

Preparation for transition to IFRS

24 June 2005

Henderson Group plc today released an overview of the impact of International Financial Reporting Standards (IFRS) on its consolidated financial statements for the year ended 31 December 2004. The overview is primarily of the continuing operations of Henderson Group (the Group) i.e. excluding the Life Services business (now known as Pearl Group) that was disposed of on 13 April 2005.

Henderson Group adopted IFRS for financial reporting purposes from 1 January 2005. Previously Henderson Group prepared its consolidated financial statements in accordance with UK Generally Accepted Accounting Practice (UKGAAP).

Henderson Group will report under IFRS for the first time on 24 August 2005 when its results for the six months ending 30 June 2005 will be released. Henderson Group's 2005 full-year results and 2005 Annual Financial Report and Accounts will therefore require restatement of the opening 1 January 2004 consolidated equity position, and 31 December 2004 comparatives under IFRS.

The information in this release has been prepared on the basis of the IFRS currently in issue and the Group's current understanding of how these standards should be applied. The standards in issue are subject to ongoing discussion, review and interpretation by the European Union (EU), the asset management industry and the accountancy profession. Their application continues to be subject to review by the International Financial Reporting Interpretations Committee (IFRIC).

Key impacts on Henderson Group

IFRS adjustments in respect of the continuing operations of Henderson Group have resulted in an increase in profit after tax for the year ended 31 December 2004 of £22.4 million and a decrease in consolidated shareholders' equity at 31 December 2004 of £11.5 million. At 1 January 2004 the consolidated shareholders' equity decreased by £30.4 million as a result of IFRS adjustments.

These IFRS adjustments have not resulted in a material change to capital management policy and no implications for underlying cash flows or dividends are expected.

Summary accounting impacts on Henderson Group

The main adjustments relevant to the Group post the sale of the Life Services business relate to the following standards:

IFRS 3	The cessation of goodwill amortisation.
IAS 17	Spreading lease incentives over the term of the lease rather than up to the first rental review.
IAS 18	The earlier recognition of certain performance fee income.
IAS18	The deferral of front end retail product commission income and expenditure over the estimated investment period, with related amortisation shown gross in the Consolidated Income Statement.
IAS 19	The inclusion of the net liability in respect of the defined benefit pension scheme on the Consolidated Balance Sheet.
IAS 39	The classification of investments as 'Available-For-Sale' with unrealised gains and losses taken to the Consolidated Statement of Recognised Income and Expense.

The ongoing interpretation of certain standards creates the possibility that there could be further changes to the Group's financial statements by the time the 2005 half-year results are released in August this year and the 2005 full-year results early next year.

Transitional arrangements

IFRS 1 'First-time Adoption of International Financial Reporting Standards' sets out how a company should apply IFRS at transition. The standard requires a company to use accounting policies that comply with each IFRS effective at the reporting date for its first IFRS financial statements and apply those policies retrospectively to all periods presented in those statements. The standard provides for a number of exceptions to this general principle to assist the transition. Henderson Group's approach to these exemptions, where applicable, is included in the discussion below.

Significant changes in accounting policies

Further detail about the main adjustments in Henderson Group accounting policies which impact the continuing operations as a result of the transition to IFRS are set out below. Some of these "adjusting" policies have had an impact on 1 January 2004 opening reserves and the year ended 31 December 2004 operating results of Henderson Group. Others, the "non-adjusting" policies, are deemed sufficiently important to disclose, but do not impact Henderson Group's shareholders' equity up to 31 December 2004.

Adjusting IFRS

IFRS 3 Business Combinations & IAS 36 Impairment of Assets

In accordance with the transitional provisions of IFRS 1, Henderson Group has chosen to apply IFRS 3 prospectively from the date of transition. This results in the value of goodwill arising from previous acquisitions being frozen at its UKGAAP value at 1 January 2004 and the reversal of any amortisation charged under UKGAAP in the year ended 31 December 2004 UKGAAP financial statements. From 1 January 2004 goodwill is subject to an annual impairment review in accordance with IFRS 3 and will be impaired where there are indications that the carrying value may not be recoverable.

There is no impact on the opening 1 January 2004 reserves. The impact on the 2004 Consolidated Income Statement in respect of Henderson Group is £17 million, being the reversal of the amortisation charged to the Consolidated Income Statement in

2004. The £17 million reversal in 2004 is an accurate reflection of the annualised impact on the Consolidated Income Statement in future periods. The goodwill was not due to be fully amortised under UKGAAP until 2020.

IAS 17 Leases

Under IFRS, Henderson Group will amortise lease incentives received over the term of the lease. Previously, under UKGAAP, such incentives were amortised over the period to the first rental review. In addition, the Life Services business has been required to reclassify certain leases previously treated as operating leases as finance leases. There has been no such impact in respect of any Henderson Group leases.

The change in the amortisation period has the effect of recapitalising £5 million of lease incentives relating to 4 Broadgate and amortising over 12 years, resulting in a £3.2 million reduction in consolidated shareholder funds at 31 December 2004, and a £0.4 million Consolidated Income Statement credit in 2004. The £0.4 million represents the annual amortisation of the lease incentive.

IAS 18 Revenue

▪ Performance fee recognition

Under UKGAAP, the Henderson Group recognised performance fees on investment management contracts in the period in which the performance fee was formally agreed as payable by the fund Trustees or fund Board. In accordance with the principles of IFRS, such fees are recognised once the amount of revenue can be reliably measured and it is probable the economic benefits associated with the transaction will crystallise. This has resulted in Henderson Group recognising performance fees earlier under IFRS than it would have previously under UKGAAP.

To comply with IAS 18, Henderson Group is adopting a new accounting policy in respect of performance fees that will recognise performance fees in the period that the prescribed performance hurdles have been achieved and it is probable that the fee will crystallise as a result.

This change only impacts the timing of recognition of performance fees and has no effect upon values or cash flows. It gives rise to a £1.6 million increase in consolidated shareholders' equity at 1 January 2004 and a £1.6 million credit to the Consolidated Income Statement for 2004 resulting in an increase in consolidated shareholders' equity of £3.2 million at 31 December 2004. The most significant change impacts upon half-year profits. In 2004 first half pre-tax profits increased by £9.6 million and second half pre-tax profits decreased by £8.0 million as a result of this change in timing of recognition.

▪ Deferred commission income & expenditure

Under UKGAAP Henderson recognised initial commission on the sale of open ended investment company (OEIC) shares and related commission payable to distributors as received/incurred. This was designed to match costs and fees.

In accordance with IAS 18 (Revenue) it is now necessary to recognise the initial commission as part of the total income derived from the investment management contract. This requires the deferral of the initial commission receipt and amortisation over the estimated period the investor stays in the fund. Similarly, in accordance with IAS 18, the incremental costs directly attributable to securing an investment management contract are recognised as an asset and amortised over the same period. For UK Retail OEICs we have assessed the appropriate amortisation period as 3 years. This change gives rise to a £1.3 million reduction in consolidated shareholders' equity at 1 January 2004 and a £0.3 million debit to the Consolidated Income Statement for 2004 resulting in a reduction in consolidated shareholders' equity of £1.6 million at 31 December 2004. For Horizon funds we have assessed

the appropriate amortisation period as 1 year. As a result there is no requirement to capitalise and amortise commission in respect of these funds.

IAS 18 (Revenue) and IAS 1 (Presentation of Financial Statements) also require all commission income and expenses to be shown gross in the Income Statement, whereas current industry practice has been to net these off. For the year ended 31 December 2004 commission income under IFRS will be shown as £21.1 million and commission expense as £22.3 million.

IAS 19 Employee Benefits

Under UKGAAP Henderson Group accounted for the staff defined benefit pension scheme in accordance with SSAP 24 'Accounting for pension costs', taking the cost of contributions to the scheme to the Consolidated Income Statement each period on a systematic basis, so that the cost of providing retirement benefits was evenly spread over the service lives of the employees concerned. Under IFRS (IAS 19) Henderson Group will recognise the full net liability on the defined benefit schemes in the Consolidated Balance Sheet and will take all actuarial gains and losses on the scheme to the Consolidated Statement of Recognised Income and Expense.

The Group has also revalued its unfunded pension scheme liabilities in accordance with IAS 19. Therefore, under IAS 19 the Group will recognise a £29.6 million net liability in respect of funded and unfunded pension arrangements for its continuing operations on its Consolidated Balance Sheet as at 31 December 2004. This comprises a net liability of £27.0 million in respect of the demerged defined benefit pension scheme and an increase in the provision for unfunded pensions of £2.6 million. The equivalent net liability recognised at 1 January 2004 was £28.3 million. During 2004 there was an actuarial loss of £5.1 million, taken through the Consolidated Statement of Recognised Income and Expense, partially offset by a gain of £3.8 million taken through the Consolidated Income Statement. The gain results from the discount rate applied to the valuation of actuarial liabilities (based upon a AA corporate bond under IFRS) being outperformed by the assumed investment return on the asset portfolio.

IAS 39 Financial Instruments: Recognition and Measurement

Under UKGAAP Henderson Group investments were either held at mid market value, in the case of investments held by the Life Services business as assets backing insurance liabilities, or at cost. Investments held at cost generally related to the investment management business and represented holdings related to strategic relationships, e.g. Banca Popolare di Lodi (BPL), or co-investment capital.

Under IFRS 39, investments must be held at fair value, with the recognition of the movement therein either going to the Consolidated Income Statement or direct to equity through the Consolidated Statement of Recognised Income and Expense.

The Henderson Group intends to designate investments as 'Available-For-Sale', requiring any unrealised gains and losses on these investments to be taken directly to equity through the Consolidated Statement of Recognised Income and Expense. On sale, any gain previously recognised directly through equity will be reversed out, and the full movement over the holding period recognised through the Consolidated Income Statement. Any impairment of the investment will also be accounted for through the Consolidated Income Statement.

The restatement of Henderson Group investments from historic cost to market value at bid price increases the opening balance sheet reserves at 1 January 2004 by £0.3 million. There is no impact on the Consolidated Income Statement for the year ended 31 December 2004, but the restatement does give rise to a £1.2 million credit in the Consolidated Statement of Recognised Income and Expense for 2004, thereby

increasing overall shareholder equity recognised in the year end 31 December 2004 financial statements by £1.5 million.

IAS 12 deferred taxation

The net effect of the above adjustments has resulted in an increase of £1.2 million in the deferred tax asset carried under IAS 12 in the Henderson Group Consolidated Balance Sheet at 31 December 2004.

Accounting for deferred taxation under IFRS (IAS 12) does not differ significantly from UKGAAP (FRS 19) when applied to Henderson Group. Deferred tax assets and liabilities are recognised on an undiscounted basis under IAS 12, whereas FRS 19 permitted discounting, although Henderson Group did not discount under UKGAAP.

Non-adjusting IFRS

IFRS 2 Share-based payments

IFRS 2 requires the Group to recognise a charge to the Consolidated Income Statement for the fair value of outstanding share options granted to employees after 7 November 2002, using a stochastic option valuation model. The charge is spread over the relevant option vesting periods, adjusted to reflect actual and expected levels of vesting.

In addition the Consolidated Income Statement will record the impact of any other share awards made to employees under any existing or new schemes, at the fair value of those awards. The fair value of an award is calculated as the value of the shares on the date of grant, including any applicable uplifts, discounted for the dividends foregone over the average holding period of the award. The fair value charges, adjusted to reflect actual and expected levels of vesting, are spread over the performance year and vesting period of the awards.

This amendment has no impact on the opening balance sheet reserves at 1 January 2004 or Consolidated Income Statement for the year ended 31 December 2004, as Henderson Group early adopted FRS 20 for the 2004 UKGAAP year end accounts, which is consistent with IFRS 2.

IAS 10 events after the balance sheet date

The Group will recognise dividends declared after the balance sheet date in the reporting period in which they are declared, as they represent non-adjusting events after the balance sheet date under IFRS.

The change does not impact the opening balance sheet reserves as at 1 January 2004, as no dividends were declared externally to Henderson Group after the balance sheet date in either 2003 or 2004.

Further communication

The 2005 half-year results for Henderson Group will be released on 24 August 2005. At this time Henderson Group will also provide 30 June 2004 comparatives under IFRS.

Reconciliation of consolidated shareholders' equity

	31 Dec 04 £m	1 Jan 04 £m
Consolidated shareholders' equity as reported under UKGAAP (2004 FAFRA)	1,837.7	1,689.1
<hr/>		
IFRS adjustments arising in respect of continuing operations:		
1. Business combinations & goodwill (IFRS 3 & IAS 36)	17.0	-
2. Lease obligations and incentives (IAS 17)	(3.2)	(3.6)
3. Performance fees (IAS 18)	3.2	1.6
4. Initial charges / commissions (IAS 18)	(1.6)	(1.3)
5. Retirement benefits (IAS 19)	(29.6)	(28.3)
6. Investments: Recognition & Measurement (IAS 39)	1.5	0.3
7. Deferred taxation (IAS 12)	1.2	0.9
Total IFRS adjustments arising in respect of continuing operations	(11.5)	(30.4)
<hr/>		
Consolidated shareholders' equity after IFRS adjustments in respect of continuing operations	1,826.2	1,658.7
IFRS adjustments arising in respect of discontinued operations	(351.2)	(51.7)
Consolidated shareholders' equity as reported under IFRS	1,475.0	1,607.0
<hr/>		
Minority interest arising in respect of discontinued operations	417.3	299.4
Consolidated equity as reported under IFRS	1,892.3	1,906.4
<hr/>		

Reconciliation of consolidated profit/(loss)

	Consolidated Income Statement	Statement of Recognised Income and Expense (SORIE)
	31 Dec 04 £m	31 Dec 04 £m
Profit on ordinary activities after taxation as reported under UKGAAP (2004 FAFRA)	42.2	(1.9)
<hr/>		
IFRS adjustments arising in respect of continuing operations:		
1. Business combinations & goodwill (IFRS 3 & IAS 36)	17.0	-
2. Lease obligations and incentives (IAS 17)	0.4	-
3. Performance fees (IAS 18)	1.6	-
4. Initial charges / commissions (IAS 18)	(0.3)	-
5. Retirement benefits (IAS 19)	3.8	(5.1)
6. Investments: Recognition & Measurement (IAS 39)	-	1.2
7. Deferred taxation (IAS 12)	(0.1)	0.4
Total IFRS adjustments arising in respect of continuing operations	22.4	(3.5)
<hr/>		
Profit on ordinary activities after taxation after IFRS adjustments in respect of continuing operations	64.6	(5.4)
IFRS adjustments arising in respect of discontinued operations	(237.8)	(18.8)
Loss after tax from all operations as reported under IFRS	(173.2)	(24.2)
<hr/>		

Teleconference call details

On Monday 27 June 2005 at 8.30am (London time), 5.30pm (Sydney time), the Chief Financial Officer of Henderson Group plc, Toby Hiscock, will present an overview of the impact of IFRS on the consolidated financial statements for Henderson Group for the year ended 31 December 2004. It will be held from London, via teleconference.

For details on the teleconference please contact:

Julie Watson +44 (0)20 7818 5150

For further information

www.henderson.com or

Investor enquiries

Toby Hiscock + 44 (0) 20 7818 5150
Chief Financial Officer

Mav Wynn + 44 (0) 20 7818 5135
Henderson Group Head of Investor Relations investor.relations@henderson.com

Media enquiries

United Kingdom – Finsbury
Roland Rudd/Julius Duncan +44 (0) 20 7251 3801

Australia - Cannings
Graham Canning +61 2 9252 0622