

DIRECTORS' REPORT

Business review

The results of the Group comprise two components:

- the core investment management business, Henderson; and
- the Corporate office, responsible for dealing with the requirements of being a dual-listed company.

The results of the Group for the year ended 31 December 2008 (FY08) are summarised below, with comparatives:

	FY08 £m	FY07 £m
Henderson	99.7	109.6
Corporate	(19.4)	(2.9)
Profit before non-recurring items and tax	80.3	106.7
Non-recurring items before tax	(97.3)	40.5
(Loss)/profit before tax	(17.0)	147.2
Taxation – recurring operations	(8.6)	(12.4)
Taxation – non-recurring items	4.8	(2.6)
Total taxation	(3.8)	(15.0)
(Loss)/profit after tax	(20.8)	132.2
Attributable to:		
Equity holders of the parent	(20.9)	132.1
Minority interests	0.1	0.1
	(20.8)	132.2
Henderson		
Assets under management	£49.5bn	£59.2bn
Cost to income ratio	63.4%	67.5%

The Group result

The Group's profit before non-recurring items and tax for FY08 was £80.3m, a decrease of £26.4m (25%) on FY07 (£106.7m). Henderson's profit before non-recurring items and tax decreased by 9% to £99.7m in FY08 (FY07: £109.6m).

Corporate made a loss of £19.4m in FY08 (FY07: £2.9m), comprising net interest expense of £11.7m (FY07: net interest income of £6.2m) and Corporate costs of £7.7m (FY07: £9.1m). The change to a Corporate net interest expense from income reflects lower interest generating cash balances due to the payment of a special dividend to shareholders in October 2007 and the full year impact of interest costs associated with the Corporate debt instrument issued in May 2007.

The following non-recurring items before tax were recognised in FY08:

- a £1.5m profit on the unwinding of an interest rate swap on the Corporate debt;
- a £68.8m loss on part disposal and impairment of the equity holding in Banco Popolare Gruppo Bancario (BP);
- a £7.2m impairment of an investment in a Henderson structured product;
- a charge of £15.7m in respect of restructuring;
- a charge of £4.5m in respect of the scheme of arrangement; and
- a charge of £2.6m in respect of a review of most of the Group's third party administration arrangements.

There were two non-recurring items before tax recognised in FY07:

- an accounting gain of £31.8m on the Group's investment in BP; and
- a £8.7m past service credit relating to the Henderson Group Pension Scheme.

Further details of the non-recurring items are given in note 7 to the financial statements.

Group taxation

The tax charge on recurring operations in FY08 was £8.6m (FY07: £12.4m), giving an effective tax rate of 10.7% (FY07: 11.7%).

The primary reasons for the effective tax rate on recurring operations being less than the current UK statutory rate of 28.5% (pro rata) were the recognition of previously unrecognised deferred tax assets and the release of surplus provisions in respect of prior years.

Henderson result

The proposed acquisition of New Star is expected to accelerate the realisation of the Henderson's existing strategy, which is to build a scaleable, profitable, active investment management business offering higher margin products in core equity, fixed income and alternative investment capabilities. The Board continues to regard Henderson's home markets as the UK and Europe, with growing businesses in North America and Asia. The New Star acquisition will add significantly to Henderson's market share in the UK and operations in North America.

Summarised income statement – Henderson

	2008 £m	2007 £m
Management fees (net of commissions payable)	221.9	258.0
Transaction fees	16.5	17.8
Performance fees (net of fund manager bonuses)	19.4	50.1
Total fee income	257.8	325.9
Investment income	14.7	11.5
Total income	272.5	337.4
Operating costs	(170.4)	(225.3)
Depreciation and amortisation	(2.4)	(2.5)
Total expenses	(172.8)	(227.8)
Operating profit before tax	99.7	109.6
Margins on average AUM		
Average AUM (£bn)	53.7	61.1
Total fee margin (bps)	48.0	53.3
Management fee margin (bps)	41.3	42.2
Net margin (bps)	18.6	17.9

Revenues and fee margins

Total fee income in FY08 of £257.8m was 21% below FY07 (£325.9m). Within this, management fee income decreased 14% to £221.9m in FY08, reflecting subdued market conditions, with the FTSE 100 Index averaging 16% lower than in the prior year. Transaction fees fell 7% to £16.5m in FY08 (FY07: £17.8m), primarily due to reduced Property deal flow. Net performance fees decreased by 61% in FY08 to £19.4m (FY07: £50.1m), with hedge funds, property and institutional being the main contributors.

Average management fees and net margins in FY08 were 41.3bps (FY07: 42.2bps) and 18.6bps (FY07: 17.9bps) respectively. Total fee margin decreased from 53.3bps in FY07 to 48.0bps in FY08, largely due to lower net performance fees.

Assets under management

Total AUM at 31 December 2008 were £49.5bn, £9.7bn or 16% below AUM at 31 December 2007, whilst monthly average AUM in FY08 was 12% below that in FY07. Net fund outflows of £3.8bn comprised £6.7bn net outflows in respect of Pearl (including £1.8bn relating to the Pearl Staff Pension Scheme) and £0.8bn higher margin net outflows, partially offset by lower margin net inflows of £3.7bn. In addition, there were unfavourable market and foreign exchange rate movements of £5.9bn during the year.

Summary of movements in AUM

	Opening AUM 1 Jan 08 £bn	Net flows FY08 £bn	Market/FX FY08 £bn	Closing AUM 31 Dec 08 £bn	Management fees FY08 £m	Management fees FY07 £m
Higher margin						
– Investment trusts	4.3	(0.3)	(1.3)	2.7	13.5	15.8
– Horizon funds	3.5	(0.5)	(0.7)	2.3	25.3	40.0
– UK Wholesale	3.8	(0.1)	(0.6)	3.1	30.3	40.7
– US Wholesale	3.5	(0.4)	(0.8)	2.3	25.3	21.4
– Hedge funds	1.2	(0.4)	–	0.8	16.2	18.4
– Property (UK/Europe)	7.4	0.8	(0.6)	7.6	41.1	35.1
– Property (US)	1.3	0.1	0.3	1.7	4.8	4.6
– Private Equity	1.1	–	0.1	1.2	12.3	13.3
– Structured products	1.8	–	0.4	2.2	8.8	8.7
	27.9	(0.8)	(3.2)	23.9	177.6	198.0
Lower margin/Pearl	31.3	(3.0)	(2.7)	25.6	44.3	60.0
Total	59.2	(3.8)	(5.9)	49.5	221.9	258.0

Asset class split of AUM

	31 Dec 2008 £bn	31 Dec 2007 £bn
Equities	18.0	26.9
Fixed Income	21.4	22.2
Property	8.8	8.8
Private Equity	1.3	1.3
Total AUM	49.5	59.2

Investment income

Investment income in FY08 increased by 28% to £14.7m. The main contributors were distributions from available-for-sale financial assets and higher interest income on cash balances.

Operating costs

Operating costs decreased by 24% to £170.4m in FY08. The main movements compared to FY07 are shown in the table below:

	2008 £m	2007 £m
Operating costs		
– Staff costs	110.7	153.7
– Investment administration	16.4	16.0
– Information technology	9.2	9.6
– Office expenses	12.3	13.2
– Other expenses	21.8	32.8
Total operating costs	170.4	225.3
Cost to income ratio	63.4%	67.5%

A reduction in costs was achieved in all expense categories, apart from investment administration, which showed a slight increase compared to FY07, mainly due to a higher level of institutional client assets, particularly fixed income assets taken on in the year.

Fixed staff costs reduced by £2.7m to £71.7m in FY08. The number of Group full-time employees at the end of 2008 was 863, compared to 946 at the end of 2007, and is expected to fall further in 2009. Approximately 25% of staff are employed outside the UK and the impact of the headcount reductions has been partly offset by the weakening of the pound sterling against most major currencies during 2008. The cost of the headcount reductions has been charged as a non-recurring item in FY08. Variable staffs costs reduced by 51% compared to FY07, in excess of the fall in total income.

The decrease in other operating costs includes reductions in discretionary expenses, primarily legal and professional, marketing and travel and subsistence, in line with lower headcount and activity levels.

Investment performance

Funds at/above benchmark to 31 December

	1 year		3 year	
	2008 %	2007 %	2008 %	2007 %
Equities	41	54	48	64
Fixed Income¹	55	64	62	40
Property²	30	34	50	80
Total²	41	48	49	54
Higher margin				
– Investment trusts	34	39	54	58
– Horizon funds	72	52	82	83
– UK Wholesale	46	48	72	55
– US Wholesale	88	77	87	100
– Hedge funds	17	76	38	90
– Property (UK/Europe) ²	21	28	50	76
– Property (US)	73	76	54	100
Total higher margin²	43	48	63	76
Lower margin				
– Enhanced index	19	64	6	45
– Fixed Income	43	40	40	23
– Balanced/active equity	28	31	40	28
Total lower margin	31	47	29	31

Notes

- 2008 Fixed Income performance excludes the impact of structured products. Comparative performance has been restated on this basis.
- Estimated, pending Property benchmark data.

Henderson's three-year investment performance remains satisfactory, with 56% of Equity and Fixed Income funds achieving or beating their benchmarks. 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 delivered similarly strong performance, with 72% of assets beating target over one year. UK Wholesale performance has remained stable in 2008, driven by fixed income. In the Institutional business, international mandates have had a reasonable year, with 46% of assets beating benchmark, bringing the three-year track record to 70%.

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%.

The number of rated¹ fund managers fell by one to six during 2H08 and the number of rated¹ products increased by five to 48. Henderson won a total of 21 investment performance awards during FY08 (FY07: 20), including the FT Business Pension & Investment Provider Award for Best Business Pension and Investment Provider – UK property category; the Lipper Award (US) for the European Focus Fund as Best fund over five years – European Region Funds; and the Morningstar Award (UK) for the Henderson Horizon American Equity Fund as Best US Large-Cap Equity Fund.

Note

- Fund Manager ratings by Citywire and product ratings by Feri, OBSR, S&P and Morningstar.

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 in different market conditions.

Henderson considers itself a single operating unit governed by the Board, with sole discretion for setting the strategic direction of the business. Beneath the Board is the Executive Review Committee, consisting of the two Executive Directors, and the Senior Management Team, comprising the Chief Executive and his direct reports, who preside over the business teams. During 2008 these teams were: Pan-European Listed Assets, Property, Private Equity, North America and Asia. Investment and distribution functions lie within each of these teams and cross-selling is encouraged. Central operations and other service functions provide common support.

To improve our distribution and service to clients, our US and Pan-European sales teams have recently been combined into a global Listed Assets business. Our successful North American and European property businesses have also been combined into a global Property business and our Private Equity business continues to be run globally. These actions have improved our understanding of our clients' needs, made product development more efficient and effective, and will form the basis of future reporting.

Geographically, the Group intends to place more emphasis on Asia and is dedicating more senior management resources to this key region.

Henderson's main focus continues to be on expanding higher margin AUM. Revenues from higher margin funds in FY08 totalled £207.4m (FY07: £243.8m) which, after allocated costs of £109.1m (FY07: £119.2m), resulted in a net contribution to overheads of £98.3m (FY07: £124.6m). Lower margin and Pearl fund revenues totalled £50.4m in FY08 (FY07: £82.1m), with allocated costs and net contribution levels of £38.2m (FY07: £50.9m) and £12.2m (FY07: £31.2m) respectively.

Pan-European Listed Assets

This team comprises circa 300 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, Vienna and Madrid. These offices also distribute to other European locations on an opportunistic basis.

The product range consists of Wholesale funds (Luxembourg 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.

Listed Assets revenues contributed £161.5m in FY08 (FY07: £207.7m), representing 60% (FY07: 62%) of total Henderson revenues.

The Listed Assets team generated net new business (excluding Pearl) of £2.6bn in 2008, mainly in lower margin fixed income and cash funds. Since David Jacob's appointment as Head of Fixed Income in 2004, the fixed income department has undergone a transformation in structure, process and products in order to meet the rapidly evolving needs of our clients. This has led to significant investment in human and technical resources to achieve the best possible outcome for our clients. We believe that our approach to fixed income investment management represents industry best practice and we are enjoying considerable success from growing our client base and AUM.

Our structured products business was able to capitalise on opportunities in the distressed debt markets during the year, by being appointed as investment adviser to Ernst & Young in its role as receiver to Sigma Finance Corporation, a structured investment vehicle (SIV), and financial adviser to The Bank of New York Mellon, the security trustee of Orion Finance Corporation, another SIV in enforcement.

These assets are excluded from our AUM, but generate transaction fees for the business.

During FY08, our Horizon fund range saw net outflows of £0.5bn, whereas UK Wholesale flows were only slightly negative. Investment performance in these products remains good and we are well positioned to benefit from a future market recovery.

In line with the industry as a whole, we saw outflows from our Hedge fund range in FY08. Despite good investment performance in a number of our funds, net fund outflows totalled £0.4bn. The liquidity and diversity of our Hedge fund business remain sound and, therefore, we have not felt it necessary to impose restrictions on fund redemptions. The FY08 outflows mean that we now have additional capacity to take on new assets in a number of funds when investor confidence returns.

Henderson purchased approximately 30% of Attunga Capital Pty Limited (Attunga) in November 2008. Attunga was set up in December 2005 and was granted its Australian Financial Services Licence in May 2006. It primarily manages three funds utilising two different strategies: the Enviro Opportunities Fund and Power and Enviro (Offshore) Fund both trade power market and related derivative instruments; the Agricultural Trading Fund (ATF) trades soft commodity and agricultural derivatives. The ATF team also runs a managed account. It is intended to develop a US\$ share class for the ATF to make the fund more marketable as a private placement opportunity. This will also help form a track record for a subsequent SICAV fund.

During the year, we focused our resources on funds which are profitable, which have long-term investment performance track records and which are saleable in prevailing market conditions. As a result, we decided to close the Henderson Pan-European Active Engagement Fund at the end of 2008.

In early January 2009, a specialist currency team of five members joined Henderson from Fortis investment bank. The team will be based in London for the next few months and then relocated to Amsterdam, where it will be headquartered. Following positive feedback from the consultant community and investor contacts, this team intends to launch, in early March 2009, a blended G10 and EM currency fund using a Cayman domiciled fund vehicle. The team also won its first segregated mandate for Henderson in January 2009.

Property

This team comprises circa 160 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 e.g. 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 2008 comprised £7.0bn (85%) of closed-ended funds, £0.6bn (7%) of segregated accounts and £0.7bn (8%) of open-ended funds. Typically, closed-ended funds have 7 to 10-year life spans and exit is only possible on a matched bargain basis. The Property investor base is entirely institutional. There are no significant outstanding redemption notices in respect of the open-ended funds.

The contribution to revenues from Property in FY08 was £50.1m (FY07: £61.6m) and represented 18% (FY07: 18%) of total Henderson revenues. The fall in revenues year-on-year was mainly due to a three-year performance fee in FY07 of £8.2m in respect of the Henderson Caspar Property Fund.

There were net fund inflows in FY08 of £0.8bn, including £0.4bn into the Henderson UK Outlet Mall Fund launched in 2H08. At 31 December 2008, the pipeline of client committed, but uninvested, capital was £1.4bn (FY07: £1.7bn). Whilst property valuations have been adversely impacted by recent economic conditions, the committed capital remains secure and is expected to fund investment opportunities in late 2009/2010.

Private Equity

This team comprises 27 people, approximately 60% of whom are investment professionals located in London, Singapore, Hong Kong and New Delhi. Distribution is carried out by the Listed Assets distribution team and external placement agents.

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

The contribution of Private Equity to revenues in FY08 was £14.6m (FY07: £16.5m) and represented 5% (FY07: 5%) of total Henderson revenues.

2008 was another year of consolidation for the Private Equity business, with economic conditions affecting asset-raising opportunities across the product range. However, the same conditions mean it is a good time to invest funds already raised and we continue to seek out suitable opportunities, mainly in China and India.

We also continued to develop the infrastructure business in 2008. John Laing, an investment of the Henderson PFI Secondary Fund II L.P., one of Henderson's specialist infrastructure funds, had a sound year, particularly given market conditions. We commenced marketing of our third infrastructure fund during the year, however, given current conditions, we expect the closing of this fund to be somewhat delayed. More recently, it was announced that the Agility Trains consortium, of which John Laing is a major partner, has been selected as the preferred bidder by the UK Department for Transport for the provision of rail infrastructure services, with a potential value of up to £7.5bn over the project life.

North America

This team comprises circa 95 people, approximately 23% of whom are property investment professionals located in Hartford, Connecticut and Chicago, Illinois and 52% represent distribution professionals, operating in all the major states.

The US team is responsible for Institutional (AUM £1.1bn), Property (AUM £1.7bn) and Wholesale (AUM £2.3bn) funds sold in this market.

The contribution of North America to revenues for FY08 was £38.2m (FY07: £36.6m) and represented 14% (FY07: 11%) of total Henderson revenues.

The US Wholesale range currently comprises 10 funds, including two new funds targeted primarily at institutional investors. This fund range saw net outflows totalling £0.4bn during 2008, due to general market weakness, but investment performance remains very competitive. In addition, during 2H08, we won a £0.3bn EAFE mandate for a new institutional client.

At 31 December 2008, the pipeline of committed, but uninvested, capital in respect of US Property clients was £0.6bn (FY07: £0.6bn).

Asia

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

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

The contribution to revenues by Asia in FY08 was £8.1m (FY07: £15.0m) and represented 3% (FY07: 4%) of total Henderson revenues.

Corporate result

Corporate net interest

Corporate net interest expense was £11.7m in FY08, compared to net interest income of £6.2m in FY07. The change to a Corporate net interest expense from income reflects lower interest generating cash balances due to the payment of a special dividend to shareholders in October 2007 and the full year impact of interest costs associated with the Corporate debt instrument issued in May 2007.

Corporate costs

Corporate costs amounted to £7.7m in FY08 (FY07: £9.1m). These costs include shareholder servicing and other costs, which are not directly attributable to individual business areas. The main reason for the year-on-year reduction in costs relates to lower insurance premiums.

Scheme of arrangement

As announced on 31 October 2008, a scheme of arrangement under sections 895 to 899 of the UK Companies Act became effective on 31 October 2008 following shareholder and UK Court approval.

The Scheme and associated corporate restructure is designed to help achieve a more efficient taxation position for the Group and should deliver an effective corporate tax rate on profits before non-recurring items of approximately 20% per annum from 2009 onwards.

The cost of implementing the Scheme was approximately £4.5m, as previously disclosed, and is reflected as a non-recurring item in the consolidated income statement for 2008.

Pension schemes

There are three types of pension schemes within the Group: the funded and approved defined benefit scheme, which closed to new members on 15 November 1999; the funded and approved money purchase scheme; and a number of smaller unapproved pension top-up schemes for executives. The first two schemes together form the Henderson Group Pension Scheme (the Pension Scheme).

There was a net surplus in the Pension Scheme of £152.5m, before deferred tax provisions, at 31 December 2008 (FY07: £62.3m). The favourable movement in the Pension Scheme surplus during 2008 was principally due to an increase in the AA corporate bond interest rate, used to value liabilities, from 5.8% to 6.4% per annum, coupled with a decrease in the inflation rate, from 3.5% to 3.0% per annum.

On 13 December 2006, the Company entered into a 10-year agreement with the trustee to fund the Pension Scheme to at least 106% of its liabilities on an IAS 19 basis. As at 31 December 2008, the Pension Scheme was 161% funded on this basis (FY07: 122%). A final £20m special contribution was paid to the Pension Scheme in October 2008, as part of an agreement made between Old Henderson Group plc and the trustee in connection with the £200m return of capital to shareholders in 2006. The liability in respect of the Group's unapproved pension schemes amounted to £4.7m before tax relief at 31 December 2008 (FY07: £5.2m).

During 1H08, the Pension Scheme entered into swap overlay arrangements to hedge 50% of its exposure to interest rates and in December 2008 an inflation rate swap was implemented to protect approximately 25% of the Pension Scheme's index-linked liabilities. The Pension Scheme is due to undergo its next triennial valuation as at 31 December 2008. When available, the results will be incorporated into future financial statements.

Regulatory requirements

Following an application in connection with the Scheme, a new waiver from consolidated supervision under section 8.4 of the new Prudential Sourcebook for Banks, Building Societies and Investment Firms was granted by the FSA to Henderson Group plc in October 2008, valid for a five-year period ending 31 October 2013.

With this new waiver in place, the regulatory surplus of the Group under the Financial Holding Company Test amounted to £299m at 31 December 2008 (2007: £324m).

Dividends

The Board is recommending a final dividend for 2008 of 4.25 pence per share, which will bring the total dividend for 2008 to 6.1 pence per share, the same as the total dividend paid for 2007. The proposed final dividend will be paid on 29 May 2009 to shareholders on the register to 8 May 2009.

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.

Profit forecast

On 28 August 2008, as part of its 2008 Interim Results, the Company set out a financial goal for the Group to meet or beat a profit figure before tax and non-recurring items for 2008 of approximately £90m, based on a set of assumptions. This was deemed to be a profit forecast under the Listing Rules in the context of the Prospectus issued by the Company on 4 September 2008 in connection with the Scheme. On 9 October 2008, the Company published an announcement that Group profit before tax and non-recurring items for 2008 would be less than £90m due to the exceptional volatility and sharp reduction in market levels at that time. As disclosed on page 33 of the financial statements, Group profit before tax and non-recurring items for 2008 was £80.3m, in line with the Company's announcement published in October 2008.

Risk Management

The Group has established a framework to manage the risks of its business with practices appropriate to a listed company. The risk management framework is set out in the Corporate Governance Statement on page 21.

The Group's risk management and capital disclosures in accordance with the chapter 11 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (Pillar 3 disclosures) are available on the Company's website at www.henderson.com

Principal risks and uncertainties

The principal risks and uncertainties facing the Group comprise financial, investment performance and operational risks. Financial risks, namely price, interest rate, liquidity, foreign currency and credit risks together with information on the Group's risk management objectives and hedging activities are included in note 28 to the financial statements. The Group's investment performance and operational risks are set out below.

Investment performance risk

Investment performance risk is the risk that the investment performance of Henderson funds and other products proves to be unsatisfactory, which may cause existing clients to decide to reduce or redeem their investments or transfer mandates to other asset managers. The consequent reduction in assets under management could have an adverse impact on the Group's profitability due to an overall reduction in management fees. Furthermore, many of the Group's performance fee arrangements are based on relative or absolute performance hurdles and, if investment performance is weak, then performance fees may be significantly lower. The performance hurdles are typically set by reference to the asset value of the fund or portfolio and sometimes have high water-marks. As a result, performance fees are subject to market volatility, which may lead to volatility in the Group's profitability.

Operational risk

Operational risk is the risk that the Group will sustain losses through inadequate or failed internal processes, people, systems and external events. The Group's major operational risks include:

(a) Client risk

Client risk is the risk of a breach of the Group's duty of care to its clients, which would normally be associated with a failure to adhere to the investment guidelines in a client's mandate.

(b) Outsourcing risk

Outsourcing risk is the risk of failure in respect of the provision of services by third party administrators and distributors. Any interruption in these services or deterioration in their performance could impair the Group's business. Furthermore, if the contracts with any of these third party providers are terminated, the Group may not find alternative outsource service providers on a timely basis or on equivalent terms. The Group is also reliant on third party custodians and sub-custodians having sufficient capacity and the technical ability to discharge their contractual obligations to the Group.

(c) Disasters risk

Disasters risk is the risk of unforeseeable events which could have a material impact on the business. The Group's business operations, information systems and processes are vulnerable to damage or interruption from fires, floods, extreme weather, power loss, telecommunication and IT failures, bomb threats, explosions or other forms of terrorist activity and other natural and man-made disasters or other extreme events. These systems may also be subject to criminal damage, vandalism, theft and similar wrongdoing. The Group's core businesses have in place disaster recovery plans covering current business requirements. Suppliers of administration and other back office functions also have disaster recovery and business continuity plans in place.

(d) Retention and loss of key management and investment professionals

The loss of any member of the senior management team or one of the Group's principal investment professionals may have a material adverse effect on the future growth of the business. In particular, if the Group loses any of its principal investment managers, there is a risk that it may subsequently experience outflows from its funds, lose client mandates and may fail to win new business. Henderson Group's continued success depends on its ability to attract, motivate, train and retain high quality investment managers and sales, marketing, support and other personnel.

Principal activities

The principal activity of the Group in 2008 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 33. 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 21 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 has not received, as at 25 February 2009, 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. The Board has, however, given due regard to the proposed acquisition of New Star, announced by the Group on 30 January 2009 and further details of which are provided in note 34 to the financial statements.

Substantial shareholdings

At 25 February 2009, 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	14.66%
Barclays plc	6.93%
Lansdowne Partners Limited Partnership	6.22%
Legal & General plc	3.97%
AMP Limited	3.60%

Supplier payment policy

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 2008 represent approximately 30 days of average daily purchases throughout the year (2007: 30 days).

Financial instruments

A statement on the risk management objectives, policies and related matters in respect of the use of financial instruments, including policies for hedging and the exposure to price, liquidity and credit risks, can be found in note 28 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. 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, and the Scheme which took effect on 31 October 2008 are given in note 25 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. A voting exercise was carried out under such rules in October 2008 in connection with the Scheme. 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. Proxy forms 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, the Companies (Uncertificated Securities) (Jersey) Order 1999 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.

Amendment to the Articles of Association of the Company

Under the Companies (Jersey) Law 1991, 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 two-thirds 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 Company's Articles of Association, the Directors of the Company are, with certain exceptions, unable to allot any ordinary shares without express authorisation which cannot last more than five years. The Company follows best practice and asks shareholders to grant such authority on an annual basis. Under the Company's Articles of Association, 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 resolution of the shareholders passed by a majority of at least three-quarters of the holders of the shares who vote in person or by proxy in favour of the resolution.

The Directors have been authorised by shareholders to allot the Company's unissued shares up to an aggregate nominal amount of £29,000,000. This amount represented less than one-third of the Company's issued ordinary share capital as at the year end. Following an allotment of 72,324,352 ordinary shares made on 5 February 2009 under this authority, as at 25 February 2009, the Company has authority to allot shares up to a nominal value of £19,959,456. Shareholders will be asked to renew this authority up to a limit of £33,000,000, or £66,000,000 when in connection with an offer of equity securities by way of a rights issue to shareholders in proportion to their existing holdings, at the AGM on 11 May 2009. This increased allotment ceiling of up to two-thirds of the nominal value of the issued shares is in accordance with new guidelines issued by the Association of British Insurers.

The Directors have an authority to allot equity securities for cash or sell ordinary shares held in treasury (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 the pre-emption rights in the Articles of Association. This amount represents less than 5% of the Company's issued share capital. Shareholders will be asked to renew this authority up to a limit of £4,900,000 at the AGM on 11 May 2009.

Purchase of own share capital

Subject to authorisation by a special resolution passed by shareholders, the Company may purchase its own shares in accordance with the Companies (Jersey) Law 1991. 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. The Directors have shareholder authority to buy back up to 70,000,000 ordinary shares during the period up to the forthcoming AGM. The maximum number of ordinary shares authorised to be purchased is 70,000,000, 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. No ordinary shares were bought back by the Company during 2008.

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 (Jersey) Law 1991 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.

The Companies (Jersey) Law 1991 provides that a CP Contract must be approved by shareholders by special resolution. No Converted Shares were bought back by the Company during 2008.

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 its own shares set out above, is limited to 70,000,000, which represented just under 10% of the Company's issued share capital at 25 February 2009.

Shareholders will be asked to renew these authorities up to a limit of 75,000,000 ordinary shares at the AGM on 11 May 2009.

Significant agreements

HGI Group Limited (previously Henderson Group plc and now a wholly owned subsidiary of the Company) has in issue £175m in senior, unrated fixed rate notes (Notes) listed on the London Stock Exchange, maturing on 2 May 2012. Condition 6.3 of the terms and conditions of the Notes gives each noteholder the option to require HGI Group Limited to redeem or (at HGI Group Limited'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(s) directly or indirectly more than 50% of the share capital of HGI Group Limited (or more than 50% of the voting rights attached to the share capital of HGI Group Limited). 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, HGI Group Limited 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.

In accordance with the Company's Articles of Association, one-third of the Directors of the Company are required to retire by rotation at each 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.

As the Company was incorporated during 2008, all of the Directors will, in accordance with the Company's Articles of Association, offer themselves for reappointment at the AGM on 11 May 2009, apart from Anthony Hotson who will be standing down as a Director at the AGM.

Pursuant to the Articles of Association, shareholders may remove a Director before the end of his term by passing an ordinary resolution at a meeting. An ordinary resolution is passed if more than 50% of the votes cast, in person or by proxy, are in favour of the resolution.

Directors' remuneration and interests

A report on Directors' remuneration appears on pages 22 to 29, including details of their interests in shares, share options or any right to subscribe for shares in the Company.

Conflicts of interest

The Directors have put in place procedures to deal with conflicts of interest. Letters were sent to Directors in 2008 asking for the identification of potential conflicts of interest. The responses received formed the basis for the Register of Conflicts of Interest which was presented to and approved by the Board. The Register of Conflicts of Interest is maintained by the Company and reviewed by the Board on an annual basis. Any Director who is considering accepting a new external appointment must provide full details of the appointment to the Chairman and Company Secretary. In some cases, the interest or duty of someone who is connected with a Director may give rise to a potential conflict of interest and details of that must also be provided to the Chairman and Company Secretary. The Chairman will then decide whether the relevant appointment causes a conflict or potential conflict of interest and should therefore be considered by the Board. If it is considered and approved by the Board, such interest or potential interest is added to the Register of Conflicts of Interest.

Indemnification and insurance of Directors and Officers

The Company provides a Deed of Indemnity to Directors to the extent permitted by Jersey Law, including indemnification against any liabilities incurred in defending any proceedings in which judgement is given in that Director's favour or he is acquitted, against liabilities incurred otherwise than to the Company, if the Director acted in good faith with a view to the best interests of the Company or against any liabilities incurred in successfully applying to the Court for relief where the Director acted honestly.

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 £59,322 (2007: £75,265), which comprised social and welfare £21,969 (2007: £6,700); education and international £4,115 (2007: £13,000); and medical and other projects £33,238 (2007: £55,565).

Political donations

The Group made no political donations, incurred no European Union political expenditure and made no contribution to a non-European Union 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 2009, covering the AGM of the Company to be held on 11 May 2009, 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 2009 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:



Andrew Formica
Chief Executive
25 February 2009