

DIRECTORS' REPORT

The Directors present their report to shareholders for the year ended 31 December 2007.

Business review

The results of the Group comprise three components:

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

The results of the Group for the year ended 31 December 2007 are summarised below, with comparatives:

	12 months to 31 Dec 2007 £m	12 months to 31 Dec 2006 £m
Henderson	109.6	81.1
Corporate	(2.9)	1.1
Net profit before tax from continuing operations excluding non-recurring items	106.7	82.2
Non-recurring items	40.5	(7.8)
Net profit before tax from continuing operations	147.2	74.4
Net loss before tax from discontinued operations	–	(2.0)
Net profit before tax from all operations	147.2	72.4
Taxation – recurring operations	(12.4)	(11.1)
Taxation – non-recurring items	(2.6)	–
Taxation – discontinued operations	–	(0.1)
Total taxation	(15.0)	(11.2)
Net profit after tax from all operations	132.2	61.2
Attributable to:		
Equity holders of the parent	132.1	61.1
Minority interests	0.1	0.1
	132.2	61.2
Henderson		
Assets under management (AUM)	£59.2bn	£61.9bn
Cost to income ratio	67.5%	72.6%

The Group result

The Group's net profit before tax from continuing operations in FY07, excluding non-recurring items, was £106.7m, an increase of £24.5m (30%) on FY06 (£82.2m). Henderson delivered a 35% increase in net profit before tax and non-recurring items to £109.6m in FY07 (FY06: £81.1m). Corporate made a loss of £2.9m (FY06: £1.1m profit), comprising Corporate net interest income of £6.2m, compared to £12.6m in FY06, and expenses of £9.1m (FY06: £11.5m). The reduction in Corporate net interest income is due to the capital return in October 2006 (£200m), the special dividend paid in October 2007 (£250m) and the net interest expense associated with the debt raised in May 2007. Corporate costs of £9.1m in FY07 were down 21% from £11.5m in FY06. FY06 costs included £2.0m associated with a strategic acquisition opportunity, which was not pursued, and the renegotiation of the Pearl Investment Management Agreements (IMAs).

Two non-recurring items were recognised in FY07:

- an accounting gain of £31.8m on the Group's investment in BPI, following its merger with BPVN, forming the newly incorporated Banco Popolare Gruppo Bancario (BP); and
- an £8.7m past service credit relating to the Henderson Group Pension Scheme.

Group taxation

The corporate tax charge for continuing operations in FY07, excluding non-recurring items, was £12.4m, giving an effective tax rate of 11.7% (FY06: 14.9%). The effective tax rate for all operations in FY07 was 10.2% (FY06: 15.5%), including non-recurring items.

The primary reasons for the effective tax rate being less than the current statutory rate of 30% are the utilisation of previously unrecognised deferred tax assets and the release of provisions for prior year tax matters.

Henderson result

Henderson's strategy is to build a scaleable, profitable, active investment management business based on core equity and fixed income investment capabilities. The focus is on growing AUM in higher margin specialist products such as Hedge funds, Wholesale funds for retail investors (UK OEICs and unit trusts, Horizon SICAV funds and US Wholesale funds), structured products, Property funds, Private Equity funds and bespoke Institutional mandates.

To achieve this, Henderson strives 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; and
- deliver improvements to the cost to income ratio.

The business remains predominantly Pan-European, but continues to expand in the US and in Asia.

Improved FY07 result – 35% up on FY06

Net profit before tax for Henderson in FY07 increased 35% to £109.6m (FY06: £81.1m). The result reflects management's continued focus on improving fee margins on AUM.

Summarised income statement – Henderson

	12 months to 31 Dec 2007 £m	12 months to 31 Dec 2006 £m
Management fees (net of commissions payable)	258.0	221.2
Transaction fees	17.8	24.6
Performance fees (net of fund manager bonuses)	50.1	37.3
Total fee income	325.9	283.1
Investment income	11.5	12.6
Total income	337.4	295.7
Operating expenses	(225.3)	(211.8)
Depreciation and amortisation	(2.5)	(2.8)
Total expenses	(227.8)	(214.6)
Operating profit before tax	109.6	81.1
Margins on average AUM		
Average AUM (£bn)	61.1	65.1
Total fee margin (bps)	53.3	43.5
Management fee margin (bps)	42.2	34.0
Net margin (bps)	17.9	12.5

Revenues and fee margins

Total fee income in FY07 was up 15% to £325.9m (FY06: £283.1m), whilst the increase in the monthly average FTSE100 Index was approximately 8%. Management fee income increased 17% to £258.0m in FY07 due to growth in management fee margins and favourable markets compared to FY06. Transaction fee income fell 28% to £17.8m in FY07 (FY06: £24.6m), primarily due to lower transaction levels within Property funds. Net performance fees increased by 34% in FY07 to £50.1m, reflecting greater performance fee diversity in general and strong performance across a number of Hedge and Property funds in particular. Performance fees comprise existing and new fee opportunities, and are weighted more towards the first half than the second of the year, as is consistent with previous periods.

Growth in the higher margin lines of business pushed up average management fee and net margins in FY07 to 42.2bps (FY06: 34.0bps) and 17.9bps (FY06: 12.5bps) respectively. Total fee margins increased from 43.5bps in FY06 to 53.3bps in FY07. In FY07, higher margin activities accounted for 47% (FY06: 43%) of AUM and 74% (FY06: 71%) of revenues.

Assets under management

Total AUM as at 31 December 2007 were £59.2bn, £2.7bn or 4% below AUM as at 31 December 2006. Net client outflows of £5.3bn comprised £4.1bn net outflows in respect of Pearl, £2.2bn from lower margin Institutional business (including £0.9bn relating to the end of our sub-advisory agreement with BP as previously announced) and £0.9bn from structured products announced in 1H07, partially offset by higher margin net inflows of £1.9bn, comprising £0.9bn into Property funds, £0.9bn into Wholesale funds and £0.1bn into Hedge funds. The structured product outflows represented noteholder redemptions at above par value and resulted in make-whole management fees, which have been recognised in FY07. In addition, there were favourable market and foreign exchange rate movements of £2.6bn.

Summary of movements in AUM

	Opening AUM 1 Jan 07 £bn	Net flows FY07 £bn	Market/FX FY07 £bn	Closing AUM 31 Dec 07 £bn	Management fees FY07 £m	Management fees FY06 £m
Higher margin						
– Investment trusts	4.1	–	0.2	4.3	15.8	14.6
– Horizon funds	4.0	(0.3)	(0.2)	3.5	40.0	29.3
– UK Wholesale	4.0	(0.2)	–	3.8	40.7	39.6
– US Wholesale	1.8	1.4	0.3	3.5	21.4	10.8
– Hedge funds	1.1	0.1	–	1.2	18.4	15.8
– Property (UK/Europe)	6.5	0.8	0.3	7.6	35.1	23.0
– Property (US)	1.1	0.1	0.1	1.3	4.6	4.2
– Private equity	1.1	–	–	1.1	13.3	7.8
– Structured products	2.7	(0.9)	–	1.8	8.7	5.7
	26.4	1.0	0.7	28.1	198.0	150.8
Lower margin/Pearl	35.5	(6.3)	1.9	31.1	60.0	70.4
Total	61.9	(5.3)	2.6	59.2	258.0	221.2

	31 Dec 2007 £bn	31 Dec 2006 £bn
Equities	26.9	28.0
Fixed Income	22.2	24.6
Property	8.8	8.0
Private Equity	1.3	1.3
Total	59.2	61.9

Operating expenses

Operating expenses increased by 6% to £225.3m in FY07. The main movements compared to FY06 are shown in the table below:

	12 months to 31 Dec 2007 £m	12 months to 31 Dec 2006 £m
Operating expenses		
– Staff costs	153.7	141.4
– Investment administration	16.0	19.2
– IT	9.6	10.6
– Office expenses	13.2	15.0
– Other expenses	32.8	25.6
Total operating expenses	225.3	211.8
Cost to income ratio	67.5%	72.6%

A reduction in costs across most expense categories (investment administration, IT and office expenses) was offset by increased staff costs and higher other expenses. Variable staff costs (primarily bonus and share schemes) increased in line with strong operating performance during the period to £79.3m, FY06 £65.7m, whereas fixed staff costs fell from £75.7m in FY06 to £74.4m in FY07. Other expenses increased to £32.8m (FY06: £25.6m) due to a £6.0m impairment of a seed investment, and a further £3.1m of 1H07 provisioning in respect of potential national insurance claims.

Management remains committed to increasing the level of employee share ownership across the business, in order to further align employee and shareholder interests. Employee share ownership, should all share schemes in place at 31 December 2007 vest, would be approximately 14% of shares in issue. This includes self-funded purchases of Henderson Group plc shares by employees, through Group approved schemes.

Cost to income ratio

Overall, the increase in total income more than offset the higher costs in FY07, resulting in an improvement in the cost to income ratio from 72.6% in FY06 to 67.5% in FY07, excluding non-recurring items.

Profit protection

Our goal for 2008 is to meet or beat Henderson Global Investors' 2007 operating profit before tax. This may be achieved through a combination of management fee growth and continued cost management, assuming markets recover; or through cost reduction, if markets remain at average levels seen in January and February this year.

We have already taken some measured action in this regard, namely, headcount and related restructuring which should generate £20m of savings in 2008, before a restructuring charge of approximately £2.5m pre-tax. This has been done without cutting any of our investment capabilities. We have also identified a further £10m 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.

The variability of our cost base is an important advantage in tougher markets and we are reasonably confident, therefore, of delivering a cost to income ratio for Henderson of below 65% in 2008.

Investment performance

2H07 has been a challenging period in which to achieve consistent investment performance. Nevertheless, in FY07 57% of Listed Assets funds beat their benchmarks (FY06: 62%), comprising 54% Equities (FY06: 67%) and 66% Fixed Income (FY06: 59%). Within this measure, over 60% of Equities funds outperformed their peers.

Funds at/above benchmark to 31 December 2007

	1 year		3 year	
	2007 %	2006 %	2007 %	2006 %
Equities	54	67	64	68
Fixed Income	66	59	43	26
Property	n/a	93	79	98
Higher margin				
– Investment trusts	39	88	58	87
– Horizon funds	52	68	83	91
– UK Wholesale	48	79	55	75
– US Wholesale	77	100	100	100
– Hedge funds	76	78	90	100
– Property (UK/Europe)	n/a	92	75	98
– Property (US)	76	100	100	100
Lower margin				
– Institutional:	47	50	31	29
Enhanced index	64	63	45	92
Fixed interest	40	34	23	12
Balanced/active equity	31	47	28	12

The performance of specialist Listed Asset products against relevant benchmarks is below that of 2006, due to market conditions. Once again performance has been strong within the US Wholesale fund range, where most funds continue to be above benchmark; 60% of eligible funds by value achieved four Morningstar ratings at 31 December 2007. The key UK equity Wholesale products have also continued to perform and the Hedge fund range has held up well in recent markets. Performance in the Horizon SICAV range has stabilised since the half year.

Owing to a more challenging market environment, it is not possible to accurately forecast the Pan-European Property investment performance score for FY07 until the Investment Property Databank annual benchmarks are released in March 2008. As at FY06, an extremely high proportion (92%) of Property funds outperformed, and whilst we do not expect to replicate this for FY07, we remain confident that our three year outperformance record will have held up.

The number of rated fund managers increased by four to seven during 2007 and the number of rated products increased by 26 to 43. Henderson won a total of 20 investment performance awards during FY07 (FY06: 15), 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.

Business area focus

Summary

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 was configured: to improve management accountability; provide greater focus on operating margins; and encourage a more holistic approach to product development, investment management and distribution. There are now five business teams: Pan-European Listed Assets, Pan-European Property, Private Equity, North America and Asia. However, management still considers Henderson a single operating segment comprising these five teams. Investment and distribution functions lie within each of these teams, although cross-selling is encouraged. Central operations and other service functions provide common support.

Within each business area, Henderson's main focus remains on expanding higher margin assets. The revenue margins and net contribution from these funds are significantly greater than from lower margin/Pearl funds. Revenues from higher margin funds for FY07 totalled £243.8m (FY06: £197.4m), with allocated costs of £119.2m (FY06: £99.3m), giving a net contribution to overheads of £124.6m (FY06: £98.1m). Lower margin and Pearl fund revenues totalled £82.1m in FY07 (FY06: £85.7m), with allocated costs and net contribution levels of £50.9m (FY06: £58.9m) and £31.2m (FY06: £26.8m) respectively. The increased contribution, from lower margin business, reflects success in selling bespoke products to Institutional clients at fees above the levels earned historically on traditional balanced mandates.

Pan-European Listed Assets

This team comprises circa 340 people, approximately one third of whom are investment professionals located in London. Distribution professionals are centred in London (and regionally within England), Milan, Paris, Frankfurt, Amsterdam, Luxembourg, Zurich and Madrid. These offices also distribute to other European locations on an opportunistic basis.

The product range consists of Wholesale funds (the Horizon SICAVs, UK OEICs and unit trusts), Hedge funds, Investment trusts, Institutional segregated and pooled funds, structured products and Pearl. The Listed Assets team also manages North America's Institutional mandates and the US Wholesale range.

The focus of Listed Asset product development has been and continues to be on improving the marketability of existing funds and developing new products. During FY07 a number of new funds were launched, as follows:

- in 1H07, a new CSO, Volante, (AUM £220m), along with a number of Diversified Growth/Fixed Income funds (AUM £0.9bn), which match actuarial skills with Henderson's diverse specialist investment capabilities; and
- in 2H07, SICAVs: Henderson Horizon Global Financials Fund (AUM £5m), Henderson Horizon Pan-European Property Equities Alpha Plus Fund (AUM £2m), and the Henderson Horizon China Fund (launched January 2008, AUM £8m); OEICs/UK trusts: the Henderson Credit Alpha Fund (AUM £71m) and Henderson High Alpha UK Equity Fund (AUM £39m); investment trust: Henderson Diversified Income Limited (AUM £39m); and Australian trust: Henderson Global Equitised Long/Short Fund (AUM £2m).

This has increased considerably the number of long/short funds that Henderson manages, from 31 to 36. These funds allow the use of derivative instruments for investment purposes, as well as for hedging. Henderson has well-developed capabilities in this area, which we believe will enable us to deliver performance in a more challenging market environment.

The Group has also become more focused on rationalising funds where they are sub-optimal. To that end three funds were either closed or merged into other funds during 2007. Further, greater use has been made of pooled structures to service Institutional clients more efficiently.

Listed Asset revenues contributed £207.7m in FY07 (FY06: £198.9m), representing 62% (FY06: 68%) of total Henderson revenues. The strong net inflows in 2006 into higher margin products, the continued decline in lower margin assets, and favourable markets in 1H07 were all factors in this increase. Net higher margin outflows of £1.3bn included £0.6bn in respect of Property Securities funds, where our funds were impacted by redemptions along with peers, and £0.9bn of structured product outflows, following the closure of three CDOs in 1H07 at above par value.

Pan-European Property

This team comprises circa 180 people, approximately 40% of whom are investment professionals located in London, Amsterdam, Paris, Frankfurt, Vienna and Milan. Distribution professionals are centred in London and Frankfurt. These offices also distribute to other European states, for example in Scandinavia.

The product range consists of segregated accounts, pooled property vehicles, specialist vehicles and multi-manager fund of funds. Property AUM as at 31 December 2007 comprised £6.9bn (81%) of closed-ended funds, £1.0bn (12%) of segregated accounts and £0.6bn (7%) of open-ended funds. Typically closed-ended funds have seven to ten year life spans, and exit is only possible on a matched bargain basis. Outflows from open-ended funds in 2007 were negligible. The Property investor base is entirely institutional.

Pan-European Property AUM continued to rise during 2007. In addition, the pipeline of client committed, but uninvested, capital as at 31 December 2007 amounted to £1.7bn (FY06: £1.8bn). With recent declines in both property values and interest rates, combining to improve relative yields, we expect to increase our investment rates in 2008. Therefore, whilst management fees will be impacted by lower property values, the uplift to management fees from investing committed capital, and transaction fees earned in the process, should largely offset any valuation decrease.

Funds launched in 2007 comprised: the European Core No.1 fund (AUM £65m) and the Warburg-Henderson Multinational Plus Fonds (Plus Fund) (AUM £63m), both as part of our joint venture with MM Warburg in Germany; our first Italian fund, Fondo Azzurro (AUM £16m); our first Asian fund of funds, Pagoda (first commitments due 1Q08); and a new German shopping centre fund, in partnership with mfi (first commitments due 1Q08).

Although property valuations were adversely impacted by 2H07 economic conditions, and in particular the credit market 'crunch', there has been no discernible impact on the ability of our Property team to source financing for potential deals. In fact, financiers are still actively competing for our business. This reflects well on the reputation of Henderson's property business, the strength of our investment process and underlying investments, and the prudence of the loan to value ratios employed within our funds (typically no more than 50%).

The contribution to revenues from Property in FY07 was £61.6m (FY06: £42.5m) and represented 18% (FY06: 14%) of total Henderson revenues. The continued organic growth in Continental Europe and record performance fees were the main factors behind the increased revenues. Performance fees included a three year fee in respect of the Henderson Caspar Property Fund, of £8.2m. The next performance fee opportunity from this fund arises in August 2010.

Private Equity

This team comprises circa 25 people, approximately 60% of whom are investment professionals located in London, Singapore, Hong Kong and New Delhi. Distribution is carried out by the Pan-European Listed Assets distribution team and external placement agents.

The product range consists of Infrastructure, Asian Private Equity and Global fund of funds products.

The core focus of the Private Equity business during 2007 has been on restructuring and value enhancement programmes in relation to the £1.0bn acquisition of John Laing plc in December 2006. During 2007, the sale of Chiltern Railways was announced. The sale is subject to regulatory approvals and expected to complete in early 2008. This disposal, together with that of Octagon, a speciality home builder, during 2007, will deliver good returns to fundholders, and is in line with our strategy to divest John Laing plc of non-core assets. Meanwhile, John Laing plc continues to win new business, increasingly overseas.

In addition, Private Equity completed an initial capital raising (AUM £35m) for Henderson Asia Private Equity Partners II LP (HAPEP II) in May 2007, a follow-on fund to Henderson Asia Private Equity Partners I LP (HAPEP I) (AUM £126m). Adverse market conditions in 2H07 have delayed the targeted second capital raising for HAPEP II from 2H07 to 2008, though some of the capital from the first raising has already been invested. HAPEP I continued to perform extremely well in 2007, with an annualised return of 27% over the six year life of the fund to date, net of fees and carried interest.

As previously announced, management of a £151.0m portfolio of European legacy assets attributable to Pearl was transferred to Pearl in August 2007, in accordance with the revised IMAs reached with Pearl in June 2006.

The contribution of Private Equity to revenues in FY07 was £16.5m (FY06: £14.1m) and represented 5% (FY06: 5%) of total Henderson revenues.

North America

This team comprises circa 105 people, approximately 25% of whom are property investment professionals located in Hartford, Connecticut. The other 75% principally represent distribution professionals, based out of Chicago and operating in all major states.

The US team is responsible for Institutional (AUM £1.1bn), Property (AUM £1.3bn) and Wholesale (AUM £3.5bn) funds sold in this market. The US Wholesale range currently comprises eight funds in total. The Henderson European Focus Fund was closed temporarily to new investors with effect from 1 August 2007, following a prolonged period of strong sales, but is expected to re-open in 1Q08.

The focus of the US team is the further expansion of the US Wholesale fund range and development of new Institutional products, including Property. We expect to add Institutional share classes to our US Wholesale fund range in 1H08. The North American business also began to distribute hedge funds during 2007. To date, the Property business has been successful in winning segregated mandates, with two new Manager of Partner relationships established (where Henderson funds co-invest with local partners). The establishment of a three year track record for the North American Henderson Property Fund, an open-ended higher margin diversified property fund, should provide added momentum from 4Q08.

There was £0.6bn of committed but uninvested capital in the North American Property business at 31 December 2007.

The contribution of North America to revenues for FY07 was £36.6m (FY06: £32.9m) and represented 11% (FY06: 11%) of total Henderson revenues. Growth has been strongest in higher margin US Wholesale funds, where consistently excellent investment performance enabled Henderson to achieve the fifth largest market share of net new flows amongst all international and global fund providers in 2007.

Asia

This team comprises circa 20 people, who are mainly distribution professionals as most products are manufactured by the Pan-European Listed Assets team. Distribution professionals are centred in Singapore (headquarters), Hong Kong and Tokyo. These locations also serve distribution relationships in Taiwan, Malaysia and Indonesia.

The product range consists of Horizon funds, Hedge funds and segregated institutional mandates.

After a strong first half, the second half has been more challenging for this business, with redemptions of the Horizon SICAV Property Securities assets consistent with those of other managers of similar funds. Despite this, Asia secured two notable institutional mandates (AUM £360m) including £134m of higher margin business.

The contribution to revenues by Asia for FY07 was £15.0m (FY06: £7.3m) and represented 4% (FY06: 2%) of total Henderson revenues. Although revenue growth in traditional higher margin Wholesale assets was strong, Institutional margins also improved as a result of 2007 gains.

Corporate result

Corporate costs

Corporate costs were £9.1m in FY07 (FY06: £11.5m). These costs include shareholder servicing costs and finance and secretariat functions, which are not directly attributable to individual business areas. FY06 costs included £2.0m of expenses associated with a strategic acquisition opportunity, which was not pursued, and the renegotiation of Pearl IMAs.

Return on Corporate cash

Corporate income of £6.2m in FY07 compared to £12.6m for FY06. The reduction is a result of the capital return in October 2006 (£200m), the special dividend paid in October 2007 (£250m), and the net interest cost associated with the debt raised in May 2007, partly offset by higher average interest rates on cash balances in FY07 (5.5%) compared to FY06 (4.6%).

Pensions

There are three types of pension plans 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).

There was a net surplus in the Scheme of £62.3m, before deferred tax provisions, at 31 December 2007 (30 June 2007: net surplus £38.5m, 31 December 2006: net deficit £5.0m). The movement in the Scheme balance during 2007 was principally due to:

- changes to service benefits which came into effect on 1 April 2007 following a period of staff consultation and agreement with the Scheme Trustee. The main effect of these changes was to restrict salary increases for pension purposes to the lower of the retail price index and actual. This resulted in an £8.7m past service credit arising as a non-recurring item in the income statement during 1H07, in accordance with International Accounting Standard (IAS) 19 Employee Benefits;
- a £20m special contribution made to the Scheme by the Group in October 2007, being the second of the special contributions totalling £80m that was agreed between the Company and the Scheme Trustee in connection with the £200m return of capital in 2006. A third and final payment of £20m is due in October 2008;
- increased returns on investments in 2007 in relation to the £60m of special contributions made to date; and
- the impact of a 0.7% per annum increase during 2007 in the AA corporate bond discount rate used to value the Scheme's liabilities for accounting purposes.

On 13 December 2006, the Company entered into a ten year agreement with the Trustee to fund the Scheme to at least 106% of its liabilities on an IAS 19 basis. As at 31 December 2007 the Scheme was 122% funded on this basis.

During 2007, a liability driven investment strategy was adopted for the Scheme assets backing defined benefit liabilities. Under this arrangement, 50% of Scheme assets are held in a risk-reducing portfolio, comprising assets broadly matching the liability profile of the Scheme, and the other 50% of assets are invested in a well-diversified return-seeking portfolio. These changes were implemented during 2H07 and significantly reduce the market risk of the Scheme, as well as give the Scheme exposure to some of Henderson's most highly rated investment professionals.

The liability in respect of the unapproved pension schemes amounted to £5.2m before tax relief at 31 December 2007 (FY06: £5.4m).

Regulatory requirements

Henderson has a waiver from consolidated supervision, granted by the UK Financial Services Authority, under section 8.4 of the new Prudential Sourcebook for Banks, Building Societies and Investment Firms. The waiver is valid for five years and expires on 1 January 2012. UK regulated entities within the Group continue to meet solo prudential capital requirements, whereas consolidated capital requirements are satisfied by Henderson Group plc's solo entity financial resources.

With effect from 1 January 2007, all UK regulated entities within the Group were required to meet the Pillar I (fixed overhead) capital requirements set out in the new Capital Requirements Directive (the Directive). Further requirements under Pillar II (operational risk) and Pillar III (market disclosure) came into effect on 1 January 2008. The Directive requires continual assessment of the Group's risks in order to ensure that the higher of Pillar I and II requirements is met. The Group has completed its assessment of regulatory capital requirements for 2008 including its individual Capital Adequacy Assessment Process (ICAAP) under Pillar II. This has been discussed with the Financial Services Authority, but is subject to formal review and approval by it during 2008. As indicated previously, the Group does not foresee any significant change in the level of capital required to satisfy prudential regulations, approximately £75m.

The regulatory capital surplus in the Group was £324m at 31 December 2007 (31 December 2006: £582m).

Capital

At an Extraordinary General Meeting held on 9 October 2007 shareholders approved a return of £250m of surplus cash, equivalent to 27.6 pence per share, by way of a special dividend paid on 29 October 2007. A simultaneous share consolidation exercise was undertaken at a ratio of 4 for 5, details of which were set out in a shareholder circular sent to shareholders in September 2007, and available on our website www.henderson.com

This return takes the total amount of capital returned to shareholders since 6 May 2005 to £1.3bn, which is in addition to ordinary dividends of £61.7m during the same period.

Dividends

The Group declared a dividend in respect of 1H07 profit of £15.0m, 1.66 pence per share (1H06: £10.1m, 0.88 pence per share) paid on 29 October 2007. This was in addition to the £20.3m (2.27 pence per share) paid in respect of 2H06 on 29 May 2007 (2H05: £16.1m maiden dividend, 1.39 pence per share).

2007 final dividend

The Board has recommended the payment of a £32.2m final dividend (4.44 pence per share) in respect of 2H07 profits (2H06: £20.5m, 2.27 pence per share). Approval of this dividend will be sought at the AGM on 1 May 2008 and, if obtained, payment will be made on 30 May 2008.

Debt issuance

On 2 May 2007 the Company successfully completed a debut unrated, five year bullet repayment, pounds sterling debt issuance. The aim of the issue was to improve the efficiency of the Group's balance sheet and, owing to strong demand for the issue, we achieved an issuance level of £175m at a price of five year gilts+125bps. The Group has swapped this fixed interest rate into a variable rate, based on LIBOR, to match the rates earned on its cash balances.

Employees

During 2007, the Group continued its policy of informing and involving employees in matters which concern them and in the achievement of its business goals. The Group has comprehensive processes for consultation and communication involving regular meetings between management and employees, team briefings and the issue of various bulletins. Employee development within the Group is promoted by encouraging staff to gain appropriate professional qualifications and assisting with wider personal development. Specific human 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 50).

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 Responsibility

A statement on corporate responsibility including, where appropriate, information relating to environmental matters, appears on pages 14 to 16.

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. This information forms the basis for the calculation of the Group's regulatory capital requirement.

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. The framework has been designed in order to ensure that risk management is embedded within the culture and operations of the business.

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 online 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 and credit risk. Additional information on risk management objectives and policies is included in the note 16 to the financial statements.

Discontinued operations

There were no movements in the results of discontinued operations during 2007.

With the completion of the sale of Towry Law UK in 2006 and the Life Services business in 2005, and the closure of Towry Law International in 2004, all non-investment management businesses have been disposed of or ceased. The impact of these businesses on the future results of the Group will be limited to the recognition of any potential 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. No further claims or surpluses/deficits in provisions are presently foreseen. Towry Law International's principal office in Hong Kong was closed in December 2007.

Outlook

Our diversity is a source of strength and the business is in good shape to withstand a sustained period of market weakness. Markets may move higher from current levels, but our current planning assumes that they do not. In addition, we are assuming that retail investor confidence remains fragile, leading us to be cautious about net flows into our Wholesale funds in 2008. Offsetting this, we see opportunities in the institutional market, in particular, further growth in our Property business, where our focus will be on investing pipeline commitments of £2.3bn as at 31 December 2007, and Institutional business, where we have won £0.6bn of new business since the start of the year.

Our primary focus will continue to be on profitable organic growth, but we also believe that, in more difficult markets, we are in a good position to capitalise on other opportunities. We are actively looking for those opportunities where we can lift out teams or make bolt-on acquisitions that meet our criteria.

We expect to continue earning transaction and performance fees in 2008, although we do not currently anticipate the same level of fees in 2008 as in recent years. We currently expect transaction and net performance fees of approximately £30m in 2008. Our goals for 2008 are to meet or beat Henderson Global Investors' 2007 operating profit before tax and to deliver a Henderson Global Investors cost to income ratio of 65% or below.

Principal activities

The principal activity of the Group in 2007 was the provision of investment management services.

Future developments

The Group's results for the year are shown in the consolidated income statement on page 32. A review of the financial year and future developments is covered in the Business review, which is incorporated into, and forms part of, this Directors' Report and additionally in the Chairman's and Chief Executive's statements on pages 1 and 2 respectively.

Corporate Governance Statement

The Corporate Governance Statement appears on pages 17 to 20 and forms part of this Directors' Report.

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) 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 26 February 2008, 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 26 February 2008, in accordance with the provisions of Rule 5 of the Disclosure and Transparency Rules, the Company had received notification of holdings (all of which are direct holdings) in the Company's issued share capital from:

	Percentage of total voting rights
Perpetual Limited	14.32%
Lansdowne Partners Limited Partnership	6.02%
IIOF Holdings Limited	4.87%
Barclays plc	4.52%
AMP Limited	4.51%
Legal & General plc	3.45%
Orion Asset Management Limited	3.31%

Supplier payment policy

Paragraph 12(3) of Schedule 7 of 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 the terms and conditions agreed between Group companies and their suppliers, provided that all trading terms and conditions have been complied with. In respect of the Group's activities, the amounts due to trade creditors as at 31 December 2007 represent approximately 30 days of average daily purchases throughout the year (2006: 30 days).

Financial instruments

A statement on the 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 risks, can be found in note 16 to the financial statements.

Share capital and structure

The share capital of the Company, issued and unissued, consists entirely of ordinary shares of 12.5 pence each (2006: 10 pence each). Each share ranks equally and carries the same right to receive dividends and other distributions declared, made or paid by the Company. No restrictions exist on the transfer or holding of securities in the Company under the Articles of Association and there are no shares carrying special rights with regard to the control of the Company.

Details of movements in authorised and allotted share capital during the year, including the Company's purchase of its own shares and the share consolidation approved at the Extraordinary General Meeting held on 9 October 2007, are given in notes 21 and 22 to the financial statements.

Details of shareholders with a significant holding known to the Company are set out in the Substantial shareholdings section above.

Employee share schemes

The Company has a number of share schemes. The rights attaching to the shares of several of the schemes are not exercisable directly by the employees. The trustees of such schemes have an obligation to act in the best interests of the beneficiaries of the share schemes and, although the trustees consider any recommendations made by the Company where applicable, the discretion to vote remains with the trustees. In cases of takeover or reconstruction, the employees do have a right to vote via the trustees. An exception to the above is that the trustee of the Henderson Group plc Buy As You Earn Share Plan does not have discretion as to how to vote and is instructed by the employees who are beneficially entitled to the underlying shares.

Restrictions on voting rights

All shareholders entitled to attend and vote at Company meetings are also entitled to appoint a proxy to attend, speak and vote in their place. A member may appoint more than one proxy. Proxies must be received not less than 48 hours before the time appointed for holding a meeting as set out in any notices concerning a general meeting or in any proxy form sent by or on behalf of the Company in relation to a meeting. In addition, regulation 41 of the Uncertificated Securities Regulations 2001 provides for a time to be specified in the notice of meeting for determining attendance and voting entitlements. This time may not be more than 48 hours before the meeting. Further details are set out in any Notice of Meeting issued by the Company from time to time.

Appointment and reappointment of Directors

In accordance with the Articles of Association, one third of the Directors of the Company are required to retire by rotation at each Annual General Meeting (AGM). The retiring Directors are eligible to stand for reappointment by shareholders.

The Board may appoint Directors to the Board without shareholder approval. Any Director so appointed must stand for reappointment by the shareholders at the next AGM in accordance with the Articles of Association.

Also, under the Companies Act 2006, shareholders may remove a Director before the end of his term by passing an ordinary resolution at a meeting, at which that Director has a right to be heard on the resolution. An ordinary resolution is passed if more than 50% of the votes cast, in person or by proxy, are in favour of the resolution. Special notice of the intention to propose the resolution must be given to the Company at least 28 days before the meeting at which it is moved.

Amendment to the Articles of Association of the Company

Under the Companies Act 1985, the Company may only amend its Articles of Association if the shareholders pass a special resolution to that effect. A special resolution is passed if 75% or more of the votes cast, in person or by proxy, are in favour of the resolution.

New issues of share capital and disapplication of pre-emption rights

Under the Companies Act 1985, the Directors of the Company are, with certain exceptions, unable to allot any ordinary shares without express authorisation, which may be contained in the Company's Articles of Association or given by its shareholders in general meeting, but which, in either event, cannot last more than five years. The Company follows best practice and asks shareholders to grant such authority on an annual basis. Under the Companies Act 1985, the Board may not allot ordinary shares for cash, other than pursuant to an employee share scheme, without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

The Directors currently have power to allot the Company's unissued shares up to an aggregate nominal amount of £29,000,000. This amount represents less than one third of the Company's issued ordinary share capital (excluding ordinary shares held in treasury (treasury shares)) as at the year end. Shareholders will be asked to renew this authority at the AGM on 1 May 2008.

The Directors have an authority to allot equity securities for cash or sell treasury shares for cash on a non pre-emptive basis (a) pursuant to a rights issue; or (b) up to an aggregate nominal amount of £4,400,000. This empowers the Company to make limited allotments of unissued equity shares of the Company or certain rights to acquire such shares (equity securities) and to sell treasury shares for cash other than in accordance with statutory pre-emption rights. This amount represents less than 5% of the Company's share capital. Shareholders will be asked to renew this authority at the AGM on 1 May 2008.

Purchase of own share capital

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Act 1985. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of issued share capital. At the Extraordinary General Meeting (EGM) held on 9 October 2007, the Directors were given shareholder authority to buy back up to 72,400,000 ordinary shares during the period up to the forthcoming AGM. The maximum number of ordinary shares authorised to be purchased was 72,400,000, minus the number of shares purchased pursuant to any purchases of CDIs made under a Contingent Purchase Contract (CP Contract). The minimum price (exclusive of expenses) which may be paid for an ordinary share is 12.5 pence (being the nominal value of an ordinary share). The maximum price (exclusive of expenses) which may be paid for each ordinary share is the higher of (a) an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System.

The Company bought back 5,000,000 shares of 12.5 pence each under this authority and holds these shares in treasury. These shares are not counted in the total voting rights of the Company and do not carry any rights with respect to dividends.

The Directors consider that it may be advantageous for the Company to buy back interests in its own CDIs in certain circumstances. However, because CDIs are interests in shares, rather than shares themselves, the Companies Act 1985 provisions which provide for a buy back of shares do not apply to CDIs. The Company, therefore, cannot buy CDIs pursuant to the above authority.

The Company achieves a similar result by entering into a CP Contract with Credit Suisse (Australia) Limited and certain of its affiliates (Credit Suisse) as identified in the CP Contract. Credit Suisse would buy the CDIs in Australia and then convert the CDIs into shares (Converted Shares). The Company would then have an obligation to buy any Converted Shares from Credit Suisse up to a maximum amount as explained below.

Section 165 of the Companies Act 1985 provides that a CP Contract must be approved by shareholders by special resolution. The Company was last given authority by way of a special resolution passed at the EGM held on 9 October 2007 to enter into the CP Contract to buy back a maximum number of Converted Shares. No Converted Shares have been bought back by the Company during 2007.

The maximum number of Converted Shares which could be bought back by the Company, together with the number of shares bought back by the Company under the authority to purchase own shares set out above, is limited to 72,400,000, which represented just under 10% of the Company's issued share capital (excluding treasury shares). Shareholders will be asked to renew this authority up to a limit of 70,000,000 at the AGM on 1 May 2008.

Significant agreements

On 2 May 2007, Henderson Group plc issued £175m in senior, unrated Fixed Rate Notes (Notes) listed on the London Stock Exchange, due 2 May 2012. Condition 6.3 of the terms and conditions of the Notes gives each noteholder the option to require Henderson Group plc to redeem or (at Henderson Group plc's option) to purchase that Note at its principal amount together with accrued interest in the event of a Change of Control. A 'Change of Control' will be deemed to have occurred, broadly, if there is a change in the person(s) who own more than 50% of the share capital of Henderson Group plc (or more than 50% of the voting rights attached to the share capital of Henderson Group plc). In the event that 80% or more in nominal amount of the Notes then outstanding have been redeemed or purchased in accordance with this condition, Henderson Group plc may redeem, at its option, the remaining Notes as a whole at their principal amount plus accrued interest.

Directors

Details of the Board members who served during the year and at the date of this report are set out on page 3. Rupert Pennant-Rea, Gerald Aherne and Anthony Hotson will, in accordance with the Company's Articles of Association, retire by rotation and offer themselves for reappointment at the AGM on 1 May 2008.

Directors' remuneration and interests

A report on Directors' remuneration appears on pages 21 to 27, 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.

Charitable donations

Donations by the Group during the year towards community and charitable causes amounted to £75,265 (2006: £51,000), which comprised social and welfare £6,700 (2006: £20,000); education and international £13,000 (2006: £8,000); and medical and other projects £55,565 (2006: £23,000).

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.

Rounding

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

Annual General Meeting

A separate document, the Notice of Annual General Meeting 2008, covering the Annual General Meeting of the Company to be held on 1 May 2008, will be sent or made available to all shareholders and will contain an explanation of the business before that meeting.

Independent auditors

Ernst & Young LLP have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the 2008 AGM.

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 page 3.

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
26 February 2008