

CHIEF EXECUTIVE'S STATEMENT

Introduction and background

This is the first set of results I am reporting on since becoming Chief Executive in November last year. Considering the ongoing volatility and uncertainty in markets, I am reassured by the robust business model I have inherited.

Under Roger Yates' tenure, Henderson has established itself as a successful, diversified, independent fund management business. I will further develop the business from these strong foundations.

Not only are markets global, so too are the needs of our clients. A key strength of Henderson is the diversity of its product offering and our ability to leverage the talent in our business across all financial markets and asset classes.

Given the challenging market backdrop, my first task has been to streamline and protect the business. This has necessitated further active cost control, but always mindful of not damaging our core investment capabilities.

Then, to improve distribution and service to clients, I have combined the regional sales teams, enabling client demand and product development to be co-ordinated globally. I have also consolidated our successful North American and European property businesses into a global property business. These actions have improved our understanding of clients' needs and made us focus on them more efficiently and effectively.

Geographically, we have taken strides in developing our North American and Asian businesses over the years. Whilst we are rightly proud of the achievements to date in these areas, there remains much work to do. I will allocate more senior management resource to continue to develop our business in these important markets.

Third party administrator review

We recently completed the review of most of our third party investment administration arrangements. As previously guided, the costs of this review amounted to £2.6 million in 2008.

The primary goal of the review was to improve the overall service quality to our clients, whilst taking into account market developments in the past 12 months, as well as our future servicing needs. We have awarded our existing partner, BNP Paribas Securities Services, a new contract for investment operations that enhances our relationship with them, provides a full range of investment operations services and offers global access to BNP Paribas' customers for Henderson.

Corporate developments

Current market levels have enabled us to acquire some new investment capabilities at attractive prices. The recent acquisitions of the Fortis currency team and a 30% stake in Attunga Capital Pty Limited, together with the proposed acquisition of New Star, all fit with our strategy and financial criteria. The Chairman has covered these businesses in his Statement, however, it is important to stress how all of these activities expand our offering for our clients in areas we believe will see strong demand. Our clients and our shareholders stand to benefit from them in the future.

2008 result

In 2008, global equity markets suffered one of their worst years on record. The S&P 500 fell by 37% in dollar terms, and Europe fared no better. After a strong year in 2007, Asian and emerging markets were also severely affected by the sharp declines in global equities, falling between 40% and 50% respectively in local currency terms.

Interest rates were radically cut in all the major economies ending the year at record lows: 2% in the UK, between 0% and 0.25% in the US, 2.5% in the Eurozone and 0.1% in Japan.

The property sector saw valuations fall in the early months of the year and remained under pressure throughout. In contrast, government bond markets performed well, supported by investors seeking a safe haven, against a backdrop of falling interest rates. Corporate bonds, however, fared particularly poorly as actual and potential defaults by investment grade entities generally pushed bond prices to much lower levels.

Against this backdrop, our AUM have proved resilient. Net fund inflows of £2.9 billion, predominantly into our Institutional and Property divisions, were offset by net fund outflows of £6.7 billion

from Pearl. Coupled with unfavourable market and foreign exchange rate movements of £5.9 billion, total assets under management fell 16% to £49.5 billion at 31 December 2008 (2007: £59.2 billion).

Revenues decreased by 21% during 2008, largely as a result of lower transaction and net performance fees. Average management fee margins declined only slightly, from 42bps to 41bps, whereas total fee margins were 48bps compared to 53bps in 2007. To counteract the decline in revenues, however, we achieved significant reductions in operating costs which resulted in an improvement in Henderson's cost to income ratio from 68% to 63%.

Overall, profits from Henderson Global Investors declined 9%, better than markets which fell on average by 16%. At the Group level, profit before non-recurring items and tax was 25% lower than the previous year, mainly due to interest costs associated with the prudent level of debt that we raised in 2007.

Turning to investment performance, short-term investment performance in a number of our funds was negatively affected by market volatility. In contrast our three-year investment performance in most areas remains competitive.

In Listed Assets, made up of our Equity and Fixed Income business, 49% of funds beat their benchmark over one year. Fixed Income performance was strong, given market conditions, and resulted in Henderson winning significant client mandates in the year. Equity performance, although disappointing in some areas, remains competitive and we are positioned to attract fund flows once investor demand returns.

The US Wholesale fund range has maintained its good track record, with more than 85% of assets outperforming over one and three years. The Horizon SICAVs are similarly strong, including 72% of assets beating their target over one year. UK Wholesale, notably fixed income, also continued to perform well in 2008.

In Pan-European Property, the performance track record is pending publication of the IPD Annual Benchmarks next month. The 2008 score for funds with market or peer group benchmarks is expected to be around 50% but, due to the impact of market conditions on absolute return funds, overall performance is expected to be around 21% of funds achieving/beating their benchmarks, which would bring the three-year track record to around 50%.

Outlook

Current market levels are significantly below the average levels of 2008 and we expect this situation to persist in the short to medium term. Therefore, 2009 is likely to be more challenging for earnings than 2008. However, our competitive long-term investment performance, diversity of revenues, and active cost management should provide some support.

We remain committed to providing clients with higher value-add investment products in all market conditions. Although our future focus will be on generating profitable organic growth, prevailing markets offer other opportunities, at attractive prices for our shareholders, to extend Henderson's product offering and increase market share. The recent partial acquisition of Attunga and the lift-out of the Fortis currency team, together with the proposed acquisition of New Star, all fit with our strategy and financial criteria. The proposed acquisition of New Star is on track and expected to complete in early April.

Overall, the Group remains in satisfactory shape despite the economic climate.

Thank you

I wish to thank our clients for their ongoing support and commitment to our products and people; our shareholders who continue to endorse our strategy; and finally our staff, without whom we would not have the business we have today. Thank you.



Andrew Formica
Chief Executive, Henderson Group