

Registered Number: 2072534

**HGI GROUP LIMITED
ANNUAL REPORT AND ACCOUNTS
31 DECEMBER 2010**

| FINANCIAL STATEMENTS TABLE OF CONTENTS | PAGE |
|--|-------------|
| DIRECTORS' REPORT | 1 |
| STATEMENT OF DIRECTORS' RESPONSIBILITIES | 10 |
| INDEPENDENT AUDITORS' REPORT | 11 |
| CONSOLIDATED INCOME STATEMENT | 12 |
| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | 13 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 14 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 15 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 16 |
| COMPANY STATEMENT OF COMPREHENSIVE INCOME | 17 |
| COMPANY STATEMENT OF FINANCIAL POSITION | 18 |
| COMPANY STATEMENT OF CHANGES IN EQUITY | 19 |
| COMPANY STATEMENT OF CASH FLOWS | 20 |
| NOTES TO THE FINANCIAL STATEMENTS – GROUP AND COMPANY | |
| 1. Authorisation of financial statements and statement of compliance with IFRS | 21 |
| 2. Accounting policies | 22 |
| 3. Income | 27 |
| 4. Expenses | 27 |
| 5. Employee benefits | 28 |
| 6. Finance costs | 28 |
| 7. Non-recurring items before tax | 29 |
| 8. Taxation | 30 |
| 9. Share-based payments | 31 |
| 10. Dividends paid and proposed | 34 |
| 11. Segmental information | 35 |
| 12. Intangible assets | 36 |
| 13. Investments in subsidiaries, associates and joint ventures | 37 |
| 14. Plant and equipment | 39 |
| 15. Fair value of financial instruments | 39 |
| 16. Deferred acquisition and commission costs | 42 |
| 17. Trade and other receivables | 42 |
| 18. Cash and cash equivalents | 43 |
| 19. Debt instrument in issue | 44 |
| 20. Retirement benefits | 44 |
| 21. Provisions | 50 |
| 22. Deferred taxation | 51 |
| 23. Borrowings | 52 |
| 24. Trade and other payables | 52 |
| 25. Share capital | 53 |
| 26. Reserves | 54 |
| 27. Non-controlling interests | 54 |
| 28. Financial risk management | 55 |
| 29. Leases | 60 |
| 30. Capital commitments | 60 |
| 31. Related party transactions | 60 |
| 32. Ultimate parent undertaking and controlling party | 61 |
| 33. Contingent liabilities | 61 |
| 34. Acquisitions and disposals of subsidiaries | 61 |
| 35. Events after the balance sheet date | 62 |
| 36. Directors emoluments | 62 |

DIRECTORS' REPORT

The Directors present their report and the financial statements of HGI Group Limited (the Company) for the year ended 31 December 2010 and the consolidated accounts for the Company and its controlled entities (the Group) which form a sub-group of Henderson Group plc and its controlled entities (the Henderson Group).

The Group result

The Group's profit before non-recurring items and tax for FY10 was £16.0m, an increase of £11.0m on FY09 (£5.0m).

Business review - Group

| | 2010 | 2009 |
|--------------------------------------|----------------|----------------|
| | £m | £m |
| Management fees (net of commissions) | 214.6 | 148.5 |
| Transaction fees | 34.3 | 17.1 |
| Performance fees | 41.0 | 30.6 |
| Total fee income | 289.9 | 196.2 |
| Finance income | 3.6 | 4.0 |
| Total income | 293.5 | 200.2 |
| Operating costs | (268.5) | (186.0) |
| Finance costs | (8.7) | (8.9) |
| Total expenses | (277.2) | (194.9) |
| Underlying profit | 16.3 | 5.3 |
| Intangible amortisation | (0.3) | (0.3) |
| Recurring profit before tax | 16.0 | 5.0 |
| Non-recurring items | (0.1) | (36.2) |
| Profit/(loss) before tax | 15.9 | (31.2) |
| Tax on recurring operations | (17.8) | (2.7) |
| Tax on non-recurring items | 16.4 | 8.6 |
| Total tax | (1.4) | 5.9 |
| Profit/(loss) after tax | 14.5 | (25.3) |
| Attributable to: | | |
| Equity holders of the parent | 14.5 | (25.4) |
| Minority interests | - | 0.1 |
| | 14.5 | (25.3) |

DIRECTORS' REPORT (continued)

Underlying Business

During FY10 the New Star retail business was transferred into the Group. It had previously been undertaken by a Henderson Group company outside of the Group. In addition, the merger of several New Star funds with Henderson funds brought this business into the Group. This resulted in increased revenue and administration expenses for the Group in 2010.

Fee income

Total fee income increased by 48% to £289.9m from £196.2m in FY09. Management fee income increased by 45% to £214.6m from £148.5m in FY09, due to the impact of higher margin net inflows, higher market levels and the transfer of the New Star retail business. The FTSE 100 Index was, on average, 20% higher in FY10 compared to FY09.

Transaction fees increased by 101% to £34.3m from £17.1m in FY09, primarily due to fees earned on UK Wholesale funds (including New Star) and transactions earned by the Property business. Performance fees increased by 35% to £41.0m from £30.6m in FY09, primarily due to fees earned from institutional mandates.

Finance income

Finance income in FY10 decreased by £0.4m to £3.6m, primarily due to lower cash balances and lower interest rates.

Operating costs

Operating costs increased by £82.3m to £268.3m in FY10. The main components are shown in the table below:

| | FY10 Audited £m | FY09 Audited £m |
|------------------------------------|-----------------------|-----------------------|
| Employee compensation and benefits | 162.2 | 119.1 |
| Investment administration | 22.4 | 15.6 |
| Information technology | 13.5 | 10.2 |
| Office expenses | 16.6 | 15.2 |
| Depreciation | 3.1 | 3.2 |
| Other expenses | 50.7 | 22.7 |
| Operating costs | 268.5 | 186.0 |

Employee compensation and benefits increased £43.1m to £162.2m (FY09: £119.1m). Within this, fixed staff costs increased by £1.4m, reflecting the impact of New Star for a full year and salary inflation, whilst variable staff costs increased by £41.7m, driven by improved Group profitability. The average number of full-time employees increased by 17 in FY10 to 877 (FY09: 860). The compensation ratio has decreased by 4.3% during FY10 to 55.2% (FY09: 59.5%) mainly as a result of an increase in fee income due to better market conditions and the inclusion of the New Star retail business.

Investment administration costs increased by £6.8m to £22.4m, primarily due to the transfer of the New Star retail business to the Group. Information technology costs increased by £3.3m to £13.5m due to the write-off of capitalised software costs, inflation and market data costs relating to the legacy New Star business.

Other expenses increased by £28.0m to £50.7m, of which £3.0m represents costs incurred in relation to the potential acquisition of RidgeWorth Capital Management, Inc. (RidgeWorth) on which the Group terminated discussions in June 2010. In addition, the Group has continued to invest in targeted strategic business development, in particular, relating to the UK Retail business, through marketing, events and promotions, with an impact of £6.2m. The Group has also seen an increase in irrecoverable VAT of £4.0m offset by net foreign exchange gains in FY10 of £0.1m (FY09: £0.3m loss). Also included in operating costs is a charge from Henderson Group of brand management services of £14.5m (FY09: £nil).

Finance costs

Finance costs in FY10 were £8.7m, £0.2m lower than FY09, and continue to include the amortisation of the profit arising from an interest rate swap on debt in December 2008. The unamortised profit on the interest rate swap as at 31 December 2010 stood at £4.1m and will be amortised over the residual term of the debt, which matures on 2 May 2012.

DIRECTORS' REPORT (continued)

Non-recurring Items

There were two non-recurring items in FY10 resulting in a net pre-tax charge of £0.1m (FY09: £36.2m charge), but a post-tax credit of £16.3m (FY09: £27.6m charge) as shown below:

| | FY10 Audited £m | FY09 Audited £m |
|--|--------------------------------|--------------------------------|
| FSCS interim levy | (5.9) | - |
| Towry Law International provision release | 5.8 | - |
| Impairment of seed capital investments in three property funds | - | (7.3) |
| Infrastructure fund charge | - | (20.7) |
| Insurance recoveries | - | 8.8 |
| New Star integration costs | - | (17.0) |
| Non-recurring items before tax | (0.1) | (36.2) |
| Tax on non-recurring items | - | 8.6 |
| Non-recurring tax | 16.4 | - |
| Non-recurring items after tax | 16.3 | (27.6) |

FSCS interim levy

In November 2010, the FSCS indicated that it would raise an interim levy on investment managers in respect of claims received primarily from investors in Keydata Investment Services Limited (in administration). The Group has provided for this levy in full during 2010.

Towry Law International provision release

During the second half of 2010, the majority of a previously recognised product mis-selling provision, relating to legacy Towry Law International products, was deemed no longer required and was released. This resulted in a £5.8m credit in 2010.

Non-recurring tax

During the second half of 2010, HMRC closed enquiries into certain prior year tax filings, resulting in the Group releasing tax provisions of £16.4m.

Pension schemes

The Group has three types of pension schemes. A defined benefit scheme and a defined contribution scheme, together forming the Henderson Group Pension Scheme (Pension Scheme), and three small unapproved pension top-up schemes for previous executives.

There was a net surplus in the Pension Scheme of £112.5m at 31 December 2010 (FY09: £90.0m). The increase in the Pension Scheme surplus during 2010 is due to better than expected returns on the asset portfolio and a lower assumption for future price inflation, based on the Bank of England's published price inflation curve, set at 3.6% per annum (2009: 3.7% per annum). These increases were partially offset by a lower discount rate used to value the Pension Scheme's liabilities for accounting purposes, set by reference to AA-rated corporate bonds with approximately 20 years' duration, down to 5.4% per annum from 5.6% per annum in 2009.

The liability in respect of the Group's unapproved pension schemes amounted to £6.2m at 31 December 2010 (FY09: £6.1m).

Outlook

Keeping the Group's clients' needs at the centre of everything we do will drive our success. Joined-up thinking across product development, fund management, sales and client service, should ensure that the Group provides clients with more valuable investment products. We continue our efforts in making this business more efficient and more profitable and ultimately, increasing the value of our franchise.

By combining organic growth with being alert to opportunities to accelerate our strategic goals, the overriding focus remains our clients and ensuring that we have the capabilities required to help them achieve their investment objectives.

We are optimistic about the outlook for markets. We are well positioned to grow our existing product range and develop new products to distribute through all the channels in all the geographies in which we operate.

DIRECTORS' REPORT (continued)

Dividends

The Directors did not declare an interim dividend (2009: £nil) for the Company. The Directors have not recommended the payment of a final dividend (2009: £nil) for the Company. Note 10 to the financial statements sets out the involvement the Group has in paying a dividend for the Henderson Group.

Gartmore Acquisition

On 4 April 2011, the Henderson Group acquired the entire issued share capital of Gartmore Group Limited (Gartmore Acquisition). The acquisition will reinforce the Henderson Group's position as a diversified fund manager with product strength in traditional long-only and absolute return offerings and will significantly enhance the Group's presence in UK retail asset management. Integration of Gartmore is expected to be completed during 2011. On 4 April 2011 the Gartmore group was transferred down from Henderson Group plc to the Group.

Debt Instrument issue and exchange

On 18 March 2011, Henderson UK Finance plc, a subsidiary of the Group, incorporated on 9 February 2011 announced an issue of £150,000,000 7.25% p.a. notes due on 24 March 2016 (the Notes). The Notes are unconditionally and irrevocably guaranteed within the Group and by Henderson Group plc. As part of the issue of the debt, £32.4m of loan notes issued by the Company were exchanged with Henderson UK Finance plc leaving a notional £142.6m of the Company's notes outstanding.

DIRECTORS' REPORT (continued)

Risk management

We have a framework in place which embeds the management of risk at all levels within the organisation. The framework also ensures that we meet our business objectives without exceeding our risk appetite; and is subject to continuous review to ensure it recognises both new and emerging risks in the business. The Group's risk management and capital disclosures in accordance with chapter 11 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (Pillar 3 disclosures) are available on the Henderson Group website at www.henderson.com.

Key risks and their mitigation

The key risks faced by the Group fall into a number of distinct categories and the means adopted to mitigate them are both varied and relevant to the nature of the risk concerned. These are set out below in alphabetical order of the key risks:

| Key Risks | Description | Mitigation |
|------------------------|--|--|
| Acquisition | The Henderson Group's long-term strategy involves its willingness to consider the acquisition of businesses. In addition to financial risks, this introduces the risk of organisational stress through the potential demands made on staff and resources through the need to integrate acquired businesses. | The Henderson Group only considers acquisitions where they fit with its strategic goals and meet its financial criteria such that Henderson Group can realise value for its shareholders. Thorough due diligence is performed before any acquisition is made and this includes assessing the ability of the Henderson Group to successfully integrate the acquired business. |
| Business disruption | Business disruption risk is the risk of the occurrence of events which could have a material impact on the operations of the business. | The Henderson Group has in place business continuity plans designed to ensure that, should an event occur, it could maintain its operations without irreparable damage being done to the business. These plans are regularly tested. The Henderson Group also has insurance arrangements should loss of revenue occur through business interruption. |
| Credit | Credit risk is the risk of a counterparty to the Henderson Group defaulting on Henderson Group funds deposited with it or the non-receipt of a trade debt. | The Henderson Group has an established credit risk policy to ensure its counterparties meet strict minimum rating requirements consistent with the Henderson Group's risk appetite; and the Henderson Group Credit Risk Committee meets regularly to approve, review and set limits for all new and existing counterparties. In addition, the Henderson Group has many clients that have fees deducted directly from their assets or alternatively are billed regularly with strict payment terms. |
| Key personnel | Key personnel risk is the risk of the Henderson Group losing either a member of its Senior Management Team or one of the Henderson Group's key investment or distribution professionals. This could have an adverse effect on both the growth of the Henderson Group business and/or the retention of existing business. | The Henderson Group operates competitive remuneration structures designed to recognise and reward outperformance. It also has succession planning to ensure that there is cover for key roles should they become vacant. In addition, staff surveys identify any issues which could adversely impact staff retention and comprehensive training is offered ensuring skills and knowledge reside in more than one individual. |
| Foreign currency | Foreign currency risk is the risk that the Henderson Group will sustain losses through adverse movements in exchange rates. | The Henderson Group mitigates this risk through the effect of natural hedges i.e. holding financial assets and liabilities of equal value in the same currency; by limiting the net exposure to an individual currency; and by entering into hedging instruments such as foreign exchange contracts, which are primarily used to hedge available-for-sale financial assets. The Henderson Group Hedge Committee oversees the risk and reports to the Henderson Group Board monthly. |
| Investment performance | Investment performance risk is the risk that funds fail to achieve performance hurdles or benchmarks. The effect of this might be that clients redeem investments, which in turn would result in a reduction in fees earned by the Henderson Group. Poor fund performance will also result in lower performance fees. | The Henderson Group mitigates this risk with a robust investment process which includes detailed research. It also has a clearly articulated investment philosophy and analyses' its funds by comparing their performance against appropriate benchmarks. |

DIRECTORS' REPORT (continued)

| | | |
|--------------|---|---|
| Liquidity | Liquidity risk is the risk that the Henderson Group may be unable to meet its payment obligations as they fall due. | The Henderson Group manages its liquidity on a daily basis within its Finance function, which ensures that the Henderson Group has sufficient cash and/or highly liquid assets available to meet its liabilities. The Henderson Group ensures that it has access to funds to cover all forecast commitments for at least the following 12 months. The Henderson Group does not bear any liquidity risk associated with its clients' funds and has no obligation to provide short-term liquidity to its clients. |
| Market | Market risk is the risk that market conditions lead to a decline in the value of the Henderson Group's available-for-sale financial assets and/or a reduction in the value of its clients' AUM, which would result in a reduction in the level of the fees that are based on the value of its clients' AUM. | The Henderson Group mitigates the market risk on the Group's available-for-sale assets by investing in a diversified range of assets; and mitigate a fall in the value of its clients' AUM by having a broad range of clients by distribution channel, product, asset class and region. In addition, the Henderson Group actively seeks fee bases which are not solely related to market value of AUM. It also makes a significant amount of its expense base variable and therefore capable of reduction, without having a significant impact on the Group's operating capability. |
| Operational | Operational risk is the risk that the Henderson Group will sustain losses through inadequate or failed internal processes, people, systems and external events. | The Henderson Group operates a system of controls which is designed to ensure operational risks are mitigated to the required level. The operation and effectiveness of the controls are regularly assessed and confirmed through the work of the Henderson Group's assurance functions: Risk Management, Compliance and Internal Audit. |
| Outsourcing | Outsourcing risk is the risk of failure in respect of the provision of services by third party administrators (TPAs). Any significant interruption in services or deterioration in performance could damage the Henderson Group's operations. Furthermore, if the contracts with any of the TPAs are terminated, the Henderson Group may not be able to find alternative TPAs on a timely basis or on equivalent terms. | The Henderson Group oversees the operation of its TPAs to ensure key performance standards are met. It holds regular meetings with its TPAs to discuss any service concerns or problems and work in partnership with TPAs to deliver solutions. The Henderson Group's assurance functions also review controls operated by its major TPAs. The financial strength of a TPA is given careful consideration when contracts are awarded and also if a material deterioration should occur in a TPA's financial strength. |
| Regulatory | Regulatory risk is the risk that a change in laws and regulations will materially affect the Henderson Group's business or markets in which it operates. The Henderson Group's business is subject to many regulations in different jurisdictions and currently the pace of change is significant and may affect its business either directly or indirectly by reducing investors' appetite for its products, increasing capital requirements or in some other way. | The Henderson Group continuously monitors regulatory developments and where there is likely to be an impact, it has working groups in place to implement the changes. The Henderson Group Compliance team in particular monitor ongoing regulatory obligations and engage in dialogue with the main regulator. |
| Reputational | Reputational risk is the risk that negative publicity regarding the Henderson Group will lead to a loss of revenue or litigation. The risk of damage to the Henderson Group's reputation is more likely to result from one of the risks described above materialising rather than as a standalone risk. | The Henderson Group believes that reputational risk is mitigated through the effective mitigation of the other key risks. In addition, it regularly updates its clients and the market and in doing so, mitigates the risk of reputational damage. |

DIRECTORS' REPORT (continued)

Principal activities

The principal activity of the Group in 2010 was the provision of investment management services.

Future developments and business review

The Group's results for the year are shown in the Consolidated Income Statement on page 12. The business review, which is incorporated into and forms part of this Directors' Report, of the financial year and future developments is covered on pages 1 to 4.

Branches

The Group continues to operate a number of overseas branches.

Reporting

The Company has a debt instrument listed on the London Stock Exchange (LSE) and therefore the Group complies with the LSE disclosure requirements.

Events after the balance sheet date

The Board has not received, as at 15 June 2011, being the date on which the Annual Report and Accounts were approved, any information concerning significant conditions in existence at the reporting date which have not been reflected in the consolidated financial statements as presented. The Board has, however, given due regard to the events which occurred after the reporting date as described in note 34 to the financial statements.

Share capital

Details of movements in the allotted share capital during the year are given in note 25 to the financial statements.

Directors

Andrew Formica
Shirley Garrood
Richard McNamara (appointed 02.9.2010)
Steven O'Brien (resigned 30.7.2010)
Adam Eades (appointed 02.9.2010, resigned 02.4.2011)

Directors' remuneration and interests

A full Report on Directors' Remuneration has been included in the Annual Report and Accounts of Henderson Group plc. A copy of those accounts can be obtained as set out in note 32. The emoluments of Richard McNamara, Adam Eades and Steven O'Brien's are included in disclosures made in the Annual Report and Accounts of Henderson Administration Limited. A copy of those accounts can be obtained from its registered office at 201 Bishopsgate, London, EC2M 3AE.

Supplier payment policy

The Company has no trade creditors. 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 2010 represent approximately 30 days of average daily purchases throughout the year (2009: 30 days).

Workplace

The Group recognises the value and contribution employees make to the success and future growth prospects of the business. The Group applies the human resource policies and procedures set by the Henderson Group, to support the recruitment, retention, reward and development of employees.

Equality and diversity

The Group is an equal opportunities employer and has appropriate human resource policies and procedures in place with the intention that employees have a working environment free from discrimination and harassment. Managers receive training on how to deal with discrimination and harassment in the workplace and during 2010 the Group had refresher training for all employees on equal opportunities in the workplace. The Group's human resource policies and staff benefits attract and retain a diverse and flexible workforce. Additionally, full and fair consideration is given to applications from, and the continued employment of, people with disabilities and learning difficulties. In line with the UK Public Interest Disclosure Act 1998, the Group operates procedures to enable employees to report wrongdoing or malpractice at work, commonly referred to as 'whistleblowing'. All employees are informed of this process during their induction to the Group.

Employee consultation and involvement

The Communications Forum is a UK elected body representing staff and is a platform where issues affecting staff can be discussed and, if needed, raised with the Senior Management Team of the Henderson Group. It also provides a platform for management to consult with staff and seek views on particular issues. The Communications Forum meets monthly and the Chief Executive of Henderson Group plc attends quarterly. Regular employee briefings are carried out by senior management to provide an insight into the business. The Chief Executive of Henderson Group plc held five staff briefings in 2010 which were made available on the Henderson Group intranet.

DIRECTORS' REPORT (continued)

Recruitment

The Group's recruitment strategy aims to attract and retain talented individuals. The Group offers resourcing and interviewing courses which cover developments in recruitment practice, assessment methods and interviewing skills. The Group offers one-to-one training for line managers to assist with this. Employees are encouraged to consider opportunities within the Group and, as such, advertise job vacancies on the Henderson Group's intranet. The Group also runs a global employee referral programme allowing employees to refer individuals to the Group as prospective employees.

Training and development

The Group's training policy is designed to invest in employees and equip them with skills and capabilities for the present and for the future. As part of a drive to develop talent, the Group has introduced a graduate recruitment programme and has strengthened this by offering internships and placements. The graduate recruitment programme lasts for two years and helps the Group to invest in its future talent through a structured development plan, giving graduates exposure to a wide range of business areas and training. All graduates on the programme are sponsored for and take the full Chartered Financial Analyst qualification. The Group has a suite of development workshops for all employees and also support the study for, and attainment of, appropriate professional qualifications. All training and development opportunities are promoted on the Henderson Group's intranet and via regular meetings with line managers. The Group also uses annual performance appraisals as an opportunity to identify priorities including training needs. To recruit fresh talent the Group launched a Trainee Programme, giving around 40 people a years work experience across the business with the possibility of gaining a permanent role.

Employee reward and retention

The Group recognises and rewards performance based on an employee's contribution to the success of the business. The Group has a total reward approach, which has a mix of both financial and non-financial elements. The Group pays competitively and gives greater rewards for stretch and superior performance. The Group delivers this both through short-term bonuses (usually annual cash bonuses) and, for senior managers, through longer-term incentives (generally three to five year equity-based plans). Bonus payments above a certain monetary level have a portion deferred to provide a retention element to the incentive. The Group is committed to building staff share ownership. There are a number of all-employee share schemes and the Group looks at innovative ways to build staff share ownership further.

Disabled employees

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

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, interest rate, liquidity, foreign currency and credit risks, can be found in note 28 to the consolidated financial statements.

Political donations

The Group made no political donations, incurred no European Union political expenditure and made no contributions to non-European Union political parties during the year.

Charitable donations

Donations by the Group during the year towards community and charitable causes amounted to £35,938 (2009: £52,609), which comprised social and welfare £7,611 (2009: £22,635); education and international £6,845 (2009: £3,920); and medical and other projects £21,482 (2009: £26,054).

Going concern and financial instruments

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review above. The financial position of the Group, its cash flows and liquidity position are described in the financial statements and notes. In particular, note 28 to the financial statements summarises the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to liquidity and credit risks.

The Group has considerable financial resources together with diverse revenue streams. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Indemnification and insurance of Directors and Officers

The Company provides a Deed of Indemnity to the Directors to the extent permitted by UK 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.

DIRECTORS' REPORT (continued)

Corporate governance

Throughout the year ended 31 December 2010, the Henderson Group has been in compliance with the code provisions set out in section 1 of the 2006 Combined Code on Corporate Governance. A full Report on Corporate Governance has been included in the Annual Report and Accounts of Henderson Group plc. A copy of those accounts can be obtained as set out in note 32.

Internal controls over financial reporting

The Group's financial reporting process has been designed to provide reasonable assurance regarding the reliability of the financial reporting and preparation of financial statements, including consolidated financial statements, for external purposes, in accordance with International Financial Reporting Standards. This process is under the supervision of the Henderson Group Chief Executive and Chief Financial Officer and has appropriate internal controls to ensure its effectiveness.

The internal controls include: policies and procedures that: (1) relate to the maintenance of records, that, in reasonable detail, accurately and fairly reflect the transactions and disposals of the Group's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements, and that the receipts and expenditures of the Group are being made only in accordance with authorisations of management and Directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposal of Group assets that could have a material effect on the Group's financial statements.

Independent auditors

In accordance with section 487(2) of the Companies Act 2006, the auditors are deemed to be reappointed.

This report was approved by the Board of Directors on 15 June 2011 and signed on its behalf by:

Henderson Secretarial Services Limited
Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRS). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Andrew Formica

Director
15 June 2011

Shirley Garrod

Director
15 June 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HGI GROUP LIMITED

We have audited the financial statements of HGI Group Limited for the year ended 31 December 2010 which comprise the Group and Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Company Statements of Cash Flow, the Group and Company Statements of Changes in Equity and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts of HGI Group Limited to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under Companies Act 2006 we are required to report to you if in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Ratan Engineer (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

June 2011

Notes:

1. The maintenance and integrity of the Henderson Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2010

| | Notes | 2010 £m | 2009 £m |
|--|-------|-------------|---------------|
| Income | | | |
| Gross fee income and commissions | 3 | 392.6 | 250.3 |
| Finance income | 3 | 3.6 | 4.0 |
| Gross income | | 396.2 | 254.3 |
| Commissions and fees payable | 3 | (102.7) | (54.1) |
| Total income | | 293.5 | 200.2 |
| Expenses | | | |
| Operating costs | 4.1 | (265.4) | (182.8) |
| Depreciation | 14 | (3.1) | (3.2) |
| Total expenses before finance costs | | (268.5) | (186.0) |
| Finance costs | 6 | (8.7) | (8.9) |
| Total expenses | | (277.2) | (194.9) |
| Underlying profit before tax | | 16.3 | 5.3 |
| Intangible amortisation | 12 | (0.3) | (0.3) |
| Recurring profit before tax | | 16.0 | 5.0 |
| Non-recurring items | 7 | (0.1) | (36.2) |
| Profit/(loss) before tax | | 15.9 | (31.2) |
| Tax on recurring profit / (loss) | | (17.8) | (2.7) |
| Tax on non-recurring items | | - | 8.6 |
| Non-recurring tax | 7 | 16.4 | - |
| Total Tax | 8 | (1.4) | 5.9 |
| Profit/(loss) after tax | | 14.5 | (25.3) |
| Attributable to: | | | |
| Equity holders of the parent | | 14.5 | (25.4) |
| Non-controlling interests | | - | 0.1 |
| | | 14.5 | (25.3) |
| Dividends | | | |
| Dividends declared and charged to equity during the year | 10 | 49.0 | 47.9 |
| Dividends proposed | 10 | 38.8 | 34.1 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

| | Notes | 2010 £m | 2009 £m |
|---|-------|--------------|---------------|
| Profit/(loss) after tax | | 14.5 | (25.3) |
| Other comprehensive income | | | |
| Exchange differences on translation of foreign operations | | (4.4) | (0.8) |
| <i>Available-for-sale financial assets:</i> | | | |
| Exchange differences on translation | | - | (2.9) |
| Translation reserve transfer on sale | | - | (1.1) |
| Translation reserve transfer on impairment | | (0.3) | 0.5 |
| Net gains/(losses) on revaluation | | 2.9 | (8.2) |
| Revaluation reserve transfer on sale | | - | 5.6 |
| Revaluation reserve transfer on impairment | | - | 6.8 |
| Tax effect of available-for-sale financial assets movements | 8 | (0.6) | (0.6) |
| <i>Actuarial gains/(losses):</i> | | | |
| Actuarial gains/(losses) on defined benefit pension schemes | 20 | 14.8 | (69.7) |
| Actuarial gains on post-retirement medical benefits | | 0.2 | 0.1 |
| Tax effect of actuarial (gains)/losses | 8 | (3.9) | 19.4 |
| Other comprehensive income/(expense) after tax | | 8.7 | (50.9) |
| Total comprehensive income (expense) | | 23.2 | (76.2) |
| Attributable to: | | | |
| Equity holders of the parent | | 23.4 | (76.3) |
| Non-controlling interests | | - | 0.1 |
| | | 23.2 | (76.2) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

| | Notes | 2010 £m | 2009 £m |
|---|-------|----------------|------------|
| Non-current assets | | | |
| Intangible assets | 12 | 225.1 | 226.3 |
| Investments accounted for using the equity method | 13.2 | 5.1 | 5.0 |
| Plant and equipment | 14 | 20.0 | 22.0 |
| Retirement benefit assets | 20 | 112.5 | 90.0 |
| Deferred tax assets | 22 | 29.5 | 7.0 |
| Deferred acquisition and commission costs | 16 | 47.8 | 29.1 |
| | | 440.0 | 379.4 |
| Current assets | | | |
| Available-for-sale financial assets | 15 | 30.7 | 27.3 |
| Financial assets at fair value through profit or loss | 15 | 1.2 | 0.6 |
| Trade and other receivables | 17 | 368.1 | 297.6 |
| Deferred acquisition and commission costs | 16 | 42.8 | 24.9 |
| Cash and cash equivalents | 18.1 | 157.1 | 84.5 |
| | | 599.9 | 434.9 |
| Total assets | | 1,039.9 | 814.3 |
| Non-current liabilities | | | |
| Debt instrument in issue | 19 | 179.1 | 181.9 |
| Retirement benefit obligations | 20 | 6.2 | 6.1 |
| Provisions | 21 | 11.0 | 20.9 |
| Deferred tax liabilities | 22 | 33.1 | 30.1 |
| Deferred income | | 47.5 | 27.3 |
| | | 276.9 | 266.3 |
| Current liabilities | | | |
| Trade and other payables | 24 | 404.1 | 285.3 |
| Provisions | 21 | 22.6 | 13.1 |
| Deferred income | | 43.2 | 24.5 |
| Current tax liabilities | | 13.3 | 12.9 |
| | | 483.2 | 335.8 |
| Total liabilities | | 760.1 | 602.1 |
| Net assets | | 279.8 | 212.2 |
| Capital and reserves | | | |
| Share capital | 25 | 90.6 | 90.6 |
| Share premium | | 195.1 | 195.1 |
| Translation reserve | | (3.1) | 1.6 |
| Revaluation reserve | | 4.9 | 2.0 |
| Profit and loss reserve | | (8.1) | (77.5) |
| Shareholder's equity | | 279.4 | 211.8 |
| Non-controlling interests | 27 | 0.4 | 0.4 |
| Total equity | | 279.8 | 212.2 |

The financial statements were approved by the Board of Directors and authorised for issue on 15 June 2011. They were signed on its behalf by:

S J Garrood
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

| | Share capital | Share premium | Translation reserve | Revaluation reserve | Profit and loss reserve | Non-controlling interests | Total equity |
|---|---------------|---------------|---------------------|---------------------|-------------------------|---------------------------|--------------|
| | £m | £m | £m | £m | £m | £m | £m |
| At 1 January 2009 | 90.6 | 195.1 | 5.9 | (2.1) | 30.6 | 0.3 | 320.4 |
| Total comprehensive income net of tax | - | - | (4.3) | 4.1 | (76.1) | 0.1 | (76.2) |
| Dividends paid to equity shareholders | - | - | - | - | (47.9) | - | (47.9) |
| Capital contribution from Henderson Group plc in relation to share based payments | - | - | - | - | 15.9 | - | 15.9 |
| At 31 December 2009 | 90.6 | 195.1 | 1.6 | 2.0 | (77.5) | 0.4 | 212.2 |
| Total comprehensive income net of tax | - | - | (4.7) | 2.9 | 25.0 | - | 23.2 |
| Dividends paid to equity shareholders | - | - | - | - | (49.0) | - | (49.0) |
| Capital contribution from Henderson Group plc in relation to share based payments | - | - | - | - | 17.9 | - | 17.9 |
| Tax movement on share scheme expenses | - | - | - | - | 25.5 | - | 25.5 |
| Capital contribution from immediate parent | - | - | - | - | 50.0 | - | 50.0 |
| At 31 December 2010 | 90.6 | 195.1 | (3.1) | 4.9 | (8.1) | 0.4 | 279.8 |

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2010

| | Notes | 2010 £m | 2009 £m |
|--|-------------|---------------|---------------|
| Cash flows from operating activities | | | |
| Profit/(loss) before tax | | 15.9 | (31.2) |
| Adjustments to reconcile profit/(loss) before tax to net cash flows from operating activities: | | | |
| - debt instrument interest expense | 6 | 8.5 | 8.8 |
| - share-based payment charges | 9.2 | 17.9 | 15.9 |
| - intangible amortisation | 12 | 0.3 | 0.3 |
| - computer software disposal | 12 | 0.9 | - |
| - share of profit of associates and joint ventures | 13.2 | (1.3) | (0.7) |
| - depreciation of plant and equipment | 14 | 3.1 | 3.2 |
| - available-for-sale financial assets impairment | 15 | 1.8 | 7.3 |
| - (gain)/loss on disposal of available-for-sale financial assets | | (0.2) | 0.6 |
| - net deferred acquisition and commission costs and deferred income amortisation | 3 | 0.9 | (3.5) |
| - contributions to the Henderson Group Pension Scheme in excess of costs recognised | | (7.5) | (5.6) |
| - Towry Law provision release | 21 | (5.8) | - |
| - other provision release | 21 | (0.1) | - |
| Cash flows from operating activities before changes in operating assets and liabilities | | 34.4 | (4.9) |
| Changes in operating assets and liabilities | 18.2 | 103.6 | 9.9 |
| Net tax received/(paid) | | 2.7 | (0.5) |
| Net cash flows from operating activities | | 140.7 | 4.5 |
| Cash flows from investing activities | | | |
| Proceeds from sale of available-for-sale financial assets | | 8.1 | 16.3 |
| Dividends from associates and distributions from joint ventures | | 1.4 | 0.9 |
| Purchases of: | | | |
| - available-for-sale financial assets | 14 | (10.4) | (4.8) |
| - plant and equipment | 12 | (0.8) | (3.6) |
| - intangible assets | | - | (0.5) |
| - interests in investments in associates and joint ventures | | (0.2) | (0.4) |
| Net cash flows from investing activities | | (1.9) | 7.9 |
| Cash flows from financing activities | | | |
| Dividends paid to equity shareholders | 10 | (49.0) | (47.9) |
| Interest paid on debt instrument in issue | | (11.4) | (11.4) |
| Net cash flows from financing activities | | (60.4) | (59.3) |
| Effects of exchange rate changes | | (5.8) | (1.3) |
| Net increase/(decrease) in cash and cash equivalents | | 72.6 | (48.2) |
| Cash and cash equivalents at beginning of year | 18.1 | 84.5 | 132.7 |
| Cash and cash equivalents at end of year | 18.1 | 157.1 | 84.5 |

COMPANY STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

| | | 2010 | 2009 |
|---|--------------|--------------|---------------|
| | Notes | £m | £m |
| Profit/(loss) after tax | | 1.7 | (50.2) |
| Actuarial gains/(losses) on defined benefit pension schemes | 20 | 14.8 | (68.5) |
| Tax effect of actuarial (gains/losses) | 22 | (3.8) | 19.2 |
| Other comprehensive income/(expense) after tax | | 11.0 | (49.3) |
| Comprehensive income/(expense) | | 12.7 | (99.5) |

COMPANY STATEMENT OF FINANCIAL POSITION
As at 31 December 2010
Registered number 2072534

| | Notes | 2010 £m | 2009 £m |
|--------------------------------|-------|----------------|------------|
| Non-current assets | | | |
| Investment in subsidiaries | 13.1 | 968.0 | 871.7 |
| Retirement benefit assets | 20 | 112.5 | 90.0 |
| | | 1,080.5 | 961.7 |
| Current assets | | | |
| Trade and other receivables | 17 | 194.3 | 376.2 |
| Cash and cash equivalents | 18.1 | 10.8 | 8.9 |
| | | 205.1 | 385.1 |
| Total assets | | 1,285.6 | 1,346.8 |
| Non-current liabilities | | | |
| Debt instrument in issue | 19 | 179.1 | 181.9 |
| Provisions | 21 | - | 5.8 |
| Deferred tax liabilities | 22 | 9.8 | 6.0 |
| | | 188.9 | 193.7 |
| Current liabilities | | | |
| Borrowings | 23 | 500.2 | 549.0 |
| Trade and other payables | 24 | 273.5 | 342.7 |
| Provisions | 21 | 0.3 | 0.5 |
| Current tax liabilities | | 0.2 | 1.1 |
| | | 774.2 | 893.3 |
| Total liabilities | | 963.1 | 1,087.0 |
| Net assets | | 322.5 | 259.8 |
| Capital and reserves | | | |
| Share capital | 25 | 90.6 | 90.6 |
| Share premium | | 195.1 | 195.1 |
| Profit and loss reserve | | 36.8 | (25.9) |
| Total equity | | 322.5 | 259.8 |

The financial statements were approved by the Board of Directors and authorised for issue on 15 June 2011. They were signed on its behalf by:

S J Garrod
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2010

| | Share capital £m | Share premium £m | Profit and loss reserve £m | Total £m |
|--|------------------------|------------------------|-------------------------------------|--------------|
| At 1 January 2009 | 90.6 | 195.1 | 73.6 | 359.3 |
| Total comprehensive expense net of tax | | | (99.5) | (99.5) |
| At 31 December 2009 | 90.6 | 195.1 | (25.9) | 259.8 |
| Capital contribution from immediate parent | - | - | 50.0 | 50.0 |
| Total comprehensive income net of tax | - | - | 12.7 | 12.7 |
| At 31 December 2010 | 90.6 | 195.1 | 36.8 | 322.5 |

COMPANY STATEMENT OF CASH FLOWS
For the year ended 31 December 2010

| | Notes | 2010 £m | 2009 £m |
|--|-------------|---------------|---------------|
| Cash flows from operating activities | | | |
| Profit/(loss) before tax | | 1.9 | (49.1) |
| Adjustments to reconcile profit/(loss) before tax to net cash flows from operating activities: | | | |
| - impairment of investment in subsidiaries | 13.1 | 47.7 | 50.6 |
| - contributions to the Henderson Group Pension Scheme in excess of costs recognised | | (10.1) | (10.0) |
| - write off of loan interest payable to subsidiary | | (2.3) | (9.2) |
| - release of provision | 21 | (5.8) | - |
| - debt instrument expense | | 9.2 | 17.2 |
| Cash flows from operating activities before changes in operating assets and liabilities | | 40.6 | (0.5) |
| Changes in operating assets and liabilities | 18.2 | (27.3) | 60.1 |
| Net cash flows from operating activities | | 13.3 | 59.6 |
| Cash flows from investing activities | | | |
| Increase in investment in subsidiaries | | - | (50.5) |
| | | - | (50.5) |
| Cash flows from financing activities | | | |
| Loans received from subsidiary company | | - | 127.0 |
| Loans paid to parent company | | - | (127.0) |
| Interest paid on long-term borrowings | | (11.4) | (11.4) |
| Net cash flows from financing activities | | (11.4) | (11.4) |
| Net increase/(decrease) in cash and cash equivalents | | | |
| | | 1.9 | (2.3) |
| Cash and cash equivalents at beginning of year | 18.1 | 8.9 | 11.2 |
| Cash and cash equivalents at end of year | 18.1 | 10.8 | 8.9 |

Notes to the financial statements – Group and Company

1. Authorisation of financial statements and statement of compliance with IFRS

The Group and Company financial statements for the year ended 31 December 2010 were authorised for issue by the Board of Directors on 15 June 2011 and the respective statements of financial position were signed on the Board's behalf by Shirley Garrod. HGI Group Limited is a limited company incorporated in England and Wales and tax resident in the United Kingdom.

The Group and Company financial statements have been prepared in accordance with IFRS and the provisions of the Companies Act 2006. The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to present its own income Statement within these financial statements.

The principal accounting policies adopted by the Group and by the Company are set out in note 2.

2. Accounting policies

2.1 Significant accounting policies

Basis of preparation

The Group and Company financial statements have been prepared on a going concern basis and on the historical cost basis, except for certain financial instruments that have been measured at fair value.

The Group and Company financial statements are presented in GBP and all values are rounded to the nearest one hundred thousand pounds (£0.1m), except when otherwise indicated.

Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of HGI Group Limited and its subsidiaries as at 31 December each year.

The financial statements of all the Group's significant subsidiaries are prepared to the same year end date as that of the Company. The accounts of all material subsidiaries are prepared under either IFRS or UK GAAP. Where prepared under UK GAAP, balances reported by subsidiaries are adjusted to meet IFRS requirements for the purpose of the consolidated financial statements.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal by the Group, as appropriate. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the period of the reporting year during which the Group had control. Non-controlling interests represent the equity interests in subsidiaries not fully held by the Group.

Interests in property closed-ended funds, private equity infrastructure funds, Open-Ended Investment Companies (OEICs) and unit trusts are accounted for as subsidiaries, associates, joint ventures or other financial investments depending on the holdings of the Group and on the level of influence and control that the Group exercises. Strategic shareholder investments in associates, where the Group has the ability to exercise significant influence as well as joint ventures where there is joint control, are accounted for using the equity method.

Income recognition

Fee income and commission receivable

Fee income includes management fees, transaction fees and performance fees (including earned carried interest). Management fees and transaction fees are recognised in the accounting period in which the associated investment management or transaction services are provided. Performance fees are recognised when the prescribed performance hurdles have been achieved and it is probable that the fee will crystallise as a result. The Group's policy is to accrue 95% of the expected fee on satisfaction that the recognition criteria have established a performance fee is due, with the balance recognised on cash settlement. Initial fees and commission receivable are deferred and amortised over the anticipated period in which services will be provided, determined by reference to the average term of investors in each product on which commissions are earned. Other income is recognised in the accounting period in which services are rendered.

Carried interest

The Group is entitled to receive a share of profits (carried interest) from certain private equity funds it manages, once the funds meet certain performance conditions. Where the funds' investments constitute large volumes in relatively illiquid markets, the Group does not deem it appropriate to recognise unearned carried interest based on current fair values. However, where the value of the carried interest will be determined by the future disposal of investments which are quoted on a recognised exchange, then the Group will recognise carried interest to the extent deemed prudent. Carried interest for all other types of investments is only recognised when investments are disposed of and performance conditions are met.

Finance income

Interest income is recognised as it accrues using the effective interest rate method. Dividend income from investments is recognised on the date that the right to receive payment has been established.

Realised and unrealised gains and losses on financial assets

See policy set out under financial instruments on page 23.

Operating leases

All leases are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Notes to the financial statements – Group and Company (continued)

2. Accounting policies (continued)

2.1 Significant accounting policies (continued)

Post-employment benefits

The Group provides employees with retirement benefits through both defined benefit and defined contribution schemes. The assets of these schemes are held separately from the Group's general assets in trustee administered funds.

Defined benefit obligations and the cost of providing benefits are determined annually by independent qualified actuaries using the projected unit credit method. The obligation is measured as the present value of the estimated future cash outflows using a discount rate based on AA rated corporate bond yields of appropriate duration. The resulting surplus or deficit of defined benefit assets less liabilities is recognised in the statement of financial position. The Group's expense related to these schemes is accrued over the employees' service lives, based upon the actuarial cost for the accounting period, having considered interest costs and the expected return on assets. Actuarial gains and losses are recognised in the statement of comprehensive income in the accounting period in which they occur. Normal contributions to the defined contribution scheme are charged to the income statement as they become payable in accordance with the rules of the scheme.

Other post-employment benefits, such as medical care and life insurance, are also provided for certain employees. The costs of such benefits are accrued over the employees' service lives, based upon the actuarial cost for the accounting period using a methodology similar to that for defined benefit pension schemes.

Share-based payment transactions

The Group issues equity-settled and cash-settled share-based payments to certain employees. The valuation methodology, assumptions and schemes are disclosed in note 9.

Equity-settled share-based payments are measured at the fair value of the equity instruments at the grant date. The awards are expensed, with a corresponding increase in reserves, on either a straight-line basis or a graded basis (depending on vesting conditions) over the vesting period, based on the Group's estimate of shares that will eventually vest. The expected life of the awards used in the determination of fair value is adjusted for, based on management's best estimate, the effects of non-transferability, exercise restrictions, market performance and behavioural considerations.

The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until vesting, with recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date, with changes in fair value recognised in the income statement.

Income and sales taxes

The Group provides for current tax expense according to the tax laws of each jurisdiction in which it operates, using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax assets or liabilities are not recognised if they arise from goodwill, however, they are recognised on separately identified intangible assets. If the deferred tax arises from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss, it is not accounted for. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are not recognised for taxable differences arising on investments in subsidiaries, branches, associates and joint ventures where the Group controls the timing of the reversal of the temporary differences and where the reversal of the temporary differences is not anticipated in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Income tax relating to items recognised in the statement of comprehensive income is also recognised in that statement and not in the income statement.

Expenses and assets are recognised net of the amount of sales tax, except where the sales tax is not recoverable, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of expenses. Receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable, to the taxation authority, is included separately in receivables or payables in the statement of financial position.

Business combinations

Under the requirements of IFRS 3 Business Combinations, all business combinations are accounted for using the purchase method (acquisition accounting). The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer. The fair value of a business combination is calculated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. The cost of a business combination in excess of fair value of net identifiable assets or liabilities acquired, including intangible assets identified, is recognised as goodwill. Any costs incurred in relation to a business combination after 1 July 2009 are expensed when the services are received.

Goodwill

Goodwill arising on acquisitions is capitalised in the consolidated statement of financial position. Goodwill on acquisitions prior to 1 January 2004 is carried at its value on 1 January 2004 less any subsequent impairments.

Goodwill arising on investments in associates and joint ventures is included within the carrying value of the equity accounted investments.

Notes to the financial statements – Group and Company (continued)

2. Accounting policies (continued)

2.1 Significant accounting policies (continued)

Impairment of goodwill

Goodwill is reviewed for impairment annually or more frequently if changes in circumstances indicate that the carrying value may be impaired. For this purpose, management prepares a valuation for each cash generating unit based on value in use. This valuation is based on the approved forecasts for future years, extrapolated for expected future growth rates, and discounted at the Group's risk adjusted discount rate. Where the value in use is less than the carrying amount, an impairment is recognised. Where goodwill forms part of an entity or sub-group and the entity or sub-group or part thereof is disposed of, the goodwill associated with the entity or sub-group disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Any impairment is recognised immediately through the consolidated income statement and cannot subsequently be reversed.

Computer software

The costs of purchasing and developing computer software, together with associated relevant expenditure, are capitalised where it is probable that future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably. Computer software is included in the statement of financial position as an intangible asset and is recorded initially at cost and then amortised over its expected useful life of between three and five years on a straight-line basis.

Plant and equipment

Plant and equipment is valued at cost and depreciated on a straight-line basis over its useful economic life of between two and 20 years.

An item of plant and equipment is removed upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the year the item is sold or retired.

Investments in subsidiaries

Investments by the Company in subsidiary undertakings are held at cost less any impairment where circumstances indicate that the carrying value may not be recoverable.

Equity accounted investments

Equity accounted investments comprise investments in associates and joint ventures held by the Group. Investments are recognised initially at cost. The investments are subsequently carried at cost adjusted for the Group's share of profits or losses and other changes in comprehensive income of the associate or joint venture, less any dividends or distributions received by the Group. The consolidated income statement includes the Group's share of profits or losses for the year.

Deferred acquisition and commission costs

For investment management contracts, incremental acquisition costs are deferred to the extent that they are recoverable out of future income. This includes initial commission paid by the Group in respect of certain investment products. These costs are amortised over the period in which they are expected to be recovered out of margins from matching revenues from related contracts. At the end of each accounting period, deferred acquisition and commission costs are reviewed for recoverability against future margins from the related contracts in force at the reporting date.

Placement fees are deferred and amortised over the expected investment period of the fund. Where the actual investment period is significantly shorter than expected, the amortisation rate is accelerated accordingly.

Impairment of assets (excluding goodwill and financial assets)

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount, being the higher of an asset's fair value less cost to sell, and its value in use. In assessing value in use, the estimated future cash flows are discounted to their net present value using a risk adjusted discount rate that reflects a current market assessment of the time value of money and the risks specific to the asset.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. An impairment loss is recognised in the income statement.

Financial instruments

Financial assets and liabilities are recognised in the statement of financial position, when the Group becomes party to the contractual provisions of an instrument, at fair value adjusted for transaction costs, except for financial assets classified at fair value through profit or loss, where transaction costs are immediately recognised in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership. Financial liabilities cease to be recognised when the obligation under the liability has been discharged, cancelled or has expired.

Notes to the financial statements – Group and Company (continued)

2. Accounting policies (continued)

2.1 Significant accounting policies (continued)

Financial assets

Purchases and sales of financial assets are recognised at the trade date, being the date when the purchase or sale becomes contractually due for settlement. Delivery and settlement terms are usually determined by established practices in the market concerned.

Debt securities, equity securities and holdings in authorised collective investment schemes are designated as either fair value through profit or loss, or available-for-sale, and are measured at subsequent reporting dates at fair value. The Group determines the classification of its financial assets on initial recognition. Financial assets classified as fair value through profit or loss comprise the Group's manager box positions in OEICs and unit trusts, which are recorded on a fair value basis. Where securities are designated as fair value through profit or loss, gains and losses arising from changes in fair value are included in the income statement.

For available-for-sale financial assets, gains and losses arising from changes in fair value which are not part of a designated hedge relationship are recognised in the statement of comprehensive income. When an asset is disposed of, the cumulative changes in fair value, previously recognised in the statement of comprehensive income, are taken to the income statement in the current accounting period.

Unrealised gains and losses on financial assets represent the difference between the fair value of financial assets at the reporting date and cost or, if these have been previously revalued, the fair value at the last reporting date. Realised gains and losses on financial assets are calculated as the difference between the net sales proceeds and cost or amortised cost.

Where a fall in the value of an investment is prolonged or significant, this is considered an indication of impairment. In such an event, the investment is written down to fair value and the amounts previously recognised in the statement of comprehensive income in respect of cumulative changes in fair value, are taken to the income statement as an impairment charge.

Trade receivables, which generally have 30-90 day payment terms, are initially recognised at fair value, normally equivalent to the invoice amount and subsequently measured at amortised cost. When the time value of money is material, the fair value is discounted. Provision for specific doubtful debts is made when there is evidence that the Group will not be able to recover balances in full. Balances are written off when the receivable amount is deemed irrecoverable.

Cash amounts represent cash in hand and on-demand deposits. Cash equivalents are short-term highly liquid investments with same day or next day maturity.

Financial liabilities

Financial liabilities including trade payables are stated at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. A financial liability ceases to be recognised when the obligation under the liability has been discharged, cancelled or has expired.

Derivative financial instruments and hedging

The Group may, from time to time, use derivative financial instruments to hedge Group and Henderson Group investments against price, interest rate, foreign currency and credit risk. Derivative financial instruments are classified as financial assets when the fair value is positive or as financial liabilities when the fair value is negative.

At the inception of a hedge, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they have been effective throughout the reporting periods for which they were designated and are expected to remain effective over the remaining hedge period.

Currency hedges

Forward currency contracts are used to hedge the currency nominal value of certain Euro and US dollar denominated available-for-sale financial assets and are classified as fair value hedges. The change in the fair value of a hedging instrument is recognised in the income statement. The change in the fair value of the hedged item, attributable to the risk being hedged, is also recognised in the income statement, offsetting the fair value changes arising on the designated hedge instrument.

Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the reporting date. The quoted market price used for financial instruments is the current bid price. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques commonly used by market participants, including the use of comparable recent arm's length transactions, discounted cash flow analysis and option pricing models.

Provisions

Provisions which are liabilities of uncertain timing or amount, are recognised when: the Group has a present obligation, legal or constructive, as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. In the event that the time value of money is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects a current market assessment of the time value of money and, where appropriate, the risks specific to the liability. When discounting, the increase in the provision due to the passage of time is recognised as a finance charge.

Notes to the financial statements – Group and Company (continued)

2. Accounting policies (continued)

2.1 Significant accounting policies (continued)

Foreign currencies

The functional currency of the Company and its UK subsidiaries is GBP. Transactions in foreign currencies are recorded at the appropriate exchange rate prevailing at the date of the transaction. Foreign currency monetary balances at the reporting date are converted at the prevailing exchange rate. Foreign currency non-monetary balances carried at fair value or cost are translated at the rates prevailing at the date when the fair value or cost is determined. Gains and losses arising on retranslation are taken to the income statement, except for available-for-sale financial assets where the unhedged changes in fair value are recognised in the statement of comprehensive income.

On consolidation, the assets and liabilities of the Group's overseas operations whose functional currency is not GBP are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at average exchange rates for the accounting period. Exchange differences arising, if any, are taken through the consolidated statement of comprehensive income to the translation reserve. Such translation differences are recognised in the consolidated income statement in the accounting period in which the operation is disposed of.

Equity shares

The Company's ordinary equity shares of 12.5 pence each are classified as equity instruments. Equity shares issued by the Company are recorded at the proceeds or fair value received, with the excess of the amount received over the nominal value being recognised in share premium. Direct issue costs, net of tax, are deducted from equity through share premium. When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity.

Dividend recognition

Dividend distributions to the Company's shareholders are recognised in the accounting period in which the dividends are paid and, in the case of final dividends, when these are approved by the Company's shareholders. Dividend distributions are recognised in equity. Dividend distributions pursuant to the Income Access Share arrangements are recognised in the equity of the Group in the period in which the dividends are paid.

2.2 Significant accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made significant judgements involving estimations and assumptions which are summarised below:

Impairment of goodwill

As explained on page 23, goodwill is reviewed for impairment annually or more frequently if changes in circumstances indicate that the carrying value may be impaired.

The judgement exercised by management in arriving at this valuation includes the selection of market growth rates, fund flow assumptions, expected margins and costs. Further details are given in note 12.

Share-based payment transactions

The Group measures the cost of equity-settled share schemes at fair value at the date of grant and expenses them over the vesting period based on the Group's estimate of shares that will eventually vest.

The liability for cash-settled share schemes represents the estimated transaction cost up to the settlement date, taking into account historical experience of good and bad leavers.

Impairment of available-for-sale financial assets

Available-for-sale financial assets are reviewed for impairment on a semi-annual basis or more frequently as required. In specific cases, where a quoted market price or fair value is not available, significant judgement is exercised by management in determining the extent of impairment, taking into account other available market data. Management also exercises judgement in determining whether a decrease in the value of an asset meets the prolonged or significant tests.

Pension and other post-employment benefits

The costs of and period end obligations under defined benefit pension schemes are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty. Further details are given in note 20.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Provisions

By their nature, provisions often reflect significant levels of judgement by management. The nature and amount of the provisions included in the statement of financial position are detailed in note 21 and contingencies not provided for are disclosed in note 33.

Notes to the financial statements – Group and Company (continued)

2. Accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

Accrued income

Accrued income is based on latest available information and involves a degree of estimation. The most significant estimation relates to the accrual of performance fees as described on page 21.

Consolidation of seed investments

From time to time, the Group provides seed capital on the launch of its products, such as UCITs, SICAVs, hedge funds and other investment vehicles. The seed capital investments vary in duration depending on the nature of the investment, with a typical range of less than one year for Listed Asset products and between three and seven years for Private Equity and Property funds, and represent less than 50% of the underlying fund's equity. Given the limited size and nature of these investments, the Group does not consider itself to have significant influence or control over the underlying funds to merit accounting for them using the equity method or consolidating them in the Group's financial statements.

2.3 Changes in accounting policies

The accounting policies adopted in this Annual Report and Accounts are consistent with those of the previous financial year, except in relation to the following revised and amended standards set by the International Accounting Standards Board (IASB).

IFRS 3 Business Combinations (revised)

This standard, which the Group adopted in 2010, introduced a number of changes to accounting for business combinations which will impact the amount of goodwill recognised on acquisition. The amendments will also impact the reported results in the period that an acquisition occurs as well as future results. During 2010, the Group acquired no new businesses.

IAS 27 Consolidated and Separate Financial Statements (amendment)

This standard requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction and such transactions will no longer give rise to goodwill or gains or losses. Furthermore, on the loss of control of a subsidiary, the retained interest will be remeasured to fair value and therefore impact the gain or loss on disposal.

IAS 7 Statement of Cash Flows (effective 1 January 2010), which clarifies the treatment of expenditure recognised as a cash flow from investing activities and IAS 38 Intangible Assets (effective 1 July 2009) which discusses intangible assets as a result of a business combination have been amended due to the revision of IFRS 3. Additionally, IAS 36 Impairment of Assets (effective 1 January 2010) considers the treatment of units of accounting for goodwill. None of these changes has a material impact on the Group's net income or equity.

2.4 Future changes in accounting policies

During the course of the year, the IASB and the International Financial Reporting Interpretations Committee (IFRIC) issued a number of new accounting standards, amendments to existing standards and interpretations. The following new standard is not applicable to these financial statements but is expected to have an impact when it becomes effective. The Group plans to apply this standard in the reporting period in which it becomes effective.

IFRS 9 Financial Instruments proposes revised measurement and classification criteria for financial assets. This standard has a mandatory effective date in 2013. The Group is still assessing the impact on the Group's future financial statements.

Notes to the financial statements – Group and Company (continued)

3. Income

| | 2010 | 2009 |
|--|----------------|---------------|
| | £m | £m |
| Gross fee income and commissions | | |
| Gross fee income | 355.7 | 224.0 |
| Amortisation of deferred income | 36.9 | 26.3 |
| | 392.6 | 250.3 |
| Finance income | | |
| Interest on cash and cash equivalents | 1.1 | 0.3 |
| Interest on loans to fellow subsidiaries | 3.2 | 3.8 |
| Net investment income from, and gains and losses on, available-for-sale financial assets | (0.7) | (0.1) |
| Net losses arising on derivatives in a designated fair value hedge accounting relationship | (0.7) | 0.3 |
| Net gains arising on adjustment for the hedged item in a designated fair value hedge accounting relationship | 0.7 | (0.3) |
| | 3.6 | 4.0 |
| Gross income | 396.2 | 254.3 |
| Commission and fees payable | | |
| Commissions and fees payable | (64.9) | (31.3) |
| Amortisation of deferred acquisition and commission costs | (37.8) | (22.8) |
| | (102.7) | (54.1) |
| Total income | 293.5 | 200.2 |

4. Expenses

4.1 Operating costs

| | Note | 2010 | 2009 |
|------------------------------------|------|--------------|--------------|
| | | £m | £m |
| Employee compensation and benefits | 5.2 | 162.2 | 119.1 |
| Operating leases | | 8.3 | 8.1 |
| Investment administration | | 22.4 | 15.6 |
| Information technology | | 13.5 | 10.2 |
| Office expenses | | 8.3 | 7.1 |
| Foreign exchange (gains)/losses | | (0.1) | 0.2 |
| Other expenses | | 50.8 | 22.5 |
| Total operating costs | | 265.4 | 182.8 |

Other expenses include marketing, travel and subsistence, and legal and professional costs. In 2010, other expenses also include £3.0m of costs incurred in relation to the potential acquisition of RidgeWorth on which the Group terminated discussions in June 2010.

4.2 Auditors' remuneration

| | 2010 | 2009 |
|--|------------|------------|
| | £m | £m |
| Fees payable to the Group's auditors for the audit of the Group's annual consolidated financial statements | 0.2 | 0.2 |
| Fees payable to the Group's auditors and their associates for other services: | | |
| - statutory audit of the Group's subsidiaries | 0.4 | 0.6 |
| - other services pursuant to legislation | 0.3 | 0.3 |
| - other services | 0.1 | 0.1 |
| Total fees | 1.0 | 1.2 |

The above analysis reflects the amounts billed by Ernst & Young LLP in the respective periods. Included in the fees payable to the Group's auditors for the audit of the Group's 2010 consolidated financial statements are fees of £30,000 (2009: £30,000) for the audit of the Company's 2010 financial statements.

Notes to the financial statements – Group and Company (continued)

5. Employee benefits

5.1 Average number of employees

The average number of full-time employees of the Group was as follows:

| | 2010 | 2009 |
|-----------------------------|------|------|
| | no. | no. |
| Average number of employees | 877 | 860 |

5.2 Analysis of employee compensation and benefits expense

Employee compensation and benefits expense comprises:

| | Notes | 2010 | 2009 |
|---|-------|--------------|--------------|
| | | £m | £m |
| Salaries, wages and bonuses | | 136.5 | 93.6 |
| Share-based payments | 9.2 | 14.2 | 13.9 |
| Social security costs | | 8.8 | 7.2 |
| Pension service cost | 20 | 2.7 | 4.4 |
| Total employee compensation and benefits expense | | 162.2 | 119.1 |

Employees' contracts of employment are with certain subsidiary companies, primarily Henderson Administration Limited; accordingly, there are no employee benefits disclosures relating to the Company.

6. Finance costs

| | 2010 | 2009 |
|----------------------------------|------|------|
| | £m | £m |
| Debt instrument interest expense | 8.5 | 8.8 |
| Revolving credit facility fees | 0.2 | 0.1 |
| Total finance costs | 8.7 | 8.9 |

An interest rate swap was entered into at the time of the debt issue in May 2007, to swap the fixed coupon of 6.5% per annum into six month sterling LIBOR plus 85.75bps per annum. The swap was unwound on 9 December 2008 and the cumulative fair value adjustment to the debt carrying value, attributable to the hedged interest rate risk up to the date of unwinding, £10.5m, is being amortised over the remaining term of the debt to maturity on 2 May 2012. In 2010, the impact of the amortisation of the profit on unwinding the swap is a reduction in finance costs of £3.1m (2009: £3.1m).

Notes to the financial statements – Group and Company (continued)

7. Non-recurring items

The non-recurring items before tax recorded in the consolidated income statement comprise the following:

| | 2010 | 2009 |
|---|--------------|---------------|
| | £m | £m |
| FSCS Levy | (5.9) | - |
| Towry Law International provision release | 5.8 | - |
| Insurance recoveries | - | 8.8 |
| New Star integration costs | - | (17.0) |
| Infrastructure fund charge | - | (20.7) |
| Impairment of available-for-sale financial assets – property seed capital | - | (7.3) |
| Non-recurring items before tax | (0.1) | (36.2) |
| Tax on non-recurring items | - | 8.6 |
| Non-recurring tax | 16.4 | - |
| Non-recurring items after tax | 16.3 | (27.6) |

2010

FSCS Levy

In November 2010, the FSCS indicated that it would raise an interim levy on investment managers in respect of claims received primarily from investors in Keydata Investment Services Limited (in administration). The Group has provided for this levy in full during 2010.

Towry Law International provision release

During the second half of 2010, the majority of a previously recognised product mis-selling provision, relating to legacy Towry Law International products, was deemed no longer required and was released. This resulted in a £5.8m credit in 2010.

Non-recurring tax

During the second half of 2010, HMRC closed enquiries into certain prior year tax filings, resulting in the Group releasing tax provisions of £16.4m.

2009

Insurance recoveries

During 2009, the Group reached agreement with insurers regarding a number of insurance claims made by Towry Law International and the Group in 2003 and 2004 under an AMP Limited run-off insurance policy, resulting in a net receivable of £8.8m.

New Star integration costs

On 9 April 2009, Henderson Group Plc acquired New Star. An expense of £17.0m was incurred by the Group in relation to the integration of New Star during the period. These integration costs included costs in respect of fund mergers, rebranding, office relocation and reorganisation, transition of outsourced retail and investment operations and staff related expenses.

Infrastructure fund charge

During 2009, the Group recognised an exceptional charge of £20.7m in respect of management fees on one of its infrastructure funds.

Impairment of available-for-sale financial assets – property seed capital

In accordance with the impairment tests under IAS 39, three available-for-sale financial assets invested in property funds were impaired during 2009. These were written down to their fair values at 31 December 2009, resulting in a charge to the consolidated income statement of £7.3m.

Notes to the financial statements – Group and Company (continued)

8. Tax

Tax recognised in the income statement

| | 2010 | 2009 |
|---|------------|--------------|
| | £m | £m |
| Current tax: | | |
| - charge/(credit) for the year | 14.0 | (11.0) |
| - prior period adjustments | (7.2) | 2.5 |
| Deferred tax: | | |
| - (credit)/charge for the year | (3.7) | 9.2 |
| - prior period adjustments | (1.7) | (6.6) |
| Total tax charged/(credited) to the income statement | 1.4 | (5.9) |

Tax recognised in the statement of comprehensive income

| | 2010 | 2009 |
|--|------------|---------------|
| | £m | £m |
| Deferred tax charge in relation to available-for-sale financial assets | 0.6 | 0.6 |
| Deferred tax in relation to actuarial gains/(losses) | 3.9 | (19.4) |
| Total tax charged/(credited) to the statement of comprehensive income | 4.5 | (18.8) |

Reconciliation of profit/(loss) before tax to tax expense/(credit)

The tax charge/(credit) for the year can be reconciled to the profit/(loss) before tax in the income statement as follows:

Group

| | 2010 | 2009 |
|---|------------|--------------|
| | £m | £m |
| Profit/(loss) before tax | 15.9 | (31.2) |
| Tax charge/(credit) at the UK corporation tax rate of 28.0% (2009: 28.0%) | 4.5 | (8.7) |
| <i>Factors affecting the tax charge/(credit):</i> | | |
| Other disallowable expenditure and non-taxable income | 4.7 | 5.1 |
| Other taxable income | 4.0 | - |
| Prior period non-recurring provision release | (16.4) | - |
| Prior periods adjustments including those with Henderson Group entities | 7.5 | (4.1) |
| Differences in effective tax rates on overseas earnings | (2.8) | 2.4 |
| Other items | 0.2 | (0.6) |
| Changes in applicable statutory tax rates | (0.3) | - |
| Total tax charged/(credited) in the income statement | 1.4 | (5.9) |

Differences in effective tax rates on overseas earnings in 2010 includes the benefit of overseas share based compensation plans in operation.

Notes to the financial statements – Group and Company (continued)

9. Share-based payments

9.1 Group share-based compensation plans

The following share-based compensation plans were in operation during 2010:

Restricted Share Plan (RSP)

The RSP is a scheme that allows employees to receive shares in the Company's ultimate parent (Henderson Group plc) for £nil consideration at a future point, usually after three years. The awards are made typically for staff recruitment and retention purposes. Generally, the larger awards have a performance hurdle. The Henderson Group Remuneration Committee must approve all awards and the vesting of awards over £50,000. On vesting, in order to obtain the shares, the employee must satisfy any tax and national insurance obligations.

Employee Share Ownership Plan (ESOP)

The ESOP enables all staff, but not the Executive Directors of Henderson Group, to voluntarily defer part of their annual bonus into the ESOP up to a specified limit. The ESOP provides one free matching share of Henderson Group for every share purchased. To receive the matching shares, employees must remain in the plan for three years. The ESOP was offered in 2006, 2007 and 2008. Forfeiture conditions apply in the case of approved and unapproved leavers. No plan was offered in 2009 or 2010. Matching shares for the 2008 plans will vest in June 2011.

Long-Term Incentive Plan (LTIP)

The LTIP is a scheme that allows selected employees to be granted Henderson Group shares or nil cost options. The options are granted on condition that the selected employees remain with the Henderson Group, normally for three years after the grant date, and the performance conditions for the plans are as follows:

| Criteria | Amount vesting 2007 plan |
|---|-----------------------------|
| Henderson Group TSR less than the 50th percentile of the FTSE 250 companies | nil% |
| Henderson Group TSR at the 50th percentile of the FTSE 250 companies | 35% |
| Henderson Group TSR at or above the 75th percentile of the FTSE 250 companies | 100% |

| Criteria | Amount vesting 2008 to 2010 plans |
|--|---|
| Henderson Group TSR less than the 50th percentile of the FTSE 350 General Financial Services companies | nil% |
| Henderson Group TSR at the 50th percentile of the FTSE 350 General Financial Services companies | 25% |
| Henderson Group TSR at or above the 75th percentile of the FTSE 350 General Financial Services companies | 100% |

For a Henderson Group TSR between the 50th and 75th percentiles, the amount vesting will increase on a linear basis. In addition, the Henderson Group Remuneration Committee must be satisfied the TSR reflects the underlying performance of the Henderson Group.

For the 2010 LTIP, certain employees who are US citizens have been awarded performance shares in Henderson Group as opposed to nil cost options but the vesting and forfeiture criteria remain the same.

The employees are not entitled to vote or receive dividends in respect of these awards until the vesting conditions are met, nor are they allowed to pledge, hedge or assign the expected awards in any way.

In accordance with the scheme terms, the 2007 LTIP met its vesting conditions on 31 December 2009 and the awards vested in March 2010. The Henderson Group TSR performance condition resulted in 100% of the shares of the award being capable of exercise. The 2008 LTIP met its vesting conditions on 31 December 2010 and the awards vested in February 2011. The Henderson Group TSR performance condition resulted in 100% of the shares of the award being capable of exercise.

Deferred Equity Plan (DEP)

Under the Henderson Group's remuneration policy, there is a requirement for employees who receive short-term incentive awards over a preset threshold to defer an element of their award. The majority of deferrals are deferred into the Henderson Group shares, with some deferrals into Group managed funds when it is deemed appropriate. The deferred monies are paid to the DEP trustee, who purchases shares or funds and holds them in trust. In 2007, the Henderson Group shares attracted one free matching share for every four shares awarded by the trustee. Since 2008, there has been no matching share element.

Hedge fund performance fee deferrals are deferred into the hedge fund that provided the performance fee award and are held in trust for two years on a fully restricted basis and have no matching element.

Forfeiture conditions apply in the case of approved and unapproved leavers. Deferrals into the Henderson Group shares are held in trust for a minimum of one year. However, for the 2007 scheme the shares must be held in trust for three years in order to receive the free matching shares.

Deferrals relating to 2009 and 2010 performance awards are deferred into the Henderson Group shares for up to three years and vest in three equal tranches, starting in 2011 and 2012 respectively.

Notes to the financial statements – Group and Company (continued)

9. Share-based payments (continued)

9.1 Group share-based compensation plans (continued)

Buy As You Earn Share Plan (BAYE)

This is an HMRC approved plan. Eligible employees who wish to purchase shares in the Henderson Group invest a monthly amount up to a maximum of £125, which is deducted from their gross salary. Each participating employee receives, for no additional payment, two free matching shares for each share purchased (partnership shares). Matching shares will be forfeited if purchased shares are withdrawn from the trust within one year.

The Henderson Group introduced an international version of the BAYE during 2010. It operates on a similar basis to the UK version, except that each participating employee receives one free matching share for each share purchased.

Company Share Option Plan (CSOP)

The CSOP is a global plan that provides employees with an opportunity to buy Henderson Group shares after a three year vesting period at an option price fixed at the start of the scheme. The CSOP is an HMRC approved share option plan; this means that the maximum value of unvested options at any time is limited to £30,000 for UK employees. No such restrictions apply for overseas employees. The share options are held in trust. There are no Henderson Group performance conditions attached to the options. At vesting, the employee must choose whether or not to exercise the options within two years of the vesting date. Executive Directors of Henderson Group are not eligible to participate in the CSOP. A 2010 CSOP was introduced during the year.

Sharesave scheme (SAYE)

The SAYE is an HMRC approved plan. UK employees may participate in more than one scheme but only up to a maximum of £250 per month across all schemes. Eligible employees who participate in the SAYE contribute a monthly amount from their net salary to a savings account. The SAYE vesting period is three years for UK employees.

A 2010 SAYE was introduced during the year. At the end of a three year period, the employees in the 2010 SAYE can choose to exercise their Henderson Group share options using the funds in their account, together with a bonus, equivalent to 0.3 (2008 SAYE: 2.4 and 2009 SAYE: 0.6) times the monthly saving amount, to subscribe for shares at a preset price, this being £1.00 (2008 SAYE: £0.76 and 2009 SAYE: £0.58) per share, a 20% discount to the average share price on the first five working days of March 2010 (2008 SAYE: 3 March 2008 and 2009 SAYE: 4 March 2009). Employees have up to six months after the 36 month period to exercise their options and subscribe for shares. Forfeiture provisions apply in the case of approved and unapproved leavers. The 2007 SAYE vested in 2010.

In 2006, the Henderson Group launched the USA Employee Share Purchase Plan (ESPP). A 2010 ESPP was also introduced during the year. The ESPP works broadly on the same principles as the UK SAYE but has a 24 month savings period, a lower discount level at 15% and no bonus element. The preset option price was USD1.62 (2008 ESPP: USD1.61 and 2009 ESPP: USD0.88). Employees may participate in more than one plan but only up to a plan maximum of USD312.50 per month across all plans.

Executive Shared Ownership Plan (ExSOP)

The ExSOP is an employee shared ownership plan and is aimed at encouraging employee share ownership at middle management level. Executive Directors are excluded from participating in the ExSOP.

Under the terms of the ExSOP, certain employees may be invited to acquire jointly with an employee benefit trust, the beneficial interest in a number of Henderson Group shares under the terms of a joint ownership agreement (JOA). Under a JOA, the employee will benefit from any growth in value of the jointly shares from the time of the award in excess of a hurdle amount fixed by the Board in respect of each award.

For the 2010 ExSOP, the market price at grant was £1.24 per share. The hurdle price including the 9% carry charge was set at £1.35 per share. The shares have a vesting period of three years. The employees have a further two years to take their portion of the jointly owned shares.

9.2 Share-based payments through the consolidated income statement

| | 2010 | 2009 |
|----------------------|-------------|-------------|
| | £m | £m |
| RSP | 3.6 | 4.5 |
| ESOP | 1.3 | 4.0 |
| LTIP | 3.5 | 2.2 |
| DEP | 2.9 | 1.1 |
| BAYE | 1.4 | 1.0 |
| CSOP | 0.8 | 0.6 |
| SAYE | 0.6 | 0.5 |
| ExSOP | 0.1 | - |
| Total expense | 14.2 | 13.9 |

Notes to the financial statements – Group and Company (continued)

9. Share-based payments (continued)

9.2 Share-based payments through the consolidated income statement (continued)

The total expense can be analysed between:

| | 2010 | 2009 |
|--|-------|-------|
| | £m | £m |
| Share-based payments | 14.2 | 13.9 |
| Equity-settled performance fee bonuses recognised within salaries, wages and bonuses | 5.8 | 2.3 |
| Release of prepaid tax | (2.1) | - |
| Amount to be settled in cash | - | (0.3) |
| Amounts to be settled with equity of Henderson Group plc | 17.9 | 15.9 |

9.3 Share options outstanding – SAYE

Share options outstanding under the Henderson Group SAYE are as follows:

| | 2010 | | 2009 | |
|--------------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| | no. | £ | no. | £ |
| At 1 January | 5,380,788 | 0.636 | 4,374,413 | 0.785 |
| Granted | 890,160 | 1.004 | 4,341,540 | 0.586 |
| Exercised (refer to note 25.2) | (163,439) | 0.980 | (839,308) | 0.697 |
| Forfeited | (536,130) | 0.704 | (2,495,857) | 0.789 |
| At 31 December | 5,571,379 | 0.678 | 5,380,788 | 0.636 |

The weighted average share price on the date options were exercised during 2010 was £1.30 (2009: £0.95). There were no options exercisable at 31 December 2010 (2009: 10,284). The weighted average fair value of options granted during 2010 was £0.33 (2009: £0.22). At 31 December 2010, the expected weighted average time remaining until the vesting of outstanding awards was one year three months (2009: two years).

9.4 Share options outstanding – CSOP

Share options outstanding under the Henderson Group CSOP are as follows:

| | 2010 | | 2009 | |
|-----------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| | no. | £ | no. | £ |
| At 1 January | 10,308,222 | 0.726 | 355,000 | 0.960 |
| Granted | 4,302,400 | 1.237 | 10,889,000 | 0.726 |
| Exercised | (126,691) | 0.726 | (9,248) | 0.726 |
| Forfeited | (985,714) | 0.816 | (926,530) | 0.816 |
| At 31 December | 13,498,217 | 0.882 | 10,308,222 | 0.726 |

There were 40,217 options exercisable at 31 December 2010 (2009: nil). The weighted average fair value of options granted during 2010 was £0.23 (2009: £0.19). At 31 December 2010, the expected weighted average time remaining until the vesting of outstanding awards was one year six months (2009: two years).

9.5 Jointly owned shares outstanding - ExSOP

Jointly owned shares outstanding under the Group's ExSOP are as follows:

| | 2010 | | 2009 | |
|-----------------------|--------------------------|---------------------------------|--------------------------|---------------------------------|
| | Jointly owned Shares no. | Weighted average exercise price | Jointly owned shares no. | Weighted average exercise price |
| | | £ | | £ |
| At 1 January | - | - | - | - |
| Granted | 3,640,800 | 1.240 | - | - |
| Exercised | - | - | - | - |
| Forfeited | (43,800) | 1.240 | - | - |
| At 31 December | 3,597,000 | 1.240 | - | - |

The ExSOP commenced in 2010. There were no jointly owned Henderson Group plc shares exercisable at 31 December 2010. The fair value of the jointly owned shares granted during 2010 was £0.20. At 31 December 2010, the expected weighted average time remaining until the vesting of outstanding awards was two years six months.

Notes to the financial statements – Group and Company (continued)

9. Share-based payments (continued)

9.6 Fair values of share-based compensation plans

The fair value amounts for the options and jointly owned shares granted under the SAYE, CSOP and ExSOP were determined using the Black Scholes option-pricing method, using the following assumptions:

| | 2008 SAYE | 2008 CSOP | 2009 SAYE | 2009 CSOP | 2010 SAYE | 2010 CSOP | 2010 ExSOP |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| Dividend yield | 6.0% | 6.0% | 6.0% | 6.0% | 5.36% | 5.36% | 5.36% |
| Expected volatility | 45.0% | 45.0% | 45.0% | 45.0% | 35.8% | 35.8% | 35.8% |
| Risk-free interest rate | 5.0% | 5.0% | 4.0% | 4.0% | 3.55% | 3.55% | 3.55% |
| Expected life | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years |
| Weighted average | £0.960 | £0.960 | £0.726 | £0.726 | £1.250 | £1.240 | £1.240 |
| Exercise price | £0.768 | £0.960 | £0.582 | £0.726 | £0.997 | £1.240 | £1.350 |

Expected volatility has been calculated based on the historical volatility for Henderson Group plc over three years.

Other share schemes involve the grant of shares for £nil consideration. The fair value of these grants is calculated using the share price at grant date, which is set out in the following table. No adjustments have been made for dividends.

| Scheme | Shares granted during 2010 no. | Average share price £ |
|--------|--------------------------------|-----------------------|
| BAYE | 1,737,536 | 1.281 |
| LTIP | 13,375,000 | 1.267 |
| RSP | 1,794,632 | 1.275 |
| DEP | 4,305,306 | 1.301 |

The fair value calculation for the LTIP includes a statistical assessment of the likelihood of the Henderson Group achieving performance targets set out in the plan.

10. Dividends paid and proposed

| | 2010 £m | 2010 pence per share | 2009 £m | 2009 pence per share |
|--|------------|-------------------------|------------|-------------------------|
| Dividends on ordinary shares declared and paid in the period | | | | |
| Final dividend in respect of 2H09 (2H08) | 34.1 | 4.25 | 33.4 | 4.25 |
| Interim dividend in respect of 1H10 (1H09) | 14.9 | 1.85 | 14.5 | 1.85 |
| Total dividends paid and charged to equity | 49.0 | 6.10 | 47.9 | 6.10 |

Dividends proposed on ordinary shares and approved by the shareholders at the Henderson Group plc AGM

| | | | | |
|--------------------------------|------|------|------|------|
| Final dividend for 2H10 (2H09) | 38.8 | 4.65 | 34.1 | 4.25 |
|--------------------------------|------|------|------|------|

The dividend proposed in respect of 2H10 of £38.8m is based on the total number of ordinary shares in issue at 31 December 2010. As referred to in note 35, an additional £11.3m of dividends became payable as a result of the Gartmore Acquisition.

Pursuant to the Income Access Share arrangements, shareholders in Henderson Group plc are able to elect to receive their dividends from a UK source within the Henderson Group. The above table reflects those dividends declared by the Board of Henderson Group plc and paid to those shareholders who have elected to receive their dividends via the Income Access Share arrangements, and thereby paid by a subsidiary of the Group. Shareholders who do not elect to receive their dividends via the Income Access Share arrangements are paid by a company that is not part of the Group. The total of these payments in 2010 was nil (2009: £0.4m).

The Directors of the Company have not declared or paid any dividends in 2010 (2009: £nil).

Notes to the financial statements – Group and Company (continued)

11. Segmental information

Group operating income and net assets

The Group is an investment manager, operating throughout Europe and with operations in North America. The Group manages a broad range of actively managed investment products for institutional and retail investors, across multiple asset classes, including equities, fixed income, property and private equity. Management operates across product lines, distribution channels, and geographic regions. All investment product types are sold in most, if not all, of these regions, and are managed in various locations.

Information is reported to the chief operating decision maker, the Board of Henderson Group plc, on an aggregated basis. Strategic and financial management decisions are determined centrally by the Board of Henderson Group plc and, on this basis, the Group is also a single segment investment management business.

Entity-wide disclosures

Revenues by product

| | 2010 £m | 2009 £m |
|------------------------------|--------------|--------------|
| UK wholesale | 167.2 | 66.6 |
| Property | 52.3 | 30.7 |
| Institutional and Cash funds | 55.1 | 41.7 |
| Horizon wholesale | 25.4 | 38.4 |
| US wholesale | 34.3 | 24.5 |
| Hedge funds | 17.7 | 19.4 |
| Other | 40.6 | 29.0 |
| | 392.6 | 250.3 |

Geographic information

Revenues from clients

| | 2010 £m | 2009 £m |
|------------|--------------|--------------|
| UK | 348.7 | 214.3 |
| US | 33.0 | 26.0 |
| Luxembourg | 1.1 | 1.2 |
| Other | 9.8 | 8.8 |
| | 392.6 | 250.3 |

The geographical revenue information is split according to the country in which the revenue is generated, not necessarily where the client is based.

The Group does not have a single client which accounts for more than 10% of revenues.

Non-current assets

| | 2010 £m | 2009 £m |
|-------|--------------|--------------|
| UK | 290.5 | 272.9 |
| Other | 7.5 | 9.6 |
| | 298.0 | 282.5 |

Non-current assets for this purpose consist of intangible assets, investments in associates and joint ventures, plant and equipment and deferred acquisition and commission costs.

Notes to the financial statements – Group and Company (continued)

12. Intangible assets

Intangible assets are made up as follows:

2010

| | Goodwill £m | Group Computer software £m | Total £m |
|---|----------------|-------------------------------------|--------------|
| Cost | | | |
| At 1 January | 224.3 | 2.4 | 226.7 |
| Disposal | - | (0.9) | (0.9) |
| At 31 December | 224.3 | 1.5 | 225.8 |
| Amortisation and impairment losses | | | |
| At 1 January | - | (0.4) | (0.4) |
| Amortisation charge during the year | - | (0.3) | (0.3) |
| At 31 December | - | (0.7) | (0.7) |
| Carrying value at 31 December | 224.3 | 0.8 | 225.1 |

2009

| | Goodwill £m | Group Computer software £m | Total £m |
|---|----------------|-------------------------------------|--------------|
| Cost | | | |
| At 1 January | 224.3 | 1.9 | 226.2 |
| Additions | - | 0.5 | 0.5 |
| At 31 December | 224.3 | 2.4 | 226.7 |
| Amortisation and impairment losses | | | |
| At 1 January | - | (0.1) | (0.1) |
| Amortisation charge during the year | - | (0.3) | (0.3) |
| At 31 December | - | (0.4) | (0.4) |
| Carrying value at 31 December | 224.3 | 2.0 | 226.3 |

Notes to the financial statements – Group and Company (continued)

12. Intangible assets (continued)

The Group considers itself to be a single segment investment management business and, therefore, a single cash generating unit to which goodwill can be allocated.

The recoverable amount of goodwill at 31 December 2010 has been determined from a value in use calculation, using the budgets and forecasts approved by the Henderson Group Board and a terminal value for the period thereafter. The key growth assumptions used in the budgets and forecasts include assumptions on market movements, business growth, margins, business investment and inflation. The terminal value has been calculated assuming a long-term growth rate of 2% per annum in perpetuity, based on the Group's view of long-term nominal growth. A discount rate of 11.6% per annum has been applied.

The resultant value in use calculation has been compared with the carrying amount of goodwill to determine if any goodwill impairment arises. The calculation shows significant headroom in the recoverable amount of goodwill.

The value in use calculation has been flexed for a 25% reduction in annual fund flows, a 40% drop in markets in 2011 with a recovery after two years and a corresponding decrease in costs. This calculation also shows headroom in the recoverable amount of goodwill. The ability of the Group to manage its cost base during periods of market weakness has not been factored into this scenario, but would further increase headroom in the recoverable amount of goodwill.

Recent transaction experience provides additional evidence that the recoverable amount of goodwill is in excess of the carrying amount.

13. Investments in subsidiaries, associates and joint ventures

13.1 Principal subsidiaries

Group

The principal subsidiaries of the Group, excluding the directly held subsidiaries of the Company shown below, are as follows:

| | Country of incorporation and principal place of operation | Functional currency | Percentage owned 2010 | Percentage owned 2009 |
|--|--|------------------------|-----------------------------|-----------------------------|
| Henderson Administration Limited | UK | GBP | 100% | 100% |
| Henderson Alternative Investment Advisor Limited | UK | GBP | 100% | 100% |
| Henderson Equity Partners Limited | UK | GBP | 100% | 100% |
| Henderson Fund Management Limited | UK | GBP | 100% | 100% |
| Henderson Global Investors (International Holdings) BV | Netherlands and UK | EUR | 100% | 100% |
| Henderson Global Investors (Jersey) Limited | Jersey and UK | GBP | 100% | 100% |
| Henderson Global Investors (Holdings) Limited | UK | GBP | 100% | 100% |
| Henderson Global Investors (Jersey) 2 Limited | Jersey and UK | GBP | 100% | 100% |
| Henderson Global Investors Limited | UK | GBP | 100% | 100% |
| Henderson Global Investors (North America) Inc. | USA | USD | 100% | 100% |
| Henderson Holdings Limited | UK | GBP | 100% | 100% |
| Henderson International Holdings Limited | Jersey and UK | GBP | 100% | 100% |
| Henderson International Inc. | USA | USD | 100% | 100% |
| Henderson Investment Funds Limited | UK | GBP | 100% | 100% |
| Henderson Investment Management Limited | UK | GBP | 100% | 100% |

The information disclosed in the table above is only in respect of those subsidiaries which principally affect the figures shown in the Group's financial statements. There are a number of other subsidiaries whose business does not materially affect the Group's profits or the amount of its assets. Particulars of these have been omitted for simplification purposes.

Notes to the financial statements – Group and Company (continued)

13. Investments in subsidiaries, associates and joint ventures (continued)

13.1 Principal subsidiaries (continued)

Company

| | 2010 | 2009 (Restated) |
|--|--------------|--------------------|
| | £m | £m |
| At 1 January | 871.7 | 874.2 |
| Additional investment in subsidiaries | 359.8 | 48.1 |
| Impairment of investment in subsidiaries | (47.7) | (50.6) |
| Disposal of investment in subsidiaries | (215.8) | - |
| At 31 December | 968.0 | 871.7 |

The impairment relates to an investment in a subsidiary of the Company that does not have sufficient distributable reserves or forecast future cash flow to support the carrying value of the investment. As a result, the investment has been fully impaired.

The directly held subsidiaries of the Company are as follows:

| | Country of incorporation and principal place of operation | Functional currency | Percentage owned 2010 | Percentage owned 2009 |
|---|--|------------------------|--------------------------|--------------------------|
| Henderson Global Investors (Holdings) Limited | UK | GBP | 100% | 100% |
| HGI (Investments) Limited | UK | GBP | 100% | 100% |
| Henderson Finances | UK | GBP | 0% | 100% |
| Henderson Portfolio Managers Limited | UK | GBP | 0% | 100% |
| UKLS Financial Planning Limited | UK | GBP | 0% | 100% |
| HHG (VH) Limited | UK | GBP | 0% | 100% |

13.2 Associates and joint ventures

Group

The Group holds interests in the following associates and joint ventures:

| | Country of incorporation and principal place of operation | Functional currency | Percentage owned 2010 | Percentage owned 2009 |
|--|--|------------------------|-----------------------------|--------------------------|
| Attunga Capital Pty Limited | Australia | AUD | 30% | 30% |
| Henderson-mfi Shopping Centre GmbH & Co. KG | Germany | EUR | 50% | 50% |
| Henderson-mfi Shopping Centre Verwaltungs GmbH | Germany | EUR | 50% | 50% |
| HGI Immobilien GmbH | Germany | EUR | 50% | 50% |
| Warburg-Henderson Kapitalanlagegesellschaft für Immobilien mbH | Germany | EUR | 50% | 50% |

| | 2010 | 2009 |
|-------------------------------|------|------|
| | £m | £m |
| Share of aggregate net assets | 5.1 | 5.0 |
| Share of profit for the year | 1.3 | 0.7 |

The Group's investments in associates and joint ventures are accounted for under the equity method. The investments are carried at cost adjusted for post-acquisition share of profits and losses and other changes in equity. Distributions received from associates and joint ventures during the year are deducted from the carrying value of the investment.

Notes to the financial statements – Group and Company (continued)

14. Plant and equipment

| | Group | |
|--------------------------------------|---------------|--------|
| | 2010 | 2009 |
| | £m | £m |
| Cost | | |
| At 1 January | 32.9 | 30.6 |
| Additions | 0.8 | 2.7 |
| Disposals | (0.1) | (0.4) |
| Foreign exchange movement | 0.4 | - |
| At 31 December | 34.0 | 32.9 |
| Depreciation | | |
| At 1 January | (10.9) | (8.1) |
| Charge during the year | (3.1) | (3.2) |
| Disposals | - | 0.4 |
| At 31 December | (14.0) | (10.9) |
| Net book value at 31 December | 20.0 | 22.0 |

Included in cost as at 31 December 2010 were fully depreciated assets amounting to £2.8m (2009: £1.3m).

15. Fair value of financial instruments

Total financial assets and liabilities

| | Notes | Group | | | |
|---|-------|----------------|-------|--------------|-------|
| | | Carrying value | | Fair value | |
| | | 2010 | 2009 | 2010 | 2009 |
| | | £m | £m | £m | £m |
| Financial assets | | | | | |
| <i>Current assets:</i> | | | | | |
| Financial assets at fair value through profit or loss | | | | | |
| Shares/units in OEICs/unit trusts | | 1.2 | 0.6 | 1.2 | 0.6 |
| Other financial assets | | | | | |
| Available-for-sale financial assets | | 30.7 | 27.3 | 30.7 | 27.3 |
| OEIC and unit trust debtors, loans to and amounts owed from fellow subsidiaries and other debtors | 17 | 302.4 | 256.0 | 302.4 | 256.0 |
| Derivative financial instruments | 17 | - | 0.2 | - | 0.2 |
| Cash and cash equivalents | 18.1 | 157.1 | 84.5 | 157.1 | 84.5 |
| Total financial assets | | 491.4 | 368.6 | 491.4 | 368.6 |
| Financial liabilities | | | | | |
| <i>Non-current liabilities:</i> | | | | | |
| Debt instrument in issue | 19 | 179.1 | 181.9 | 179.2 | 173.5 |
| <i>Current liabilities:</i> | | | | | |
| OEIC and unit trust creditors, loans from and amounts owed to fellow subsidiaries and other creditors | 24 | 259.9 | 178.6 | 259.9 | 178.6 |
| Derivative financial instruments | 24 | 0.1 | 1.0 | 0.1 | 1.0 |
| Total financial liabilities | | 439.1 | 361.5 | 439.2 | 353.1 |

Notes to the financial statements – Group and Company (continued)

15. Fair value of financial instruments (continued)

| | Notes | Company | | | |
|---|-------|----------------|------------|------------|------------|
| | | Carrying value | | Fair value | |
| | | 2010 £m | 2009 £m | 2010 £m | 2009 £m |
| Financial assets | | | | | |
| <i>Current assets:</i> | | | | | |
| Loans to and amounts owed from fellow subsidiaries and other assets | 17 | 194.1 | 376.0 | 194.1 | 376.0 |
| Cash and cash equivalents | 18.1 | 10.8 | 8.9 | 10.8 | 8.9 |
| Total financial assets | | 204.9 | 384.9 | 204.9 | 384.9 |
| Financial liabilities | | | | | |
| <i>Non-current liabilities:</i> | | | | | |
| Debt instrument in issue | 19 | 179.1 | 181.9 | 179.2 | 173.5 |
| <i>Current liabilities:</i> | | | | | |
| Loans from subsidiaries | 23 | 500.2 | 549.0 | 500.2 | 549.0 |
| Amounts owed to fellow subsidiaries | 24 | 271.5 | 339.2 | 271.5 | 339.2 |
| Total financial liabilities | | 950.8 | 1,070.1 | 950.9 | 1,061.7 |

The Group enters into forward foreign exchange contracts to hedge various financial assets and liabilities denominated in foreign currency and therefore applies fair value hedge accounting. In 2008, an interest rate swap held on the debt was unwound and the cumulative fair value adjustment to the carrying value of the debt up to the date of unwinding, is being amortised and the charge is recognised in the consolidated income statement over the remaining term of the debt, which matures on 2 May 2012 (refer to note 19).

Notes to the financial statements – Group and Company (continued)

15. Fair value of financial instruments (continued)

Fair value hierarchy – Group only

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs, which have significant effect on the recorded fair value, are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable data.

| | Notes | 2010 £m | Level 1 £m | Level 2 £m | Level 3 £m |
|--|-------|-------------|---------------|---------------|---------------|
| Financial assets | | | | | |
| <i>Current assets:</i> | | | | | |
| Financial assets at fair value through profit or loss | | | | | |
| Shares/units in OEICs/unit trusts | | 1.2 | 1.2 | - | - |
| Other financial assets | | | | | |
| Available-for-sale financial assets | | 30.7 | 3.0 | 1.1 | 26.6 |
| Total financial assets | | 31.9 | 4.2 | 1.1 | 26.6 |
| Financial liabilities | | | | | |
| <i>Current liabilities</i> | | | | | |
| Derivative financial instruments | 24 | 0.1 | 0.1 | - | - |
| Total financial liabilities | | 0.1 | 0.1 | - | - |
| Financial assets | | | | | |
| <i>Current assets:</i> | | | | | |
| Financial assets at fair value through profit or loss | | | | | |
| Shares/units in OEICs/unit trusts | | 0.6 | 0.6 | - | - |
| Other financial assets | | | | | |
| Available-for-sale financial assets | | 27.3 | 0.9 | - | 26.4 |
| Derivative financial instruments | 17 | 0.2 | 0.2 | - | - |
| Total financial assets | | 28.1 | 1.7 | - | 26.4 |
| Financial liabilities | | | | | |
| <i>Current liabilities</i> | | | | | |
| Derivative financial instruments | 24 | 1.0 | 1.0 | - | - |
| Total financial liabilities | | 1.0 | 1.0 | - | - |

During 2010, there were no transfers between Level 1 and Level 2 fair value measurements (2009: £nil) and no transfers into or out of Level 3 fair value measurements (2009: £nil).

Notes to the financial statements – Group and Company (continued)

15. Fair value of financial instruments (continued)

Fair value hierarchy – Group only

The following is a reconciliation of the Group's financial instruments classified as Level 3 during the year:

| | 2010 £m | 2009 £m |
|---|-------------|-------------|
| Fair value at 1 January | 26.4 | 38.1 |
| Additions | 0.9 | 0.2 |
| Disposals | (1.1) | - |
| Fair value movements recognised in the consolidated statement of comprehensive income | 2.2 | (4.4) |
| Impairment recognised in the consolidated income statement | (1.8) | (7.5) |
| Fair value at 31 December | 26.6 | 26.4 |

As the fair value measurement of the financial instruments included in Level 3, is based on both observable and non-observable inputs, a change in one or more underlying assumptions to a reasonably possible alternative would not result in a significant change in the fair value.

16. Deferred acquisition and commission costs

| | Group | |
|-------------------------------------|-------------|------------|
| | 2010 £m | 2009 £m |
| At 1 January | 54.0 | 34.6 |
| Amortisation charge during the year | (37.8) | (22.8) |
| Costs and commissions capitalised | 74.3 | 42.6 |
| Foreign exchange movement | 0.1 | (0.4) |
| At 31 December | 90.6 | 54.0 |
| Non-current | 47.8 | 29.1 |
| Current | 42.8 | 24.9 |
| At 31 December | 90.6 | 54.0 |

17. Trade and other receivables

| | Group | | Company | |
|-------------------------------------|--------------|------------|--------------|------------|
| | 2010 £m | 2009 £m | 2010 £m | 2009 £m |
| Amounts owed by fellow subsidiaries | 12.3 | 17.1 | 63.5 | 237.3 |
| Loans to fellow subsidiaries | 236.3 | 183.2 | 130.6 | 128.4 |
| OEIC and unit trust debtors | 42.1 | 24.9 | - | - |
| Derivative financial instruments | - | 0.2 | - | - |
| Accrued income | 58.5 | 37.8 | 0.2 | 0.2 |
| Other debtors | 11.7 | 30.8 | - | 10.3 |
| Prepayments | 7.2 | 3.6 | - | - |
| | 368.1 | 297.6 | 194.3 | 376.2 |

The loans to fellow subsidiaries are either interest free or attract annual interest at a rate linked to sterling LIBOR and are repayable on demand.

Notes to the financial statements – Group and Company (continued)

18. Cash and cash equivalents

18.1 Cash and cash equivalents

| | Group | | Company | |
|----------------------------------|--------------|-------------|-------------|------------|
| | 2010 £m | 2009 £m | 2010 £m | 2009 £m |
| Cash at bank and in hand | 51.3 | 14.7 | - | - |
| Cash equivalents | 105.8 | 69.8 | 10.8 | 8.9 |
| Cash and cash equivalents | 157.1 | 84.5 | 10.8 | 8.9 |

Cash and cash equivalents consist of cash in hand, cash at bank and short-term investments with financial institutions with original maturity periods of three months or less.

Included within cash and cash equivalents of the Group as at 31 December 2010 is £4.7m (2009: £4.7m) of restricted cash. Restricted amounts represent £4.7m (2009: £4.7m) held in escrow for the Pension Scheme. In addition as at 31 December 2010 £17.4m (2009: £1.6m) of cash was held in the Group's manager dealing accounts which represent payments due to and from OEICs and unit trusts as a result of client trading.

18.2 Changes in operating assets and liabilities

| | Group | | Company | |
|---|--------------|------------|---------------|-------------|
| | 2010 £m | 2009 £m | 2010 £m | 2009 £m |
| Change in OEICs and unit trusts debtors and creditors | 4.6 | 5.3 | - | - |
| (Increase) in deferred acquisition and commission costs | (74.3) | (42.6) | - | - |
| (Increase)/decrease in other assets | (54.0) | (78.4) | 40.2 | 39.1 |
| Increase in deferred income | 75.9 | 45.5 | - | - |
| Increase/(decrease) in provisions and other liabilities | 151.4 | 80.1 | (67.5) | 21.0 |
| Changes in operating assets and liabilities | 103.6 | 9.9 | (27.3) | 60.1 |

Notes to the financial statements – Group and Company (continued)

19. Debt instrument in issue

| | Group & Company | | | |
|--------------------------|-----------------|------------|----------------|------------|
| | 2010 | 2010 | 2009 | 2009 |
| | Carrying value | Fair value | Carrying value | Fair value |
| | £m | £m | £m | £m |
| Debt instrument in issue | 179.1 | 179.2 | 181.9 | 173.5 |

The debt instrument in issue represents £175m senior, unrated, fixed rate notes listed on the LSE. The debt instrument is unsecured and repayable in full on 2 May 2012 and bears interest at a fixed rate of 6.5% per annum payable every six months. The debt instrument was issued by the Company.

The Group swapped the fixed interest coupon into a floating rate on issue of the debt. The swap was unwound on 9 December 2008 and the fair value adjustment to the debt carrying value, attributable to the hedged interest rate risk up to the date of unwinding the swap, £10.5m, is being amortised over the remaining term of the debt. As at 31 December 2010, £4.1m (2009: £7.2m) remains to be amortised.

On 30 January 2009, the Group entered into a revolving credit facility agreement with a syndicate of banks. The facility limit was £25m and was due to terminate on 31 March 2012. The Group has not drawn on the facility since entering into the agreement. As referred to in note 35, subsequent to 31 December 2010 the Group has cancelled this facility.

On 18 March 2011, Henderson UK Finance plc, a subsidiary of the Group, incorporated on 9 February 2011 announced an issue of £150,000,000 7.25% p.a. notes due on 24 March 2016 ("the Notes"). The Notes are unconditionally and irrevocably guaranteed within the Group and by Henderson Group plc. As part of the issue of the debt, £32.4m of loan notes issued by the Company, maturing on 2 May 2012, were exchanged with Henderson UK Finance plc leaving a notional £142.6m of the Company's notes outstanding.

20. Retirement benefits

Retirement benefit assets recognised in the statement of financial position

| | Note | Group | | Company | |
|--------------------------------|------|-------|------|---------|------|
| | | 2010 | 2009 | 2010 | 2009 |
| | | £m | £m | £m | £m |
| Henderson Group Pension Scheme | 20.1 | 112.5 | 90.0 | 112.5 | 90.0 |

Retirement benefit obligations recognised in the statement of financial position

| | Note | Group | | Company | |
|--|------|-------|------|---------|------|
| | | 2010 | 2009 | 2010 | 2009 |
| | | £m | £m | £m | £m |
| Henderson Group unapproved pension schemes | 20.2 | 6.2 | 6.1 | - | - |

Pension service cost/(credit) recognised in the income statement

| | Notes | Group | | Company | |
|---|-------|------------|------------|--------------|--------------|
| | | 2010 | 2009 | 2010 | 2009 |
| | | £m | £m | £m | £m |
| Henderson Group Pension Scheme | 20.1 | (2.3) | (0.7) | (2.3) | (0.7) |
| Money Purchase Scheme | | 4.7 | 4.7 | - | - |
| Henderson Group unapproved pension schemes | 20.2 | 0.3 | 0.4 | - | - |
| Pension service cost/(credit) recognised in the income statement | | 2.7 | 4.4 | (2.3) | (0.7) |

Amounts recognised in the statement of comprehensive income

| | Notes | Group | | Company | |
|---|-------|-------------|---------------|-------------|---------------|
| | | 2010 | 2009 | 2010 | 2009 |
| | | £m | £m | £m | £m |
| Henderson Group Pension Scheme | 20.1 | 14.8 | (68.5) | 14.8 | (68.5) |
| Henderson Group unapproved pension schemes | 20.2 | - | (1.2) | - | - |
| Actuarial (losses)/gains recognised in the statement of comprehensive income | | 14.8 | (69.7) | 14.8 | (68.5) |

Notes to the financial statements – Group and Company (continued)

20. Retirement benefits (continued)

20.1 Henderson Group Pension Scheme – Final Salary Scheme Group and Company

The Final Salary Scheme represents the defined benefit section of the Pension Scheme, which closed to new members on 15 November 1999. The sponsor and principal employer of the Pension Scheme is the Company and the participating company is Henderson Administration Limited. The appointed investment manager for the final salary scheme is Henderson Global Investors Limited. The Final Salary Scheme is funded by contributions to a separately administered fund. The actuarial advisers to the Pension Scheme are Towers Watson.

The 2010 Pension Scheme accounting valuation under IAS 19 Employee Benefits, is based on full membership data as at 31 December 2008 and adjusted for movements in membership data until 31 December 2010. The Pension Scheme assets are stated at their fair values as at 31 December 2010. The next triennial valuation will take place during 2012 based on 31 December 2011 membership data.

Reconciliation of present value of defined benefit obligations

| | 2010 | 2009 |
|-----------------------|--------------|-------|
| | £m | £m |
| At 1 January | 312.8 | 251.9 |
| Current service cost | 3.2 | 2.7 |
| Interest cost | 17.4 | 16.0 |
| Actuarial losses | 11.5 | 50.0 |
| Benefit payments | (8.1) | (7.8) |
| At 31 December | 336.8 | 312.8 |

Reconciliation of the fair value of defined benefit scheme assets

| | 2010 | 2009 |
|----------------------------------|--------------|--------|
| | £m | £m |
| At 1 January | 402.8 | 404.4 |
| Expected return on scheme assets | 22.9 | 19.4 |
| Actuarial gains/(losses) | 26.3 | (18.5) |
| Contributions | 5.4 | 5.3 |
| Benefit payments | (8.1) | (7.8) |
| At 31 December | 449.3 | 402.8 |

Reconciliation of defined benefit asset recognised in the consolidated statement of financial position

| | 2010 | 2009 |
|--|--------------|---------|
| | £m | £m |
| Present value of defined benefit obligations | (336.8) | (312.8) |
| Fair value of defined benefit scheme assets | 449.3 | 402.8 |
| Net retirement benefit asset at 31 December | 112.5 | 90.0 |

Notes to the financial statements – Group and Company (continued)

20. Retirement benefits (continued)

20.1 Henderson Group Pension Scheme – Final Salary Scheme (continued)

Pension service credit recognised in the consolidated income statement

| | 2010 | 2009 |
|----------------------------------|--------|--------|
| | £m | £m |
| Current service cost | 3.2 | 2.7 |
| Interest cost | 17.4 | 16.0 |
| Expected return on scheme assets | (22.9) | (19.4) |
| | (2.3) | (0.7) |

Amounts recognised in the consolidated statement of comprehensive income

| | 2010 | 2009 |
|---|------|--------|
| | £m | £m |
| At 1 January | 7.6 | 76.1 |
| Actuarial gains/(losses) recognised in the statement of consolidated income | 14.8 | (68.5) |
| At 31 December | 22.4 | 7.6 |

Movements in net asset recognised in the consolidated statement of financial position

| | 2010 | 2009 |
|---|-------|--------|
| | £m | £m |
| At 1 January | 90.0 | 152.5 |
| Pension service credit recognised in the consolidated income statement | 2.3 | 0.7 |
| Contributions | 5.4 | 5.3 |
| Actuarial gains/(losses) recognised in the consolidated statement of comprehensive income | 14.8 | (68.5) |
| Net asset at 31 December | 112.5 | 90.0 |

Pension Scheme assets

The major categories of assets in the final salary section of the Pension Scheme were as follows:

Fair value of the defined benefit assets

| | Market value | | % as a total of assets | | Expected rate of return | |
|-----------------------------|--------------|--------------|------------------------|------------|-------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | £m | £m | % | % | % | % |
| Final salary section | | | | | | |
| Risk reducing portfolio | 236.4 | 192.9 | 53 | 48 | 4.2 | 4.4 |
| Return seeking portfolio | 199.1 | 209.0 | 44 | 52 | 7.2 | 7.0 |
| Cash portfolio | 13.8 | 0.9 | 3 | - | 4.2 | 4.4 |
| Total | 449.3 | 402.8 | 100 | 100 | 5.5 | 5.7 |

The Pension Scheme does not hold any investments in employer-related companies.

The expected return on assets assumption is the weighted average of the expected returns from each of the portfolios as shown above. The expected rate of return on assets is based on long-term expectations as at 31 December 2010. The expected rate of return on bonds and swaps, constituting the risk reducing portfolio, has been set by reference to current market yields on long-dated government bonds. The rates of return for the equities, property and cash asset classes, constituting the return seeking and cash portfolios, have been based on the Group's expectations of investment returns over the longer term.

Notes to the financial statements – Group and Company (continued)

20. Retirement benefits (continued)

20.1 Henderson Group Pension Scheme – Final Salary Scheme (continued)

Actual return on defined benefit assets

| | 2010 | 2009 |
|--------------------------------|------|------|
| | £m | £m |
| Actual return on scheme assets | 49.2 | 0.9 |

Principal actuarial assumptions

(a) Financial assumptions

| | 2010 | 2009 |
|--|----------------------|---------------|
| | % per annum | % per annum |
| Discount rate | 5.4 | 5.6 |
| Expected rate of return on scheme assets | 5.5 | 5.7 |
| Salary increases | 2.5 | 2.5 |
| Pension increases: | | |
| - where liability is the Retail Price Index (RPI) capped at 5% per annum | 3.4 | 3.6 |
| - where liability is the RPI capped at 2.5% per annum | 2.3 | 2.4 |
| - where liability is fixed | At fixed rate | At fixed rate |
| Inflation | 3.6 | 3.7 |

On 8 July 2010, the UK Government announced its intention that statutory minimum pension indexation for private sector UK pension schemes would, in future, be linked to the Consumer Price Index (CPI) rather than RPI, and the consultation period ended on 2 March 2011. As a result, the Group has continued to value the liabilities in the Pension Scheme using RPI rather than CPI and the results are expected to be released during 2011.

(b) Demographic assumptions

The demographic assumptions used as at 31 December 2010 are those underlying the last actuarial valuation of the Pension Scheme in 2008. Post-retirement mortality assumptions follow 100% of the SAPS 'S1 Light' tables and improvements from 2002 in line with the 'medium cohort' projections with an underpin of 1% per annum. The table below illustrates the implied life expectancies as at 31 December 2010 using this mortality assumption:

| | Male | Female |
|--|--------------|--------------|
| | no. of years | no. of years |
| Life expectancy for a member who is currently 60 | 27.9 | 29.4 |
| Life expectancy at 60 for a member who is currently 45 | 29.3 | 30.9 |

(c) Historical amounts

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|--------------|---------|---------|---------|---------|
| | £m | £m | £m | £m | £m |
| Defined benefit obligations | (336.8) | (312.8) | (251.9) | (282.4) | (311.8) |
| Defined benefit scheme assets | 449.3 | 402.8 | 404.4 | 344.7 | 306.8 |
| Surplus/(deficit) in the Pension Scheme | 112.5 | 90.0 | 152.5 | 62.3 | (5.0) |
| Experience (losses)/gains on scheme liabilities | (0.9) | 12.1 | (1.2) | (0.5) | 8.5 |
| Experience gains/(losses) on scheme assets | 26.3 | (18.5) | 20.6 | 1.2 | (3.7) |
| Net experience gains/(losses) | 25.4 | (6.4) | 19.4 | 0.7 | 4.8 |

Notes to the financial statements – Group and Company (continued)

20. Retirement benefits (continued)

20.2 Henderson Group unapproved pension schemes

Group

The Group operates three unapproved pension schemes, the details of which are provided below:

The Pearl Executive Scheme. Members of this scheme are also members of the Pension Scheme. However, pensionable earnings under the Pension Scheme are limited to 1/60th for each year of service and the earnings cap. The Pearl Executive Scheme provides benefits at 1/30th for each year of service with a maximum of two thirds of salary after 20 years' service based on pensionable earnings above the earnings cap, on an unfunded basis.

The Henderson Top Up Scheme. Members of this scheme are also members of the Pension Scheme. However, pensionable earnings under the Pension Scheme are limited to the earnings cap, and the Henderson Top Up Scheme enables benefits to be based on pensionable earnings without restriction of the earnings cap. These additional uncapped benefits are generally provided for on an unfunded basis.

There is also an unfunded liability in respect of one member, to whom the Group has made a contractual promise to pay a fixed pension from age 60.

Reconciliation of present value of defined benefit obligations

| | 2010 | 2009 |
|--------------------------|--------------|-------|
| | £m | £m |
| At 1 January | 6.1 | 4.7 |
| Current service cost | - | 0.1 |
| Interest cost | 0.3 | 0.3 |
| Actuarial losses/(gains) | - | 1.2 |
| Benefit payments | (0.2) | (0.2) |
| At 31 December | 6.2 | 6.1 |

Summary of the defined benefit obligations at 31 December

| | 2010 | 2009 |
|--------------------------------|------------|------|
| | £m | £m |
| Pearl Executive Scheme | 5.1 | 5.0 |
| Henderson Top Up Scheme | 0.9 | 0.9 |
| Individual contractual promise | 0.2 | 0.2 |
| Total | 6.2 | 6.1 |

Reconciliation of defined benefit liability recognised in the consolidated statement of financial position

| | 2010 | 2009 |
|--|------------|------|
| | £m | £m |
| Present value of defined benefit obligations | 6.2 | 6.1 |
| Fair value of defined benefit scheme assets | - | - |
| Net benefit liability at 31 December | 6.2 | 6.1 |

Notes to the financial statements – Group and Company (continued)

20. Retirement benefits (continued)

20.2 Henderson Group unapproved pension schemes (continued)

Pension service cost recognised in the consolidated income statement

| | 2010 | 2009 |
|----------------------|------|------|
| | £m | £m |
| Current service cost | - | 0.1 |
| Interest cost | 0.3 | 0.3 |
| | 0.3 | 0.4 |

Amounts recognised in the consolidated statement of comprehensive income

| | 2010 | 2009 |
|---|------|-------|
| | £m | £m |
| At 1 January | 1.8 | 3.0 |
| Actuarial losses recognised in the consolidated statement of comprehensive income | - | (1.2) |
| At 31 December | 1.8 | 1.8 |

Movements in net liability recognised in the consolidated statement of financial position

| | 2010 | 2009 |
|---|-------|-------|
| | £m | £m |
| At 1 January | 6.1 | 4.7 |
| Pension service cost recognised in the consolidated income statement | 0.3 | 0.4 |
| Actuarial losses recognised in the consolidated statement of comprehensive income | - | 1.2 |
| Benefit payments | (0.2) | (0.2) |
| At 31 December | 6.2 | 6.1 |

Principal actuarial assumptions

(a) Financial assumptions

| | 2010 | 2009 |
|------------------------------|---------------|---------------|
| | % per annum | % per annum |
| Discount rate | 5.4 | 5.6 |
| Salary increases | n/a | n/a |
| Pension increases: | | |
| - where liability is the RPI | 3.4 | 3.6 |
| - where liability is fixed | At fixed rate | At fixed rate |
| Inflation | 3.6 | 3.7 |

(b) Demographic assumptions

The demographic assumptions used as at 31 December 2010 are those underlying the last actuarial valuation of the Pension Scheme in 2008. Post-retirement mortality assumptions follow 100% of the SAPS 'S1 Light' tables and improvements from 2002 in line with the 'medium cohort' projections with an underpin of 1% per annum. The table below illustrates the implied life expectancies as at 31 December 2010 using this mortality assumption:

| | Male | Female |
|--|--------------|--------------|
| | no. of years | no. of years |
| Life expectancy for a member who is currently 60 | 27.9 | 29.3 |
| Life expectancy at 60 for a member who is currently 45 | 29.3 | 30.9 |

(c) Historical amounts

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|------|------|-------|------|-------|
| | £m | £m | £m | £m | £m |
| Defined benefit obligations | 6.2 | 6.1 | 4.7 | 5.2 | 5.5 |
| Defined benefit scheme assets | - | - | - | - | (0.1) |
| Deficit in the pension schemes | 6.2 | 6.1 | 4.7 | 5.2 | 5.4 |
| Experience (losses)/gains on scheme liabilities | - | - | (0.1) | 0.2 | 0.5 |

Employer contributions

The Group does not expect to contribute to the unapproved pension arrangements in the year ending 31 December 2011.

Notes to the financial statements – Group and Company (continued)

21. Provisions Group

| | Staff related £m | FSCS interim levy £m | Product mis- selling £m | Other £m | Total £m |
|----------------------------|---------------------|----------------------------|-------------------------------|-------------|-------------|
| At 1 January 2010 | 2.7 | - | 6.3 | 25.0 | 34.0 |
| Additions | - | 5.9 | - | 0.3 | 6.2 |
| Provisions utilised | (0.2) | - | (0.2) | (0.5) | (0.9) |
| Provisions released | - | - | (5.8) | (0.1) | (5.9) |
| Foreign exchange movements | 0.1 | - | - | 0.1 | 0.2 |
| At 31 December 2010 | 2.6 | 5.9 | 0.3 | 24.8 | 33.6 |
| Non-current | - | - | - | 11.0 | 11.0 |
| Current | 2.6 | 5.9 | 0.3 | 13.8 | 22.6 |
| At 31 December 2010 | 2.6 | 5.9 | 0.3 | 24.8 | 33.6 |

Company

| | Product mis-selling £m |
|----------------------------|------------------------------|
| At 1 January 2010 | 6.3 |
| Additions | - |
| Provisions utilised | (0.2) |
| Provisions released | (5.8) |
| At 31 December 2010 | 0.3 |
| Non-current | - |
| Current | 0.3 |
| At 31 December 2010 | 0.3 |

Staff related

Staff-related provisions have been recognised in respect of a 2009 business restructure.

FSCS interim levy

The FSCS interim levy provision reflects the non-recurring charges raised in 2010 (refer to note 7).

Product mis-selling

Product mis-selling provisions relate to alleged inappropriate advice given to certain investors by Towry Law International prior to the Group's ownership.

Other

Other provisions relate to issues which have arisen as a result of litigation and obligations during the course of the Group's business activities.

All provisions reflect the Group's current estimates of amounts and timings.

Notes to the financial statements – Group and Company (continued)

22. Deferred taxation

Deferred tax assets and liabilities recognised by the Group and movements therein are as follows:

Group

| Deferred tax assets/(liabilities) | Accelerated capital allowances | Retirement benefits | Other temporary differences | Total |
|--|--------------------------------------|------------------------|--------------------------------|--------------|
| | £m | £m | £m | £m |
| At 1 January 2009 | 0.1 | (38.7) | (0.7) | (39.3) |
| Current year credit/(charge) to the consolidated income statement | 1.4 | (4.1) | 0.1 | (2.6) |
| Current year credit/(charge) to the consolidated statement of comprehensive income | - | 19.4 | (0.6) | 18.8 |
| At 31 December 2009 | 1.5 | (23.4) | (1.2) | (23.1) |
| Current year credit/(charge) to the consolidated income statement | 0.8 | (1.6) | 6.2 | 5.4 |
| Impact of foreign exchange movement | - | - | 0.6 | 0.6 |
| Current year (charge)/credit to the consolidated statement of comprehensive income | - | (3.9) | (0.6) | (4.5) |
| Current year credit to the consolidated statement of changes in equity | - | - | 18.0 | 18.0 |
| At 31 December 2010 | 2.3 | (28.9) | 23.0 | (3.6) |

Certain deferred tax assets and liabilities in the above summary have been offset as follows:

| | Assets £m | Liabilities £m | Total £m |
|----------------------------|--------------|-------------------|--------------|
| At 31 December 2009 | 7.0 | (30.1) | (23.1) |
| At 31 December 2010 | 29.5 | (33.1) | (3.6) |

During 2010, £18.0m was recognised in equity in relation to deferred tax. This represents the tax effect of the amount by which the expected tax deduction exceeds the cumulative remuneration expense for share-based payments.

The change in the UK corporation tax rate from 28% to 27% resulted in a reduction of £0.8m in the net deferred tax liability. The Government has subsequently announced its intention to reduce the UK corporation tax rate by an additional 1% in 2011 and 1% per annum thereafter to 23% effective from 1 April 2014. Recognised deferred tax assets and liabilities at each balance sheet date during this period will reflect the change in UK corporation tax rate enacted or substantially enacted at that reporting date.

At 31 December 2010, the Group had unused tax losses in respect of which no deferred tax has been recognised as utilisation of the losses is dependent on future profits. The unrecognised deferred tax asset in respect of trading losses carried forward is £25.4m (2009: £23.8m). The unrecognised deferred tax asset in respect of capital losses carried forward is £15.9m (2009: £16.1m). The trading and capital losses have no expiry date.

Consistent with prior years, deferred tax is not recognised in respect of taxable temporary differences associated with the Group's investments in overseas subsidiaries, branches, associates and joint ventures where the Group controls the timing of the reversal of the temporary differences and where the reversal of the temporary differences is not anticipated in the foreseeable future.

Notes to the financial statements – Group and Company (continued)

22. Deferred taxation (continued)

Company

| Deferred tax liabilities | Retirement benefits £m |
|--|------------------------------|
| At 1 January 2009 | 25.2 |
| Current year (credit) to the statement of comprehensive income | (19.2) |
| At 31 December 2009 | 6.0 |
| Current year charge to the statement of comprehensive income | 3.8 |
| At 31 December 2010 | 9.8 |

23. Borrowings

| | Company | |
|-------------------------|------------|------------|
| | 2010 £m | 2009 £m |
| Loans from subsidiaries | 500.2 | 549.0 |

The loans from subsidiaries are either interest free or attract annual interest at a rate linked to LIBOR and are repayable on demand.

24. Trade and other payables

| | Group | | Company | |
|-------------------------------------|--------------|------------|--------------|------------|
| | 2010 £m | 2009 £m | 2010 £m | 2009 £m |
| OEIC and unit trust creditors | 52.7 | 30.8 | - | - |
| Derivative financial instruments | 0.1 | 1.0 | - | - |
| Other creditors | 7.3 | 9.3 | - | - |
| Accruals | 144.1 | 105.7 | 2.0 | 3.5 |
| Amounts owed to fellow subsidiaries | 163.7 | 111.7 | 271.5 | 339.2 |
| Loans from fellow subsidiaries | 36.2 | 26.8 | - | - |
| | 404.1 | 285.3 | 273.5 | 342.7 |

Notes to the financial statements – Group and Company (continued)

25. Share capital

25.1 Share capital authorised

| | Group and Company | |
|--|-------------------|-------|
| | 2010 | 2009 |
| | £m | £m |
| 1 A ordinary share of 12.5 pence | - | - |
| 1,949,910,776 ordinary shares of 12.5 pence each | 243.7 | 243.7 |

25.2 Allotted share capital

Allotted, called up and fully paid shares:

| | Group and Company | |
|--|-------------------|------|
| | no. | £m |
| A Ordinary shares | | |
| Shares in issue at 31 December 2009 and 31 December 2010 | 1 | - |
| Ordinary shares | | |
| Shares in issue at 31 December 2009 and 31 December 2010 | 725,192,969 | 90.6 |

All of the ordinary shares in issue carry the same right to receive dividends and other distributions declared, made or paid by the Company.

The Directors consider shareholders' equity to represent Group capital. The Directors manage the Group's capital structure on an ongoing basis. Changes to the Group's capital structure can be affected by adjusting the dividend policy, returning capital to shareholders or issuing new shares and other forms of capital.

Notes to the financial statements – Group and Company (continued)

26. Reserves

Group and Company

Nature and purpose of reserves

The consolidated statement of changes in equity and Company statement of changes in equity on pages 15 and 19 respectively, provide details of movements in equity for the Group and Company.

Share premium

Share premium records the difference between the nominal value of shares issued and the full value of the consideration received or the market price on the day of issue.

Translation reserve

The translation reserve comprises differences on exchange arising from the translation of statements of financial position of subsidiaries, whose reporting currency is not GBP, and differences between the results of these subsidiaries translated at average rates for the reporting period and period end rates.

The translation reserve also includes unrealised foreign exchange gains and losses on available-for-sale financial assets which are not part of a designated hedge relationship. Upon disposal or impairment of these assets, amounts previously recognised in the translation reserve are reversed out and the cumulative amount of the gain or loss is recognised in the consolidated income statement.

Revaluation reserve

The revaluation reserve comprises the amount of any unrealised gain or loss recognised in the consolidated statement of comprehensive income in relation to available-for-sale financial assets. Upon disposal or impairment of these assets, amounts previously recognised in the revaluation reserve are reversed out and the cumulative amount of the gain or loss is recognised in the consolidated income statement.

27. Non-controlling interests

The Group has consolidated the following company which has minority interests:

| | 2010 | 2009 | 2010 | 2009 |
|-----------------------------|---------------------------------|--------------------------|---------------------------------|--------------------------|
| | non-controlling interest | non-controlling interest | non-controlling interest | non-controlling interest |
| | % | % | £m | £m |
| HGI Immobilien Austria GmbH | 35% | 35% | 0.4 | 0.4 |
| At 31 December | | | 0.4 | 0.4 |

Notes to the financial statements – Group and Company (continued)

28. Financial risk management

Financial risk management objectives and policies

Financial assets principally comprise investments in equity securities, short-term investments, trade and other receivables, and cash and cash equivalents. Financial liabilities comprise borrowings for financing purposes, certain provisions and trade and other payables. The main risks arising from financial instruments are price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. Each of these risks is discussed in detail below. The Group monitors financial risks on a consolidated basis and intra-Group balances are settled when it is deemed appropriate for both parties to the transaction. The Company is not exposed to material financial risk and separate disclosures for the Company have not been included.

The Company is not exposed to material financial risk as all material financial assets and liabilities on its balance sheet, with the exception of the debt instrument in issue, relate to transactions with its subsidiaries or with fellow subsidiaries of its ultimate parent. The Company believes that balances arising from these transactions carry no material risk. With regards to the debt instrument in issue, the liquidity and interest rate risks are shown within the Group disclosures below. As a result separate disclosures for the Company have been excluded.

The Group has designed a framework to manage the risks of its business and to ensure that the Directors have in place risk management practices appropriate for the listed Company. The management of risk within the Group is governed by the Board of Henderson Group plc and overseen by the Henderson Group Risk Committee.

28.1 Price risk

Price risk is the risk that a decline in the value of assets adversely impacts on the profitability of the Group. The Group is exposed to price risk in respect of seed capital investments in Henderson funds (available-for-sale financial assets). Seed capital investments vary in duration, depending on the nature of the investment, with a typical range of less than one year for open ended products and between three and seven years for Private Equity and Property funds. The total market value of seed capital investments at 31 December 2010 was £30.7m (2009: £27.3m).

Management monitors exposures to price risk on an ongoing basis. Significant movements in investment values are monitored on a daily basis. Where appropriate, management will hedge price risk. At 31 December 2010, investments with a carrying value of £2.9m (2009: £nil) were hedged against price risk through the use of contracts for difference (CFDs).

A fall in the value of an investment which is prolonged or significant is considered to be objective evidence of impairment under IAS 39. In such an event, an investment is written down to its fair value and cumulative amounts previously recognised in equity, in respect of market value and unhedged foreign exchange movements on the investment, are recognised in the consolidated income statement as an impairment charge.

Price risk sensitivity analysis on available-for-sale financial assets

| | 2010 | | 2009 | |
|-------------------------------|---|--------------|---|--------------|
| | Consolidated income statement £m | Equity £m | Consolidated income statement £m | Equity £m |
| Price risk sensitivities | | | | |
| Market value movement +/- 10% | - | 2.8 | - | 2.7 |

Notes to the financial statements – Group and Company (continued)

28. Financial risk management (continued)

28.2 Interest rate risk

Interest rate risk is the risk that the Group will sustain losses from adverse movements in interest rates, either through a mismatch of interest-bearing assets and liabilities, or through the effect such movements have on the value of interest-bearing assets. The Group is exposed to interest rates on banking deposits held in the ordinary course of business. Available-for-sale financial assets are not currently exposed to interest rate risk. This exposure is monitored by management on a continuing basis.

Financial assets and liabilities exposed to interest rate risk

At 31 December 2010

| Not directly exposed to interest rate risk | | | | |
|--|---------------|--------------|--------------|--------------|
| | Floating rate | Fixed Rate | Other | Total |
| | £m | £m | £m | £m |
| Financial assets | | | | |
| Shares/units in OEICs/unit trusts | - | - | 1.2 | 1.2 |
| Available-for-sale financial assets | - | - | 30.7 | 30.7 |
| OEIC, unit trust and other debtors | - | - | 302.4 | 302.4 |
| Cash and cash equivalents | 157.1 | - | - | 157.1 |
| Total financial assets | 157.1 | - | 334.3 | 491.4 |
| Financial liabilities | | | | |
| Debt instrument in issue | - | 179.1 | - | 179.1 |
| OEIC, unit trust and other creditors | - | - | 259.9 | 259.9 |
| Derivative financial instruments | - | - | 0.1 | 0.1 |
| Total financial liabilities | - | 179.1 | 260.0 | 439.3 |

At 31 December 2009

| Not directly exposed to interest rate risk | | | | |
|--|---------------|--------------|--------------|--------------|
| | Floating rate | Fixed Rate | Other | Total |
| | £m | £m | £m | £m |
| Financial assets | | | | |
| Shares/units in OEICs/unit trusts | - | - | 0.6 | 0.6 |
| Available-for-sale financial assets | - | - | 27.3 | 27.3 |
| OEIC, unit trust and other debtors | - | - | 256.0 | 256.0 |
| Derivative financial instruments | - | - | 0.2 | 0.2 |
| Cash and cash equivalents | 84.5 | - | - | 84.5 |
| Total financial assets | 84.5 | - | 284.1 | 368.6 |
| Financial liabilities | | | | |
| Debt instrument in issue | - | 181.9 | - | 181.9 |
| OEIC, unit trust and other creditors | - | - | 259.9 | 259.9 |
| Derivative financial instruments | - | - | 1.0 | 1.0 |
| Total financial liabilities | - | 181.9 | 260.9 | 442.8 |

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Interest rate risk sensitivity analysis

Interest rate risk sensitivity analysis on the consolidated income statement has been performed on the basis of a 50bps fall in interest rates at the beginning of the year. The impact of such a decrease would reduce anticipated earnings by circa £0.8m per annum.

Notes to the financial statements – Group and Company (continued)

28. Financial risk management (continued)

28.3 Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its payment obligations as they fall due.

Group liquidity is managed on a daily basis by the finance function, to ensure that the Group always has sufficient cash and/or highly liquid assets available to meet its liabilities. This function also controls and monitors the use of the Group's non-operating capital resources. It is the Group's policy to ensure that it has access to funds to cover all forecast commitments for the next 12 months.

The maturity dates of the Group's financial liabilities are as follows:

At 31 December 2010

| | Within 1 year or repayable on demand | Within 2-5 years | Total | Carrying value in the balance sheet |
|---|--|---------------------|-------|---|
| | £m | £m | £m | £m |
| Debt instrument in issue (including interest) | 11.4 | 180.6 | 192.0 | 179.1 |
| OEIC, unit trust and other creditors | 259.9 | - | 259.9 | 259.9 |
| Derivative financial instruments | 0.1 | - | 0.1 | 0.1 |
| | 271.4 | 180.6 | 452.0 | 439.1 |

At 31 December 2009

| | Within 1 year or repayable on demand | Within 2-5 years | Total | Carrying value in the balance sheet |
|---|--|---------------------|-------|---|
| | £m | £m | £m | £m |
| Debt instrument in issue (including interest) | 11.4 | 192.0 | 203.4 | 181.9 |
| OEIC, unit trust and other creditors | 178.6 | - | 178.6 | 178.6 |
| Derivative financial instruments | 1.0 | - | 1.0 | 1.0 |
| | 191.0 | 192.0 | 383.0 | 361.5 |

28.4 Foreign currency risk

Foreign currency risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates.

The Group is exposed to foreign currency risk through its exposure to non-GBP income and expenses, assets and liabilities of its overseas subsidiaries as well as net assets and liabilities denominated in a currency other than GBP. The currency exposure is managed by closely monitoring foreign currency positions. The Group also uses foreign currency contracts to reduce or eliminate the currency exposure on certain individual transactions. The Group also seeks to use natural hedges to reduce exposure. Where there is a mismatch on material currency flows, which are reasonably certain, they are actively hedged. Where there is insufficient certainty, the currency is translated back into GBP on receipt. In addition, the Group carries a small foreign exchange position as principal to facilitate the smooth conduct of its client business.

Foreign currency risk management is overseen by the Hedge Committee and hedge effectiveness is reported to the Henderson Group plc Board monthly. A rolling programme of forward currency contracts has been implemented to hedge the currency exposures arising from certain available-for-sale financial assets, with a year end notional value of USD23.2m and €7.8m (2009: USD25.2m and €12.5m) (refer to note 28.6).

Foreign currency risk sensitivity analysis

Available-for-sale financial assets are either denominated in GBP or hedged back to GBP using foreign currency forward contracts based on the Group's hedging policy. However, there remain some available-for-sale financial assets which are not fully hedged as they fall below the policy level for implementing hedging arrangements. In addition, there are unhedged foreign currency cash balances in overseas subsidiaries of the Group.

Notes to the financial statements – Group and Company (continued)

28. Financial risk management (continued)

28.4 Foreign currency risk (continued)

The table below illustrates the impact of adjusting year end exchange rates on all unhedged financial assets and cash balances denominated in a currency other than GBP:

Currency sensitivities

| | 2010 | | 2009 | |
|----------------------------|-------------------------------------|--------|-------------------------------------|--------|
| | Consolidated income statement | Equity | Consolidated income statement | Equity |
| | £m | £m | £m | £m |
| Euro exchange rate +/- 10% | 0.3 | - | 0.1 | - |
| US dollar exchange +/- 10% | 0.3 | - | - | 0.1 |

28.5 Credit risk

Credit risk is the risk of a counterparty of the Group defaulting on funds deposited with it or the non-receipt of a trade debt.

The Group has an established credit policy, to ensure that it only transacts with counterparties that are able to meet satisfactory rating requirements. Counterparty limits are reviewed and set centrally by the Credit Risk Committee. Management is responsible for ensuring that it remains within these limits and the risk management function monitors and reports any exceptions to policy. The Group has not suffered any losses as a result of trade debtor defaults during the year.

The risk management function is also responsible for reporting credit exposures to the Henderson Group plc audit committee on a quarterly basis and for ensuring that any credit concerns are raised and actions taken to mitigate risks.

The table below contains an analysis of current and overdue financial assets:

At 31 December 2010

| | Not past due | 0-3 months past due | 3-6 months past due | 6-12 months past due | Greater than 12 months past due | Total |
|-------------------------------------|--------------|------------------------|------------------------|-------------------------|---------------------------------------|--------------|
| | £m | £m | £m | £m | £m | £m |
| Financial assets | | | | | | |
| Shares/units in OEICs/unit trusts | 1.2 | - | - | - | - | 1.2 |
| Available-for-sale financial assets | 30.7 | - | - | - | - | 30.7 |
| OEIC, unit trust and other debtors | 297.0 | 3.5 | 0.4 | 0.3 | 1.2 | 302.4 |
| Cash and cash equivalents | 157.1 | - | - | - | - | 157.1 |
| Total financial assets | 486.0 | 3.5 | 0.4 | 0.3 | 1.2 | 491.4 |

At 31 December 2009

| | Not past due | 0-3 months past due | 3-6 months past due | 6-12 months past due | Greater than 12 months past due | Total |
|-------------------------------------|--------------|------------------------|------------------------|-------------------------|---------------------------------------|--------------|
| | £m | £m | £m | £m | £m | £m |
| Financial assets | | | | | | |
| Shares/units in OEICs/unit trusts | 0.6 | - | - | - | - | 0.6 |
| Available-for-sale financial assets | 27.3 | - | - | - | - | 27.3 |
| OEIC, unit trust and other debtors | 252.9 | 2.6 | 0.2 | 0.1 | 0.2 | 256.0 |
| Derivative financial instruments | 0.2 | - | - | - | - | 0.2 |
| Cash and cash equivalents | 84.5 | - | - | - | - | 84.5 |
| Total financial assets | 365.5 | 2.6 | 0.2 | 0.1 | 0.2 | 368.6 |

Notes to the financial statements – Group and Company (continued)

28. Financial risk management (continued)

28.5 Credit risk (continued)

The table below contains an analysis of financial assets as rated by Moody's Investors Service:

At 31 December 2010

| | AAA £m | AA £m | A £m | BBB £m | Not rated £m | Total £m |
|-------------------------------------|--------------|-------------|------------|-----------|-----------------|--------------|
| Financial assets | | | | | | |
| Shares/units in OEICs/unit trusts | - | - | - | - | 1.2 | 1.2 |
| Available-for-sale financial assets | - | - | - | - | 30.7 | 30.7 |
| OEIC, unit trust and other debtors | - | - | - | - | 294.9 | 294.9 |
| Cash and cash equivalents | 104.3 | 46.2 | 6.6 | - | - | 157.1 |
| Total financial assets | 104.3 | 46.2 | 6.6 | - | 326.8 | 483.9 |

At 31 December 2009

| | AAA £m | AA £m | A £m | BBB £m | Not rated £m | Total £m |
|-------------------------------------|-------------|------------|------------|-----------|-----------------|--------------|
| Financial assets | | | | | | |
| Shares/units in OEICs/unit trusts | - | - | - | - | 0.6 | 0.6 |
| Available-for-sale financial assets | - | - | - | - | 27.3 | 27.3 |
| OEIC, unit trust and other debtors | - | - | - | - | 256.0 | 256.0 |
| Derivative financial instruments | - | 0.2 | - | - | - | 0.2 |
| Cash and cash equivalents | 69.9 | 7.0 | 7.6 | - | - | 84.5 |
| Total financial assets | 69.9 | 7.2 | 7.6 | - | 283.9 | 368.6 |

28.6 Hedging activities

At 31 December 2010, the Group held CFDs to hedge the price risk arising from certain available-for-sale financial assets. These have been assessed as effective fair value hedges. The net realised and unrealised loss arising on these and other instruments entered into throughout the year amounted to £0.4m (2009: £nil) and has been offset in the consolidated income statement by £0.5m (2009: £nil), being the net realised and unrealised gain on available-for-sale financial assets in designated hedging relationships during the year. At 31 December 2010, the fair value and notional amount of the CFDs was £nil (2009: £nil).

At 31 December 2010, the Group held two forward exchange contracts to hedge the foreign currency risk arising from available-for-sale financial assets denominated in Euro and US dollars (refer to note 28.4).

These forward exchange contracts have been assessed as effective fair value hedges. The net realised and unrealised loss arising on these and other instruments entered into throughout the year amounted to £0.3m (2009: loss £0.3m) and has been offset in the consolidated income statement by £0.2m (2009: £0.3m), being the net realised and unrealised foreign exchange gain on available-for-sale financial assets in designated hedging relationships during the year.

| | 2010 | | | 2009 | | |
|--|-----------------------|--------------|-------------------|-----------------------|--------------|-------------------|
| | Notional amount £m | Assets £m | Liabilities £m | Notional amount £m | Assets £m | Liabilities £m |
| Fair value hedges | | | | | | |
| Forward exchange contracts at fair value | 21.5 | - | 0.1 | 39.9 | (0.2) | 1.0 |

Notes to the financial statements – Group and Company (continued)

29. Leases

Operating lease

The Group was party to one material operating lease. A 20.5 year operating lease was entered into during 2008 on 201 Bishopsgate London which provides for reviews to open market rent on every fifth anniversary of the lease and an initial rent-free period of 30 months. The rental expense on this lease will be recognised on a straight-line basis over the lease period.

The future minimum lease payments under non-cancellable operating leases fall due as follows:

| | 2010 | 2009 |
|--|--------------|-------------|
| | £m | £m |
| Within one year | 6.5 | 2.9 |
| In the second to fifth years inclusive | 26.0 | 22.8 |
| After five years | 78.2 | 74.2 |
| Total | 110.7 | 99.9 |

30. Capital commitments

The amounts of capital expenditure contracted for but not provided for in the financial statements at 31 December 2010 amounted to £nil (2009: £nil).

31. Related party transactions

Disclosures relating to the Henderson Group Pension Scheme are covered under note 20.

Group

Intra group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the Group.

Details of transactions between the Group and its fellow subsidiaries, which are related parties, together with amounts due from and to these related parties at the balance sheet date, are disclosed below:

| | 2010 | 2009 |
|--|---------|---------|
| | £m | £m |
| Transactions with related parties | | |
| Interest payable to fellow subsidiaries | (0.1) | - |
| Interest receivable from fellow subsidiaries | 3.2 | 3.7 |
| Income from fellow subsidiaries | 72.1 | 56.6 |
| Expenses from fellow subsidiaries | (88.8) | (63.1) |
| Share of associates profit for the year | 1.4 | 0.7 |
| Amounts owed by/(to) related parties | | |
| Amounts owed by fellow subsidiaries | 248.6 | 200.3 |
| Amounts owed to fellow subsidiaries | (199.9) | (138.5) |

Compensation of key management personnel (including Directors)

The aggregate annual remuneration of the Directors and the five highest paid non-Director executives is disclosed below:

| | 2010 | 2009 |
|------------------------------|-------------|------------|
| | £m | £m |
| Short-term employee benefits | 7.8 | 5.2 |
| Post-employment benefits | 0.2 | 0.2 |
| Share-based payments | 4.3 | 4.1 |
| | 12.3 | 9.5 |

Notes to the financial statements – Group and Company (continued)

31. Related party transactions (continued)

Company

Details of transactions between the Company and its controlled entities, which are related parties, together with amounts due from and to these related parties at the balance sheet date, are disclosed below:

| | 2010 | 2009 |
|--|---------|---------|
| | £m | £m |
| Transactions with related parties | | |
| Additional investment in subsidiary companies | 359.8 | 48.1 |
| Impairment of investment in subsidiary companies | (47.7) | (50.6) |
| Disposal of investment in subsidiary companies | (215.8) | - |
| Dividends receivable from a subsidiary company | 50.0 | - |
| Expenses recovered from subsidiary companies | (19.4) | 4.0 |
| Interest payable to subsidiary companies | (3.0) | (9.8) |
| Interest receivable from subsidiary companies | 4.6 | 1.4 |
| Settlement of balances with fellow subsidiaries | (87.2) | - |
| Amounts owed by/(to) related parties | | |
| Amounts owed by fellow subsidiaries | 194.2 | 365.7 |
| Amounts owed to fellow subsidiaries | (771.7) | (888.2) |

32. Ultimate Parent Undertaking and Controlling Party

The Company's immediate parent undertaking is Henderson Holdings Group Limited and the ultimate parent undertaking is Henderson Group plc. A copy of the Henderson Group plc's Annual Report and Accounts for the year ended 31 December 2010 can be obtained from its registered office at 47 Esplanade, St Helier, Jersey, JE1 0BD and at www.henderson.com.

33. Contingent liabilities

The following contingent liabilities existed or may exist at 31 December 2010:

- In the normal course of business, the Group is exposed to certain legal issues, which can involve litigation and arbitration, and may result in contingent liabilities;
- In the normal course of business, the Group enters into foreign exchange contracts for Group and Henderson Group hedging purposes and for facilitating foreign currency transactions of its clients. Such contracts can give rise to contingent liabilities;
- On 2 May 2006, the Hong Kong Securities and Futures Commission announced that it had reached a settlement with UKFP (Asia) HK Limited (formerly part of Towry Law International) regarding certain legacy products sold by Towry Law International. Significant payments have subsequently been made to investors in line with accounting provisions made for that purpose. The Directors are of the opinion that the provisions remaining at the reporting date are adequate to cover any future payments;
- Under the sale agreement with Pearl Group Limited, normal tax-related warranties and indemnities given by the Group expire up to six years from the disposal date of 13 April 2005;
- Under the Towry Law UK sale agreement, normal tax-related warranties and indemnities given by the Group expire up to six years from the disposal date of 3 May 2006; and
- Under the Implementation Agreement dated 6 July 2010 relating to the transfer of management responsibilities to Aviva Investors for the Henderson International Property Fund (Fund), the Group has provided indemnities for certain losses arising from any breach of the Group's responsibilities whilst performing its functions in respect of the Fund and employment warranties for a period of two years after the date of the agreement and tax-related warranties for a period of six years after the date of the agreement. These indemnities are subject to certain exclusions and limitations, including a financial cap.

As at the date of approval of the 2010 financial statements, the Group and Company neither foresee nor have they been notified of any claims under outstanding warranties and indemnities from the abovementioned sale agreements.

34. Acquisitions and disposals of subsidiaries

34.1 Acquisitions

The Group did not acquire any subsidiaries during the current year or previous year. On 4 April 2011, the Group completed the Gartmore Acquisition (refer to note 35). The entire share capital of Gartmore Group Limited was contributed to the Company by its parent for a value of £420.0m. The initial accounting for the acquisition is incomplete as the fair value exercise and identification of separately identifiable assets are ongoing. As a result, disclosure of the assets and liabilities acquired cannot be made in this Annual Report and Accounts.

34.2 Disposals

The Group did not dispose of any subsidiaries during the current period.

Notes to the financial statements – Group and Company (continued)

35. Events after the balance sheet date

The Board has not, as at 15 June 2011, being the date the financial statements were approved, received 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 events described below which occurred after the balance sheet date.

On 4 April 2011, the Group completed the Gartmore Acquisition. The entire share capital of Gartmore Group Limited was contributed to the Company by its parent for a value of £420.0m. The acquisition will reinforce the Group's position as a diversified fund manager with product strength in traditional long-only and absolute return offerings and will significantly enhance the Group's presence in UK retail asset management industry. Integration of Gartmore is expected to be completed during 2011.

Under the terms of the Gartmore Acquisition, Gartmore shareholders received 0.6667 of a Henderson Group share (New Henderson Group Shares) for each Gartmore share. In addition, the New Henderson Group Shares ranked for the final 2010 dividend of 4.65 pence per share at a total cost of £11.3m.

On 18 March 2011, Henderson UK Finance plc, a subsidiary of the Group, incorporated on 9 February 2011 announced an issue of £150,000,000 7.25% p.a. notes due on 24 March 2016 (the Notes). The Notes are unconditionally and irrevocably guaranteed within the Group and by the Henderson Group plc. As part of the issue of the debt, £32.4m of loan notes issued by the Company were exchanged with Henderson UK Finance plc.

The Group has entered into multicurrency term and GBP revolving loan facilities which may be utilised by the Group to meet post-Gartmore Acquisition debt obligations and for general corporate and working capital purposes. As a result, the Group has cancelled its existing £25m revolving credit facility agreement previously due to terminate on 31 March 2012 (refer to note 19),

The Company received a dividend of £32.4m from a subsidiary on 31 March 2011 and £51.0m on 19 April 2011.

36. Directors emoluments

The Directors of the Company have contracts of employment with Henderson Group plc and Henderson Administration Limited. The emoluments of the Directors of the Company who are also Directors of Henderson Group plc are disclosed in the financial statements of that company and an extract is reproduced below for ease of reference. The emoluments of the Directors who are also directors of other Henderson Group companies, but not Henderson Group plc, are disclosed in the financial statements of Henderson Administration Limited, as it is not practicable to apportion this amount between their services as Directors of the Company and total remuneration services as Director of other Henderson Group companies.

| | 2010 | 2009 |
|--|------------|------------|
| | £m | £m |
| Salary and fees | 0.7 | 0.7 |
| Annual award bonus award before deferral | 2.0 | 1.1 |
| Share plan vesting | 2.0 | 1.1 |
| Total | 4.7 | 2.0 |

Glossary

AUM

Assets under management

BAYE

Buy As You Earn Share Plan

Board

The board of directors of
HGI Group Limited

bps

Basis points

CFDs

Contracts for difference

Company

HGI Group Limited

Compensation ratio

Employee compensation and benefits
divided by total income

CSOP

Company Share Option Plan

DEP

Deferred Equity Plan

Directors

The directors of HGI Group Limited

ESOP

Employee Share Ownership Plan

EUR

Euros

ExSOP

Executive Shared Ownership Plan

FRC

Financial Reporting Council

FSA

The UK Financial Services Authority

FSCS

The Financial Services Compensation
Scheme

FX

Foreign exchange

GAAP

Generally Accepted Accounting Principles

Gartmore

Gartmore Group Limited and its controlled
entities

Gartmore Acquisition

The acquisition of the entire
share capital of Gartmore Group Limited

GBP

Pounds sterling

hedge funds

Hedge funds including
absolute return funds

Glossary (continued)

Group

HGI Group Limited and its controlled entities

Henderson Group

Henderson Group plc and its controlled entities

HMRC

HM Revenue & Customs

IAS

International Accounting Standard

IFRIC

International Financial Reporting Interpretations Committee

IFRS

International Financial Reporting Standards as adopted by the European Union

IRR

Internal rate of return

LIBOR

London Inter-bank Offered Rate

LSE

London Stock Exchange

LTIP

Long-Term Incentive Plan

New Star

New Star Asset Management Group PLC
And its controlled entities

OEIC

Open-Ended Investment Company

Pearl

Pearl Group Limited and its subsidiaries
renamed as Phoenix Group Holdings

Pension Scheme

The Henderson Group Pension Scheme