

## CHIEF EXECUTIVE'S STATEMENT

### Introduction

Our main objectives in 2007 were to:

- improve investment performance;
- continue to grow our higher margin businesses and deliver a 70% cost to income ratio in Henderson Global Investors (Henderson); and to
- improve the efficiency of the Group's balance sheet.

We achieved good progress against these objectives.

### Investment performance

Henderson's investment performance over the last three years is generally satisfactory. In Listed Assets, which comprises our equity and fixed income funds, 54% of funds by value beat their benchmark in the three year period. Over one year, 57% of Listed Asset funds by value beat their benchmark. The external validation in 2007 of our investment process was strong as evidenced by the increased ratings for our fund managers and of our funds from third party assessors. Investment performance in our US Property business remains excellent with 76% and 100% of funds achieving or beating their benchmarks over one and three years respectively. In Pan-European Property, we expect to retain a strong three year performance track record, pending publication of peer group benchmarks in the next month or so.

We continued to earn performance fees from a wide range of funds, 65 in 2007 compared to 52 in 2006. The result was that good investment performance earned Henderson £50.1 million in net performance fees during 2007, 34% more than in 2006.

### Fund flows and margins

In 2007, Henderson recorded net inflows of £1.0 billion into higher margin products. This included £1.4 billion into US Wholesale funds, £0.9 billion into Property and £0.1 billion into Hedge funds offset by outflows of £0.9 billion from CDOs and £0.5 billion from UK and European Wholesale funds. Elsewhere, our Institutional business continued to improve and we have won £0.6 billion of new business since the start of 2008. This is a significant turnaround from where the business was three years ago.

As regards asset withdrawals in the lower margin business, Pearl withdrew £4.1 billion and the legacy institutional book saw outflows of £2.2 billion. However, the positive impact of the higher margin inflows mentioned above, more than offset the revenue lost from outflows from lower margin business areas. As a result, total revenues increased 14%. Average management fee margins were up strongly from 34bps to 42bps in 2007 and total fee margins were 53bps, up from 44bps in 2006. This revenue growth coupled with a slower pace in cost growth, led to an improvement in the Henderson cost to income ratio from 72.6% to 67.5%, comfortably within our 70% target and recent guidance of 68% for 2007. Overall, profits from Henderson rose 35% to £109.6 million.

### Corporate Office

We also reduced Corporate Office (Corporate) costs, and improved the efficiency of the Group balance sheet during the year (which is discussed in the Chairman's Statement). Corporate costs fell £2.4 million in 2007 to £9.1 million, due largely to one-off costs of £2 million incurred in 2006. We currently expect Corporate costs in 2008 to be similar to those of 2007. The return on Corporate cash halved in 2007 due to lower cash balances, following recent cash returns to shareholders, but offset the interest expense paid on the debt we raised in May. We expect Corporate net interest to comprise mainly debt servicing costs in 2008, approximately £10.5 million before tax relief, assuming an interest rate of 6%.

Group pre-tax profit in 2007 was up 30% to £106.7 million. Including non-recurring items, pre-tax profit increased 98% from £74.4 million in 2006 to £147.2 million in 2007. Non-recurring items comprised a £31.8 million gain on our Banca Popolare Italiana (BPI) investment following BPI's merger with Banco Popolare di Verona e Novara (BPVN) and a £8.7 million service credit relating to the Henderson Group Pension Scheme. Earnings per share from continuing operations, excluding non-recurring items, rose to 11.7 pence per share in 2007, due to a combination of organic growth and enhancement from our recent £250 million special dividend and share consolidation. Pre-tax return on equity improved from 13% in 2006 to 23% in 2007.

### Tax

The effective tax rate on Group profits from continuing operations, excluding non-recurring items, in 2007, was 11.7%, lower than the 30% statutory rate (which reduces to 28% effective 1 April 2008). We still expect our effective tax rate to be between 10% and 15% in 2008, reverting closer to the statutory rate in 2009 or 2010. The lower effective tax rate in 2007 was due to the utilisation of previously unrecognised deferred tax assets and greater clarity on the level of tax provisioning required for prior years.

### Outlook

Our goals for 2008 are to meet or beat Henderson Global Investors' 2007 operating profit before tax of £109.6 million and deliver a cost to income ratio of 65% or less. This may be achieved through a combination of management fee growth and cost management, assuming markets recover, or through cost reduction, if markets remain subdued.

We have already taken some measured action in this regard, namely headcount and related restructuring which should generate £20 million of savings in 2008, before a restructuring charge of approximately £2.5 million pre-tax. This has been done without cutting any of our investment capabilities.

In addition, we have identified a further £10 million of non-staff costs that could be removed from our cost base if markets remain subdued. Further savings are also achievable in variable staff costs, depending on future market levels.

Our primary focus will continue to be on profitable organic growth including investing committed funds in Property of £2.3 billion, expanding our Hedge fund capacity and growing our Institutional business. We also believe that we are now in a better position to capitalise on other opportunities such as acquiring teams or making bolt-on acquisitions that meet our criteria.

The actions taken by us on costs together with the diversity of our business leave the Group in good shape to withstand a sustained period of market weakness.



**Roger Yates**  
Chief Executive, Henderson Group