	(2.4)	(28.8)	–	–	–	–
Return of cash to shareholders	(174.2)	0.5	–	–	–	–	–
Issue of shares for Sharesave Scheme	0.4	–	–	–	–	–	–
Issue of shares for SIP	0.3	–	–	–	–	(0.3)	–
Transfer of reserve	–	–	3.0	–	–	(3.0)	–
Movement in equity-settled share scheme expenses	–	–	–	–	–	15.1	–
Net profit after tax	–	–	–	–	–	61.1	0.1
Dividends paid to equity holders	–	–	–	–	–	(26.2)	–
(Losses)/gains on revaluation of available-for-sale financial assets	–	–	–	(2.4)	32.9	–	–
Translation reserve transfer relating to effectively hedged exchange losses	–	–	–	1.2	–	–	–
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(4.7)	–
Tax on items taken directly to equity	–	–	–	–	–	1.4	–
Other movements	–	–	–	–	–	0.3	–
At 31 December 2006	193.7	(1.9)	(29.9)	(4.8)	29.9	218.6	0.1

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. The deduction for return of cash to shareholders in the current year comprises the difference between the agreed cancellation price of 78 pence per share and the nominal share value of 10 pence per share, and includes £1.3m of related costs (see note 19 Share capital).

Treasury shares represent shares purchased to satisfy future vesting requirements of various staff share-based payment schemes. During the year, 3,041,537 shares were purchased for a consideration of £2.4m.

Own shares held reserve includes 24,822,098 (2005: 6,628,423) shares owned by Henderson Employee Trust 2000 and 7,345,370 (2005: nil) shares owned by HHG PLC Employee Trust 2004 at 31 December 2006. The combined shareholdings had a cost of £29.9m (2005: £4.1m) and a market value of £44.4m (2005: £4.9m) as at 31 December 2006 and constituted 3.6% (2005: 0.6%) of the Company's allotted share capital as at that date.

The HHG PLC Employee Trust 2004, SIP and Henderson Employee 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 is made between the own shares held reserve and the profit and loss reserve. During the year, equity-settled share scheme costs 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 accounts.

The translation reserve comprises differences on exchange arising from the translation of opening balance sheets of subsidiaries whose reporting currency is not pounds sterling and 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.

The revaluation reserve comprises the amount of any gain or loss recognised directly in equity in relation to available-for-sale financial assets. Upon disposal of these assets, amounts previously recognised in the translation or revaluation reserves are reversed out and the full amount of the gain or loss is taken to the profit and loss account.

20.2 Company

	Share premium £m	Treasury shares £m	Own shares held £m	Profit and loss reserve £m
At 1 January 2005	1,080.9	–	(2.3)	328.1
Issue of shares for Sharesave Scheme	0.5	–	–	–
Issue of shares for SIP	0.5	–	–	(0.6)
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
Purchase of own shares	–	(2.4)	(28.8)	–
Transfer of own shares from subsidiary company	–	–	(4.1)	1.5
Return of cash to shareholders	(174.2)	0.5	–	–
Issue of shares for Sharesave Scheme	0.4	–	–	–
Issue of shares for SIP	0.3	–	–	(0.3)
Transfer of shares	–	–	3.0	(3.0)
Movement in equity-settled share scheme expenses	–	–	–	15.1
Net profit attributable to equity shareholders	–	–	–	100.7
Dividends paid to equity holders	–	–	–	(26.2)
Actuarial losses on defined benefit pension schemes	–	–	–	(7.6)
Tax on items taken directly to equity	–	–	–	2.3
At 31 December 2006	193.7	(1.9)	(29.9)	414.6

Own shares held reserve of the Company includes 24,822,098 (2005: nil) shares owned by Henderson Employee Trust 2000 and 7,345,370 (2005: nil) shares owned by HHG PLC Employee Trust 2004 at 31 December 2006. In 2005, these were held by another subsidiary, but were transferred to the Company in 2006. The combined shareholdings had a cost of £29.9m (2005: nil) and a market value of £44.4m (2005: nil) as at 31 December 2006 and constituted 3.6% (2005: nil) of the Company's allotted share capital as at that date.

Prior to 31 December 2006, the retirement benefit obligation relating to the Henderson Group Pension Scheme was transferred to the Company, from Henderson Administration Limited, as detailed in note 28.1 Henderson Group Pension Scheme. The actuarial loss in the Company's statement of recognised income and expense of £7.6m reflects movements in the Scheme obligation subsequent to its transfer date.

21. Reconciliation of movement in equity

21.1 Group

	2006 £m	2005 £m
Equity at 1 January	**647.1**	1,892.3
Total recognised income and expense attributable to equity holders of the parent	**89.3**	42.2
Dividends paid to equity holders	**(26.2)**	–
Return of cash to shareholders	**(199.6)**	(775.3)
Reduction in investor base	**–**	(95.2)
Purchase of own shares	**(28.8)**	(6.3)
Purchase of treasury shares	**(1.9)**	–
Issue of shares for the Sharesave Scheme	**0.5**	0.6
Movement in equity-settled share scheme expenses	**15.1**	6.2
Other movements	**0.3**	(0.1)
Movement in minority interests	**0.1**	(417.3)
Equity at 31 December	**495.9**	647.1

21.2 Company

	2006 £m	2005 £m
Equity at 1 January	**814.8**	1,677.8
Total recognised income and expense	**95.4**	6.4
Dividends paid to equity holders	**(26.2)**	–
Return of cash to shareholders	**(199.6)**	(775.3)
Reduction in investor base	**–**	(95.2)
Movement in equity-settled share scheme expenses	**15.1**	6.8
Purchase of own shares	**(28.8)**	(6.3)
Purchase of treasury shares	**(1.9)**	–
Transfer of own shares from a subsidiary company	**(2.6)**	–
Issue of shares for the Sharesave Scheme	**0.5**	0.6
Equity at 31 December	**666.7**	814.8

22. Deferred taxation

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

Group

Deferred tax assets	Accelerated (profit)/loss recognition £m	Provisions £m	Accelerated depreciation £m	Total £m
At 1 January 2005	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
Charged to the consolidated income statement	–	(0.8)	(0.2)	(1.0)
Credited to equity through the SORIE	–	1.4	–	1.4
At 31 December 2006	–	12.4	0.8	13.2

Deferred tax liabilities	Accelerated profit recognition £m
At 1 January 2005	7.9
(Credited) to the consolidated income statement	(7.9)
At 31 December 2005 and 31 December 2006	–
Net deferred tax asset at 31 December 2005	12.8
Net deferred tax asset at 31 December 2006	13.2

Company

Deferred tax assets	Provisions £m
At 1 January 2006	–
Credited to equity through the SORIE	2.3
At 31 December 2006	2.3

Deferred tax receivables to be recovered:

	Group £m	Company £m
At 31 December 2006		
Amounts to be recovered in less than 12 months	3.9	–
Amounts to be recovered in more than 12 months	9.3	2.3
	13.2	2.3
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	–

Deferred tax assets are recognised only to the extent that the realisation of the related tax benefit is probable.

Group
Deferred tax assets of £10m (2005: £13m) in respect of trading losses and £6m (2005: £13m) in respect of provisions and other timing differences have not been recognised. These tax losses have no statutory expiry dates.

The unprovided deferred tax liability in respect of unremitted profits of foreign subsidiaries amounted to £nil (2005: £8m).

Company
Deferred tax assets of £6m (2005: £6m) in respect of trading losses and £4m (2005: £5m) in respect of capital losses have not been recognised. These tax losses have no statutory expiry dates.

23. Trade and other payables

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Amounts owed to subsidiaries	**–**	–	**1,141.4**	1,133.7
OEIC and unit trust creditors	**82.7**	39.7	**–**	–
Other creditors	**29.7**	35.7	**9.9**	16.9
Accruals	**119.7**	88.5	**7.9**	1.2
	232.1	163.9	**1,159.2**	1,151.8

At 31 December 2006 and 31 December 2005, all Group and Company trade and other payables related to amounts to be settled within 12 months.

24. Provisions

24.1 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
Additions	6.1	2.6	1.4	–	3.6	13.7
Provisions utilised	(3.9)	(3.1)	(25.7)	–	(1.1)	(33.8)
Provisions released	(0.3)	(1.1)	–	–	(2.7)	(4.1)
At 31 December 2006	6.5	5.6	16.0	0.8	13.4	42.3

The restructure provision additions of £6.1m are in respect of specific redundancy and other related costs of the business restructure that took place in November 2006. It is expected that most of the provision will be utilised in 2007. The prior year additional restructure provision of £4.5m, which was included within the results of discontinued operations, comprised the closure of Towry Law International and was substantially utilised in 2006.

The leasehold properties provision was made for 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 current year additions of £2.6m, include £1.7m in respect of the business restructure in November 2006. The balance is expected to be utilised over the next five years.

The product mis-selling provision includes a provision of £14.9m (2005: £39.6m) relating to possible claims arising from alleged inappropriate advice given to certain Towry Law International customers. The matters relating to this provision are expected to be settled within the next four years. Further information is disclosed in note 33 Contingent liabilities.

The staff-related provision includes £0.7m (2005: £0.7m) for long-term staff benefits, expected to be paid over the next ten years.

Other provisions include £8.0m (2005: £8.0m) for obligations under various sale contracts which are expected to crystallise within the next two years. A further £2.2m (2005: £nil) represents potential VAT rebates to certain investment trust clients, subject to the outcome of an industry test case in the European Court of Justice.

24.2 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
Provisions utilised	–	(0.1)	(0.2)	(0.3)
At 31 December 2006	–	14.9	–	14.9

The provisions set out in respect of the Company form part of the analysis of the Group provisions referred to above.

25. Leases

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:

	2006 £m	2005 £m
Within one year	**9.8**	12.4
In the second to fifth years inclusive	**33.6**	37.2
In more than five years	**–**	8.4
Total	**43.4**	58.0

The total future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date were £1.1m (2005: £3.8m).

Contingent rent recognised as an expense during the year was £nil (2005: £nil).

There are no operating leases held by the Company (2005: nil).

26. Capital commitments

The Group and Company have no capital commitments for settlement after 31 December 2006 (2005: £nil).

27. Notes to the cash flow statement

27.1 Group changes in operating assets and liabilities

	2006 £m	2005 £m
Decrease in insurance liabilities	**–**	(416.6)
Decrease in reinsurance assets	**–**	2.2
Decrease in investment contract liabilities	**–**	(11.8)
Decrease in other intangible assets	**–**	4.5
Decrease in holdings in OEICs/unit trusts	**0.3**	–
Increase in deferred acquisition costs	**(19.5)**	(19.4)
(Increase)/decrease in other assets	**(60.7)**	88.4
Increase in net assets of discontinued operations up to date of sale	**(0.3)**	–
Increase in deferred income	**23.6**	–
Increase/(decrease) in provisions and other liabilities	**44.2**	(87.0)
Changes in operating assets and liabilities	**(12.4)**	(439.7)

27.2 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.

Included within cash and cash equivalents as at 31 December 2006, is £19.1m (2005: £28.8m) held in escrow which is not immediately available for use in the business.

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

	2006 £m	2005 £m
Cash at bank and in hand	**186.7**	154.2
Cash equivalents	**122.4**	342.3
	309.1	496.5

Which are recognised in the consolidated balance sheet as:

	Note	2006 £m	2005 £m
Cash and cash equivalents		**309.1**	487.5
Assets included in disposal groups held for sale	35.3	**–**	9.0
		309.1	496.5

27.3 Company cash and cash equivalents

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

	2006 £m	2005 £m
Cash at bank and in hand	**48.1**	22.3
Cash equivalents	**62.0**	236.6
	110.1	258.9

28. Retirement benefit obligations

Retirement benefit obligations recognised in the consolidated balance sheet

	Notes	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Henderson Group Pension Scheme	28.1	**5.0**	40.1	**5.0**	–
Henderson Group unapproved pension schemes	28.2	**5.4**	5.5	**–**	–
		10.4	45.6	**5.0**	–

Pension expense recognised in the consolidated income statement

	Notes	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Henderson Group Pension Scheme	28.1	**3.9**	5.8	**–**	–
Henderson Group unapproved pension schemes	28.2	**0.6**	0.9	**–**	–
Money Purchase Scheme		**4.4**	4.8	**–**	–
		8.9	11.5	**–**	–

Amounts recognised in the consolidated statement of recognised income and expense

	Notes	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Henderson Group Pension Scheme	28.1	**5.2**	12.7	**7.6**	–
Henderson Group unapproved pension schemes	28.2	**(0.5)**	(1.9)	**–**	–
Actuarial loss recognised in the SORIE		**4.7**	10.8	**7.6**	–

28.1 Henderson Group Pension Scheme

As at 31 December 2006, the Group operated one approved pension scheme, the Henderson Group Pension Scheme (Scheme), for its employees. 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 LLP.

As a consequence of the sale of the Life Services business in 2005, the Scheme received a past service cost 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 assumptions used for the 2006 IAS 19 disclosures have been based on the full valuation of the Henderson Group Pension Scheme at 31 December 2005 (assumptions used for the 2005 disclosures were based on the HHG Staff Pension Scheme actuarial valuation at 31 December 2003), updated by Watson Wyatt LLP in order to assess the assets and liabilities of the Scheme at 31 December 2006 and 31 December 2005 respectively. The Scheme assets are stated at their fair value at 31 December 2006 and 31 December 2005.

Prior to 31 December 2006, the Scheme's Statement of Funding Principles was renewed with Henderson Group plc (previously sponsored by Henderson Administration Limited). As at that date the Scheme's net assets of £2.6m were transferred from Henderson Administration Limited to Henderson Group plc and the net liability as at 31 December 2006 of £5.0m reflected in the Company balance sheet is in line with the Group position. The actuarial loss in the Company's statement of recognised income and expense of £7.6m reflects movements in the Scheme obligation subsequent to its transfer date.

Reconciliation of present value of defined benefit obligations

	Group		Company	
	2006 £m	**2005 £m**	**2006 £m**	**2005 £m**
At 1 January	**296.2**	1,851.0	**–**	–
Present value attributable to disposal groups	**–**	(1,601.2)	**–**	–
Current service cost	**5.9**	6.5	**–**	–
Interest cost	**13.8**	13.1	**–**	–
Employee contributions	**0.1**	0.1	**–**	–
Past service cost	**0.3**	0.3	**–**	–
Defined benefit obligation transferred from subsidiary	**–**	–	**302.0**	–
Actuarial loss	**1.5**	31.6	**9.8**	–
Actual benefit payments	**(6.0)**	(5.2)	**–**	–
At 31 December	**311.8**	296.2	**311.8**	–

Reconciliation of the fair value of defined benefit scheme assets

	Group		Company	
	2006 £m	**2005 £m**	**2006 £m**	**2005 £m**
At 1 January	**256.1**	1,785.0	**–**	–
Fair value of Scheme assets attributable to disposal groups	**–**	(1,562.2)	**–**	–
Expected return on Scheme assets	**16.1**	14.1	**–**	–
Defined benefit scheme assets transferred from subsidiary	**–**	–	**304.6**	–
Actuarial (loss)/gain	**(3.7)**	18.9	**2.2**	–
Company contributions	**44.2**	5.4	**–**	–
Employee contributions	**0.1**	0.1	**–**	–
Benefits paid from Scheme	**(6.0)**	(5.2)	**–**	–
At 31 December	**306.8**	256.1	**306.8**	–

The Group contributions of £44.2m include a special contribution of £40.0m paid to the Scheme to reduce the defined benefit liability.

Reconciliation of defined benefit liability

	Group		Company	
	2006 £m	**2005 £m**	**2006 £m**	**2005 £m**
Present value of defined benefit obligation	**311.8**	296.2	**311.8**	–
Fair value of Scheme assets	**(306.8)**	(256.1)	**(306.8)**	–
Net liability at 31 December	**5.0**	40.1	**5.0**	–

Pension expense recognised in the consolidated income statement

	Group		Company	
	2006 £m	**2005 £m**	**2006 £m**	**2005 £m**
Current service cost – final salary	**5.9**	6.5	**–**	–
Interest cost	**13.8**	13.1	**–**	–
Expected return on Scheme assets	**(16.1)**	(14.1)	**–**	–
Past service cost	**0.3**	0.3	**–**	–
Total pension expense – defined benefit scheme	**3.9**	5.8	**–**	–

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

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	**16.5**	24.0	**–**	–
Attributable to disposal groups	**–**	(20.2)	**–**	–
Actuarial loss recognised in the SORIE	**5.2**	12.7	**7.6**	–
At 31 December	**21.7**	16.5	**7.6**	–

Movements in net liability recognised in the consolidated balance sheet

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	**40.1**	66.0	**–**	–
Net liability attributable to disposal groups	**–**	(39.0)	**–**	–
Expense recognised in the consolidated income statement	**3.9**	5.8	**–**	–
Contributions paid	**(44.2)**	(5.4)	**–**	–
Net retirement benefit asset transferred from subsidiary	**–**	–	**(2.6)**	–
Actuarial loss recognised in the SORIE	**5.2**	12.7	**7.6**	–
At 31 December	**5.0**	40.1	**5.0**	–

The sale of Towry Law UK was completed on 3 May 2006. As a result of the sale, active members of Towry Law UK have been treated as having left service as at that date and are included as deferred pensioners.

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:

	Group and Company	
	2006 %	2005 %
Equities	**47**	54
Bonds	**39**	43
Cash	**14**	3
Total	**100**	100

Fair value of the Scheme assets – final salary section

	Group and Company			
	Market value		Expected rate of return	
	2006 £m	2005 £m	2006 %	2005 %
Equities	**145.7**	138.9	**8.2**	8.1
Bonds	**117.7**	109.3	**4.6**	4.3
Cash	**43.4**	7.9	**5.0**	3.7
Total	**306.8**	256.1	**6.4**	6.3

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

The overall expected return on assets assumption is derived from the weighted average of the expected returns from each of the main asset classes. The expected return on assets is based on long-term expectations as at 31 December 2006. The expected return on bonds has been set by reference to market redemption yields as at the measurement date. The returns for the equity and cash asset classes have been based on the Group's realistic expectations of investment returns over the longer term.

Actual return on Scheme assets

	Group 2006 £m	Group 2005 £m
Actual return on Scheme assets	**12.4**	33.0

Principal actuarial assumptions

(a) Financial assumptions

	Group and Company 2006 % per annum	Group and Company 2005 % per annum
Discount rate	**5.1**	4.7
Expected rate of return on Scheme assets	**6.4**	6.3
Salary increases	**4.6**	4.4
Pension increases:		
– where guarantee is Retail Price Indexation (RPI) capped at 5% per annum	**3.1**	n/a
– where guarantee is Retail Price Indexation (RPI) capped at 2.5% per annum	**2.5**	n/a
– where guarantee is Limited Price Indexation (LPI)	**n/a**	2.9
– where guarantee is fixed	**At fixed rate**	At fixed rate
Inflation	**3.1**	2.9

(b) Demographic assumptions
The demographic assumptions used are those underlying the formal actuarial valuation of the Scheme as at 31 December 2005. Post-retirement mortality was assumed to follow the standard tables PMA/PFA92 (C = 2020) with an allowance for future mortality improvements in line with 'medium cohort' effects. The table below demonstrates the changes in implied life expectancies as at 31 December 2005 using the aforementioned mortality tables:

	Group and Company Male No. of years	Group and Company Female No. of years
Life expectancy for a member who is currently 60	26.5	29.5
Life expectancy at 60 for a member who is currently 45	27.5	30.5

(c) Historical amounts

	Group and Company			Group	
	2006 Central £m	2006 Higher discount rate £m	2006 Lower inflation £m	2005 £m	2004 £m
Defined benefit obligation	**(311.8)**	**(305.0)**	**(308.6)**	(296.2)	(249.8)
Scheme assets	**306.8**	**306.8**	**306.8**	256.1	222.8
Surplus/(deficit) in the plan	**(5.0)**	**1.8**	**(1.8)**	(40.1)	(27.0)
For period to balance sheet:					
Experience gain/(loss) on Scheme liabilities	**8.5**	**8.5**	**8.5**	(31.6)	(10.7)
Experience gain/(loss) on Scheme assets	**(3.7)**	**(3.7)**	**(3.7)**	18.9	6.9

Employer contributions
The Group expects to contribute £28m to the Scheme for the year to 31 December 2007, comprising £20m as a special contribution and £8m in respect of regular contributions.

28.2 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. 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 by the earnings cap. These additional uncapped benefits are generally provided for 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	
	2006 £m	**2005 £m**
At 1 January	**5.7**	16.6
Current service cost	**0.3**	0.5
Interest cost	**0.2**	0.4
Actuarial gain	**(0.5)**	(1.8)
Actual benefit payments	**(0.2)**	(0.8)
Arising on disposal of the Life Services business	**–**	(1.8)
Arising on the disposal of Homann Chilled Food GmbH	**–**	(7.4)
At 31 December	**5.5**	5.7

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	
	2006 £m	**2005 £m**
Pearl Executive Scheme (wholly unfunded)	**4.0**	4.0
Henderson Top Up Scheme (partly funded)	**1.2**	1.4
Individual contractual promise (wholly unfunded)	**0.3**	0.3
Total	**5.5**	5.7

Reconciliation of the fair value of defined benefit scheme assets

	Group	
	2006 £m	**2005 £m**
At 1 January	**0.2**	0.5
Actual benefit payments	**(0.1)**	(0.4)
Actuarial gain	**–**	0.1
At 31 December	**0.1**	0.2

28. Retirement benefit obligations (continued)

Reconciliation of defined benefit liability

	Group 2006 £m	Group 2005 £m
Present value of defined benefit obligation	**5.5**	5.7
Fair value of scheme assets	**(0.1)**	(0.2)
Net liability	**5.4**	5.5

Pension expense recognised in the consolidated income statement

	Group 2006 £m	Group 2005 £m
Current service cost	**0.3**	0.5
Interest cost	**0.3**	0.4
Total pension expense	**0.6**	0.9

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

	Group 2006 £m	Group 2005 £m
At 1 January	**(0.6)**	1.3
Actuarial gain	**(0.5)**	(1.9)
At 31 December	**(1.1)**	(0.6)

Movements in net liability recognised in the consolidated balance sheet

	Group 2006 £m	Group 2005 £m
At 1 January	**5.5**	16.1
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	**5.5**	6.9
Expense recognised in the consolidated income statement	**0.6**	0.9
Actual benefit payments	**(0.2)**	(0.4)
Actuarial gain recognised in the SORIE	**(0.5)**	(1.9)
At 31 December	**5.4**	5.5

Following the sale of the Life Services business on 13 April 2005, the pension scheme deficit relating to that business, which had been reported within liabilities included in disposal groups held for sale as at 31 December 2004, has been transferred out of the consolidated balance sheet.

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

	2006 £m	**2005 £m**
Actual return on scheme assets	**–**	0.1

Principal actuarial assumptions

(a) Financial assumptions

	2006 % per annum	**2005 % per annum**
Discount rate	**5.1**	4.7
Expected rate of return on scheme assets	**8.2**	8.1
Salary increases	**4.6**	4.4
Pension increases		
– where guarantee is LPI	**3.1**	2.9
– where guarantee is fixed	**At fixed rate**	At fixed rate
Inflation	**3.1**	2.9

(b) Demographic assumptions
The demographic assumptions used are those for the formal actuarial valuation of the schemes as at 31 December 2005. Post-retirement mortality was assumed to follow the standard tables PMA/PFA92 (C = 2020) with an allowance for future mortality improvements in line with 'medium cohort' projections.

The table below demonstrates the changes in implied life expectancies as at 31 December 2005 using the aforementioned mortality tables:

	No. of years	
	Male	**Female**
Life expectancy for a member who is currently 60	26.5	29.5
Life expectancy at 60 for a member who is currently 45	27.5	30.5

Employer contributions
The Group does not expect to contribute to the arrangements for the year to 31 December 2007.

29. Subsidiaries

The directly held subsidiaries of the Company are as follows:

	Country of incorporation/ formation and principal place of operation	Functional currency	Percentage owned 2006	Percentage owned 2005
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 and UK	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%

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	Percentage owned 2006	Percentage owned 2005
Henderson Administration Limited	UK	pounds sterling	**100%**	100%
Henderson Fund Management plc	UK	pounds sterling	**100%**	100%
Henderson Global Investors (Jersey) Limited	Jersey and UK	pounds sterling	**100%**	100%
Henderson Global Investors (Jersey) 2 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	Jersey and 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 Global Investors (Singapore) Limited	Singapore	Singapore dollars	**100%**	100%
Henderson Global Investors (Hong Kong) Limited	Hong Kong	Hong Kong dollars	**100%**	100%
Henderson Alternative Investment Advisor Limited	UK	pounds sterling	**100%**	100%
UKLS Investor 3 Limited	UK	pounds sterling	**100%**	100%
Henderson Equity Partners Limited	UK	pounds sterling	**100%**	100%

The information disclosed in the table 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. Full information of all subsidiaries will be included with the Annual Return to be filed at Companies House.

Henderson International Holdings Limited (HIHO) 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 2006 to ensure that all significant events between the balance sheet date of HIHO and the parent have been reflected in the Group accounts to 31 December 2006.

30. Investment in subsidiaries

	Company		
	Shares in subsidiaries £m	Loans to subsidiaries £m	Total £m
Cost			
At 1 January 2005	3,295.6	207.4	3,503.0
Additions	60.2	–	60.2
Disposals	(3.8)	–	(3.8)
Repayment of loans with subsidiaries	–	(207.4)	(207.4)
Dividends received from subsidiaries	(692.7)	–	(692.7)
At 31 December 2005	2,659.3	–	2,659.3
Dividends received from subsidiaries	(197.5)	–	(197.5)
At 31 December 2006	2,461.8	–	2,461.8

The payment of dividends by Henderson Finances during 2006 resulted in a reduction in the net asset value and a permanent diminution in the carrying value of Henderson Finances of £197.5m. The same applies to the 2005 dividend from Henderson Finances of £692.7m.

31. Deferred acquisition and commission costs

	2006 £m	2005 £m
At 1 January	**19.2**	11.6
Commissions and other costs capitalised	**19.5**	19.4
Amortisation during the year	**(18.0)**	(11.8)
At 31 December	**20.7**	19.2

Included within the £18.0m amortisation charge in 2006 is £10.9m (2005: £9.7m) in respect of amortisation of capitalised commissions, £2.0m (2005: £1.2m) in respect of various US products with capitalised commissions paid and £5.1m (2005: £0.9m) in respect of amortisation of structured product costs in the Group's private equity business.

32. Related party transactions

32.1 Group

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

Disclosures relating to the Henderson Group Pension Scheme are covered under note 28 Retirement benefit obligations.

32.2 Company

Details of transactions between the Company and its subsidiaries, which are related parties of the Company, together with amounts due from and to these related parties as at the balance sheet date, are disclosed below:

	2006 £m	2005 £m
Transactions with related parties		
Dividends receivable	**335.8**	710.7
Interest receivable	**–**	2.0
Expenses recovered from other group companies	**25.5**	16.2
Interest payable	**(54.6)**	(52.1)
Expenses recharged by other group companies	**(0.5)**	(0.2)
Amounts due from/(to) related parties		
Amounts owed by related parties	**223.2**	11.9
Amounts owed to related parties	**(1,141.4)**	(1,133.7)

33. Contingent liabilities

The following contingent liabilities existed at 31 December 2006:

- in the normal course of business, the Group is exposed to certain legal issues, which can involve litigation and arbitration;
- 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;
- on 2 May 2006, the Hong Kong Securities and Futures Commission announced that it had reached a settlement with UKFP (Asia) HK Limited (formerly part of Towry Law International) regarding certain legacy products sold by Towry Law International. Significant payments were made to investors in the second half of the year in line with accounting provisions set up for that purpose. The Directors are of the opinion that the provisions remaining at the balance sheet date, to cover any future payments as detailed in note 24.1, are adequate; and
- under the Life Services sale agreement, tax-related warranties and indemnities given by the Group expire up to six years from the disposal date of 13 April 2005. During the year under review, a warranty claim by Pearl of £11.7m was agreed under this sale agreement, representing closure of all non-taxation-related issues. The Directors are of the opinion that no provision is required in relation to the tax related issues. Under the Towry Law UK sale agreement, normal warranties and indemnities were given by the Group which are subject to expiry in up to six years from the disposal date of 3 May 2006.

As at the date of approval of the balance sheet, the Group has not been notified of any claims under outstanding warranties and indemnities from sale agreements.

34. Acquisitions and disposals of subsidiaries

34.1 Acquisitions

The Group acquired the following subsidiaries during the year for a total consideration of £0.5m:

- Astor UK Limited (100% owned)
- Henderson Beteiligung Verwaltungs GmbH (100% owned).

34.2 Disposals

The net profit/(loss) before tax on disposal of discontinued operations is analysed as follows:

	Notes	2006 £m	2005 £m
Towry Law UK	34.2.1	**9.5**	–
Life Services	34.2.2	**–**	(18.6)
Net profit/(loss) before tax on disposal of discontinued operations		**9.5**	(18.6)

34.2.1 Towry Law UK
On 21 December 2005, Henderson Group plc announced an agreed sale of Towry Law UK to JS&P Holdings Limited. Following regulatory approval, granted by the FSA, the disposal completed on 3 May 2006.

The transaction resulted in a profit on disposal of £9.5m calculated as follows:

	2006 £m
Sale proceeds	**37.2**
Less: professional fees and other transaction costs	**(1.6)**
	35.6
Net assets disposed of	**(26.1)**
Pre-tax profit on disposal	**9.5**
Tax on disposal	**–**
Post-tax profit on disposal	**9.5**

Cash flow impact of the disposal of the Towry Law UK:

	2006 £m
Total proceeds from the sale	**37.2**
Less: cash and cash equivalents held by Towry Law UK entities	**(9.9)**
Net cash inflow on disposal	**27.3**

Aggregate assets and liabilities of the Towry Law UK at the date of disposal:

	Notes	3 May 2006 £m
Assets		
Intangible assets	44	**21.0**
Property, plant and equipment		**2.1**
Trade and other receivables		**8.4**
Cash and cash equivalents		**9.9**
Total assets		**41.4**
Liabilities		
Provisions	40	**3.8**
Trade and other payables		**11.5**
Total liabilities		**15.3**
Net assets		**26.1**

34.2.2 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 Limited. 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 NPIL, which were 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.

35. Discontinued operations

On 3 May 2006, the Group completed the sale of Towry Law UK and its controlled entities (Towry Law UK Group) to JS&P Holdings Limited. 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 Towry Law UK were 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.

Also included within discontinued operations are the profits/(losses) arising from the closure of Towry Law International, which occurred during 2004, and the Life Services business, which was sold during 2005 (note 34.2.2 Acquisitions and disposals of subsidiaries – Disposals – Life Services).

35.1 Net (loss)/profit from discontinued operations

	Notes	2006 £m	2005 £m
Income			
Fee and commission income	36.1	**12.4**	109.5
Premiums written net of reinsurance	36.1	**–**	162.4
Finance income	36.1	**0.1**	387.1
Total income		**12.5**	659.0
Expenses			
Acquisition costs	36.2.1	**–**	(7.9)
Administration costs	36.2.2	**(11.3)**	(104.5)
Loss recognised on the measurement to fair value	44.1	**(0.7)**	–
Other charges	36.2.5	**(12.0)**	(2.8)
Total expenses		**(24.0)**	(115.2)
Expenses for policyholder claims and benefits (including change in insurance liabilities)		**–**	(216.7)
Claims recoveries from reinsurers		**–**	0.3
Changes in investment contract provisions		**–**	(143.8)
Finance costs	36.3	**–**	(158.4)
Net (loss)/profit before tax from discontinued operations		**(11.5)**	25.2
Tax on the results of discontinued operations	37	**(0.1)**	(4.8)
Net (loss)/profit after tax from discontinued operations		**(11.6)**	20.4
Attributable to:			
Equity holders of the parent		**(11.6)**	23.9
Minority interests		**–**	(3.5)
		(11.6)	20.4

Included within 'other charges' for the year ended 31 December 2006 is a £11.7m charge relating to the crystallisation of non-tax warranties outstanding under the Life Services business sale agreement completed in 2005.

35.2 Discontinued income statement by business segment

Other than the £11.7m charge relating to the crystallisation of non-tax warranties outstanding under the Life Services business sale agreement, the discontinued business operating profit for the year ended 31 December 2006 related solely to Towry Law UK.

The discontinued income statement by business segment for the year ended 31 December 2005 is provided below:

	Life Services £m	Towry Law UK £m	Discontinued operations £m	Eliminations £m	Total £m
Income					
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

All discontinued operations for the years ended 31 December 2006 and 31 December 2005 arose in the UK.

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

	Notes	2006 £m	2005 £m
Assets			
Intangible assets	44	–	21.7
Property, plant and equipment	43	–	2.4
Current tax receivables		–	0.3
Trade and other receivables	38.1	–	9.2
Cash and cash equivalents	27.2, 38.1	–	9.0
Assets held in disposal groups held for sale		–	42.6
Liabilities			
Provisions	40	–	4.1
Other creditors		–	8.4
Accruals and deferred income		–	3.2
Obligations under finance leases	41.1	–	1.0
Liabilities included in disposal groups held for sale		–	16.7

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, which was sold on 3 May 2006.

35.4 Cash flows from discontinued operations

	2006 £m	2005 £m
Net cash flows from operating activities	**1.0**	(295.9)
Net cash flows from investing activities	**(0.1)**	818.8
Net cash flows from financing activities	**–**	630.9
Net cash inflow	**0.9**	1,153.8

35.5 Statement of recognised income and expense from discontinued operations

The following income and expenses were recognised directly in equity relating to discontinued operations:

	2006 £m	2005 £m
Exchange difference on translation of foreign operations	**–**	(0.5)
Actuarial gain on pension schemes	**–**	0.2
Reversal of previously recognised loss on available-for-sale-financial assets	**–**	3.4
Total income recognised directly in equity	**–**	3.1

36. Income and expenses of discontinued operations

36.1 Income

	2006 £m	2005 £m
Fee and commission income		
Fee income from investment contract business	**–**	16.6
Commissions	**11.7**	38.4
Other income	**0.7**	54.5
	12.4	109.5
Gross premiums written		
Long-term business premiums	**–**	162.6
Less: premiums ceded to reinsurers	**–**	(0.2)
Premiums written net of reinsurance	**–**	162.4
Finance income		
Interest on deposits with credit institutions	**0.1**	36.9
Interest on fixed interest securities	**–**	247.4
Rental income from investment properties	**–**	33.4
Interest on other loans	**–**	1.8
Dividends	**–**	60.9
Realised gains on sale of investments	**–**	6.7
	0.1	387.1
Total income	**12.5**	659.0

36.2 Expenses

36.2.1 Acquisition costs

	2006 £m	2005 £m
Acquisition costs taken directly to the profit and loss account	–	0.2
Deferred acquisition cost amortisation and impairment	–	7.7
	–	7.9

36.2.2 Administration costs

	Note	2006 £m	2005 £m
Employee benefits expense	36.2.4	**7.5**	34.7
Operating lease rentals		**0.5**	2.4
Investment administration fees		–	4.7
Other expenses		**3.3**	62.7
		11.3	104.5

36.2.3 Average employee numbers
The average number of employees of the discontinued operations was as follows:

	2006 no.	2005 no.
Towry Law International	**14**	21
Life Services	–	1,196
Towry Law UK	**463**	510
	477	1,727

36.2.4 Analysis of employee benefits expense
Employee benefits expense of the discontinued operations comprised:

	Note	2006 £m	2005 £m
Salaries and wages		**6.1**	28.0
Share-based payments	11.2	–	0.2
Social security costs		**0.6**	2.8
Other pension costs		**0.8**	3.7
		7.5	34.7

36.2.5 Other charges

	2006 £m	2005 £m
Depreciation of property, plant and equipment	**0.3**	2.3
Crystallisation of non-tax warranties	**11.7**	–
Amortisation of other intangible assets	–	0.3
Impairment of property, plant and equipment	–	0.2
	12.0	2.8

36.3 Finance costs

	2006 £m	2005 £m
Interest on borrowings	–	23.9
Interest on finance leases	–	0.1
Unrealised losses on financial assets designated at fair value through profit or loss	–	134.4
	–	158.4

37. Taxation of discontinued operations

	2006 £m	2005 £m
Current income tax		
– current year	**0.1**	3.5
Deferred tax relating to		
– origination of temporary differences	–	1.3
Total taxation expense	**0.1**	4.8

Reconciliation of net profit before tax at standard rate of corporate tax to the tax expense

	2006 £m	2005 £m
The reconciliation of the net profit before tax multiplied at 30% to the tax expense of £0.1m (2005: £4.8m) is as follows:		
Net (loss)/profit before tax from discontinued operations	**(2.0)**	6.6
Intra-group eliminations with continuing operations	–	(6.0)
Net (loss)/profit before tax from discontinued operations – before eliminations	**(2.0)**	0.6
Tax (credit)/charge at the applicable UK corporation tax rate of 30% (2005: 30%) on net (loss)/profit before tax	**(0.6)**	0.2
Tax attributable to policyholders	–	1.7
Tax effect of expenses that are not deductible for tax purposes:		
– goodwill impairment	–	2.1
– other disallowable expenses	**3.5**	–
Tax effect of income not subject to taxation	–	(2.1)
Tax effect of (gains)/losses not subject to taxation	**(2.8)**	5.6
Movement in unprovided deferred tax	–	2.4
Utilisation of previously unrecognised tax losses	–	(5.1)
Total tax expense for discontinued operations	**0.1**	4.8

38. Fair value of financial instruments of discontinued operations

38.1 Total financial assets and liabilities

	Fair value and carrying value 2006 £m	Fair value and carrying value 2005 £m
Financial assets		
Trade and other receivables	–	9.2
Cash at bank and in hand	–	9.0
Total financial assets	–	18.2

38.2 Financial risk management of discontinued operations

As from the date of completion of the sale of Towry Law UK, which was effective 3 May 2006, there are no financial assets and liabilities relating to discontinued business under the control of the Group. Accordingly, the Directors no longer consider the financial risk management objectives and policies relating to discontinued operations relevant to the Full Annual Financial Report and Accounts.

39. Deferred taxation of discontinued operations

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit is probable. Deferred tax assets of £5m (2005:£112m) in respect of trading losses, £3m (2005: £21m) in respect of provisions and other timing differences, £1m (2005: £39m) in respect of realised capital losses and £nil (2005: £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.

40. Provisions of discontinued operations

	Total £m
At 1 January 2006	**4.1**
Provisions utilised	**(0.3)**
At date of disposal	**3.8**

The provision relating to Towry Law UK was in respect of unoccupied and loss-making sublease properties.

41. Leases of discontinued operations

41.1 Finance leases

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

	2006 £m	**2005 £m**
Total of future minimum lease payments	–	1.2
Effect of discount	–	(0.2)
Present value of minimum lease payments	–	1.0

The obligations under finance leases fall due as follows:

	Total of future minimum lease payments 2006 £m	**Present value of minimum lease payments 2006 £m**	**Total of future minimum lease payments 2005 £m**	**Present value of minimum lease payments 2005 £m**
Within one year	–	–	0.3	0.3
In the second to fifth years inclusive	–	–	0.6	0.5
In more than five years	–	–	0.3	0.2
Total	–	–	1.2	1.0

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

	2006 £m	**2005 £m**
Plant and equipment	–	0.1
Owner-occupied property	–	0.5
	–	0.6

41.2 Operating leases

The obligations under non-cancellable operating leases fall due:

	2006 £m	2005 £m
Within one year	–	0.1
In the second to fifth years inclusive	–	0.2
In more than five years	–	1.4
Total	–	1.7

42. Investment property of discontinued operations

The income and expenses for investment property were as follows:

	2006 £m	2005 £m
Rental income from investment property	–	33.4
Direct operating expenses (including repairs and maintenance) arising from investment property:		
– that generated rental income during the accounting period	–	2.6
– that did not generate rental income during the accounting period	–	0.9
	–	36.9

43. Property, plant and equipment of discontinued operations

	Owner-occupied property £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2006	2.4	4.3	6.7
Disposals	–	(0.1)	(0.1)
At date of disposal	2.4	4.2	6.6
Depreciation			
At 1 January 2006	1.7	2.6	4.3
Charge for the year	–	0.3	0.3
Disposals	–	(0.1)	(0.1)
At date of disposal	1.7	2.8	4.5
Net book value			
At 1 January 2006	0.7	1.7	2.4
At date of disposal	0.7	1.4	2.1

44. Intangible assets of discontinued operations

	Notes	2006 £m	2005 £m
Goodwill	44.1	**20.8**	21.5
Other intangible assets	44.2	**0.2**	0.2
At date of disposal		**21.0**	21.7

44.1 Goodwill

	2006 £m	2005 £m
Gross amount		
At 1 January	**107.5**	–
Attributable to assets held in disposal groups held for sale	**–**	107.5
At date of disposal	**107.5**	107.5
Aggregate impairment		
At 1 January	**86.0**	–
Attributable to assets held in disposal groups held for sale	**–**	86.0
Impairment prior to disposal	**0.7**	–
At date of disposal	**86.7**	86.0
Carrying value		
At 1 January	**21.5**	–
At date of disposal	**20.8**	21.5

44.2 Other intangible assets

	Development expenditure £m
Cost	
At 1 January 2006 and at date of disposal	0.2

45. Events after the balance sheet date

The Board of Directors have not received, as at 27 February 2007, being the date the 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.

SHAREHOLDER INFORMATION

As at 27 February 2007

Total number of holders of ordinary shares and their voting rights

The share capital of Henderson Group plc consisted of 902,104,685 ordinary shares held by 135,676 security holders. This included 591,310,658 shares, held by CHESS Depositary Nominees (CDN), quoted on the ASX in the form of CHESS Depositary Interests (CDIs) and held by 124,129 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	J P Morgan Nominees Australia Limited	73,234,016	8.12
2	National Nominees Limited	71,220,677	7.89
3	RBC Global Services Australia Nominees Limited	66,105,405	7.33
4	Chase Nominees Limited	49,098,333	5.44
5	HSBC Global Custody Nominee (UK)	40,833,208	4.53
6	Westpac Custodian Nominees Limited	38,820,309	4.30
7	Cogent Nominees Pty Limited	36,938,575	4.09
8	ANZ Nominees Limited	36,541,247	4.05
9	HSBC Custody Nominees (Australia) Limited	35,358,290	3.92
10	Vidacos Nominees Limited	33,837,366	3.75
11	Citicorp Nominees Pty Limited	28,989,794	3.21
12	Morstan Nominees Limited	22,030,641	2.44
13	SBS Nominees Limited	19,527,233	2.16
14	Queensland Investment Corporation	14,918,173	1.65
15	UBS Nominees Pty Limited	13,880,000	1.54
16	AMP Life Limited	13,584,377	1.51
17	Greenwood Nominees Limited	12,517,533	1.39
18	Nortrust Nominees Limited	10,324,127	1.14
19	Deutsche Bank Aktiengesellschaft London	9,533,532	1.06
20	Computershare Nominees (Channel Islands) Limited	9,345,370	1.04
Top 20 total		636,638,206	70.57
Total shares		902,104,685	100.00

Distribution of share/CDI holdings

Categories	Number of holders	% of issued capital
1 – 1,000	118,307	5.41
1,001 – 5,000	14,748	3.01
5,001 – 10,000	1,425	1.11
10,001 – 100,000	943	2.58
100,001 and over	253	87.88
Total	135,676	100.00

10,217 share/CDI holders held less than A$500 worth of shares/CDIs, ie fewer than 135 shares/CDIs.

Stock exchange listings

Henderson Group plc is listed on the London Stock Exchange and its CDIs are quoted on the Australian Securities Exchange.

Substantial shareholders

The Company has received substantial shareholding notices, equivalent to Australian regulatory requirements, from the following:

- Barclays plc held 51,600,789 shares/CDIs, or 5.74% of the total voting rights, as detailed in its notification sent on 27 February 2007;
- ING Australia Holdings held 47,193,427 shares/CDIs, or 5.25% of the total voting rights, as detailed in its notification sent on 27 February 2007;
- IOOF Holdings Limited held 63,336,492 shares/CDIs, or 7.04% of the total voting rights, as detailed in its notification sent on 26 February 2007; and
- Perpetual Limited held 102,473,402 shares/CDIs, or 11.39% of the total voting rights, as detailed in its notification sent on 9 February 2007.

Total number of options over unissued shares

There were 4,855,722 options over unissued ordinary shares in the Company held by 403 option holders.

Restricted securities

There are no restricted securities on issue.

Buy-back

There is no current on-market buy-back of CDIs on the ASX. The Company has authority to purchase ordinary shares on the LSE and a limited number of buy-backs were made under this authority in 2006.

Company secretary

Steven O'Brien

Registered and head office in the United Kingdom

4 Broadgate
London EC2M 2DA

Phone: + 44 (0) 20 7818 5310
Fax: + 44 (0) 20 7818 6900

Registered office in Australia

Level 4 Deutsche Bank Place
Corner Hunter & Phillip Streets
Sydney NSW 2000

Phone: + 61 (0) 2 9230 4982

Share Registry

Australia
Henderson Group Share Registry
GPO Box 4578
Melbourne Victoria 8060

Phone: 1300 137 981 or
+ 61 (0) 3 9415 4081
Fax: + 61 (0) 3 9473 2500
Email: henderson@computershare.com.au

United Kingdom
Henderson Group Share Registry
PO Box 82
The Pavilions, Bridgwater Road
Bristol BS99 7NH

Phone: 0800 073 3916
Fax: 0870 703 6119
Email: web.queries@computershare.co.uk

New Zealand
Henderson Group Share Registry
Private Bag 92119
Auckland 1020

Phone: 0800 888 017
Fax: + 64 (0) 9 488 8787
Email: henderson@computershare.com.au

Website
www.henderson.com

GLOSSARY

AGM
Annual General Meeting

AMP
AMP Limited

ASX
Australian Securities Exchange (ASX Limited)

AUM
Assets under management

BPI
Banca Popolare Italiana

CDI
CHESS Depositary Interest representing one ordinary share. These are quoted on the ASX

CDO
Collateralised Debt Obligation

CHESS
Clearing House Electronic Subregister System

Companies Act 1985
The UK Companies Act 1985, as amended

Company
Henderson Group plc

Corporations Act 2001
The Australian Corporations Act 2001

CRD
Capital Requirements Directive

ESOP
Employee Share Ownership Plan

FSA
Financial Services Authority

Group
Henderson Group plc and its controlled entities

HLTVSIP
Henderson Long-Term Value Sharing Incentive Plan

ISA
Individual Savings Account

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

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

RSP
Restricted Share Plan

SAYE
Sharesave Scheme

SIP
Share Incentive Plan

STI
Short-term incentive

TSR
Total Shareholder Return

UCITS III
Undertakings for Collective Investments in Transferable Securities III

UK or **United Kingdom**
The United Kingdom of Great Britain and Northern Ireland

UK GAAP
Generally accepted accounting practice in the United Kingdom

VAT
Value added tax

Henderson Group plc

CONTACT

For shareholder queries please contact the Henderson Group Share Registry

Australia
GPO Box 4578
Melbourne Victoria 8060
Phone: 1300 137 981
+ 61 (0) 3 9415 4081
Fax: + 61 (0) 3 9473 2500
Email: henderson@computershare.com.au

United Kingdom
PO Box 82 The Pavilions
Bridgwater Road
Bristol BS99 7NH
Phone: 0800 073 3916
Fax: 0870 703 6119
Email: web.queries@computershare.co.uk

New Zealand
Private Bag 92119
Auckland 1020
Phone: 0800 888 017
Fax: + 64 (0) 9 488 8787
Email: henderson@computershare.com.au

Website
www.henderson.com

Registered office
4 Broadgate, London EC2M 2DA