



Henderson Group plc

ASX Appendix 4E

Preliminary Final Report

For the year ended 31 December 2006

The information contained in this document should be read in conjunction with the Henderson Group plc (the Company) Full Annual Financial Report and Accounts for the year ended 31 December 2006 and any public announcements made by the Company and its controlled entities (Henderson Group or the Group) during the year in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and the Australian Securities Exchange (ASX) Listing Rules. This report includes the full year information required to be given to the ASX under Listing Rule 4.3A.

CONTENTS	PAGE
Results for announcement to the market	1
Business Review	2
Financial Accounts	
• Consolidated Income Statement	11
• Consolidated Statement of Recognised Income and Expense	13
• Consolidated Balance Sheet	14
• Consolidated Cash Flow Statement	15
• Company Statement of Recognised Income and Expense	16
• Company Balance Sheet	16
• Company Cash Flow Statement	17
• Notes to the Financial Statements – Group and Company	18
Glossary	75

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Note: The disclosures provided in this "Results for announcement to the market" section meet the requirements of the ASX.

Financial results	Year ended 31 December		% movement
	2006 £m	2005 £m	
Revenue from ordinary activities ¹	372.8	283.3	31.6
Profit from ordinary activities after tax attributable to members ²	61.1	51.2	19.3
Net profit after tax for the period attributable to members	61.1	51.2	19.3

Dividends

The Directors recommend the payment of a final dividend in respect of the year ended 31 December 2006 of 2.27p per ordinary share of 10p each of the Company (2005: 1.39p).

Dividends are recognised in the accounts in the year in which they are declared or, in the case of a final dividend, when approved by shareholders at the Annual General Meeting. Therefore the amounts recognised in the 2006 financial statements represent the final dividend for the year ended 31 December 2005 (1.39p) and the interim dividend for the six months to 30 June 2006 (0.88p).

	Amount per security (pence)	Franked amount per security (pence)
2006 interim dividend	0.88	-
2006 proposed final dividend	2.27	-
Proposed record date	27 April 2007	
Planned payment date	29 May 2007	

Net tangible assets per ordinary share	Year ended 31 December	
	2006 (pence)	2005 (pence)
Net tangible assets per ordinary share	30	35

"Net tangible assets" are defined by the ASX as being the total assets, less intangible assets, less total liabilities ranking ahead of, or equally with, claims of ordinary shares.

The results and the financial information included within this Preliminary Final Report have been subject to an independent audit by the external auditors.

Notes

¹ Prior year revenue has been restated to include fees payable against income in addition to commissions and is stated after the elimination of intra-group transactions with discontinued operations up to the date of their disposal.

² Profit for all operations, both continuing and discontinued.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

BUSINESS REVIEW

The results of the Group comprise three components:

- the core investment management component, Henderson Global Investors (Henderson);
- the Corporate Office (Corporate), responsible for dealing with the requirements of being a dual listed company; and
- discontinued operations.

The results of the Group for the year ended 31 December 2006 are summarised below, with comparatives:

	Year to 31 Dec 2006	Year to 31 Dec 2005
	£m	£m
Henderson	81.1	62.9
Corporate	1.1	0.5
Profit before tax from recurring operations ¹	82.2	63.4 ²
One-off restructure costs	(7.8)	-
Net profit before tax from continuing operations	74.4	63.4
Net (loss)/profit before tax from discontinued operations ³	(2.0)	0.6
Net profit before tax from all operations	72.4	64.0
Taxation – continuing operations	(11.1)	(11.5)
Taxation – discontinued operations	(0.1)	(4.8)
Total taxation	(11.2)	(16.3)
Net profit after tax from all operations	61.2	47.7
Attributable to:		
Equity holders of the parent	61.1	51.2
Minority interests	0.1	(3.5)
	61.2	47.7
Henderson Global Investors		
Assets under management	£61.9bn	£67.7bn
Cost to income ratio	72.6%	75.5%

THE CONSOLIDATED GROUP RESULT

The Group's net profit before tax from continuing operations, before one-off restructure costs, for year to 31 December 2006 was £82.2m, an increase of £18.8m (30%) on the year to 31 December 2005 (£63.4m). Henderson delivered a 29% increase in net profit before tax to £81.1m in FY06 (FY05: £62.9m), which is set out in more detail on page 3. Corporate made a profit of £1.1m (FY05: £0.5m), comprising a return from Corporate cash balances of £12.6m compared to £13.3m in FY05 and Corporate costs of £11.5m in FY06, down 10% from £12.8m in FY05. There were no movements in the results of discontinued operations during 2H06. The loss of £2.0m before tax (FY05: £0.6m profit) in 1H06, represented a profit of £9.7m in respect of Towry Law UK and a loss of £11.7m in respect of the Life Services business.

Group taxation

The corporate income tax charge for the year is £11.1m for continuing operations and £0.1m for discontinued operations, giving an effective tax rate of 14.9% for continuing operations and 15.5% for the Group overall.

The primary reason for the effective tax rate being less than the statutory rate of 30% is the utilisation of previously unrecognised deferred tax assets triggered, in part, by the settlement in the fourth quarter of 2006 of a number of prior year tax matters with UK tax authorities.

¹ Before eliminations between continuing and discontinued operations in the year to 31 December 2005.

² Before elimination of intra-group transactions between continuing and discontinued operations up to the date of disposal in 2005 (£6.0m profit), primarily in respect of fund management fees paid from Pearl Group to Henderson.

³ Includes results of discontinued operations to the date of disposal; gains/(losses) on disposal of discontinued operations; and crystallised warranty claims in respect of discontinued operations.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Business Review (continued)

HENDERSON RESULT

Henderson's strategy is to build a scaleable, profitable, active investment management business based on core equity and fixed interest investment capabilities. The focus is on growing assets under management (AUM) in higher margin specialist products such as Absolute Return Funds, Wholesale Funds for retail investors (UK OEICs and unit trusts, Horizon SICAV Funds and US Mutual Funds), Property Funds and Private Equity Funds.

To achieve this, Henderson seeks to:

- deliver saleable investment performance;
- develop a sustainable entrepreneurial culture to attract and retain the best people;
- develop innovative specialist products and rapidly bring them to market;
- deliver improvements to the cost to income ratio.

The business is predominantly Pan-European, but has a growing presence in the US and Asia.

Improved FY06 result – 29% up on FY05

Net profit before tax for Henderson in FY06 was £81.1m, up 29% from £62.9m in FY05. This performance reflects management's continued focus on improving fee margins on AUM which increased from 37.0bps in FY05 to 43.5bps in FY06. Management fee and net margins have improved from 29.4bps in FY05 to 34.0bps in FY06, and from 9.4bps in FY05 to 12.5bps in FY06 respectively.

Summarised income statement of Henderson

	Year to 31 Dec 2006	Year to 31 Dec 2005
	£m	£m
Management fees (net of commissions payable)	221.2	196.3
Transaction fees	24.6	24.4
Performance fees (net of fund manager bonuses)	37.3	26.5
Total fee income	283.1	247.2
Investment income	12.6	9.9
Total income	295.7	257.1
Operating expenses	(211.8)	(189.1)
Depreciation and amortisation	(2.8)	(5.1)
Total expenses	(214.6)	(194.2)
Operating profit before tax	81.1	62.9
Margins on average AUM¹		
Average AUM (£bn)	65.1	66.9
Total fee margin (bps)	43.5	37.0
Management fee margin (bps)	34.0	29.4
Net margin (bps)	12.5	9.4

Total fee income in FY06 was £283.1m, up 15% from £247.2m in FY05. Management fee income increased by 13% to £221.2m in FY06 due to growth in higher margin business lines and improved markets compared to FY05. This was partially offset by revenue losses associated with Institutional client outflows, and natural run-off of the Pearl Group (Pearl). Transaction fee income was maintained, at £24.6m. Net performance fees increased by 41% to £37.3m in FY06, reflecting strong performance in key products and increasing performance fee diversity.

Absolute Return Funds, Horizon Funds, US Mutual Funds, Collateralised Debt Obligations and Property Funds have all contributed to the positive change in product mix and improved margins.

¹ Margins on average AUM are calculated by dividing the appropriate income or profitability measure by the corresponding AUM and are expressed in basis points (bps).

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Business Review (continued)

The Henderson result (continued)

Operating expenses increased by 12% to £211.8m in FY06. A reduction in costs across most expense categories was offset by increased staff and IT costs. The increase in staff costs was almost entirely in respect of variable remuneration schemes, including share schemes. Bonus scheme costs rose in line with the improved operating performance of the business. Management remains committed to increasing the level of employee share ownership across the business in order to align employee and shareholder interests. The current degree of employee share ownership, if all schemes in place at 31 December 2006 vest, is approximately 10%. The increase in IT costs was mainly due to the cost of upgrading the derivatives trading platform and the ongoing cost of investment management-related services previously paid for under "soft commission" arrangements.

Overall, the increase in total income more than offset the higher costs in FY06, resulting in an improvement in the cost to income ratio from 75.5% in FY05 to 72.6% in FY06, excluding one-off restructure costs.

Assets under management

Total AUM decreased in FY06 from £67.7bn at the start of the year to £61.9bn at 31 December 2006. Net client outflows of £10.1bn included £8.7bn of net outflows in respect of Pearl (including £4.4bn of low margin non-profit annuity business); £3.3bn from lower margin Institutional business; and a £2.4bn outflow in relation to low margin Virgin Money Group business. The Virgin Money Group outflow was in accordance with the sale of the Group's interest in Virgin Money Group which completed on 27 April 2004. Lower margin outflows were more than offset in revenue and profit terms by net inflows into higher margin products, totalling £4.3bn. In addition, there were favourable market and foreign exchange rate movements of £4.3bn. The amount of high margin property business won but not invested at 31 December 2006 stood at approximately £1.8bn. This balance is not included within AUM listed below.

Summary of movements in AUM

	Opening AUM 31 Dec 2005 £bn	Net flows 1H06 £bn	Net flows 2H06 £bn	Net flows FY06 £bn	Market/FX FY06 £bn	Closing AUM 31 Dec 2006 £bn
Lower margin business	17.4	(2.9)	(0.4)	(3.3)	0.9	15.0
Higher margin business	19.9	2.0	2.3	4.3	2.2	26.4
	37.3	(0.9)	1.9	1.0	3.1	41.4
Pearl Group ¹	28.0	(1.5)	(7.2)	(8.7)	1.2	20.5
Virgin Money Group ²	2.4	(2.4)	-	(2.4)	-	-
Total	67.7	(4.8)	(5.3)	(10.1)	4.3	61.9

Summary of AUM by type of asset

	31 Dec 2006 £bn	31 Dec 2005 £bn
UK equity	13.7	16.0
International equity	14.3	12.6
Total equity	28.0	28.6
Fixed interest	24.6	32.1
Property	8.0	6.3
Private equity	1.3	0.7
Total AUM	61.9	67.7

¹ Henderson has an agreement to manage Pearl's assets until April 2015. The agreement provides for certain minimum revenues regardless of the level of AUM.

² Virgin Money Group was included within Institutional funds in the Full Annual Financial Report and Accounts for the year ended 31 December 2005. The loss of the mandate was anticipated after the Group disposed of its 50% stake in Virgin Money Group in April 2004.

Business Review (continued)**The Henderson result (continued)*****Business line contributions***

Henderson offers a broad range of products which are sold in the UK, Continental Europe, North America and Asia. We believe this reduces the exposure of our business to individual product lines and enables us to deliver attractive product offerings under different market conditions.

During 2H06, Henderson restructured the way its business is configured, to improve management accountability and provide greater focus on operating margins. There are now five areas within the fund management business: Pan-European Listed Assets, Pan-European Property, Private Equity, North America and Asia. Investment and distribution functions lie within each of these areas, although cross-selling is encouraged. The North America and Asia businesses, for example, rely to some extent on the investment capabilities of the Pan-European Listed Assets team, which manages all Absolute Return Funds, the Horizon fund range, and the US Mutual fund range. Each area is supported by central services. The £7.8m one-off restructure costs associated with this restructure will free up savings which will be reinvested in the business.

Henderson's main focus remains on expanding specialist capabilities. The revenue margins and net contribution from these capabilities are, typically, significantly higher than for more generalist product areas. Revenues from specialist products for FY06 were £201.7m (FY05: £153.6m), with allocated costs of £104.7m (FY05: £85.5m), giving a net contribution to overheads of £97.0m (FY05: £68.1m). Generalist products (including Institutional, Investment Trusts and Pearl) generated revenues of £81.4m in FY06 (FY05: £93.6m), with allocated costs and net contribution levels of £53.5m (FY05: £60.7m) and £27.9m (FY05: £32.9m) respectively.

Market focus

The second half of the year has built on a strong first half, delivering in total a significant improvement on the FY05 results. Our investment in people and infrastructure in North America and Continental Europe in particular has seen profitability in these regions improve markedly during the period.

Income attributable to the Pan-European business increased by 13.7% to £265.4m, due to a combination of strong performance fees and positive net sales in high margin product ranges. The region accounted for £3.0bn of the £4.3bn net inflows into higher margin products. During 2006, we opened an office in Madrid to add to our existing Continental European offices in Paris, Frankfurt, Milan, Luxembourg, Zurich, Vienna and Amsterdam. These offices increasingly operate as platforms for distribution into other countries, such as in Scandinavia and Eastern Europe.

The US business increased its income base by 31.8% to £21.1m, with net sales of US Mutual Funds (£0.7bn), markets, and the success of the US Property business all contributing. Henderson ranked 7th by net sales of International and Global Funds in the US market in 2006. Our European Focus and Japan-Asia Focus US Mutual Funds captured 44% and 85% of sales in their target sectors respectively. The priority for US Wholesale continues to be the deepening of relationships with current distributors. Strong mutual fund sales in 1H06 (net £0.4bn) have been maintained throughout FY06 (£0.7bn), at more than twice those of FY05. US Mutuals AUM increased to £1.6bn at 31 December 2006 (31 December 2005: £0.8bn). We expect this business to continue to grow strongly in 2007.

Our Asian offices also performed well in FY06, with revenues up 19.0% to £9.2m (including Private Equity). AUM sourced in the region increased by 42% to £1.5bn. The Horizon range, originally focused on Continental Europe, is increasingly distributed in Asia. Our business there, headquartered in Singapore, improved distribution relationships in Hong Kong, Taiwan and Malaysia in particular. For 2007, we have plans to offer toshin funds to Japanese retail investors and are evaluating the Korean market.

Business Review (continued)**The Henderson result (continued)****Product focus**

The Listed Assets business enjoyed a good 2006 in terms of funds flows, particularly during 2H06. Aggregate net inflows of higher margin products for the Listed Asset business during FY06 were £2.1bn as detailed below:

- Absolute Return Funds continue to grow both in terms of AUM and by number of funds. AUM at 31 December 2006 amounted to US\$3.2bn (£1.7bn), up more than 50% on the beginning of 2006. Three new Absolute Return Funds were launched in 2H06, the Special Situations fund, the Total Return fund, and the Henderson Asia-Pacific Equity Multi-strategy fund, taking the total number of Absolute Return Funds launched in 2006 to six. There are now 17 funds in the range;
- Our Wholesale funds business (Horizon range, US Mutuals and UK OEIC range) continues to perform well, with total AUM growing to £8.9bn (FY05: £6.1bn), including net inflows in the period of £1.7bn (FY05: £0.4bn):
 - Two new Horizon funds were launched, the Asia Dividend Income and Pan European Alpha Plus funds, taking the total number in the range to 18. In addition, the Global Bond and Global High Yield Bond funds were restructured during 2H06, becoming the Horizon Absolute Return Fixed Income and Strategic Yield funds respectively. The restructure enables these funds to employ their UCITSIII capabilities, capitalising on our strength in long-short techniques. It was an exceptional year for Horizon's Property Securities funds;
 - We launched two new US Mutual funds in November 2006, the Global Equity Income Fund and the Global Opportunities Fund. The Global Opportunities Fund employs a similar investment process to Henderson's flagship International Opportunities Fund, but includes an allocation to North American equities. December 2006 saw record net sales for the month across all our Mutual funds, helped by continued strong investment performance. Early indications for 2007 are also positive; and
 - Our UK OEIC range continues to improve with four core sub-funds now having top quartile performance over three years. Gross sales continue to be positive compared to 2005 but, as in 1H06, outflows in respect of legacy Pearl business have offset these sales.
- During FY06, sentiment towards our Institutional business continued to improve, with Henderson receiving 17 consultant upgrades. Institutional net outflows amounted to £0.4bn in 2H06, compared to £2.9bn in 1H06 and £4.4bn in 2H05. Net inflows in products such as CDOs, where performance fee opportunities exist, continued, including £0.2bn in respect of the launch of the new Aquilae II fund. Although these inflows were more than offset by outflows, the overall revenue impact was positive;
- In July 2006 the Investment Trust business launched its first new Investment Trust in six years, Global Property Companies Limited, as well as 'ItsHenderson' – an innovative dealing platform for private investors allowing them to manage all of their investment trust dealing, PEPs and ISAs from one source; and
- The signing of revised IMAs with Pearl occurred on 30 June 2006. These IMAs give Pearl greater flexibility with regard to the allocation of its assets, together with revenue protection for Henderson. Pearl AUM fell by £7.5bn to £20.5bn during 2006, including £8.7bn of net outflows. £1.5bn of these outflows arose in 1H06, with a further £4.4bn of outflows from the non-profit annuity portfolio in 2H06. These outflows were low margin. During 1H06 the £2.4bn Virgin Money Group mandate was terminated, in accordance with the sale agreement from 2004. Like Pearl, this business was low margin.

Pan-European Property manufacturing and distribution has been consolidated under one team as part of the 2H06 restructure of the business. The primary objectives for 2006 were to invest a significant proportion of existing capital commitments from clients, as fees are not earned on Property funds until funds are invested, whilst continuing to deliver excellent investment performance. Committed but uninvested capital (including gearing) was £1.2bn at 31 December 2005. This had risen to £2.5bn at 30 June 2006. In total, £1.7bn has been invested during FY06, £0.9bn of which was invested in 2H06. This is 2.5 times the amount invested during FY05. Uninvested commitments at 31 December 2006 (including gearing) were £1.8bn. Two new funds were also established in 2006, along with a new property investment vehicle in Italy.

Business Review (continued)**The Henderson result (continued)**

The Private Equity business performed well in 2006. During the second half £574m was raised for a new Private Finance Initiative (PFI) fund which, in addition to a £330m fund raised in 2005, was used to fund the acquisition of John Laing plc and its subsidiaries. The acquisition has added significantly to the Private Equity revenue base and enhanced its reputation, which was recognised by Henderson winning the Thomson Financials 'Global Private Equity House of the Year' award for 2006.

In Asia, our Private Equity business has also made good progress, generating carried interest in 2H06 for the Group from strong performance in the Henderson Asia Pacific Equity Partners 1 Fund. The launch of a second fund is currently being considered. Other Private Equity operations in Europe continue to run off.

Investment performance

Performance in the year improved on FY05, with 62% of listed asset funds beating their benchmarks (FY05 52%). This included good Wholesale performance, 77% (FY05: 74%), and steady Institutional performance of 50% (FY05: 52%). Performance over benchmark was 67% for Equities (FY05: 68%) and 59% for Fixed Income (FY05: 41%).

Specialist listed asset products performed particularly well against their benchmarks, with Absolute Return Funds (78%), US Mutual Funds (100%), Horizon (68%), and OEICs (79%) all well above average. The US Mutual fund range has continued to deliver strong investment performance, with all funds above-benchmark and 99% of eligible funds by value achieving four Morningstar ratings at 31 December 2006. The performance of UK Equity and Balanced pension funds continued to improve, and the performance of our pooled and segregated insurance assets has improved significantly.

Pan-European Property performance is subject to annual Investment Property Databank (IPD) benchmarks. The last available IPD benchmarks, relating to 2005, were released in April 2006, when 90% of Henderson Property funds outperformed. We expect the figure for 2006 to be approximately 80% for Pan-European Property performance.

US Property out performance of its respective benchmarks, for 2006, is expected to be approximately 100%.

Henderson won a total of 15 investment performance awards during FY06 (FY05: 18), including the IPE Real Estate Magazine 'Best Property Investment Manager' award and the Lipper 'Best Three Year Performance by a Small Fund Group' award for the second year running.

THE CORPORATE RESULT**Corporate costs**

Corporate costs amounted to £11.5m in FY06 (FY05: £12.8m). These costs include shareholder servicing costs and finance and secretariat functions, which are not directly attributable to individual business units. FY06 costs also reflected expenses of £2.0m associated with a strategic acquisition opportunity, which was not pursued, and the renegotiation of Pearl IMAs in 1H06.

Return on Corporate cash

The return on Corporate cash was £12.6m in FY06 (FY05: £13.3m). This return arose primarily from Group cash and liquid investments. It excludes returns on Henderson investments, including Banca Popolare Italiana, and on Henderson cash held to meet regulatory and other strategic requirements, which form part of Henderson revenues analysed on page 3.

Pensions

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

Business Review (continued)**The Corporate result (continued)**

The net liability in respect of post-retirement obligations at 31 December 2006, before tax relief, was £10.4m (30 June 2006: £42.8m). The movement in the liability during 2H06 is principally due to:

- a special payment to the Scheme by the Group of £40m on 13 December 2006, as agreed with the Scheme Trustee in relation to the capital reduction undertaken by the Group on 24 October 2006. This payment was largely funded from the sale proceeds of Towry Law UK and will be followed by two more special payments of £20m each in October 2007 and 2008 respectively; partially offset by
- the impact of a 0.1% reduction in 2H06 in the AA Corporate Bond discount rate used to value the Scheme's liabilities.

The Company has reached agreement with the Trustee on the future funding principles and schedule of contributions for the Scheme. In summary, the Scheme is intended to be funded to at least 106% of its liabilities on an IAS19 basis, after taking account of the £80m of special contributions and regular contributions of 20% of payroll to the Scheme. In addition, a Liability Driven Investment (LDI) strategy will be adopted for Scheme assets backing defined benefit liabilities. 50% of Scheme assets will be held in a risk reducing portfolio, comprising bonds broadly matching the liability profile of the Scheme with hedging of inflation and interest rate risk, and 50% of assets will be invested in a well-diversified risk-seeking portfolio. These changes will significantly reduce the market risk of the Scheme and give the Scheme exposure to some of Henderson's most highly rated investment professionals.

Regulatory requirements

During 2006, Henderson successfully applied to the UK Financial Services Authority for a waiver from Consolidated Supervision, under section 8.4 of the new Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). The waiver is valid for five years, ending on 1 January 2012. UK regulated entities within the Group will continue to meet their solo prudential capital requirements. However, consolidated capital requirements will be satisfied by the Company's financial resources rather than Group resources. In practice, this means that the Group's regulatory capital surplus as at 1 January 2007 will increase by £357m, representing the Group's intangible goodwill (£224m) and the higher Tier 1 capital balances of the Company as compared to the Group (£171m), partially offset by the requirement to hold capital against the Group's contingent liabilities (£38m). These contingent liabilities relate to the tax warranties and indemnities outstanding from the sale of the Life Services business and Towry Law UK in 2005 and 2006 respectively.

From 1 January 2007, all UK regulated entities within the Group are required to meet the Pillar 1 (fixed overhead) capital requirements set out in the new Capital Requirements Directive (Directive). From 1 January 2008, the Group will also be required to comply with the Pillar II (operational risk) and the Pillar III (market disclosure) requirements of the Directive. Based on work conducted to date and our current business model, we expect the regulatory capital requirement of the Group to remain broadly the same as at 31 December 2006, approximately £75m.

Capital

The Group returned approximately £200m surplus capital to shareholders on 24 October 2006, by way of a capital reduction. 22% of the issued share capital of the Group was cancelled as at that date. This return, coupled with the £871m returned in 2005, means that the entire £1.07bn cash proceeds from the sale of the Life Services business have now been returned to shareholders. Following the successful waiver application, we anticipate a further capital return of approximately £200m in 2H07.

In addition, the Group made two dividend payments during 2006. On 26 June 2006 a £16.1m maiden dividend (1.39 pence or equivalent per share) was paid in respect of 2H05 profits. On 24 October 2006 a £10.1m interim dividend (0.88 pence or equivalent per share) was paid in respect of 1H06 profits.

2006 final dividend

The Board has recommended the payment of a £20.5m final dividend (2.27 pence or equivalent per share) in respect of 2H06 profits. Approval of this dividend will be sought at the AGM on 3 May 2007. Payment will be made on 29 May 2007.

Business Review (continued)
The Corporate result (continued)

Debt issuance

As previously indicated, the Board considers 2007 to be the appropriate time to introduce a prudent level of gearing to the Group balance sheet, in order to improve its efficiency. The Group expects to be in a position to undertake a sterling issuance of between £125m and £175m during 1H07, subject to favourable market conditions.

Risk management

The Group has established a framework to manage the risks of its business with practices appropriate to a listed company.

Below Board level, the management of risk within the Group is governed by the Audit Committee which considers the principal corporate risks facing the Group, the inherent exposures that lie within these risks and the effectiveness with which they are being managed. The Audit Committee reviews regular reports from management, internal audit, compliance and legal functions in order to ensure that these risks are being monitored and controlled in an effective manner.

The day-to-day management of risk is the responsibility of the Henderson Management Team, which has approved a risk management framework and structure that has been established by the Risk Management Services function. This framework defines the Group's Risk Management policies and sets out the methodology for the identification, assessment, mitigation and reporting of risks. This framework has been designed in order to ensure that risk management is embedded within the business culture and operations of the organisation.

Local management is responsible for operational risk controls and, depending on the size and complexity of the business unit, risk and control profiles have been created and captured on an on-line risk management system. Management is required to confirm on a monthly basis that the key controls have operated effectively.

The Henderson Management Team receives regular reports from Risk Management Services outlining the risk profiles of the business units within the Group and highlighting any matters that give cause for concern, together with the appropriate remedial action to be taken.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are financial risks, namely price risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. Additional information on risk management objectives and policies are included in the notes to the financial statements, note 15, Financial risk management.

Business Review (continued)

DISCONTINUED OPERATIONS

There were no movements in the results of discontinued operations during 2H06. Movements in 1H06 were as follows:

- a warranty claim from Pearl of €17m (£11.7m), agreed on 30 June 2006 under the terms of the Life Services sale agreement, recognised as a charge in the consolidated income statement. This amount was settled by the Group on 11 July 2006 in respect of all outstanding non-tax-based warranties and indemnities in relation to the sale of Life Services;
- a pre-tax profit of £9.5m on the disposal of Towry Law UK, which completed on 3 May 2006. The profit comprised disposal proceeds of £37.2m, less £26.1m net assets disposed of and £1.6m costs of sale; and
- a £0.2m profit from Towry Law UK up to the date of its disposal (FY05: £2.5m). Taxation payable of £0.1m arose on this profit.

These items resulted in a loss before tax from discontinued operations in FY06 of £2.0m (FY05: £0.6m profit).

With the completion of the sale of Towry Law UK and the Life Services business, and the closure of Towry Law International, all non-investment management businesses have been disposed of. The impact of those businesses on the future results of the Group will be limited to the recognition of any claims crystallising under remaining warranties or indemnities in connection with both disposals and any surplus or deficit arising in respect of the Towry Law International run-off provisions.

Outlook

Henderson is well placed to deliver further income and profit growth in 2007, subject to benign markets. We will continue to focus on growth in specialist products, whilst we expect the Institutional business to stabilise. Pearl flows remain harder to predict, given the freedom they have to allocate assets, however, our revenues are protected under the revised agreement.

On capital planning, we expect to complete a further capital return in 2H07. The Board also intends to introduce a prudent level of gearing in 1H07, subject to favourable market conditions, to improve balance sheet efficiency. Further updates on these matters will be provided during the year.

The emphasis on higher margin products will continue to drive revenues and profitability up and, as a result, we anticipate that the cost to income ratio for 2007 will improve to approximately 70%.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

CONSOLIDATED INCOME STATEMENT For the year ended 31 December 2006

	Notes	2006 £m	2005 ¹ Restated £m
Continuing operations			
Income			
Gross fee income and commission receivable on sales	3	372.8	283.3
Finance income	3	25.2	24.7
Total income		398.0	308.0
Commissions and fees payable against income	3	(89.7)	(43.4)
Net fee and commission income		308.3	264.6
Expenses			
Administration costs	4.1	(223.3)	(201.5)
Other charges	4.2	(2.8)	(5.1)
Total expenses before finance costs and one-off restructure costs		(226.1)	(206.6)
Finance costs	6	-	(0.6)
Net profit before tax and one-off restructure costs		82.2	57.4
One-off restructure costs		(7.8)	-
Net profit before tax from continuing operations		74.4	57.4
Taxation	8	(11.1)	(11.5)
Net profit after tax from continuing operations		63.3	45.9
Discontinued operations²			
Net (loss)/profit before tax from discontinued operations	35.1	(11.5)	25.2
Net profit/(loss) before tax on disposal of discontinued operations	34.2	9.5	(18.6)
Net (loss)/profit before tax from discontinued operations		(2.0)	6.6
Taxation	37	(0.1)	(4.8)
Net (loss)/profit after tax from discontinued operations		(2.1)	1.8
Total continued and discontinued operations			
Net profit before tax from all operations		72.4	64.0
Total taxation		(11.2)	(16.3)
Net profit after tax from all operations		61.2	47.7
Attributable to:			
Equity holders of the parent	20.1	61.1	51.2
Minority interests	20.1	0.1	(3.5)
		61.2	47.7
Dividends			
Dividends declared and charged to equity in the year ³	12	26.2	-
Dividends proposed (2.27 pence per share)	12	20.5	-
Basic and diluted earnings per share			
Earnings per share from all operations	9.1	5.5p	3.1p
Earnings per share from continuing operations	9.2	5.7p	3.2p
Earnings per share from continuing operations before restructure costs	9.4	6.3p	3.2p

Notes

- The 2005 comparatives represent the total profit and loss for the year, net of intra-group transactions between continuing and discontinued operations and have been restated as detailed in note 2.1 Changes in accounting policies.
- Discontinued operations comprise Towry Law International, the Life Services business and Towry Law UK. There were no intra-group transactions between the continuing and discontinued businesses that required elimination in the current year.
- Dividends paid in respect of 2H05 profits 1.39 per share, and 1H06 profits 0.88 pence per share.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

CONSOLIDATED INCOME STATEMENT For the year ended 31 December 2005

	Notes	Continuing operations ¹ Restated £m	Discontinued operations ² £m	Eliminations ³ £m	Total ⁴ Restated £m
Continuing operations					
Income					
Gross fee income and commission receivable on sales	3	290.6	-	(7.3)	283.3
Finance income	3	26.8	-	(2.1)	24.7
Total income		317.4	-	(9.4)	308.0
Commissions and fees payable against income	3	(43.4)	-	-	(43.4)
Net fee and commission income		274.0	-	(9.4)	264.6
Expenses					
Administration costs	4.1	(201.9)	-	0.4	(201.5)
Other charges	4.2	(5.1)	-	-	(5.1)
Total expenses		(207.0)	-	0.4	(206.6)
Finance costs	6	(3.6)	-	3.0	(0.6)
Net profit before tax from continuing operations		63.4	-	(6.0)	57.4
Taxation	8	(11.5)	-	-	(11.5)
Net profit after tax from continuing operations		51.9	-	(6.0)	45.9
Discontinued operations					
Net profit after tax from discontinued operations	35.1	-	14.4	6.0	20.4
Net loss after tax on disposal of discontinued operations	34.2	-	(18.6)	-	(18.6)
Net (loss)/profit after tax from discontinued operations		-	(4.2)	6.0	1.8
Net profit before tax from all operations		63.4	0.6	-	64.0
Total taxation	8, 37	(11.5)	(4.8)	-	(16.3)
Net profit/(loss) after tax from all operations		51.9	(4.2)	-	47.7
Attributable to:					
Equity holders of the parent	20.1				51.2
Minority interests – discontinued operations	20.1				(3.5)
					47.7
Continuing earnings per share					
Basic earnings per share	9.2	3.2p			
Diluted earnings per share	9.2	3.2p			

Notes

- The continuing operations column represents the continuing business of the Group before eliminations and have been restated as detailed in note 2.1 Changes in accounting policies.
- The discontinued operations column represents the discontinued operations of Towry Law International, the Life Services business and Towry Law UK.
- Eliminations represent intra-group transactions between the continuing operations and the discontinued operations of the Life Services business up to the date of its disposal on 13 April 2005. Since that date, the fee income eliminated as an intra-group transaction has been replaced by the income derived under the previous agreements with Pearl.
- The total column represents the continuing and discontinued businesses, net of intra-group transactions.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Exchange differences on translation of foreign operations	20.1	(0.6)	(1.5)
Exchange differences on translation of available-for-sale financial assets	20.1	(1.2)	-
Translation reserve transfer on sale of available-for-sale financial assets	20.1	0.4	-
Revaluation reserve transfer on sale of available-for-sale financial assets	20.1	-	3.4
Gains/(losses) on revaluation of available-for-sale financial assets	20.1	32.9	(4.5)
Actuarial losses on pension schemes	20.1,28	(4.7)	(10.8)
Tax on items taken directly to equity	20.1	1.4	4.4
Net income/(expense) recognised directly in equity		28.2	(9.0)
Net profit after tax from all operations		61.2	47.7
Total recognised income and expense		89.4	38.7
Attributable to:			
Equity holders of the parent	21.1	89.3	42.2
Minority interests – continuing operations	20.1	0.1	-
Minority interests – discontinued operations	35.1	-	(3.5)
		89.4	38.7

Henderson Group plc

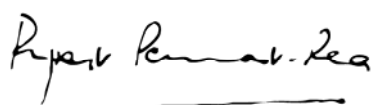
ASX Appendix 4E

For the year ended 31 December 2006

CONSOLIDATED BALANCE SHEET At 31 December 2006

	Notes	2006 £m	2005 £m
Assets			
Intangible assets	13	224.3	224.3
Investments accounted for using the equity method		2.7	2.0
Plant and equipment	18	6.6	8.3
Deferred tax assets	22	13.2	12.8
Available-for-sale financial assets	14	112.2	96.7
Financial assets at fair value through profit or loss	14	0.2	0.5
Deferred acquisition and commission costs	31	20.7	19.2
Trade and other receivables	17	156.4	95.7
Cash and cash equivalents	27.2	309.1	487.5
		845.4	947.0
Assets held in disposal groups held for sale	35.3	-	42.6
Total assets		845.4	989.6
Liabilities			
Retirement benefit obligations	28	10.4	45.6
Provisions	24.1	42.3	66.5
Deferred income		29.7	22.0
Current tax liabilities		35.0	27.8
Trade and other payables	23	232.1	163.9
		349.5	325.8
Liabilities included in disposal groups held for sale	35.3	-	16.7
Total liabilities		349.5	342.5
Net assets		495.9	647.1
Capital and reserves			
Share capital	19.2	90.2	115.5
Share premium reserve	20.1	193.7	367.2
Treasury shares	20.1	(1.9)	-
Own shares held reserve	20.1	(29.9)	(4.1)
Translation reserve	20.1	(4.8)	(3.4)
Revaluation reserve	20.1	29.9	(3.0)
Profit and loss account reserve	20.1	218.6	174.9
Shareholders' equity		495.8	647.1
Minority interests	20.1	0.1	-
Total equity	21.1	495.9	647.1

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2007. These were signed on its behalf by:



Rupert Pennant-Rea
Chairman

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

CONSOLIDATED CASH FLOW STATEMENT For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Net profit before tax from all operations		72.4	64.0
Adjustments to reconcile net profit before tax from all operations to net cash flows from operating activities:			
- depreciation and impairment of property, plant and equipment – continuing operations	18	2.8	3.0
- depreciation and impairment of property, plant and equipment – discontinued operations	43	0.3	2.3
- impairment of goodwill and other intangible assets – discontinued operations	44.1	0.7	2.1
- share-based payments	11.2	15.1	6.3
- net deferred acquisition cost and deferred income amortisation – continuing operations		2.1	7.8
- deferred acquisition cost amortisation – discontinued operations	36.2.1	-	7.7
- net profit arising from disposal of subsidiaries	34.2	(9.5)	-
- net profit arising from disposal of property, plant and equipment		-	(0.1)
- fair value (gains)/losses on financial assets		(5.8)	128.1
- contributions to the defined benefit pension scheme	28.1	(40.0)	-
- share of net profit of associates		(1.3)	(0.5)
- movement in minority interests		0.1	-
- loan interest expense		-	24.5
Cash flows from operating activities before changes in operating assets and liabilities		36.9	245.2
Changes in operating assets and liabilities	27.1	(12.4)	(439.7)
Tax paid		(2.8)	(85.8)
Net cash flows from operating activities		21.7	(280.3)
Cash flows from investing activities			
Proceeds from sale or maturity of:			
- property, plant and equipment		-	0.6
- investment property		-	12.1
- debt or equity instruments and interests in joint ventures		55.3	3,545.3
- certificates of deposits		-	232.5
- mortgages and other loan repayments from other parties		-	221.2
- subsidiaries and associates		25.8	(3,260.0)
Dividends from associates		0.6	-
Purchases or acquisition of:			
- property, plant and equipment		(1.1)	(3.4)
- investment property		-	(6.6)
- debt or equity instruments and interests in joint ventures		(33.1)	(2,864.6)
- certificates of deposits		-	(124.3)
- mortgages and other loans made to other parties		-	(1.0)
- subsidiaries and associates, net of cash acquired		-	(0.5)
Net cash flows from investing activities		47.5	(2,248.7)
Cash flows from financing activities			
Proceeds from issue of shares or other equity instruments		0.5	0.6
Return of cash to shareholders	21.1	(199.6)	(775.3)
Reduction in investor base		-	(95.2)
Cash payments to owners to acquire or redeem treasury shares	20.1	(1.9)	-
Cash payments to owners to acquire or redeem own shares	20.1	(28.8)	(6.3)
Repayments of short and long-term borrowings		-	(222.1)
Amounts due to policyholders on unit-linked investments		-	690.7
Dividends paid to equity shareholders	12	(26.2)	-
Dividends paid to minority interests		-	(3.7)
Interest paid		-	(40.3)
Net cash flows from financing activities		(256.0)	(451.6)
Effects of exchange rate changes		(0.6)	1.3
Net decrease in cash and cash equivalents		(187.4)	(2,979.3)
Cash and cash equivalents at beginning of year		496.5	3,475.8
Cash and cash equivalents at end of year	27.2	309.1	496.5

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

COMPANY STATEMENT OF RECOGNISED INCOME AND EXPENSE For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Actuarial losses on pension schemes	20.2	(7.6)	-
Tax on items taken directly to equity	20.2	2.3	-
Net expense recognised directly in equity		(5.3)	-
Net profit after tax from all operations		100.7	6.4
Total recognised income and expense	21.2	95.4	6.4

COMPANY BALANCE SHEET At 31 December 2006

	Notes	2006 £m	2005 £m
Assets			
Current assets			
Current tax assets		18.3	21.7
Deferred tax assets	22	2.3	-
Trade and other receivables	17	223.6	13.8
Cash and cash equivalents	27.3	110.1	258.9
		354.3	294.4
Non-current assets			
Investment in subsidiaries	30	2,461.8	2,659.3
Total assets		2,816.1	2,953.7
Liabilities			
Current liabilities			
Borrowings	16	970.3	971.9
Retirement benefit obligations	28.1	5.0	-
Provisions	24.2	14.9	15.2
Trade and other payables	23	1,159.2	1,151.8
Total liabilities		2,149.4	2,138.9
Net assets		666.7	814.8
Capital and reserves			
Share capital	19.2	90.2	115.5
Share premium reserve	20.2	193.7	367.2
Treasury shares	20.2	(1.9)	-
Own shares held reserve	20.2	(29.9)	-
Profit and loss account reserve	20.2	414.6	332.1
Total equity	21.2	666.7	814.8

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2007. These were signed on its behalf by:



Rupert Pennant-Rea
Chairman

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

COMPANY CASH FLOW STATEMENT For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Net profit/(loss) before tax		93.6	(12.7)
Adjustments to reconcile net profit/(loss) before tax from all operations to net cash flows from operating activities:			
- impairment of goodwill and other intangible assets		197.5	692.7
- share-based payments		15.1	-
- dividends from subsidiaries ¹		(266.3)	-
- net profit arising on financial assets		-	(28.0)
- loan interest expense		54.6	52.4
Cash flows from operating activities before changes in operating assets and liabilities		94.5	704.4
Changes in operating assets and liabilities			
Decrease/(increase) in other assets		56.6	(0.4)
Decrease in other liabilities		(74.6)	(26.4)
Net cash flows from operating activities		76.5	677.6
Cash flows from investing activities			
Proceeds from sale or maturity of:			
- loan repayments from other parties		-	209.5
- certificates of deposit		-	35.0
Purchases of:			
- debt or equity instruments		-	(28.4)
Net cash flows from investing activities		-	216.1
Cash flows from financing activities			
Proceeds from issue of shares or other equity instruments		0.5	0.6
Return of cash to shareholders	21.2	(199.6)	(775.3)
Reduction in investor base		-	(95.2)
Cash payments to owners to acquire or redeem own shares	20.2	-	(6.3)
Repayments of short and long-term borrowings		-	(203.9)
New loans raised from subsidiaries		-	377.6
Dividends paid to equity shareholders	12	(26.2)	-
Net cash flows from financing activities		(225.3)	(702.5)
Net (decrease)/increase in cash and cash equivalents		(148.8)	191.2
Cash and cash equivalents at beginning of year		258.9	67.7
Cash and cash equivalents at end of year	27.3	110.1	258.9

¹ Included in net operating profit for the year were dividends declared by the Company's subsidiaries in 2006 of £335.7m. £266.3m is still outstanding at the end of the year and is reflected as a movement in the inter-company balance.

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 of Henderson Group plc for the year ended 31 December 2006 were authorised for issue by the Board of Directors on 27 February 2007 and the balance sheets were signed on the Board's behalf by Rupert Pennant-Rea. Henderson Group plc is a public limited company incorporated and domiciled in England. The Company's ordinary shares are traded on the London Stock Exchange and CHESS Depository Interests are traded on the Australian Securities Exchange.

The Group's and Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Companies Act 1985. The Company has taken advantage of the exemption under section 230 of the Companies Act 1985 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. Significant accounting policies

Basis of preparation

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

The Group's and Company's financial statements are presented in pounds sterling 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 comprise the financial statements of Henderson Group plc and its subsidiaries as at 31 December each year. The financial statements of all the Group's subsidiaries other than Henderson International Holdings Limited, which has a year end date of 30 November (see note 29 Subsidiaries), are prepared to the same year end date as the parent company. The subsidiary accounts are not all prepared under IFRS. However, the accounts of all the material entities 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 purposes 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, as appropriate. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group had control. Minority interests represent the equity interests in subsidiaries not fully held by the Group.

The 2006 consolidated financial statements include the results of Towry Law UK for the period until its disposal on 3 May 2006. The 2005 consolidated financial statements include the results of the Life Services business for the period until its disposal on 13 April 2005.

Interests in Property Limited Partnerships, Open-Ended Investment Companies (OEICs) and unit trusts are accounted for as subsidiaries, joint ventures, associates 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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

2.1 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

Restatement of prior year comparatives

The Group has modified its disclosure of income and related expenses by disclosing gross fee income inclusive of fees payable against income (previously shown net). The prior year consolidated income statement has been restated by grossing up both 'gross fee income and commission receivable on sales' and 'commissions and fees payable against income' by £17.5m. There is no effect on the prior year net profit before tax from continuing operations or the balance sheet as at 31 December 2005.

IAS 39 Amendments - Financial Instruments: Recognition and Measurement

The Group has adopted the amendment for the fair value option (issued June 2005). The amendment restricts the use of the option previously in place to designate any financial asset or financial liability to be measured at fair value through the profit or loss. The only financial assets measured at fair value through the profit or loss are the manager box positions in OEICs and unit trusts which meet the criteria under the amended standard as they are managed on a fair value basis. The amendment did not have any impact on the financial statements.

2.2 Significant accounting judgements, estimates and assumptions

Judgements

In the process of applying the Group's accounting policies, management has made no significant judgements, apart from those involving estimations and assumptions, which are summarised below.

Estimates and assumptions

The key estimates and assumptions that may give rise to a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires management to prepare an entity valuation based on a fair value less costs-to-sell basis. The estimation required in the selection of the comparable company trading multiples is mitigated by the use of external professional valuers and through cross-checking against valuations based on discounted cash flows. The carrying amount of goodwill at 31 December 2006 and 2005 is £224.3m as detailed in note 13 intangible assets.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit 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. The carrying value of recognised tax losses at 31 December 2006 was nil (2005: nil). The unrecognised deferred tax assets at 31 December 2006, arising from tax losses was £10m (2005: £13m) and arising from other timing differences not recognised was £6m (2005: £13m).

Pension and other post-employment benefits

The costs of and period end obligations under defined benefit pension plans is 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 plans, such estimates are subject to significant uncertainty. The estimation of the present value of defined benefit obligations at 31 December 2006 is £317.2m (2005: £301.7m) and the net retirement obligations included in the Group balance sheet are £10.4m (2005: £45.6m). Further details are given in note 28 Retirement benefit obligations.

Provisions

By their nature, provisions often include significant levels of estimation by management. The nature and amount of the provisions included in the Group balance sheet of £42.3m (2005: £66.5m) are detailed in note 24 Provisions and amounts not provided for are disclosed in note 33 Contingent liabilities.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

Accrued income and expenses

Accruals are based on latest available information and involve a degree of estimation. The most significant estimations relate to the accrual of performance fees. The Group's policy is to accrue 95% of the expected fee calculation on satisfaction of the recognition criteria it has established for performance fees, with the balance of 5% credited on cash settlement by the client.

The most significant expense accruals at year end relate to bonus and other variable remuneration scheme costs. These are based on a top-down review of the performance of the business, in tandem with a bottom-up assessment of the entitlements of each staff member. The outcome is independently assessed by the Remuneration Committee, chaired by Gerald Aherne, a Non-Executive Director.

Share-based payment transactions

Equity-settled share-based payments are measured at fair value at the date of grant and expensed based on the Group's estimate of shares that will eventually vest.

2.3 Significant accounting policies – continuing operations

Income recognition

Fee and commission income

Fee income includes annual management charges, transaction fees and performance fees. Annual management charges 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.

Initial fees and commissions 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.

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

Gains and losses (both realised and unrealised) on financial assets measured at fair value through profit or loss are recognised in the consolidated income statement as either finance income or finance costs.

Unrealised gains and losses on financial assets designated as available-for-sale are initially recognised through the consolidated statement of recognised income and expense. Upon disposal, any gain or loss previously taken through the consolidated statement of recognised income and expense is reversed out and the full gain or loss from purchase, after any impairment charge previously recognised, is taken through the consolidated income statement.

Realised gains and losses on financial assets are calculated as the difference between the net sales proceeds and cost or amortised cost. Unrealised gains and losses on financial assets represent the difference between the valuation of financial assets at the balance sheet date and their original cost, or if they have been previously revalued, the valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the accounting period also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of financial asset disposals in the current accounting period.

Goodwill

Goodwill arising on acquisitions, being the excess of the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised in the balance sheet. Goodwill on acquisitions prior to 1 January 2004 is carried at its value on 1 January 2004 less any impairment subsequently incurred. The carrying value of all goodwill is tested annually for impairment, or more frequently if any indicators of impairment arise.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

2.3 Significant accounting policies – continuing operations (continued)

Goodwill (continued)

Impairment is assessed by reference to an entity valuation based on a fair value less cost to sell basis, using comparable company trading multiples, cross-checked against valuations based on discounted cash flows. Where the fair value of the goodwill is less than the carrying amount, an impairment loss 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 'other charges' in the consolidated income statement and is not subsequently reversed.

Deferred acquisition and commission costs

For investment management contracts, directly related acquisition costs are deferred to the extent that they are recoverable out of future income. This includes initial commission expenses paid by the fund management business in respect of certain investment products.

These costs are then 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 costs are reviewed for recoverability against future margins from the related contracts in force at the balance sheet 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.

Financial instruments

Financial assets and liabilities are recognised on the balance sheet, when the Group becomes a party to the contractual provisions of an instrument, at fair value adjusted for transaction costs. 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 are derecognised when the liability is discharged.

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 at 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 at fair value through profit or loss comprise assets held for trading, namely the manager box positions in OEICs and unit trusts, which are managed on a fair value basis. Where securities are designated at fair value through profit or loss, gains and losses arising from changes in fair value are included in the income statement for the accounting period.

For available-for-sale financial assets, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the consolidated income statement for the accounting period.

Trade receivables, which generally have 30-90 day payment terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash amounts represent cash in hand and on-demand deposits. Cash equivalents are short-term highly liquid investments with a maturity of 90 days or less from the date of acquisition.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

2.3 Significant accounting policies – continuing operations (continued)

Financial instruments (continued)

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 is derecognised 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 against market, foreign exchange, liquidity and credit risk.

Derivative financial instruments are classified as assets when the fair value is positive or as liabilities when the fair value is negative. Fair values are based on quoted market prices.

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 financial reporting periods for which they were designated.

The forward currency contracts used to hedge the currency fair value of certain Euro and US dollar denominated available-for-sale financial assets have been classified as fair value hedges. The change in the fair value of a hedging derivative is recognised in the income statement. The change in fair value of the hedged item, attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement by way of transfer from reserves.

Any gains or losses arising from changes in the fair value of derivatives during the year that do not qualify for hedge accounting are taken directly to the consolidated income statement.

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 balance sheet date. The quoted market price used for financial assets is the current bid price. The fair value of financial assets that are not traded in an active market is determined using valuation techniques including the use of comparable recent arms length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Investments in subsidiaries

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

Impairment of assets (excluding goodwill)

At each balance sheet 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 costs to sell, and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax 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 it is written down to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 (continued)

2. Significant accounting policies (continued)

2.3 Significant accounting policies – continuing operations (continued)

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 balance sheet date.

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet 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. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 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 at the balance sheet date.

Income tax relating to items recognised directly in equity is also recognised in equity and not in the income statement.

Expenses and assets are recognised net of the amount of sales tax, except where this 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 as part of receivables or payables in the balance sheet.

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 ten 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 asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the consolidated income statement in the year the item is sold or retired.

Assets and liabilities included in disposal groups held for sale

Assets and liabilities are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the disposal group is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The net assets of disposal groups are measured at the lower of carrying amount and fair value less costs to sell. Fair value is determined by reference to available market data at the balance sheet date, or in the case of disposals already under negotiation, by reference to the negotiated sale price.

Notes to the Financial Statements (continued)**2. Significant accounting policies (continued)****2.3 Significant accounting policies – continuing operations (continued)****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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects a current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Foreign currencies

The functional currency of the Company and its UK subsidiaries is pounds sterling. Transactions in foreign currencies are recorded at the rate appropriate at the time of accounting for the transaction. Foreign currency monetary balances at the accounting period end are converted at the rate ruling at that date. Foreign currency non-monetary balances carried at fair value are translated at the rates prevailing at the date when the fair value is determined. Gains and losses arising on retranslation are taken to the consolidated income statement, except for available-for-sale equity securities where the changes in fair value are recognised directly in equity and any exchange component of the change in fair value is also recognised directly in equity.

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

Employee benefits

The Group provides employees with retirement benefits through both defined benefit and defined contribution plans. The assets of these plans are held separately from the Group's general assets in trustee administered funds and are valued at fair value. Defined benefit obligations and the cost of providing benefits are determined annually by 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 corporate bonds of appropriate duration and quality. The resulting surplus/deficit of defined benefit assets less liabilities is recognised in the consolidated balance sheet. The Group's expense related to these plans is accrued over the employees' service lives, based upon the actuarially determined cost for the accounting period having considered interest costs and the expected return on assets. Actuarial gains and losses are recognised in full in the accounting period in which they occur, in the consolidated statement of recognised income and expense. Contributions to the defined contribution scheme are charged to the consolidated 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 cost of such benefits is accrued over the employee's service life, based upon the actuarially determined cost for the accounting period using a methodology similar to that for defined benefit pension plans.

Share-based payment transactions

The Group issues equity-settled and cash-settled share-based payments to certain employees. The valuation methodology and assumptions are disclosed in note 11.4.

Equity-settled share-based payments are measured at the fair value of the equity instruments granted at the date of grant and expensed, together with a corresponding increase in equity, on a straight-line basis 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 has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, 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 balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

2.3 Significant accounting policies – continuing operations (continued)

Treasury shares

Treasury shares comprise own equity shares reacquired by the Company and are recorded at cost and are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Where the sales proceeds exceed the cost of the shares, the excess is transferred to the share premium reserve.

Equity shares

The ordinary equity shares of 10 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 credited to the share premium reserve. Direct issue costs net of tax are deducted from equity. 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 declared and, in the case of the final dividend, when these are approved by the Company's shareholders at the AGM.

2.4 Significant accounting policies – discontinued operations

Income recognition

Gross premiums written

Long-term insurance contract premiums, investment contracts with discretionary participating features, and annuity considerations are credited when they become due, which for single premium business is the date from which the policy is effective. For regular premium contracts, receivables are recorded at the date when payments are due. General business written premiums represent reinstatement premiums that have been earned during the year.

Premiums ceded to reinsurers

Reinsurance premiums are charged when they are payable.

Long-term insurance contract claims

Claims payable on maturity are recognised when the claim becomes due for payment and on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the insurance contract liabilities. Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment. Claims payable include the cost of settlement.

Claim recoveries from reinsurers

Reinsurance recoveries are accounted for in the same period as the related claim.

General business claims

General business claims include all claim losses occurring during the year, whether reported or not, including the related handling costs and a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Other intangible assets

Intangible assets acquired in a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to each class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with indefinite useful lives are not amortised. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through 'other charges'. Amortisation is charged on a straight-line basis over the asset's estimated useful life.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

2.5 Future changes in accounting policies

During the course of the year, the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), have issued a number of new accounting standards, amendments to existing standards and interpretations. The following new standards and interpretations are not applicable to these financial statements and are effective for future accounting periods. The Directors do not anticipate that the adoption of these standards will materially impact the Group's financial statements. They will, however, give rise to additional disclosures. The Group plans to apply these standards in the reporting period in which they become effective.

IFRS 7 Financial Instruments: Disclosures – effective for periods commencing on or after 1 January 2007

IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

IAS 1 Presentation of Financial Statements - effective for periods commencing on or after 1 January 2007

This amendment will require the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

IFRS 8 Operating Segments - effective for periods commencing on or after 1 January 2009

IFRS 8 which replaces IAS 14 'Segment Reporting' requires the Group's disclosures to reflect the information which management uses internally for evaluating the performance of operating segments and allocating resources to those segments.

IFRIC 11 IFRS 2 Group and Treasury Share Transactions – effective for periods commencing on or after 1 March 2007

IFRIC 11 requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled payment transaction, regardless of how the equity instruments are obtained. The interpretation also provides guidance on whether subsidiaries should account for such schemes in their own financial statements when their employees receive rights to equity instruments of the parent company. Upon adoption, this interpretation will impact disclosure in the Company's accounts and the separate accounts of the Group's subsidiaries with which equity-settled payment arrangements are contracted.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

3. Income

	Group	
	2006	Restated 2005
	£m	£m
Gross fee income and commission receivable on sales		
Gross fee income	372.8	283.3
Finance income		
Interest on deposits with credit institutions	21.8	24.7
Income from investments	3.4	-
Gain on fair value hedges	1.2	-
Translation reserve transfer relating to effectively hedged exchange losses (note 20.1)	(1.2)	-
	25.2	24.7
Total income	398.0	308.0
Commission and fees payable against income		
Amortisation of capitalised commissions	(12.9)	(9.7)
Other commissions and fees payable against income	(76.8)	(33.7)
	(89.7)	(43.4)
Net fee and commission income	308.3	264.6

4. Expenses

4.1 Administration costs

	Notes	Group	
		2006	2005
		£m	£m
Employee benefits expense	5.2	145.0	122.7
Operating lease expense		8.6	10.7
Investment administration		19.2	19.7
Information technology		10.9	7.4
Office expenses		7.2	4.9
Foreign exchange losses		0.6	0.1
Other expenses		31.8	36.0
Total administration costs		223.3	201.5

4.2 Other charges

	Notes	Group	
		2006	2005
		£m	£m
Depreciation of plant and equipment	18	2.8	3.0
Impairment of goodwill	13	-	2.1
Total other charges		2.8	5.1

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

4. Expenses (continued)

4.3 Auditors' remuneration

	Group	
	2006	2005
	£m	£m
Fees payable to the Group's auditor for the audit of the Group's annual consolidated financial statements	0.2	0.3
Fees payable to the Group's auditor and its associates for other services:		
- statutory audit of the Group's subsidiaries	0.5	0.6
- other services pursuant to legislation	0.2	0.3
- tax services	0.2	0.2
- services relating to corporate finance transactions entered into by or on behalf of the Group	0.1	0.1
- other services	-	0.2
Total services	1.2	1.7

The above analysis reflects the amounts billed by Ernst and Young in the respective periods. Included in the fees payable to the Group's auditor for the audit of the Group's annual consolidated financial statements, are fees of £30,000 (2005: £30,000) for the audit of the Company's statutory financial statements.

5. Employee benefits

5.1 Average employee numbers

The average number of employees in the continuing operations of the Group was as follows:

	Group	
	2006	2005
	no.	no.
Henderson	867	841
Corporate	26	40
Total employees	893	881

5.2 Analysis of employee benefits expense

Employee benefits expense for continuing operations comprises:

	Notes	Group	
		2006	2005
		£m	£m
Salaries and wages (including bonuses)		112.7	98.9
Share-based payments	11.2	11.8	6.1
Social security costs		11.6	6.2
Other pension costs	28	8.9	11.5
Total employee benefits		145.0	122.7

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

	Group	
	2006	2005
	£m	£m
Loan interest	-	0.6
Total finance costs	-	0.6

Notes to the Financial Statements (continued)

7. Segmental information

Group operating income and net assets

Continuing operations

Henderson is an investment manager, operating throughout Europe, also with operations in North America and Asia. Henderson manufactures 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. It also manages the assets of Pearl's life funds.

Management operates across product lines, distribution channels, and geographic regions. The Board considers that the risks and rewards to the business are not substantially different across the geographic regions in which Henderson operates so as to warrant separate disclosure. Core equities and fixed income, property, private equity and wholesale funds are sold in most, if not all, of these regions, and are managed in various locations. On this basis, Henderson considers itself to be a single segment investment management business.

Discontinued operations

On 3 May 2006, the Group completed the sale of Towry Law UK and its controlled entities (Towry Law UK Group) to JS&P Holdings Limited. The results of the Towry Law UK Group have therefore been classified as discontinued operations.

Also included within discontinued operations are the profits/(losses) arising from the closure of Towry Law International, which occurred during 2004, and the Life Services business, which was sold during 2005.

8. Taxation

	Group	
	2006	2005
	£m	£m
Current income tax:		
- current year	25.4	29.1
- prior year	(1.9)	(1.6)
Deferred tax relating to:		
- temporary differences	1.0	(12.1)
- write downs of previously recognised tax assets	-	5.9
Previously unrecognised tax loss, tax credit or temporary difference of a prior period used to reduce current tax	(13.4)	(9.8)
Total taxation expense	11.1	11.5

Tax credited to equity	Group	
	2006	2005
	£m	£m
Deferred tax	1.4	4.4
Total tax credited to equity	1.4	4.4

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

8. Taxation (continued)

Reconciliation of net profit before tax at standard rate of corporate tax to tax expense	Group	
	2006 £m	2005 £m
The reconciliation of the net profit before tax multiplied at 30% to the tax expense of £11.1m (2005: £11.5m) is as follows:		
Net profit before tax from continuing operations	74.4	57.4
Intra-group eliminations with discontinued operations	-	6.0
Net profit before tax from continuing operations – before eliminations	74.4	63.4
Tax at the applicable UK corporation tax rate of 30% (2005: 30%) on net profit before tax	22.3	19.0
Tax effect of expenses that are not deductible for tax purposes:		
- goodwill impairment	-	0.7
- other disallowable expenses	3.7	9.4
Tax effect of income that is not taxable	-	(0.2)
Adjustment for prior years (current and deferred)	(1.9)	(7.4)
Higher/(lower) tax rates on overseas earnings	0.4	(0.2)
Utilisation of previously unrecognised tax losses	(13.4)	(9.8)
Total tax expense for continuing operations	11.1	11.5

9. Earnings per share

Number of shares for the purpose of calculating the earnings per share:

	2006	2005
	no. (millions)	no. (millions)
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,102.8	1,641.2
Dilutive potential of:		
- share options	2.9	3.0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,105.7	1,644.2

Basic and diluted earnings per share have been calculated on the net profit attributable to equity shareholders. The difference of 2.9m (2005: 3.0m) 10 pence shares between the weighted average number of shares used in the basic earnings per share and the diluted earnings per share calculations reflects the dilutive impact of the Group's share-based payment schemes (note 11 Share-based payments).

The number of shares used is the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

9.1 From all operations

9.1.1 Earnings

Earnings for the purposes of basic and diluted earnings per share, being net profit after tax from all operations attributable to equity holders of the parent	2006	2005
	£m	£m
	61.1	51.2

9.1.2 Earnings per share

	2006	2005
	pence	pence
Basic	5.5	3.1
Diluted	5.5	3.1

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

9. Earnings per share (continued)

9.2 From continuing operations before eliminations

9.2.1 Earnings

	2006	2005
	£m	£m
Net profit attributable to equity holders of the parent	61.1	51.2
Adjustments to exclude net loss after tax from discontinued operations	2.1	4.2
Adjustments to exclude net loss after tax from discontinued operations attributable to minority interests	-	(3.5)
Earnings from continuing operations for the purpose of basic and diluted earnings per share	63.2	51.9

9.2.2 Earnings per share

	2006	2005
	pence	pence
Basic	5.7	3.2
Diluted	5.7	3.2

9.3 From continuing operations after eliminations

9.3.1 Earnings

	2006	2005
	£m	£m
Net profit after tax from continuing operations after eliminations	63.2	45.9

9.3.2 Earnings per share

	2006	2005
	pence	pence
Basic	5.7	2.8
Diluted	5.7	2.8

9.4 From continuing operations before eliminations and restructuring costs

9.4.1 Earnings

	2006	2005
	£m	£m
Net profit after tax from continuing operations after eliminations	63.2	45.9
Restructuring costs, after tax at the effective rate of taxation	6.6	-
Net profit after tax from continuing operations after eliminations and excluding restructuring costs	69.8	45.9

9.4.2 Earnings per share

	2006	2005
	pence	pence
Basic	6.3	3.2
Diluted	6.3	3.2

9.5 From discontinued operations

9.5.1 Earnings

	2006	2005
	£m	£m
Net (loss)/profit after tax from discontinued operations	(2.1)	1.8
Adjustments to exclude net loss/(profit) from discontinued operations attributable to minority interests	-	3.5
Net (loss)/profit after tax from discontinued operations	(2.1)	5.3

9.5.2 Earnings per share

	2006	2005
	pence	pence
Basic	(0.2)	0.3
Diluted	(0.2)	0.3

Notes to the Financial Statements (continued)**10. Events after the balance sheet date**

The Board of Directors have not, as at 27 February 2007, 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.

11. Share-based payments**11.1 Group share-based compensation plans**

The following share-based compensation plans were in operation during 2006:

Sharesave Scheme (SAYE)

A second sharesave scheme (2006 SAYE) was introduced during the year to supplement the original plan introduced in 2004 (2004 SAYE). Employees may participate in more than one scheme up to the maximum of £250 per month.

Eligible employees who wish to purchase shares in Henderson Group plc contribute a monthly amount to a savings account up to a maximum of £250 after tax per month. At the expiration of 36 months' contribution, the employees in the 2006 SAYE can choose to exercise their share options using the funds in their account, together with a bonus, equivalent to 1.4 (2004 SAYE: 1.7) times the monthly saving amount, to subscribe for shares at a preset price, this being £0.696 (2004 SAYE: £0.416) per share, a 20% discount to the share price on 5 April 2006 (2004 SAYE: 2 April 2004). The 2006 SAYE vests in May 2009 (2004 SAYE: May 2007). 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.

Share Incentive Plan (SIP)

Eligible employees who wish to purchase shares in Henderson Group plc invest a monthly amount up to a maximum of £125, which is deducted from their gross salary. From inception of the plan, each participating employee received, for no additional payment, one free matching share for each share purchased (partnership share). In the months of January 2005 and February 2005 and then from April 2006, to further the aim of increasing employee share ownership, the matching share ratio increased from 1:1 to 2:1. Matching shares will be forfeited if purchased (partnership) shares are withdrawn from the trust within one year.

Long-Term Incentive Plan (LTIP)

Under the LTIP, a number of executives were granted performance shares. There have been three grants, being in 2004, 2005 and 2006. These awards of free shares are granted on condition that the executives remain with the Company for three years and that the Total Shareholder Return (TSR) of the Group (Henderson Group TSR) compares favourably to the median of companies that made up the FTSE 250 Index as at 1 January 2004 for 2004 awards, 1 January 2005 for 2005 awards and 1 January 2006 for the 2006 awards. 35% of the shares will vest if the Henderson Group TSR is at the 50th percentile of the FTSE 250 companies, with the full amount of shares granted vesting if the Henderson Group TSR is at or above the 75th percentile of the FTSE 250 companies. No vesting will occur if the Henderson Group TSR is below the 50th percentile of the FTSE 250 companies. The executives 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.

Following the sale of Towry Law UK, which completed on 3 May 2006, 37% of the remaining element of the initial awards granted to Towry Law employees crystallised and the remaining 63% lapsed.

In accordance with the scheme terms, the remaining part of the 2004 LTIP vested on 31 December 2006 in full and the awards will be paid out on 2 April 2007.

A phantom LTIP scheme has been set up for non-UK resident Henderson executives, which is the same in all respects except that awards will be settled in cash rather than shares.

Notes to the Financial Statements (continued)

11. Share-based payments (continued)

11.1 Group share-based compensation plans (continued)

Restricted Share Plan (RSP)

The Restricted Share Plan is a scheme that allows employees to receive shares in Henderson Group Plc for nil consideration at a future point, usually 3 years. The awards are made typically for staff recruitment and retention purposes. They may or may not contain a performance hurdle, and are expensed evenly over the vesting period. The Remuneration Committee must approve all awards and the vesting of awards. On vesting, in order to obtain the shares the employee must satisfy any tax and national insurance obligations.

Deferred Equity Plan (DEP)

Under the Henderson 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. All non-hedge-fund deferrals are deferred into Henderson Group plc shares. The deferred monies are paid directly to a trustee, who purchases the nominated investments and holds them in trust. The Henderson Group plc shares attract one free matching share for every three shares awarded by the Trustee.

Hedge-fund deferrals are deferred into the hedge fund that provided the performance fee that generated the award. Hedge-fund deferrals are held in trust for two years on a fully restricted basis. Forfeiture conditions apply in the case of approved and unapproved leavers. Deferrals into Henderson Group plc shares are held in trust for a minimum of one year. However, the shares must be held in trust for three years in order to receive the free matching shares. There is no matching element for hedge-fund deferrals.

In March 2004, a number of executives, but not the Executive Directors, were given the opportunity to invest an amount equivalent to their 2003 annual cash bonus into the Company's shares at market price. Each participating executive will receive, for no additional payment, one free share for every three shares held in the plan for a minimum of three years. Forfeiture conditions apply in the case of approved and unapproved leavers.

Employee Share Ownership Plan (ESOP)

In April 2005, the Group launched an Employee Share Ownership Plan managed by the DEP Trustee. This enabled all Henderson UK staff, but not the Executive Directors, to defer part of their post-tax bonus into the plan up to a specified limit. The plan provides one free matching share for every share purchased (awarded by the Trustee). To receive the matching shares, employees must remain in the plan for four years. The plan was offered again in 2006 on exactly the same basis, except that employees must remain in the plan until June 2009. Forfeiture conditions apply in the case of approved and unapproved leavers.

11.2 Share-based payments through the income statement

	Group	
	2006	2005
	£m	£m
Sharesave Scheme	0.5	0.2
SIP	1.4	0.1
LTIP	3.3	1.5
RSP	2.8	2.1
DEP	1.1	2.0
ESOP	2.7	0.4
Total expense	11.8	6.3

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

11. Share-based payments (continued)

11.2 Share-based payments through the income statement (continued)

The total expense has been presented within the consolidated income statement as follows:

	Group	
	2006	2005
	£m	£m
Continuing operations	11.8	6.1
Discontinued operations	-	0.2
Total expense	11.8	6.3

The total expense can be analysed between:

	Notes	Group	
		2006	2005
		£m	£m
Amount which is to be settled with equity	21.1	15.1	6.2
Equity settled performance fee bonuses recognised within 'commissions and fees payable against income'		(5.5)	-
		9.6	6.2
Amount which is to be settled in cash		2.2	0.1
		11.8	6.3

11.3 Share options outstanding – Sharesave Scheme

Share options outstanding under the Group's sharesave compensation plan are as follows:

	2006		2005	
	Options no.	Weighted average exercise price £	Options no.	Weighted average exercise price £
At 1 January	5,627,897	0.416	10,500,505	0.416
Granted	1,622,553	0.632	-	-
Exercised (note 19.2)	(1,275,451)	0.416	(1,465,613)	0.416
Forfeited	(1,005,770)	0.440	(3,406,995)	0.416
At 31 December	4,969,229	0.482	5,627,897	0.416

The weighted average share price on the date options were exercised during 2006 was £0.98 (2005: £0.64).

There are no options exercisable at 31 December 2006 (2005: nil).

The weighted average fair value of options granted during 2006 was £0.24. There were no options granted during 2005.

At 31 December 2006, the weighted average remaining expected and contractual life of outstanding awards was 1.0 year (2005: 1.4 years).

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

11. Share-based payments (continued)

11.4 Fair values of share-based compensation plans

The fair value amounts for the options granted under the Sharesave Scheme were determined using the Black Scholes option-pricing method, using the following assumptions:

	2004 SAYE	2006 SAYE
Dividend yield	nil%	3.5%
Expected volatility	47.4%	45.0%
Risk free interest rate	4.6%	4.25%
Expected life	3 years	3 years
Weighted average share price	£0.475	£0.790
Exercise price	£0.416	£0.632

The Company listed in December 2003 and does not have a sufficient history of price movements for its own volatility calculation to be made. Therefore, volatility has been calculated by taking the average of the volatility of nine of the Company's quoted peers over the preceding three year period. Peers selected were publicly quoted life insurance and fund management companies which were considered to offer suitable coverage in terms of business mix to be a reasonable proxy for volatility for the Company at the time that the options were granted.

Other share schemes involve the grant of shares for £nil consideration. The fair value of these schemes 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 the year	Average price £
SIP	2,698,125	0.89
LTIP	9,263,500	0.83
RSP	2,295,756	0.98
DEP	6,360,000	0.77
ESOP	6,202,934	0.92

The fair value calculation for the LTIP includes a statistical assessment of the likelihood of the Company achieving performance targets set out in the plan. These performance targets are in respect of the Henderson Group TSR over three years and are as follows:

Criteria	Amount vesting
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%

For a Henderson Group TSR between the 50th and 75th percentiles, the amount vesting will increase on a linear basis.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

12. Dividends paid and proposed

	Group and Company			
	2006	2006	2005	2005
	£m	pence per share	£m	pence per share
Dividends declared and paid, on ordinary shares of 10 pence each:				
Final dividend for 2005	16.1	1.39	-	-
Interim dividend for 2006	10.1	0.88	-	-
Total dividends paid	26.2		-	

	£m	pence per share
Dividends proposed but not recognised, on ordinary shares of 10 pence each, for approval by the shareholders at the AGM:		
Final dividend for 2006	20.5	2.27

13. Intangible assets

Intangible assets are made up as follows:

	Group	
	2006	2005
	£m	£m
Goodwill	224.3	224.3

	Notes	Group	
		2006	2005
		£m	£m
Gross amount			
At 1 January		226.4	335.0
Disposal of Pradera AM plc		-	(1.1)
Attributable to assets included in disposal groups held for sale	44.1	-	(107.5)
At 31 December		226.4	226.4
Aggregate impairment			
At 1 January		2.1	86.0
Impairment losses - continuing operations		-	2.1
Attributable to assets included in disposal groups held for sale	44.1	-	(86.0)
At 31 December		2.1	2.1
Carrying value			
At 1 January		224.3	249.0
At 31 December		224.3	224.3

The carrying amount of goodwill arose on acquisition of the following:

	Group	
	2006	2005
	£m	£m
Henderson Global Investors (Holdings) plc	217.5	217.5
Henderson Global Investors (North America) Inc.	6.8	6.8
	224.3	224.3

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

13. Intangible assets (continued)

The Group undertakes a full review of all goodwill balances at least annually. The valuation as at 31 December 2006 is based on the average earnings before interest, tax, depreciation and amortisation (EBITDA) of selected traditional UK asset management companies. The key variable in the market valuation is the Company share price. In order for the recoverable amount to fall below its carrying amount, a substantial decrease in the current market value is required.

The principal carrying amount of goodwill arising from the original purchase of Henderson, allocated to Henderson Global Investors (Holdings) plc, remains unchanged at £217.5m as at the year end. A further £6.8m sits within the Henderson Global Investors group in relation to the purchase of Henderson Global Investors (North America) property business. These balances were assessed at 31 December 2006 and there are no indicators of any impairment.

The loss of a number of institutional client contracts in the US in 2005, prompted an impairment review that determined the need to write off the remaining £2.1m held as goodwill in relation to the US institutional business at 31 December 2005.

14. Fair value of financial instruments

Total financial assets and liabilities

	Notes	Group			
		Fair value		Carrying value	
		2006 £m	2005 £m	2006 £m	2005 £m
Financial assets					
Shares/units in OEICs/unit trusts		0.2	0.5	0.2	0.5
Financial assets at fair value through profit or loss		0.2	0.5	0.2	0.5
Financial liabilities					
Available-for-sale financial assets		112.2	96.7	112.2	96.7
OEIC, unit trust and other trade debtors and derivatives	17	96.4	44.1	96.4	44.1
Cash and cash equivalents	27.2	309.1	487.5	309.1	487.5
Total financial assets		517.9	628.8	517.9	628.8
Current tax liabilities		35.0	27.8	35.0	27.8
Provisions under contractual obligations		13.6	15.1	13.6	15.1
OEIC, unit trust and other trade creditors	23	112.4	75.4	112.4	75.4
Total financial liabilities		161.0	118.3	161.0	118.3

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

14. Fair value of financial instruments (continued)

	Notes	Company			
		Fair value		Carrying value	
		2006 £m	2005 £m	2006 £m	2005 £m
Financial assets					
Current tax assets		18.3	21.7	18.3	21.7
Cash and cash equivalents	27.3	110.1	258.9	110.1	258.9
Total financial assets		128.4	280.6	128.4	280.6
Financial liabilities					
Borrowings	16	970.3	971.9	970.3	971.9
Other trade creditors	23	9.9	16.9	9.9	16.9
Total financial liabilities		980.2	988.8	980.2	988.8

Debtor and creditor balances included in the tables above, comprise mainly current balances and accordingly the fair value of these assets and liabilities is considered to be materially equal to the carrying value after taking into consideration any likely impairments.

15. Financial risk management

Financial risk management objectives and policies for continuing operations

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, 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. As the Group monitors financial risks on a consolidated basis, separate disclosures for the Company are not considered meaningful and 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 to a listed company. The management of risk within the Group is governed by the Board.

15.1 Price risk

Price risk is the risk that a decline in the value of assets adversely impacts on the profitability of the Group, either as a result of an asset not meeting its expected value (which could also create liquidity risk) or through the decline of assets under management generating lower fees. The principal exposures of the Group are in respect of corporate investments held on the balance sheet, and lower management fee revenues that could result from a reduction in asset values. This risk is partially mitigated by asset class diversification.

Corporate investments held on the balance sheet principally comprise shareholdings in Banca Popolare Italiana with a market value as at 31 December 2006 of £81.4m (2005: £62.4m).

The Group also takes on price risk in respect of investments made in various Henderson funds, where seed capital is provided to assist with their growth and development. These seed investments are typically short term in nature (less than a year) and are marked-to-market. It is not usually possible or appropriate to hedge the market exposure of seed investments, as they are typically in place to demonstrate alignment with client interests. The total market value of these investments at 31 December 2006 was £30.1m (2005: £34.3m).

Management monitors exposures to price risk for corporate investments on an ongoing basis. Movements in significant investments are monitored daily and any material change in value (5%) is acted on appropriately. When considering whether to hedge the price risk, management considers the likelihood of an asset devaluing and the costs associated with effecting a hedge against the risk. There were no hedges in place for price risk at the year end.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

15. Financial risk management (continued)

15.1 Price risk (continued)

In the very limited circumstances in which the Group enters into market transactions as principal for a client, caps are placed on the extent of any intra-day and close of business exposures.

15.2 Interest rate risk

Interest rate risk is the risk that the Group will sustain losses from adverse movements in interest bearing assets. The Group does not currently hold any fixed income investments and its fixed rate deposits have maturities of 90 days or less. There is an exposure to interest rates on banking deposits held in the ordinary course of business, which is continually monitored to ensure that the Group is maximising its interest earning potential within accepted liquidity and credit constraints.

15.2.1 Effective interest rates

Effective annual interest rates applicable to financial assets and liabilities are as follows:

	Group	
	2006	2005
	%	%
Financial assets		
Deposits with credit institutions	4.6	4.6

15.2.2 Financial assets and liabilities exposed to fair value and cash flow interest rate risk

At 31 December 2006	Group			Total £m
	Fixed rate £m	Floating rate £m	Not directly exposed to interest rate risk £m	
Financial assets				
Shares/units in OEICs/unit trusts	-	-	0.2	0.2
Available-for-sale financial assets	-	-	112.2	112.2
OEIC, unit trust and other trade debtors and derivatives	-	-	96.4	96.4
Cash and cash equivalents	-	309.1	-	309.1
Total financial assets	-	309.1	208.8	517.9
Financial liabilities				
Current tax liabilities	-	-	35.0	35.0
Provisions under contractual obligations	-	-	13.6	13.6
OEIC, unit trust and other trade creditors	-	-	112.4	112.4
Total financial liabilities	-	-	161.0	161.0

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

15. Financial risk management (continued)

15.2 Interest rate risk (continued)

15.2.2 Financial assets and liabilities exposed to fair value and cash flow interest rate risk (continued)

At 31 December 2005	Group			Total £m
	Fixed rate £m	Floating rate £m	Not directly exposed to interest rate risk £m	
Financial assets				
Shares/units in OEICs/unit trusts	-	-	0.5	0.5
Available-for-sale financial assets	-	-	96.7	96.7
OEIC, unit trust and other trade debtors	-	-	44.1	44.1
Cash and cash equivalents	-	487.5	-	487.5
Total financial assets	-	487.5	141.3	628.8
Financial liabilities				
Current tax liabilities	-	-	27.8	27.8
Provisions under contractual obligations	-	-	15.1	15.1
OEIC, unit trust and other trade creditors	-	-	75.4	75.4
Total financial liabilities	-	-	118.3	118.3

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.

15.3 Liquidity risk

The Group is exposed to liquidity risk, namely that it may be unable to meet its payment obligations as they fall due.

The liquidity of the Group is managed on a daily basis by the Group Finance department, to ensure that the Group always has sufficient cash and/or highly liquid assets available to meet its liabilities. The Group Finance department also monitors and controls 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 18 months.

Dedicated personnel are responsible for external market and liquidity reporting as required by the regulatory authorities.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

15. Financial risk management (continued)

15.3 Liquidity risk (continued)

Contractual maturity and repricing profile by class of financial asset and liability

At 31 December 2006	Group							Total carrying value £m
	1 year or less £m	After 1 year to 2 years £m	After 2 years to 3 years £m	After 3 years to 4 years £m	After 4 years to 5 years £m	Over 5 years £m	No stated maturity £m	
Financial assets								
Shares/units in OEICs/unit trusts	-	-	-	-	-	-	0.2	0.2
Available-for-sale financial assets	-	-	-	-	-	-	112.2	112.2
OEIC, unit trust and other trade debtors	96.4	-	-	-	-	-	-	96.4
Cash and cash equivalents	309.1	-	-	-	-	-	-	309.1
Total financial assets	405.5	-	-	-	-	-	112.4	517.9
Financial liabilities								
Current tax liabilities	35.0	-	-	-	-	-	-	35.0
Provisions under contractual obligations	-	8.0	-	-	-	-	5.6	13.6
OEIC, unit trust and other trade creditors	112.4	-	-	-	-	-	-	112.4
Total financial liabilities	147.4	8.0	-	-	-	-	5.6	161.0

At 31 December 2005	Group							Total carrying value £m
	1 year or less £m	After 1 year to 2 years £m	After 2 years to 3 years £m	After 3 years to 4 years £m	After 4 years to 5 years £m	Over 5 years £m	No stated maturity £m	
Financial assets								
Shares/units in OEICs/unit trusts	-	-	-	-	-	-	0.5	0.5
Available-for-sale financial assets	-	-	-	-	-	-	96.7	96.7
OEIC, unit trust and other trade debtors	44.1	-	-	-	-	-	-	44.1
Cash and cash equivalents	487.5	-	-	-	-	-	-	487.5
Total financial assets	531.6	-	-	-	-	-	97.2	628.8
Financial liabilities								
Current tax liabilities	27.8	-	-	-	-	-	-	27.8
Provisions under contractual obligations	-	-	8.0	-	-	-	7.1	15.1
OEIC, unit trust and other trade creditors	75.4	-	-	-	-	-	-	75.4
Total financial liabilities	103.2	-	8.0	-	-	-	7.1	118.3

Notes to the Financial Statements (continued)

15. Financial risk management (continued)

15.4 Foreign currency risk

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

The Group's business is impacted through its exposure to non-sterling income and expenses and assets and liabilities of non-UK subsidiaries as well as assets and liabilities denominated in currency other than sterling. The currency exposure is managed by limiting the Group's net exposure to individual foreign currencies to pre-determined limits through forward currency contracts. The Group also uses foreign currency contracts to eliminate the currency exposure on certain individual transactions. In addition, the Group carries a small foreign exchange position as principal to facilitate the smooth conduct of its client business.

A rolling programme of forward currency contracts has been implemented to hedge the currency exposures arising from investments in Banca Popolare Italiana and the Henderson North American Property Fund, with year end market values of €120.8m and US\$29.0m respectively (see note 15.6 Hedging activities).

Foreign currency risk is monitored by Group Finance (incorporating Treasury operations), whereby foreign currency balances are monitored closely and, where cost-effective, hedging options are considered. Firstly, the Group seeks to use natural hedges, namely other financial assets and liabilities of opposite value denominated in the same currency. Where there is a mismatch, material currency flows which are reasonably certain are hedged. Where there is insufficient certainty the currency is translated back into sterling on receipt.

15.5 Credit risk

The Group has an established credit policy, to ensure that it only trades with counterparties that are able to meet strict minimum rating requirements at levels that are consistent with its agreed risk appetite. Counterparty limits are reviewed and set centrally by the Credit Risk Committee. Local management are responsible for ensuring that they remain within these limits and Risk Management Services monitor and report any exceptions to these guidelines.

The risk management function is responsible for reporting exposures to the Audit Committee on a quarterly basis and for ensuring that any credit concerns are raised and actions taken to mitigate these risks.

At 31 December 2006	Group							Total
	AAA	AA	A	BBB	BB	B	Not rated	
Financial assets	£m	£m	£m	£m	£m	£m	£m	£m
Shares/units in OEICs/unit trusts	-	-	-	-	-	-	0.2	0.2
Available-for-sale financial assets	-	-	-	-	-	-	112.2	112.2
OEIC, unit trust, trade debtors and derivatives	-	-	-	-	-	-	96.4	96.4
Cash and cash equivalents	82.9	182.9	43.0	0.3	-	-	-	309.1
Total financial assets	82.9	182.9	43.0	0.3	-	-	208.8	517.9

At 31 December 2005	Group							Total
	AAA	AA	A	BBB	BB	B	Not rated	
Financial assets	£m	£m	£m	£m	£m	£m	£m	£m
Shares/units in OEICs/unit trusts	-	-	-	-	-	-	0.5	0.5
Available-for-sale financial assets	-	-	-	-	-	-	96.7	96.7
OEIC, unit trust and other trade debtors	-	-	-	-	-	-	44.1	44.1
Cash and cash equivalents	53.7	348.4	84.4	1.0	-	-	-	487.5
Total financial assets	53.7	348.4	84.4	1.0	-	-	141.3	628.8

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

15. Financial risk management (continued)

15.6 Hedging activities

At 31 December 2006, the Group held two forward exchange contracts to hedge the foreign currency risk arising from the investment in Euro and US dollar denominated shareholdings described in note 15.4 Foreign currency risk.

The forward exchange contracts have been assessed as effective fair value hedges and the net realised/unrealised gain for the year of £1.2m has been included in the consolidated income statement. An equivalent amount of £1.2m, being the portion of the unrealised foreign exchange loss on available-for-sale investments relating to the hedge, has been transferred from the translation reserve on the balance sheet to the consolidated income statement (see note 20.1 Reserves - Group).

	Group					
	2006			2005		
	Notional amount £m	Assets £m	Liabilities £m	Notional amount £m	Assets £m	Liabilities £m
Fair value hedges						
Forward exchange contracts at fair value	58.9	0.2	-	45.0	0.3	-

16. Borrowings

Company

	2006 £m	2005 £m
Loans from subsidiaries - due within one year	970.3	971.9

Of the borrowings of £970.3m (2005: £971.9m) shown above, £963.7m (2005: £963.7m) is charged at a floating rate linked to LIBOR (3 to 6 months) and £6.6m (2005: £8.2m) is interest free. The borrowings are all repayable on demand.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

17. Trade and other receivables

	Group		Company	
	2006	2005	2006	2005
	£m	£m	£m	£m
Amounts owed from subsidiaries	-	-	223.2	11.9
OEIC and unit trust debtors	82.2	22.9	-	-
Derivative financial instruments	0.2	-	-	-
Accrued income	54.8	44.8	0.4	1.7
Other trade debtors	14.0	21.2	-	0.2
Prepayments	5.2	6.8	-	-
	156.4	95.7	223.6	13.8

18. Plant and equipment

	Group	
	2006	2005
	£m	£m
Cost		
At 1 January	39.9	38.3
Additions	1.1	2.1
Disposals	(0.6)	(0.5)
At 31 December	40.4	39.9
Depreciation		
At 1 January	31.6	28.6
Charge for the year	2.8	3.0
Disposals	(0.6)	-
At 31 December	33.8	31.6
Net book value at 31 December	6.6	8.3

Included in cost as at 31 December 2006 are fully depreciated assets amounting to £24.3m.

Notes to the Financial Statements (continued)

19. Share capital

19.1 Share capital authorised

	Group and Company	
	2006	2005
	£m	£m
2,437,388,471 (2005: 2,691,596,579) ordinary shares of 10 pence each	243.7	269.2

19.2 Share capital allotted

Allotted, called up and fully paid equity shares:

	Group and Company	
	10 pence ordinary shares	
	no.	£m
Shares in issue at 1 January 2005	2,710,562,634	271.1
Capital reduction	(1,558,403,466)	(155.8)
Issue of shares for Sharesave Scheme	1,465,613	0.1
Issue of shares for SIP	888,436	0.1
Other shares issued in the year	86	-
Shares in issue at 31 December 2005	1,154,513,303	115.5
Capital reduction	(254,208,108)	(25.4)
Issue of shares for Sharesave Scheme	1,275,451	0.1
Issue of shares for SIP	424,094	-
Other shares issued in the year	91	-
Shares in issue at 31 December 2006	902,004,831	90.2

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

UK Court approval was received on 4 October 2006 for the cancellation of shares and reduction of the share premium reserve. Under this transaction, £198,282,324 was returned to shareholders in exchange for the cancellation of 254,208,108 shares. The return of cash reduced the share capital by £25.4m and the share premium reserve by £172.9m.

Following the disposal of the Life Services business, £870.5m was returned to shareholders on 6 May 2005, in exchange for the cancellation of 1,558,403,466 shares. This return of cash reduced share capital by £155.8m and the share premium reserve by £714.7m.

During 2006, the Company issued 1,275,451 (2005: 1,465,613) shares of 10 pence each to certain employees leaving the Group under the Sharesave Scheme (see note 11 Share-based payments) for an aggregate consideration of £531,192 (2005: £609,695). During 2006, the Company also issued 424,094 (2005: 888,436) shares of 10 pence each to the employee benefit trust administering the SIP (see note 11 Share-based payments) for an aggregate consideration of £355,402 (2005: £561,522).

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

20. Reserves

20.1 Group

	Share premium £m	Treasury shares £m	Own shares held £m	Translation £m	Revaluation £m	Profit and loss £m	Minority interests £m
At 1 January 2005	1,080.9	-	(4.0)	(1.9)	(1.9)	130.8	417.3
Exchange differences on translation of foreign operations	-	-	-	(1.5)	-	-	-
Purchase of own shares	-	-	(6.3)	-	-	-	-
Return of cash to shareholders	(634.4)	-	-	-	-	-	-
Reduction in investor base	(80.3)	-	-	-	-	-	-
Issue of shares for Sharesave Scheme	0.5	-	-	-	-	-	-
Issue of shares for SIP	0.5	-	-	-	-	(0.6)	-
Transfer of reserve	-	-	6.2	-	-	(6.2)	-
Movement in equity-settled share scheme expenses	-	-	-	-	-	6.2	-
Net profit/(loss) after tax	-	-	-	-	-	51.2	(3.5)
Dividends paid to minority interests	-	-	-	-	-	-	(3.7)
Revaluation reserve transfer on sale of available-for-sale investments	-	-	-	-	3.4	-	-
Losses on revaluation of available-for-sale financial assets	-	-	-	-	(4.5)	-	-
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	(10.8)	-
Tax on items taken directly to equity	-	-	-	-	-	4.4	-
Other movements	-	-	-	-	-	(0.1)	-
Disposal of discontinued operations	-	-	-	-	-	-	(410.1)
At 31 December 2005	367.2	-	(4.1)	(3.4)	(3.0)	174.9	-
Exchange differences on translation of foreign operations	-	-	-	(0.6)	-	-	-
Translation reserve transfer on sale of available-for-sale financial assets	-	-	-	0.4	-	-	-
Purchase of own shares	-	(2.4)	(28.8)	-	-	-	-
Return of cash to shareholders	(174.2)	0.5	-	-	-	-	-
Issue of shares for Sharesave Scheme	0.4	-	-	-	-	-	-
Issue of shares for SIP	0.3	-	-	-	-	(0.3)	-
Transfer of reserve	-	-	3.0	-	-	(3.0)	-
Movement in equity-settled share scheme expenses	-	-	-	-	-	15.1	-
Net profit after tax	-	-	-	-	-	61.1	0.1
Dividends paid to equity holders	-	-	-	-	-	(26.2)	-
(Losses)/gains on revaluation of available-for-sale financial assets	-	-	-	(2.4)	32.9	-	-
Translation reserve transfer relating to effectively hedged exchange losses	-	-	-	1.2	-	-	-
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	(4.7)	-
Tax on items taken directly to equity	-	-	-	-	-	1.4	-
Other movements	-	-	-	-	-	0.3	-
At 31 December 2006	193.7	(1.9)	(29.9)	(4.8)	29.9	218.6	0.1

Notes to the Financial Statements (continued)**20. Reserves (continued)****20.1 Group (continued)**

Share premium reserve records the difference between the nominal value of shares issued and the full value of the consideration received. The use of this reserve is governed by the Companies Act 1985. The deduction for return of cash to shareholders in the current year comprises the difference between the agreed cancellation price of 78 pence per share and the nominal share value of 10 pence per share, and includes £1.3m of related costs (see note 19 Share capital).

Treasury shares represent shares purchased to satisfy future vesting requirements of various staff share-based payment schemes. During the year, 3,041,537 shares were purchased for a consideration of £2.4m.

Own shares held reserve includes 24,822,098 (2005: 6,628,423) shares owned by Henderson Group plc Employee Trust 2000 and 7,345,370 (2005: nil) shares owned by HHG PLC Employee Trust 2004 at 31 December 2006. The combined shareholdings had a cost of £29.9m (2005: £4.1m) and a market value of £44.4m (2005: £4.9m) as at 31 December 2006 and constituted 3.6% (2005: 0.6%) of the Company's allotted share capital as at that date.

The HHG PLC Employee Trust 2004, SIP and Henderson Employee Share Trust 2000 are used by the Group to operate the LTIP, SIP and DEP share-based payment schemes respectively. Shares are distributed to employees as and when they vest, in line with the terms of each scheme, under the administration of Computershare Trustees Limited, Towers Perrin Share Plan Services Limited and Ogier Trustees Limited (Jersey) respectively, who act as trustees.

Following the vesting of shares under the share-based compensation plans, a transfer is made between the own shares held reserve and the profit and loss reserve. During the year, the costs of equity-settled share scheme expenses were expensed with a corresponding increase in equity through the profit and loss reserve. This treatment is consistent in both the Group and the Company accounts.

The translation reserve comprises differences on exchange arising from the translation of opening balance sheets of subsidiaries whose reporting currency is not pounds sterling, and the differences between 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.

The revaluation reserve comprises the amount of any gain or loss recognised directly in equity in relation to available-for-sale financial assets. Upon disposal of these assets, amounts previously recognised in the translation or revaluation reserves are reversed out and the full amount of the gain or loss is taken to the profit and loss account.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

20. Reserves (continued)

20.2 Company

	Share premium £m	Treasury shares £m	Own shares held £m	Profit and loss reserve £m
At 1 January 2005	1,080.9	-	(2.3)	328.1
Issue of shares for Sharesave Scheme	0.5	-	-	-
Issue of shares for SIP	0.5	-	-	(0.6)
Return of cash to shareholders	(634.4)	-	-	-
Reduction in investor base	(80.3)	-	-	-
Purchase of own shares	-	-	(6.3)	-
Transfer of reserve	-	-	8.6	(8.6)
Movement in equity-settled share scheme expenses	-	-	-	6.8
Net profit attributable to equity shareholders	-	-	-	6.4
At 31 December 2005	367.2	-	-	332.1
Purchase of own shares	-	(2.4)	(28.8)	-
Transfer of own shares from subsidiary company	-	-	(4.1)	1.5
Return of cash to shareholders	(174.2)	0.5	-	-
Issue of shares for Sharesave Scheme	0.4	-	-	-
Issue of shares for SIP	0.3	-	-	(0.3)
Transfer of shares	-	-	3.0	(3.0)
Movement in equity-settled share scheme expenses	-	-	-	15.1
Net profit attributable to equity shareholders	-	-	-	100.7
Dividends paid to equity holders	-	-	-	(26.2)
Actuarial losses on defined benefit pension schemes	-	-	-	(7.6)
Tax on items taken directly to equity	-	-	-	2.3
At 31 December 2006	193.7	(1.9)	(29.9)	414.6

Own shares held reserve of the Company includes 24,822,098 (2005: nil) shares owned by Henderson Group plc Employee Trust 2000 and 7,345,370 (2005: nil) shares owned by HHG PLC Employee Trust 2004 at 31 December 2006. In 2005, these were held by another subsidiary, but were transferred to the Company in 2006. The combined shareholdings had a cost of £29.9m (2005: nil) and a market value of £44.4m (2005: nil) as at 31 December 2006 and constituted 3.6% (2005: nil) of the Company's allotted share capital as at that date.

Prior to 31 December 2006, the retirement benefit obligation relating to the Henderson Group Pension Scheme was transferred to the Company, from Henderson Administration Limited, as detailed in note 28.1 Henderson Group Pension Scheme. The actuarial loss in the Company's statement of recognised income and expense of £7.6m reflects movements in the Scheme obligation subsequent to its transfer date.

21. Reconciliation of movement in equity

21.1 Group

	2006 £m	2005 £m
Equity at 1 January	647.1	1,892.3
Total recognised income and expense attributable to equity holders of the parent	89.3	42.2
Dividends paid to equity holders	(26.2)	-
Return of cash to shareholders	(199.6)	(775.3)
Reduction in investor base	-	(95.2)
Purchase of own shares	(28.8)	(6.3)
Purchase of treasury shares	(1.9)	-
Issue of shares for the Sharesave Scheme	0.5	0.6
Movement in equity-settled share scheme expenses	15.1	6.2
Other movements	0.3	(0.1)
Movement in minority interests	0.1	(417.3)
Equity at 31 December	495.9	647.1

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

21. Reconciliation of movement in equity (continued)

21.2 Company

	2006 £m	2005 £m
Equity at 1 January	814.8	1,677.8
Total recognised income and expense	95.4	6.4
Dividends paid to equity holders	(26.2)	-
Return of cash to shareholders	(199.6)	(775.3)
Reduction in investor base	-	(95.2)
Movement in equity-settled share scheme expenses	15.1	6.8
Purchase of own shares	(28.8)	(6.3)
Purchase of treasury shares	(1.9)	-
Transfer of own shares from a subsidiary company	(2.6)	-
Issue of shares for the Sharesave Scheme	0.5	0.6
Equity at 31 December	666.7	814.8

22. Deferred taxation

Deferred tax assets and liabilities are attributable to the following items:

Group

Deferred tax assets	Accelerated (profit)/loss recognition £m	Provisions £m	Accelerated depreciation £m	Total £m
At 1 January 2005	0.9	5.9	3.3	10.1
Credited/(charged) to the consolidated income statement	(0.9)	1.5	(2.3)	(1.7)
Credited to equity through the SORIE	-	4.4	-	4.4
At 31 December 2005	-	11.8	1.0	12.8
Charged to the consolidated income statement	-	(0.8)	(0.2)	(1.0)
Credited to equity through the SORIE	-	1.4	-	1.4
At 31 December 2006	-	12.4	0.8	13.2

Deferred tax liabilities	Accelerated profit recognition £m
At 1 January 2005	7.9
(Credited) to the consolidated income statement	(7.9)
At 31 December 2005 and 31 December 2006	-

Net deferred tax asset at 31 December 2005	12.8
Net deferred tax asset at 31 December 2006	13.2

Company

Deferred tax assets	Provisions £m
At 1 January 2006	-
Credited to equity through the SORIE	2.3
At 31 December 2006	2.3

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

22. Deferred taxation (continued)

Deferred tax receivables to be recovered:

	Group £m	Company £m
At 31 December 2006		
Amounts to be recovered in less than 12 months	3.9	-
Amounts to be recovered in more than 12 months	9.3	2.3
	13.2	2.3
At 31 December 2005		
Amounts to be recovered in less than 12 months	0.9	-
Amounts to be recovered in more than 12 months	11.9	-
	12.8	-

Deferred tax assets are recognised only to the extent that the realisation of the related tax benefit is probable.

Group

Deferred tax assets of £10m (2005: £13m) in respect of trading losses and £6m (2005: £13m) in respect of provisions and other timing differences have not been recognised. These tax losses have no statutory expiry dates.

The unprovided deferred tax liability in respect of unremitted profits of foreign subsidiaries amounted to £nil (2005: £8m).

Company

Deferred tax assets of £6m (2005: £6m) in respect of trading losses and £4m (2005: £5m) in respect of capital losses have not been recognised. These tax losses have no statutory expiry dates.

23. Trade and other payables

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Amounts owed to subsidiaries	-	-	1,141.4	1,133.7
OEIC and unit trust creditors	82.7	39.7	-	-
Other creditors	29.7	35.7	9.9	16.9
Accruals	119.7	88.5	7.9	1.2
	232.1	163.9	1,159.2	1,151.8

At 31 December 2006 and 31 December 2005, all Group and Company trade and other payables related to amounts to be settled within 12 months.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

24. Provisions

24.1 Group

	Restructure £m	Leasehold properties £m	Product mis- selling £m	Staff related £m	Other £m	Total £m
At 1 January 2005	11.4	17.4	48.4	3.8	10.3	91.3
Additions	4.5	0.2	1.4	0.1	7.7	13.9
Provisions utilised	(11.0)	(6.6)	(9.4)	-	(1.7)	(28.7)
Provisions released	(0.3)	-	-	(3.1)	(2.5)	(5.9)
Attributable to liabilities included in disposal groups held for sale	-	(3.8)	(0.1)	-	(0.2)	(4.1)
At 31 December 2005	4.6	7.2	40.3	0.8	13.6	66.5
Additions	6.1	2.6	1.4	-	3.6	13.7
Provisions utilised	(3.9)	(3.1)	(25.7)	-	(1.1)	(33.8)
Provisions released	(0.3)	(1.1)	-	-	(2.7)	(4.1)
At 31 December 2006	6.5	5.6	16.0	0.8	13.4	42.3

The restructure provision additions of £6.1m is in respect of specific redundancy and other related costs of the business restructure that took place in November 2006. It is expected that most of the provision will be utilised in 2007. The prior year additional restructure provision of £4.5m, which was included within the results of discontinued operations, comprised the closure of Towry Law International and was substantially utilised in 2006.

The leasehold properties provision was made for the excess of lease rentals and other payments on properties that are currently vacant, or expected to become vacant, over the amounts to be recovered from subletting these properties. The current year additions of £2.6m, include £1.7m in respect of the business restructure in November 2006. The balance is expected to be utilised over the next five years.

The product mis-selling provision includes a provision of £14.9m (2005: £39.6m) relating to possible claims arising from alleged inappropriate advice given to certain Towry Law International customers. The matters relating to this provision are expected to be settled within the next four years. Further information is disclosed in note 33 Contingent liabilities.

The staff-related provision includes £0.7m (2005: £0.7m) for long-term staff benefits, expected to be paid over the next ten years.

Other provisions include £8.0m (2005: £8.0m) for obligations under various sale contracts which are expected to crystallise within the next two years. A further £2.2m (2005: £nil) represents potential VAT rebates to certain investment trust clients, subject to the outcome of an industry test case in the European Court of Justice.

24.2 Company

	Restructure £m	Product mis-selling £m	Other £m	Total £m
At 1 January 2005	2.5	35.0	1.2	38.7
Additions	-	5.0	0.2	5.2
Provisions utilised	(2.5)	-	(0.1)	(2.6)
Provisions released/transferred	-	(25.0)	(1.1)	(26.1)
At 31 December 2005	-	15.0	0.2	15.2
Provisions utilised	-	(0.1)	(0.2)	(0.3)
At 31 December 2006	-	14.9	-	14.9

The provisions set out in respect of the Company form part of the analysis of the Group provisions referred to above.

Notes to the Financial Statements (continued)**25. Leases****Operating leases**

The Group has entered into certain property leases. The leases have no escalation clauses or renewal or purchase options and no restrictions imposed on them.

The obligations under these non-cancellable operating leases fall due as follows:

	2006	2005
	£m	£m
Within one year	9.8	12.4
In the second to fifth years inclusive	33.6	37.2
In more than five years	-	8.4
Total	<u>43.4</u>	<u>58.0</u>

The total future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date were £1.1m (2005: £3.8m).

Contingent rent recognised as an expense during the year was £nil (2005: £nil).

There are no operating leases held by the Company (2005: nil).

26. Capital commitments

The Group and Company have no capital commitments for settlement after 31 December 2006 (2005: £nil).

Notes to the Financial Statements (continued)

27. Notes to the cash flow statement

27.1 Group changes in operating assets and liabilities

	2006 £m	2005 £m
Decrease in insurance liabilities	-	(416.6)
Decrease in reinsurance assets	-	2.2
Decrease in investment contract liabilities	-	(11.8)
Decrease in other intangible assets	-	4.5
Decrease in holdings in OEICs/unit trusts	0.3	-
Increase in deferred acquisition costs	(19.5)	(19.4)
(Increase)/decrease in other assets	(60.7)	88.4
Increase in net assets of discontinued operations up to date of sale	(0.3)	-
Increase in deferred income	23.6	-
Increase/(decrease) in provisions and other liabilities	44.2	(87.0)
Changes in operating assets and liabilities	(12.4)	(439.7)

27.2 Group cash and cash equivalents

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 as at 31 December 2006, is 19.1m (2005: £28.8m) held in escrow which is not immediately available for use in the business.

Cash and cash equivalents included in the Group cash flow statement comprise the following balance sheet amounts:

	2006 £m	2005 £m
Cash at bank and in hand	186.7	154.2
Cash equivalents	122.4	342.3
	<u>309.1</u>	<u>496.5</u>

Which are recognised in the consolidated balance sheet as:

	Notes	2006 £m	2005 £m
Cash and cash equivalents		309.1	487.5
Assets included in disposal groups held for sale	35.3	-	9.0
		<u>309.1</u>	<u>496.5</u>

27.3 Company cash and cash equivalents

Cash and cash equivalents included in the Company cash flow statement comprise the following balance sheet amounts:

	2006 £m	2005 £m
Cash at bank and in hand	48.1	22.3
Cash equivalents	62.0	236.6
	<u>110.1</u>	<u>258.9</u>

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

28. Retirement benefit obligations

Retirement benefit obligations recognised in the consolidated balance sheet

	Notes	Group		Company	
		2006 £m	2005 £m	2006 £m	2005 £m
Henderson Group Pension Scheme	28.1	5.0	40.1	5.0	-
Henderson Group unapproved pension schemes	28.2	5.4	5.5	-	-
		10.4	45.6	5.0	-

Pension expense recognised in the consolidated income statement

	Notes	Group		Company	
		2006 £m	2005 £m	2006 £m	2005 £m
Henderson Group Pension Scheme	28.1	3.9	5.8	-	-
Henderson Group unapproved pension schemes	28.2	0.6	0.9	-	-
Money Purchase Scheme		4.4	4.8	-	-
		8.9	11.5	-	-

Amounts recognised in the consolidated statement of recognised income and expense

	Notes	Group		Company	
		2006 £m	2005 £m	2006 £m	2005 £m
Henderson Group Pension Scheme	28.1	5.2	12.7	7.6	-
Henderson Group unapproved pension schemes	28.2	(0.5)	(1.9)	-	-
Actuarial loss recognised in the SORIE		4.7	10.8	7.6	-

28.1 Henderson Group Pension Scheme

As at 31 December 2006, the Group operated one approved pension scheme, the Henderson Group Pension Scheme (Scheme), for its employees. The Scheme is funded by payment of contributions to a separately administered trust fund. The Scheme's appointed investment managers are Henderson Global Investors Limited, Fidelity Investments Life Assurance Limited, Legal & General Assurance and Standard Life Investments Limited. The Scheme is subject to regular valuations by an independent qualified actuary, Watson Wyatt LLP.

As a consequence of the sale of the Life Services business in 2005, the Scheme received a past service cost transfer of £241.2m in April 2005 from the HHG Staff Pension Scheme. The liabilities transferred mirrored those accrued under the HHG Staff Pension Scheme and the transfer was carried out on the basis of a valuation as at the date of agreement to sell the Life Services business.

The assumptions used for the 2006 IAS 19 disclosures have been based on the full valuation of the Henderson Group Pension Scheme at 31 December 2005 (assumptions used for the 2005 disclosures were based on the HHG Staff Pension Scheme actuarial valuation at 31 December 2003), updated by Watson Wyatt LLP in order to assess the assets and liabilities of the Scheme at 31 December 2006 and 31 December 2005 respectively. The Scheme assets are stated at their fair value at 31 December 2006 and 31 December 2005.

Prior to 31 December 2006, the Scheme's Statement of Funding Principles was renewed with Henderson Group plc (previously sponsored by Henderson Administration Limited). As at that date the Scheme's net assets of £2.6m were transferred from Henderson Administration Limited to Henderson Group plc and the net liability as at 31 December 2006 of £5.0m reflected in the Company balance sheet is in line with the Group position. The actuarial loss in the Company's statement of recognised income and expense of £7.6m reflects movements in the Scheme obligation subsequent to its transfer date.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

28. Retirement benefit obligations (continued)

28.1 Henderson Group Pension Scheme (continued)

Reconciliation of present value of defined benefit obligations

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	296.2	1,851.0	-	-
Present value attributable to disposal groups	-	(1,601.2)	-	-
Current service cost	5.9	6.5	-	-
Interest cost	13.8	13.1	-	-
Employee contributions	0.1	0.1	-	-
Past service cost	0.3	0.3	-	-
Defined benefit obligation transferred from subsidiary	-	-	302.0	-
Actuarial loss	1.5	31.6	9.8	-
Actual benefit payments	(6.0)	(5.2)	-	-
At 31 December	311.8	296.2	311.8	-

Reconciliation of the fair value of defined benefit scheme assets

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	256.1	1,785.0	-	-
Fair value of Scheme assets attributable to disposal groups	-	(1,562.2)	-	-
Expected return on Scheme assets	16.1	14.1	-	-
Defined benefit scheme assets transferred from subsidiary	-	-	304.6	-
Actuarial (loss)/gain	(3.7)	18.9	2.2	-
Company contributions	44.2	5.4	-	-
Employee contributions	0.1	0.1	-	-
Benefits paid from Scheme	(6.0)	(5.2)	-	-
At 31 December	306.8	256.1	306.8	-

The Group contributions of £44.2m include a special contribution of £40.0m paid to the Scheme to reduce the defined benefit liability.

Reconciliation of defined benefit liability

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Present value of defined benefit obligation	311.8	296.2	311.8	-
Fair value of Scheme assets	(306.8)	(256.1)	(306.8)	-
Net liability at 31 December	5.0	40.1	5.0	-

Pension expense recognised in the consolidated income statement

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Current service cost – final salary	5.9	6.5	-	-
Interest cost	13.8	13.1	-	-
Expected return on Scheme assets	(16.1)	(14.1)	-	-
Past service cost	0.3	0.3	-	-
Total pension expense – defined benefit scheme	3.9	5.8	-	-

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

28. Retirement benefit obligations (continued)

28.1 Henderson Group Pension Scheme (continued)

Amounts recognised in the consolidated statement of recognised income and expense (SORIE)

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	16.5	24.0	-	-
Attributable to disposal groups	-	(20.2)	-	-
Actuarial loss recognised in the SORIE	5.2	12.7	7.6	-
At 31 December	21.7	16.5	7.6	-

Movements in net liability recognised in the consolidated balance sheet

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	40.1	66.0	-	-
Net liability attributable to disposal groups	-	(39.0)	-	-
Expense recognised in the consolidated income statement	3.9	5.8	-	-
Contributions paid	(44.2)	(5.4)	-	-
Net retirement benefit asset transferred from subsidiary	-	-	(2.6)	-
Actuarial loss recognised in the SORIE	5.2	12.7	7.6	-
At 31 December	5.0	40.1	5.0	-

The sale of Towry Law UK was completed on 3 May 2006. As a result of the sale, active members of Towry Law UK have been treated as having left service as at that date and are included as deferred pensioners.

Scheme assets

The major categories of assets in the final salary section of the Scheme as a percentage of total assets in the final salary section of the Scheme were as follows:

	Group and Company	
	2006 %	2005 %
Equities	47	54
Bonds	39	43
Cash	14	3
Total	100	100

Fair value of the Scheme assets – final salary section

	Group and Company			
	Market value		Expected rate of return	
	2006 £m	2005 £m	2006 %	2005 %
Final salary section				
Equities	145.7	138.9	8.2	8.1
Bonds	117.7	109.3	4.6	4.3
Cash	43.4	7.9	5.0	3.7
Total	306.8	256.1	6.4	6.3

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

The overall expected return on assets assumption is derived from the weighted average of the expected returns from each of the main asset classes. The expected return on assets is based on long-term expectations as at 31 December 2006. The expected return on bonds has been set by reference to market redemption yields as at the measurement date. The returns for the equity and cash asset classes have been based on the Group's realistic expectations of investment returns over the longer term.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)-

28. Retirement benefit obligations (continued)

28.1 Henderson Group Pension Scheme (continued)

Actual return on Scheme assets

	Group	
	2006	2005
	£m	£m
Actual return on Scheme assets	12.4	33.0

Principal actuarial assumptions

(a) Financial assumptions

	Group and Company	
	2006	2005
	% per annum	% per annum
Discount rate	5.1	4.7
Expected rate of return on Scheme assets	6.4	6.3
Salary increases	4.6	4.4
Pension increases:		
- where guarantee is Retail Price Indexation (RPI) capped at 5% per annum	3.1	n/a
- where guarantee is Retail Price Indexation (RPI) capped at 2.5% per annum	2.5	n/a
- where guarantee is Limited Price Indexation (LPI)	n/a	2.9
- where guarantee is fixed	At fixed rate	At fixed rate
Inflation	3.1	2.9

(b) Demographic assumptions

The demographic assumptions used are those underlying the formal actuarial valuation of the Scheme as at 31 December 2005. Post-retirement mortality was assumed to follow the standard tables PMA/PFA92 (C = 2020) with an allowance for future mortality improvements in line with "medium cohort" effects. The table below demonstrates the changes in implied life expectancies as at 31 December 2005 using the afore-mentioned mortality tables:

	Group and Company	
	Male No. of years	Female No. of years
Life expectancy for a member who is currently 60	26.5	29.5
Life expectancy at 60 for a member who is currently 45	27.5	30.5

(c) Historical amounts

	Group and Company			Group	
	2006	2006	2006	2005	2004
	Central £m	Higher discount rate £m	Lower inflation £m	£m	£m
Defined benefit obligation	(311.8)	(305.0)	(308.6)	(296.2)	(249.8)
Scheme assets	306.8	306.8	306.8	256.1	222.8
Surplus/(deficit) in the plan	(5.0)	1.8	(1.8)	(40.1)	(27.0)
For period to balance sheet:					
Experience gain/(loss) on Scheme liabilities	8.5	8.5	8.5	(31.6)	(10.7)
Experience gain/(loss) on Scheme assets	(3.7)	(3.7)	(3.7)	18.9	6.9

Employer contributions

The Group expects to contribute £28m to the Scheme for the year to 31 December 2007, comprising £24m as a special contribution and £4m in respect of regular contributions.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

28. Retirement benefit obligations (continued)

28.2 Henderson Group unapproved pension schemes

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

The Pearl Executive Scheme. Members of this scheme are also members of the Henderson Group Pension Scheme. However, pensionable earnings under the Henderson Group 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 Henderson Group Pension Scheme. However, pensionable earnings under the Henderson Group Pension Scheme are limited to the earnings cap, and the Henderson Top Up Scheme enables benefits to be based on pensionable earnings without restriction by the earnings cap. These additional uncapped benefits are generally provided for on an unfunded basis. However, some members of the Henderson Top Up Scheme also have benefits within a separately administered trust fund (the Henderson Pension Trust), which is a funded arrangement.

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

Reconciliation of present value of defined benefit obligations

	Group	
	2006 £m	2005 £m
At 1 January	5.7	16.6
Current service cost	0.3	0.5
Interest cost	0.2	0.4
Actuarial gain	(0.5)	(1.8)
Actual benefit payments	(0.2)	(0.8)
Arising on disposal of the Life Services business	-	(1.8)
Arising on the disposal of Homann Chilled Food GmbH	-	(7.4)
At 31 December	5.5	5.7

Homann Chilled Food GmbH relates to a Life Services investment, which was consolidated into the Group balance sheet at 31 December 2004. It is no longer associated with the Group following the sale of Life Services and its pension scheme is unrelated to the Henderson schemes.

The defined benefit obligations at 31 December are split as follows:

	Group	
	2006 £m	2005 £m
Pearl Executive Scheme (wholly unfunded)	4.0	4.0
Henderson Top Up Scheme (partly funded)	1.2	1.4
Individual contractual promise (wholly unfunded)	0.3	0.3
Total	5.5	5.7

Reconciliation of the fair value of defined benefit scheme assets

	Group	
	2006 £m	2005 £m
At 1 January	0.2	0.5
Actual benefit payments	(0.1)	(0.4)
Actuarial gain	-	0.1
At 31 December	0.1	0.2

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

28. Retirement benefit obligations (continued)

28.2 Henderson Group unapproved pension schemes (continued)

Reconciliation of defined benefit liability

	Group	
	2006 £m	2005 £m
Present value of defined benefit obligation	5.5	5.7
Fair value of scheme assets	(0.1)	(0.2)
Net liability	5.4	5.5

Pension expense recognised in the consolidated income statement

	Group	
	2006 £m	2005 £m
Current service cost	0.3	0.5
Interest cost	0.3	0.4
Total pension expense	0.6	0.9

Amounts recognised in the consolidated statement of recognised income and expense (SORIE)

	Group	
	2006 £m	2005 £m
At 1 January	(0.6)	1.3
Actuarial gain	(0.5)	(1.9)
At 31 December	(1.1)	(0.6)

Movements in net liability recognised in the consolidated balance sheet

	Group	
	2006 £m	2005 £m
At 1 January	5.5	16.1
Net liability attributable to Life Services' members	-	(1.8)
Arising on disposal of Homann Chilled Food GmbH	-	(7.4)
Net liability attributable to the continuing business	5.5	6.9
Expense recognised in the consolidated income statement	0.6	0.9
Actual benefit payments	(0.2)	(0.4)
Actuarial gain recognised in the SORIE	(0.5)	(1.9)
At 31 December	5.4	5.5

Following the sale of the Life Services business on 13 April 2005, the pension scheme deficit relating to that business, which had been reported within liabilities included in disposal groups held for sale as at 31 December 2004, has been transferred out of the consolidated balance sheet.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

28. Retirement benefit obligations (continued)

28.2 Henderson Group unapproved pension schemes (continued)

Scheme assets

The assets within the Henderson Pension Trust are all held in equities. There are no holdings in any investments in employer related companies.

The overall expected return on assets assumption is derived from the expected return on equities, having considered historical performance analysis; forward looking views of financial markets (as suggested by the yields available); and views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment.

Actual return on scheme assets

	2006	2005
	£m	£m
Actual return on scheme assets	-	0.1

Principal actuarial assumptions

(a) Financial assumptions

	2006	2005
	% per annum	% per annum
Discount rate	5.1	4.7
Expected rate of return on scheme assets	8.2	8.1
Salary increases	4.6	4.4
Pension increases		
- where guarantee is LPI	3.1	2.9
- where guarantee is fixed	At fixed rate	At fixed rate
Inflation	3.1	2.9

(b) Demographic assumptions

The demographic assumptions used are those for the formal actuarial valuation of the schemes as at 31 December 2005. Post-retirement mortality was assumed to follow the standard tables PMA/PFA92 (C = 2020) with an allowance for future mortality improvements in line with "medium cohort" projections.

The table below demonstrates the changes in implied life expectancies as at 31 December 2005 using the aforementioned mortality tables:

	No. of years	
	Male	Female
Life expectancy for a member who is currently 60	26.5	29.5
Life expectancy at 60 for a member who is currently 45	27.5	30.5

Employer contributions

The Group does not expect to contribute to the arrangements for the year to 31 December 2007.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

29. Subsidiaries

The directly held subsidiaries of the Company are as follows:

	Country of incorporation/ formation and principal place of operation	Functional currency	Percentage owned 2006	Percentage owned 2005
Henderson Global Investors (Holdings) plc	UK	pounds sterling	100%	100%
Henderson Asset Management Limited	UK	pounds sterling	100%	100%
Henderson Finances	UK	pounds sterling	100%	100%
Henderson Portfolio Managers Limited	UK	pounds sterling	100%	100%
HHG Finance Services Limited	UK	pounds sterling	100%	100%
HHG International Holdings Limited	UK	pounds sterling	100%	100%
HHG Invest plc	UK	pounds sterling	100%	100%
Michie European Holdings BV	Netherlands	euros	100%	100%
UKLS Financial Planning Limited	UK	pounds sterling	100%	100%
UKLS Investment Services 2 Limited	UK	pounds sterling	100%	100%
UKLS Investor 1 Limited	UK	pounds sterling	100%	100%

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

	Country of incorporation/ formation and principal place of operation	Functional currency	Percentage owned 2006	Percentage owned 2005
Henderson Administration Limited	UK	pounds sterling	100%	100%
Henderson Fund Management Plc	UK	pounds sterling	100%	100%
Henderson Global Investors (Jersey) Limited	Jersey	pounds sterling	100%	100%
Henderson Global Investors (Jersey) 2 Limited	Jersey	pounds sterling	100%	100%
Henderson Global Investors Limited	UK	pounds sterling	100%	100%
Henderson Holdings Limited	UK	pounds sterling	100%	100%
Henderson International Holdings Limited	UK	pounds sterling	100%	100%
Henderson Investment Funds Limited	UK	pounds sterling	100%	100%
Henderson Investment Management Limited	UK	pounds sterling	100%	100%
Henderson Management SA	Luxembourg	US dollars	100%	100%
Henderson Global Investors (Singapore) Limited	Singapore	Singapore dollars	100%	100%
Henderson Global Investors (Hong Kong) Limited	Hong Kong	Hong Kong dollars	100%	100%
Henderson Alternative Investment Advisor Limited	UK	pounds sterling	100%	100%
UKLS Investor 3 Limited	UK	pounds sterling	100%	100%
Henderson Equity Partners Limited	UK	pounds sterling	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 accounts. There are a number of other subsidiaries and associated undertakings 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.

Henderson International Holdings Limited (HIHO) is the only principal subsidiary undertaking which has a different reporting date to that of the parent, Henderson Group plc, being 30 November. Management accounts have been prepared as at 31 December 2006 to ensure that all significant events between the balance sheet date of HIHO and the parent have been reflected in the Group accounts to 31 December 2006.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

30. Investment in subsidiaries

	Shares in subsidiaries £m	Company Loans to subsidiaries £m	Total £m
Cost			
At 1 January 2005	3,295.6	207.4	3,503.0
Additions	60.2	-	60.2
Disposals	(3.8)	-	(3.8)
Repayment of loans with subsidiaries	-	(207.4)	(207.4)
Dividends received from subsidiaries	(692.7)	-	(692.7)
At 31 December 2005	2,659.3	-	2,659.3
Dividends received from subsidiaries	(197.5)	-	(197.5)
At 31 December 2006	2,461.8	-	2,461.8

The payment of dividends by Henderson Finances during 2006 resulted in a reduction in the net asset value and a permanent diminution in the carrying value of Henderson Finances of £197.5m. The same applies to the 2005 dividend from Henderson Finances of £692.7m.

31. Deferred acquisition and commission costs

	2006 £m	2005 £m
At 1 January	19.2	11.6
Commissions and other costs capitalised	19.5	19.4
Amortisation during the year	(18.0)	(11.8)
At 31 December	20.7	19.2

Included within the £18.0m amortisation charge in 2006 is £10.9m (2005: £9.7m) in respect of amortisation of capitalised commissions, £2.0m (2005: £1.2m) in respect of various US products with capitalised commissions paid and £5.1m (2005: £0.9m) in respect of amortisation of structured product costs in the Group's private equity business.

Notes to the Financial Statements (continued)

32. Related party transactions

32.1 Group

Transactions between the Company and its controlled entities, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Disclosures relating to the Henderson Group Pension Scheme are covered under note 28 Retirement benefit obligations.

32.2 Company

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

	2006	2005
	£m	£m
Transactions with related parties		
Dividends receivable	335.8	710.7
Interest receivable	-	2.0
Expenses recovered from other group companies	25.5	16.2
Interest payable	(54.6)	(52.1)
Expenses recharged by other group companies	(0.5)	(0.2)
Amounts due from/(to) related parties		
Amounts owed by related parties	223.2	11.9
Amounts owed to related parties	(1,141.4)	(1,133.7)

33. Contingent liabilities

The following contingent liabilities existed at 31 December 2006:

- in the normal course of business, the Group is exposed to certain legal issues, which can involve litigation and arbitration;
- in the normal course of business, the Group enters into various types of investment contracts that can give rise to contingent liabilities. These include foreign exchange contracts, financial futures, interest rate derivatives and exchange traded options. These contracts are entered into in the normal management of clients' investment portfolios;
- 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 were made to investors in the second half of the year in line with accounting provisions set up for that purpose. The Directors are of the opinion that the provisions remaining at the balance sheet date, to cover any future payments as detailed in note 24.1, are adequate; and
- under the Life Services sale agreement, tax-related warranties and indemnities given by the Group expire up to six years from the disposal date of 13 April 2005. During the year under review, a warranty claim by Pearl of £11.7m was agreed under this sale agreement, representing closure of all non-taxation-related issues. The Directors are of the opinion that no provision is required in relation to the tax related issues. Under the Towry Law UK sale agreement, normal warranties and indemnities were given by the Group which are subject to expiry in up to 6 years from the disposal date of 3 May 2006.

As at the date of approval of the balance sheet, the Group has not been notified of any claims under outstanding warranties and indemnities from sale agreements.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

34. Acquisitions and disposals of subsidiaries

34.1 Acquisitions

The Group did not acquire any subsidiaries during the year.

34.2 Disposals

	Notes	2006 £m	2005 £m
The net profit/(loss) before tax on disposal of discontinued operations is analysed as follows:			
Towry Law UK	34.2.1	9.5	-
Life Services	34.2.2	-	(18.6)
Net profit/(loss) before tax on disposal of discontinued operations		9.5	(18.6)

34.2.1 Towry Law UK

On 21 December 2005, Henderson Group plc announced an agreed sale of Towry Law UK to JS&P Holdings Limited. Following regulatory approval, granted by the FSA, the disposal completed on 3 May 2006.

The transaction resulted in a profit on disposal of £9.5m calculated as follows:

	2006 £m
Sale proceeds	37.2
Less: professional fees and other transaction costs	(1.6)
	35.6
Net assets disposed of	(26.1)
Pre-tax profit on disposal	9.5
Tax on disposal	-
Post-tax profit on disposal	9.5

Cash flow impact of the disposal of the Towry Law UK:

	2006 £m
Total proceeds from the sale	37.2
Less: cash and cash equivalents held by Towry Law UK entities	(9.9)
Net cash inflow on disposal	27.3

Notes to the Financial Statements (continued)

34. Acquisitions and disposals of subsidiaries (continued)

34.2 Disposals (continued)

34.2.1 Towry Law UK (continued)

Aggregate assets and liabilities of Towry Law UK at the date of disposal:

	Notes	3 May 2006 £m
Assets		
Intangible assets	44	21.0
Property, plant and equipment		2.1
Trade and other receivables		8.4
Cash and cash equivalents		9.9
Total assets		<u>41.4</u>
Liabilities		
Provisions	40	3.8
Trade and other payables		11.5
Total liabilities		<u>15.3</u>
Net assets		<u>26.1</u>

34.2.2 Life Services

On 9 December 2004, the Company, together with subsidiary companies, entered into an agreement to sell the Life Services business owned by Pearl Group Limited (a direct subsidiary of the Company) to Life Company Investor Group Limited. Following shareholder approval obtained at an Extraordinary General Meeting and regulatory approval given by the FSA, the completion date of the disposal was 13 April 2005.

Life Services comprised principally the life insurance and pensions books of Pearl, London Life, National Provident Life and NPI, which were and remain effectively closed to new business, various unit-linked life insurance companies and HHG Services Limited, which provided administrative services to these businesses. All of these entities were directly or indirectly owned by Pearl Assurance Group Holdings Limited, 100% of whose issued share capital was sold by Pearl Group Limited.

Notes to the Financial Statements (continued)

35. Discontinued operations

On 3 May 2006, the Group completed the sale of Towry Law UK and its controlled entities (Towry Law UK Group) to JS&P Holdings Limited. In accordance with IFRS 5, the results of these operations have been reported within the consolidated income statement as discontinued operations. The assets and liabilities of Towry Law UK were reclassified as assets included in disposal groups held for sale and liabilities included in disposal groups held for sale respectively in the 2005 consolidated balance sheet.

Also included within discontinued operations are the profits/(losses) arising from the closure of Towry Law International, which occurred during 2004, and the Life Services business, which was sold during 2005 (note 34.2.2 Acquisitions and disposals of subsidiaries – Disposals – Life Services).

35.1 Net (loss)/profit from discontinued operations

	Notes	2006 £m	2005 £m
Income			
Fee and commission income	36.1	12.4	109.5
Premiums written net of reinsurance	36.1	-	162.4
Finance income	36.1	0.1	387.1
Total income		12.5	659.0
Expenses			
Acquisition costs	36.2.1	-	(7.9)
Administration costs	36.2.2	(11.3)	(104.5)
Loss recognised on the measurement to fair value	44.1	(0.7)	-
Other charges	36.2.5	(12.0)	(2.8)
Total expenses		(24.0)	(115.2)
Expenses for policyholder claims and benefits (including change in insurance liabilities)		-	(216.7)
Claims recoveries from reinsurers		-	0.3
Changes in investment contract provisions		-	(143.8)
Finance costs	36.3	-	(158.4)
Net (loss)/profit before tax from discontinued operations		(11.5)	25.2
Tax on the results of discontinued operations	37	(0.1)	(4.8)
Net(loss)/profit after tax from discontinued operations		(11.6)	20.4
Attributable to:			
Equity holders of the parent		(11.6)	23.9
Minority interests		-	(3.5)
		(11.6)	20.4

Included within 'other charges' for the year ended 31 December 2006 is a £11.7m charge relating to the crystallisation of non-tax warranties outstanding under the Life Services business sale agreement completed in 2005.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

35. Discontinued operations (continued)

35.2 Discontinued income statement by business segment

Other than the £11.7m charge relating to the crystallisation of non-tax warranties outstanding under the Life Services business sale agreement, the discontinued business operating profit for the year ended 31 December 2006 related solely to Towry Law UK.

The discontinued income statement by business segment for the year ended 31 December 2005 is provided below:

	Life Services £m	Towry Law UK £m	Discontinued operations £m	Eliminations £m	Total £m
Income					
Fee and commission income	71.1	38.4	109.5	-	109.5
Premiums written net of reinsurance	162.4	-	162.4	-	162.4
Finance income	389.8	0.3	390.1	(3.0)	387.1
Total income	623.3	38.7	662.0	(3.0)	659.0
Expenses					
Acquisition costs	(7.9)	-	(7.9)	-	(7.9)
Administration costs	(76.6)	(34.9)	(111.5)	7.0	(104.5)
Other charges	(1.6)	(1.2)	(2.8)	-	(2.8)
Expenses for policyholder claims and benefits	(216.4)	-	(216.4)	-	(216.4)
Changes in investment contract provisions	(143.8)	-	(143.8)	-	(143.8)
Total expenses	(446.3)	(36.1)	(482.4)	7.0	(475.4)
Finance costs	(160.3)	(0.1)	(160.4)	2.0	(158.4)
Net profit before tax from discontinued operations	16.7	2.5	19.2	6.0	25.2
Supplementary segment information					
Capital expenditure	(1.2)	(0.1)	(1.3)	-	(1.3)
Depreciation and amortisation of segment assets	(1.6)	-	(1.6)	-	(1.6)
Non-cash expenses other than depreciation - provisions	19.7	-	19.7	-	19.7

All discontinued operations for the years ended 31 December 2006 and 31 December 2005 arose in the UK.

35.3 Assets held in disposal groups held for sale and liabilities and equity included in disposal groups held for sale

	Notes	2006 £m	2005 £m
Assets			
Intangible assets	44	-	21.7
Property, plant and equipment	43	-	2.4
Current tax receivables		-	0.3
Trade and other receivables	38.1	-	9.2
Cash and cash equivalents	27.2, 38.1	-	9.0
Assets held in disposal groups held for sale		-	42.6
Liabilities			
Provisions	40	-	4.1
Other creditors		-	8.4
Accruals and deferred income		-	3.2
Obligations under finance leases	41.1	-	1.0
Liabilities included in disposal groups held for sale		-	16.7

The 2005 assets held in disposal groups held for sale and the 2005 liabilities and equity included in disposal groups held for sale represent the assets and liabilities of Towry Law UK, which was sold on 3 May 2006.

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

35. Discontinued operations (continued)

35.4 Cash flows from discontinued operations

	2006	2005
	£m	£m
Net cash flows from operating activities	1.0	(295.9)
Net cash flows from investing activities	(0.1)	818.8
Net cash flows from financing activities	-	630.9
Net cash inflow	0.9	1,153.8

35.5 Statement of recognised income and expense from discontinued operations

The following income and expenses were recognised directly in equity relating to discontinued operations:

	2006	2005
	£m	£m
Exchange difference on translation of foreign operations	-	(0.5)
Actuarial gain on pension schemes	-	0.2
Reversal of previously recognised loss on available-for-sale-financial assets	-	3.4
Total income recognised directly in equity	-	3.1

36. Income and expenses of discontinued operations

36.1 Income

	2006	2005
	£m	£m
Fee and commission income		
Fee income from investment contract business	-	16.6
Commissions	11.7	38.4
Other income	0.7	54.5
	12.4	109.5
Gross premiums written		
Long-term business premiums	-	162.6
Less: premiums ceded to reinsurers	-	(0.2)
Premiums written net of reinsurance	-	162.4
Finance income		
Interest on deposits with credit institutions	0.1	36.9
Interest on fixed interest securities	-	247.4
Rental income from investment properties	-	33.4
Interest on other loans	-	1.8
Dividends	-	60.9
Realised gains on sale of investments	-	6.7
	0.1	387.1
Total income	12.5	659.0

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

36. Income and expenses of discontinued operations (continued)

36.2 Expenses

36.2.1 Acquisition costs

	2006 £m	2005 £m
Acquisition costs taken directly to the profit and loss account	-	0.2
Deferred acquisition cost amortisation and impairment	-	7.7
	-	7.9

36.2.2 Administration costs

	Notes	2006 £m	2005 £m
Employee benefits expense	36.2.4	7.5	34.7
Operating lease rentals		0.5	2.4
Investment administration fees		-	4.7
Other expenses		3.3	62.7
		11.3	104.5

36.2.3 Average employee numbers

The average number of employees of the discontinued operations was as follows:

	2006 no.	2005 no.
Towry Law International	14	21
Life Services	-	1,196
Towry Law UK	463	510
	477	1,727

36.2.4 Analysis of employee benefits expense

Employee benefits expense of the discontinued operations comprised:

	Notes	2006 £m	2005 £m
Salaries and wages		6.1	28.0
Share-based payments	11.2	-	0.2
Social security costs		0.6	2.8
Other pension costs		0.8	3.7
		7.5	34.7

36.2.5 Other charges

	2006 £m	2005 £m
Depreciation of property, plant and equipment	0.3	2.3
Crystallisation of non-tax warranties	11.7	-
Amortisation of other intangible assets	-	0.3
Impairment of property, plant and equipment	-	0.2
	12.0	2.8

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

36. Income and expenses of discontinued operations (continued)

36.3 Finance costs

	2006 £m	2005 £m
Interest on borrowings	-	23.9
Interest on finance leases	-	0.1
Unrealised losses on financial assets designated at fair value through profit or loss	-	134.4
	-	158.4

37. Taxation of discontinued operations

	2006 £m	2005 £m
Current income tax		
- current year	0.1	3.5
Deferred tax relating to		
- origination of temporary differences	-	1.3
Total taxation expense	0.1	4.8

Reconciliation of net profit before tax at standard rate of corporate tax to the tax expense

	2006 £m	2005 £m
--	------------	------------

The reconciliation of the net profit before tax multiplied at 30% to the tax expense of £0.1m (2005: £4.8m) is as follows:

Net (loss)/profit before tax from discontinued operations	(2.0)	6.6
Intra-group eliminations with continuing operations	-	(6.0)
Net (loss)/profit before tax from discontinued operations – before eliminations	(2.0)	0.6
Tax (credit)/charge at the applicable UK corporation tax rate of 30% (2005: 30%) on net (loss)/profit before tax	(0.6)	0.2
Tax attributable to policyholders	-	1.7
Tax effect of expenses that are not deductible for tax purposes:		
- goodwill impairment	-	2.1
- other disallowable expenses	3.5	-
Tax effect of income not subject to taxation	-	(2.1)
Tax effect of (gains)/losses not subject to taxation	(2.8)	5.6
Movement in unprovided deferred tax	-	2.4
Utilisation of previously unrecognised tax losses	-	(5.1)
Total tax expense for discontinued operations	0.1	4.8

38. Fair value of financial instruments of discontinued operations

38.1 Total financial assets and liabilities

	Fair value and carrying value 2006 £m	Fair value and carrying value 2005 £m
Financial assets		
Trade and other receivables	-	9.2
Cash at bank and in hand	-	9.0
Total financial assets	-	18.2

Notes to the Financial Statements (continued)

38. Fair value of financial instruments of discontinued operations (continued)

38.2 Financial risk management of discontinued operations

As from the date of completion of the sale of Towry Law UK, which was effective 3 May 2006, there are no financial assets and liabilities relating to discontinued business under the control of the Group. Accordingly, the Directors no longer consider the financial risk management objectives and policies relating to discontinued operations relevant to the Full Annual Financial Report and Accounts.

39. Deferred taxation of discontinued operations

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit is probable. Deferred tax assets of £5m (2005: £112m) in respect of trading losses, £3m (2005: £21m) in respect of provisions and other timing differences, £1m (2005: £39m) in respect of realised capital losses and £nil (2005: £5m) in respect of three year funded business have not been recognised, as there is insufficient certainty as to the availability of future profits. These tax losses have no statutory expiry dates.

40. Provisions of discontinued operations

	Total £m
At 1 January 2006	4.1
Provisions utilised	(0.3)
At date of disposal	<u>3.8</u>

The provision relating to Towry Law UK was in respect of unoccupied and loss-making sublease properties.

41. Leases of discontinued operations

41.1 Finance leases

Reconciliation between the total of future minimum lease payments at each balance sheet date and their present value was, as follows:

	2006 £m	2005 £m
Total of future minimum lease payments	-	1.2
Effect of discount	-	(0.2)
Present value of minimum lease payments	<u>-</u>	<u>1.0</u>

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

41. Leases of discontinued operations (continued)

41.1 Finance leases (continued)

The obligations under finance leases fall due as follows:

	Total of future minimum lease payments	Present value of minimum lease payments	Total of future minimum lease payments	Present value of minimum lease payments
	2006	2006	2005	2005
	£m	£m	£m	£m
Within one year	-	-	0.3	0.3
In the second to fifth years inclusive	-	-	0.6	0.5
In more than five years	-	-	0.3	0.2
Total	-	-	1.2	1.0

The net book value of each class of asset held under finance leases at each year end was:

	2006	2005
	£m	£m
Plant and equipment	-	0.1
Owner-occupied property	-	0.5
	-	0.6

41.2 Operating leases

The obligations under non-cancellable operating leases fall due:

	2006	2005
	£m	£m
Within one year	-	0.1
In the second to fifth years inclusive	-	0.2
In more than five years	-	1.4
Total	-	1.7

42. Investment property of discontinued operations

The income and expenses for investment property were as follows:

	2006	2005
	£m	£m
Rental income from investment property	-	33.4
Direct operating expenses (including repairs and maintenance) arising from investment property:		
- that generated rental income during the accounting period	-	2.6
- that did not generate rental income during the accounting period	-	0.9
	-	36.9

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

43. Property, plant and equipment of discontinued operations

	Owner- occupied property £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2006	2.4	4.3	6.7
Disposals	-	(0.1)	(0.1)
At date of disposal	2.4	4.2	6.6
Depreciation			
At 1 January 2006	1.7	2.6	4.3
Charge for the year	-	0.3	0.3
Disposals	-	(0.1)	(0.1)
At date of disposal	1.7	2.8	4.5
Net book value			
At 1 January 2005	0.7	1.7	2.4
At date of disposal	0.7	1.4	2.1

44. Intangible assets of discontinued operations

	Notes	2006 £m	2005 £m
Goodwill	44.1	20.8	21.5
Other intangible assets	44.2	0.2	0.2
At date of disposal		21.0	21.7

44.1 Goodwill

	2006 £m	2005 £m
Gross amount		
At 1 January	107.5	-
Attributable to assets held in disposal groups held for sale	-	107.5
At date of disposal	107.5	107.5
Aggregate impairment		
At 1 January	86.0	-
Attributable to assets held in disposal groups held for sale	-	86.0
Impairment prior to disposal	0.7	-
At date of disposal	86.7	86.0
Carrying value		
At 1 January	21.5	-
At date of disposal	20.8	21.5

Henderson Group plc

ASX Appendix 4E

For the year ended 31 December 2006

Notes to the Financial Statements (continued)

44. Intangible assets of discontinued operations (continued)

44.2 Other intangible assets

Cost	Development expenditure
	£m
At 1 January 2006 and at date of disposal	0.2

Glossary

AGM

Annual General Meeting

AMP

AMP Limited

ASX

Australian Securities Exchange (ASX Limited)

AUM

Assets under management

BPI

Banca Popolare Italiana

CDI

CHESS Depository Interest representing one ordinary share. These are quoted on the ASX

CDO

Collateralised Debt Obligation

CHESS

Clearing House Electronic Subregister System

Companies Act 1985

The UK Companies Act 1985, as amended

Company

Henderson Group plc

Corporations Act 2001

The Australian Corporations Act 2001

CRD

Capital Requirements Directive

ESOP

Employee Share Ownership Plan

FSA

Financial Services Authority

Group

Henderson Group plc and its controlled entities

HLTVSIP

Henderson Long-Term Value Sharing Incentive Plan

ISA

Individual Savings Account

LIBOR

London Interbank Offered Rate

Life Services

Comprises principally the life insurance and pension books of Pearl, London Life, NPLL and NPIL, which are effectively closed to new business; Life Services also includes the closed general insurance books of Pearl, the pension trustee business of Premier Pension Trustees Limited and the retirement services business operated by NPIL

Life Services business

The legal entities of the life business of the Group which comprise principally (i) the life insurance and pension books of Pearl, London Life, NPLL and NPIL, which are effectively closed to new business, (ii) the unit-linked companies and (iii) the Service Company which provides administrative services to these businesses, all of which are owned (directly or indirectly) by Pearl Assurance Group Holdings Limited, the shares of which were sold to Life Company Investor Group Limited

London Life

London Life Limited

LTIP

Long-Term Incentive Plan

NPI

National Provident Institution

NPIL

NPIL Limited

NPLL/National Provident Life

National Provident Life Limited

OEIC

Open-Ended Investment Company

PLP

Property Limited Partnership

RSP

Restricted Share Plan

SAYE

Sharesave Scheme

SIP

Share Incentive Plan

STI

Short-term incentive

TSR

Total Shareholder Return

UK or United Kingdom

The United Kingdom of Great Britain and Northern Ireland

UK GAAP

Generally accepted accounting practice in the United Kingdom

VAT

Value added tax