

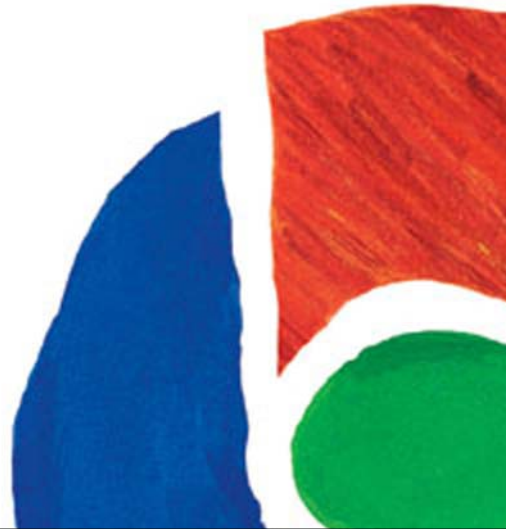


Henderson Group plc

Impact of International Financial Reporting Standards (IFRS)

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Henderson Group plc



DISCLAIMER

These materials issued by Henderson Group plc are a summary of certain information contained in the stock exchange announcement dated 24 June 2005 and should be read in conjunction with the full text of the announcement.

This presentation contains forward-looking statements with respect to the financial condition, results and business of Henderson Group plc. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Henderson Group's actual future results may differ materially from the results expressed or implied in these forward-looking statements.



Transition to International Financial Reporting Standards (IFRS)

The information set out in this presentation, the Preliminary IFRS Financial Statements for the year ended 31 December 2004 and the stock exchange announcement is based upon the IFRS currently in issue and our current understanding of how those standards should be applied.

The standards in issue are subject to ongoing review and endorsement by the European Union (EU), and the application of the standards continues to be subject to review by the International Financial Reporting Interpretations Committee (IFRIC).



Introduction

Adopted IFRS for financial reporting purposes from 1 January 2005

First IFRS results - interim results for 6 months to 30 June 2005

Comparatives for 2004 will be restated where applicable

Include impact of IFRS on results of Life Companies (Pearl, London Life, National Provident Life and NPI Limited), which were divested on 13 April 2005



Key impacts

- IFRS adjustments arising in respect of continuing operations:
 - Profit after tax for year ended 31 December 2004 increased by £22.4m
 - Consolidated shareholders' equity at 31 December 2004 decreased by £11.5m
- No material change to capital management policy
- No implications expected for underlying business cash flows or dividends
- Change in the timing of performance fee income recognition resulting in a shift towards earlier recognition, with a greater proportion of performance fees recognised in the first half rather than second half of each year
- Inclusion in the Consolidated Balance Sheet of the net liability in respect of the defined benefit staff pension scheme with actuarial gains and losses to go through the Consolidated Statement of Recognised Income and Expense
- Goodwill arising from previous acquisitions frozen at UKGAAP value at 1 January 2004 and reversal of amortisation charged under UKGAAP in the year ended 31 December 2004 UKGAAP financial statements
- Capitalisation of initial commission income and expenditure, with resulting amortisation, and other commissions that are not capitalised shown gross in the Consolidated Income Statement
- Life Business classified as discontinued operations/held for sale up to date of disposal on 13 April 2005

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Reconciliation of consolidated shareholders' equity

		31 Dec 04	01 Jan 04
	Note	£m	£m
Consolidated shareholders' equity as reported under UKGAAP (2004 FAFRA)		1,837.7	1,689.1
IFRS adjustments arising in respect of continuing operations:			
1. Business combinations & goodwill (IFRS 3 & IAS 36)	1	17.0	-
2. Lease obligations and incentives (IAS 17)	2	(3.2)	(3.6)
3. Performance fees (IAS 18)	3	3.2	1.6
4. Initial charges/commissions (IAS 18)	4	(1.6)	(1.3)
5. Retirement benefits (IAS 19)	5	(29.6)	(28.3)
6. Investments: Recognition & Measurement (IAS 39)	6	1.5	0.3
7. Deferred taxation (IAS 12)	7	1.2	0.9
Total IFRS adjustments arising in respect of continuing operations		(11.5)	(30.4)
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			
	8	(351.2)	(51.7)
Consolidated shareholders' equity as reported under IFRS		1,475.0	1,607.0
Minority interest arising in respect of discontinued operations	9	417.3	299.4
Consolidated equity as reported under IFRS		1,892.3	1,906.4

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Reconciliation of consolidated profit/(loss)

	Note	Consolidated	Statement of
		Income Statement	Recognised Income and Expense (SORIE)
		31 Dec 04	31 Dec 04
		£m	£m
Profit on ordinary activities after taxation as reported under UKGAAP (2004 FAFRA)		42.2	(1.9)
IFRS adjustments arising in respect of continuing operations:			
1. Business combinations & goodwill (IFRS 3 & IAS 36)	1	17.0	-
2. Lease obligations and incentives (IAS 17)	2	0.4	-
3. Performance fees (IAS 18)	3	1.6	-
4. Initial charges/commissions (IAS 18)	4	(0.3)	-
5. Retirement benefits (IAS 19)	5	3.8	(5.1)
6. Investments: Recognition & Measurement (IAS 39)	6	-	1.2
7. Deferred taxation (IAS 12)	7	(0.1)	0.4
Total IFRS adjustments arising in respect of continuing operations		22.4	(3.5)
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	8	(237.8)	(18.8)
Loss after tax from all operations as reported under IFRS		(173.2)	(24.2)

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Continuing operations

1. IFRS 3 Business Combinations & IAS 36 Impairment of Assets

Technical

In accordance with the transitional provisions of IFRS 1, Henderson Group has chosen to apply IFRS 3 prospectively from the date of transition. This has resulted in the value of goodwill arising from previous acquisitions being frozen at their UKGAAP values at 1 January 2004. The goodwill balance as at this date will be subject to an annual impairment review. Previously written off or amortised goodwill is permanently removed and not considered in calculating the profit or loss on any future disposals.

There is no impact on the opening 1 January 2004 reserves. The impact on the 2004 Consolidated Income Statement in respect of the Henderson Group is £17.0m favourable, being the reversal of the amortisation charged to the Profit and Loss Account in 2004. The £17.0m 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.

Impact on Henderson Group

	Goodwill
	£m
Opening 1 January 2004 consolidated shareholders' equity	0.0
2004 Consolidated Income Statement impact	17.0
2004 SORIE impact	-
Closing 31 December 2004 consolidated shareholders' equity	17.0

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Continuing operations

2. IAS 17 Leases

Technical

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.

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 reduces opening balance sheet reserves at 1 January 2004 by (£3.6m). The annualised impact on the Consolidated Income Statement for the Henderson Group for the year ended 31 December 2004 is a credit of £0.4m which will continue each year until 2011.

Impact on Henderson Group

	Lease obligations
	£m
Opening 1 January 2004 consolidated shareholders' equity	(3.6)
2004 Consolidated Income Statement impact	0.4
2004 SORIE impact	-
Closing 31 December 2004 consolidated shareholders' equity	(3.2)

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Continuing operations

3. IAS 18 Revenue – performance fee recognition

Technical

Under UKGAAP the Henderson Group recognised performance fees on investment management contracts only when the fund/portfolio accounts had been audited (if appropriate) and approved by the fund Trustees/Board.

Under IFRS the criteria for revenue recognition have changed. Henderson Group will recognise performance fees slightly earlier than it would have previously under UKGAAP, impacting both annual and interim results.

For example, full year 2004 pre tax profits under IFRS are £1.6m higher comprising an increase in 1H 04 pre tax profits of £9.6m offset by a reduction in 2H 04 pre tax profits of (£8.0m).

Impact on Henderson Group

	Performance fees
	£m
Opening 1 January 2004 consolidated shareholders' equity	1.6
2004 Consolidated Income Statement impact	1.6
2004 SORIE impact	-
Closing 31 December 2004 consolidated shareholders' equity	3.2

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Continuing operations

4 IAS 18 Revenue – deferred commission income & expenditure

Technical

Under UKGAAP commission was recognised in the Profit and Loss Account in the period in which it arose. IAS 18 requires that certain commission income and expenditure are capitalised and amortised over the estimated lifespan of investment in the respective product.

For our UK OEICs we have assessed the relevant period as 3 years. For our offshore Horizon fund range we have assessed the period as 1 year (no change from UKGAAP). The impact on opening balance sheet reserves at 1 January 2004 is to reduce them by (£1.3m), with a further (£0.3m) reduction in the Consolidated Income Statement for 2004. Both adjustments represent temporary timing differences.

IAS 18 and IAS 1 also require all commission income and expenses to be shown gross in the Consolidated Income Statement, whereas current industry practice has been to net these off. This results in commission income of £21.1m and commission payable of £22.3m shown gross in the Consolidated Income Statement for 2004.

Impact on Henderson Group

	Deferred commissions
	£m
Opening 1 January 2004 consolidated shareholders' equity	(1.3)
2004 Consolidated Income Statement impact	(0.3)
2004 SORIE impact	-
Closing 31 December 2004 consolidated shareholders' equity	(1.6)

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Continuing operations

5. IAS 19 Employee Benefits – retirement benefits

Technical

The net liability in respect of the defined benefit sections of the staff pension scheme will be recognised in the Consolidated Balance Sheet with actuarial gains and losses taken through the Consolidated Statement of Recognised Income and Expense.

Other long-term benefits including unfunded pension scheme liabilities are treated similarly to defined benefit schemes under IAS 19.

The accounting treatment of the defined contribution section of the staff pension scheme remains unchanged (i.e. contributions expensed in the period in which they are incurred).

Impact on Henderson Group

	Retirement benefits
	£m
Opening 1 January 2004 consolidated shareholders' equity	(28.3)
2004 Consolidated Income Statement impact	3.8
2004 SORIE impact	(5.1)
Closing 31 December 2004 consolidated shareholders' equity	(29.6)

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Continuing operations

6. IAS 39 Financial Instruments: Recognition & Measurement

Technical

Under UKGAAP Group investments were either held at mid-market value, in the case of investments held by the Life Services operation as assets backing insurance liabilities, or at cost, for example BPL investment and co-investment capital in Henderson products.

Under IFRS, Henderson Group intends to classify investments as 'Available-For-Sale'. Any unrealised gains and losses on these investments will be taken to the Consolidated Statement of Recognised Income and Expense. On sale, any amount previously recognised through equity will be reversed out, and the full realised gain or loss on disposal recognised through the Consolidated Income Statement.

Henderson Group does not hold any interests in investments significant enough to result in consolidation under IAS27.

Impact on Henderson Group

	Investment valuations
	£m
Opening 1 January 2004 consolidated shareholders' equity	0.3
2004 Consolidated Income Statement impact	-
2004 SORIE impact	1.2
Closing 31 December 2004 consolidated shareholders' equity	1.5

The market movement in respect of 90% of the £66m Henderson Group investment in BPL is excluded from the above movement as this was held by Pearl throughout 2004. The Henderson Group investment of £6m recognised a £0.2m gain through the SORIE in 2004.

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Continuing operations

7. IAS 12 Income Taxes

Technical

The net effect of the above adjustments has resulted in an increase of £1.2m in the deferred tax asset carried under IAS 12 in the Consolidated Balance Sheet, analysed as:

- Increase under IFRS in the unfunded pension fund deficit of £2.6m, resulting in an increase in the deferred tax asset of £0.8m; and
- Differences under IFRS in accounting for performance fees, commissions, investments and lease incentives resulting in an increase in the deferred tax asset of £0.4m

IFRS (IAS 12) itself does not differ significantly from UKGAAP (FRS 19) when applied to the Henderson Group. Deferred tax assets and liabilities are recognised on an undiscounted basis under IAS 12, whereas FRS 19 permitted discounting, though Henderson Group did not do so.

No deferred tax asset has been recognised in respect of retirement benefits as at 31 December 2004, since the Group at this time had significant tax losses to offset future profits.

Impact on Henderson Group

	Deferred taxation
	£m
Opening 1 January 2004 consolidated shareholders' equity	0.9
2004 Consolidated Income Statement impact	(0.1)
2004 SORIE impact	0.4
Closing 31 December 2004 consolidated shareholders' equity	1.2

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Continuing operations

Non-adjusting IFRS impacts of note

IFRS 2 Share-based payments (e.g. LTIP, STI deferral, SIP, SAYE, RSP)

IFRS 2 requires Henderson 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, will be spread over the performance year and vesting period of the awards.

This amendment has no impact on the opening balance sheet reserves as at 1 January 2004 or the 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.



Continuing operations

Non-adjusting IFRS impacts of note

IAS 10 Events after the Balance Sheet date

Henderson 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 at 1 January 2004, as no dividends were declared by the group after the Balance Sheet date in either 2003 or 2004.

Henderson Group expects to make its first dividend payment in early 2006 in respect of the second half of the year ending 31 December 2005. This dividend will be recognised in the 2006 financial statements in accordance with IFRS.

IAS 38 Intangible assets

Henderson Group is currently reviewing the implications of IAS 38 in respect of the capitalisation of certain software expenditure. It is not anticipated that any material IFRS adjustments will be required as a result of this review. The Group does not hold any other assets at this time which require adjustment in accordance with IAS 38.



8. IFRS adjustments in respect of discontinued operations

	Retirement benefits	Investment contracts	Contingent capital	Other	Total IFRS adjustments to carrying value of Life Services net assets	Impairment of Life Services	Total Life Services After Impairment
	IAS 19 note 8.1	IFRS 4 & IAS 39 note 8.2	note 8.3	note 8.4		IFRS 5 Note 8.5	
	£m	£m	£m	£m	£m	£m	£m
Opening 1 January 2004 consolidated shareholders' equity	(41.7)	62.1	(59.9)	(12.2)	(51.7)	-	(51.7)
2004 Consolidated Income Statement impact	24.9	(16.7)	(139.4)	(12.9)	(144.1)	(136.6)	(280.7)
2004 SORIE impact	(20.2)	-	-	1.4	(18.8)	-	(18.8)
Closing 31 December 2004 consolidated shareholders' equity	(37.0)	45.4	(199.3)	(23.7)	(214.6)	(136.6)	(351.2)
2004 Consolidated Income Statement (as above)							(280.7)
Minority interest movement							42.9
Total IFRS adjustments arising in respect of discontinued operations							(237.8)

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Discontinued operations

Other adjustments to Life Services under IFRS

Technical

8.1 Retirement benefits - (£37.0m) impact on December 2004 equity (IAS 19)

The net liability in respect of the defined benefit sections of the staff pension scheme plus unfunded pension liabilities totalled (£41.7m) at 1 January 2004. IFRS adjustments in respect of 2004 were to recognise an actuarial loss of (£20.2m) through the Consolidated Statement of Recognised Income and Expense and a profit of £24.9m through the Consolidated Income Statement resulting in a closing balance sheet liability of £37.0m.

8.2 Investment contracts - £45.4m impact on December 2004 equity (IFRS 4 & IAS 39)

Contracts underwritten by insurance subsidiaries that do not meet the definition of an insurance contract under IFRS 4 have been accounted for as investment contracts in accordance with IAS 39. Under UKGAAP such contracts were accounted for as insurance contracts. This has resulted in the release of reserves related to these contracts.

8.3 Contingent capital - (£199.3m) impact on December 2004 equity

Moving the carrying value of the contingent capital provided to the policyholder funds of National Provident Life Limited and London Life Limited from a market consistent embedded value (MCEV) basis to the carrying value of the contingent loan liabilities in National Provident Life Limited and London Life Limited respectively.

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Discontinued operations

Other adjustments to Life Services under IFRS (cont'd)

Technical

8.4 Other IFRS adjustments – (£23.7m) impact on December 2004 equity

This comprises a number of adjustments which impact the Life Companies including:

- The consolidation of certain property limited partnerships, open ended investment companies, unit trusts and private equity investments in accordance with IAS27; and
- The revaluation of investments to fair value under IFRS compared to middle market value under UKGAAP. This also impacts the value of insurance contract liabilities.



Discontinued operations

8.5 IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Technical

Where a major component of an entity has either been disposed of or is classified as held for sale, as applies to the Life Services business at the 2004 year end, any gain or loss recognised on the measurement of fair value less costs to sell is required to be separately identified either in the notes or on the face of the Consolidated Income Statement.

Under IFRS the value of the assets of the Life Services operations has been written down to the value at which they were disposed of. This has no impact on the opening 1 January 2004 reserves. The impact on the 2004 Consolidated Income Statement of Life Services is (£136.6m), equating to the adjusted loss on disposal under IFRS.

	Pro forma ¹ £m	Adjustments £m	IFRS £m
Consideration	1,070.0	-	1,070.0
Interest accrued to completion date	-	6.1	6.1
Settlement of loans	(7.0)	1.1	(5.9)
Consideration for BPL	34.0	(2.2)	31.8
Disposal costs	(28.0)	7.5	(20.5)
Contribution to Transferring Pension Scheme	-	(22.7)	(22.7)
Fair value of disposal group	1,069.0	(10.2)	1,058.8
Carrying value of Life Services net assets	(1,410.0)	214.6 ²	(1,195.4)
Impairment/Loss on disposal	(341.0)	204.4	(136.6)

1. The pro forma loss on disposal was disclosed in note 38 to the Full Annual Financial Report and Accounts for the year ended 31 December 2004.

2. The total IFRS adjustments impacting the carrying value of Life Services net assets before the impairment upon disposal is set out in the table of IFRS adjustments in respect of discontinued operations on page 16



Discontinued Operations

Other adjustments to Life Services under IFRS (cont'd)

Technical

9.0 Minority interest arising in respect of discontinued operations £417.3m

The movement in minority interest of £417.3m set out in the reconciliation of consolidated shareholders' equity comprises:

- £83.3m to include minority interest within equity. This includes £4.0m of profits arising in 2004 in respect of minority interests. Under UKGAAP minority interest was excluded from equity; and
- £334.0m in respect of newly consolidated entities in accordance with IFRS comprising property limited partnerships, open-ended investment companies, unit trusts and private equity holdings in Life Services. Previously under UKGAAP these holdings were treated as investments, therefore no minority interest arose. This includes £42.9m of profit arising in 2004 in respect of newly consolidated minority interests.



Next Step

2005 Interim Results under IFRS with IFRS comparatives and reconciliation to UKGAAP will be released on 24 August 2005

