

2006 Full-Year Results

28 February 2007

Financial highlights

- Group operating profit before tax from *continuing operations* excluding one-off restructure costs £82.2 million, +30% on 2005 (2005: £63.4 million¹).
- Henderson Global Investors pre-tax profit £81.1 million, +29% on 2005 (2005: £62.9 million).
- Henderson Global Investors cost to income ratio 72.6% for 2006, improved from 75.5% in 2005.
- Total assets under management £61.9 billion at 31 December 2006 (£67.7 billion at 31 December 2005).
- Earnings per share from *continuing operations* excluding one-off restructure costs 6.3 pence (2005: 3.2 pence).
- Final dividend proposed 2.27 pence per share, 3.15 pence per share total dividend for 2006.

Key business developments

- Improved investment performance, with 59% (2005: 55%) of funds by value beating their benchmarks.
- £4.3 billion net inflows into higher margin products.
- Total fee margin 44bps (2005: 37bps) and management fee margin 34bps (2005: 29bps) on average assets under management.
- Towry Law UK sold at a pre-tax profit of £9.5 million, 36% over book value.
- £200 million surplus cash returned to shareholders on 24 October 2006.

Comment from Chief Executive, Roger Yates

“Our strategy to focus on higher margin activities is working. This strong set of results reflects the positive momentum in sales, revenues and margins. We are confident of the direction in which the business is moving and we expect to build on a broadly based improvement in investment performance. I feel confident that we can continue to grow revenues, improve Group profitability and deliver greater balance sheet efficiency in the year ahead.”

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¹ Before elimination of intra-group transactions between continuing and discontinued operations up to the date of disposal (£6.0m profit).

Group – strong result

Group operating profit before tax from continuing operations, excluding one-off restructure costs of £7.8 million, increased by 30%, from £63.4 million in 2005 to £82.2 million in 2006.

Net profit after tax from continuing operations was £63.3 million in 2006, up 22% from 2005. Net profit after tax from all operations was £61.2 million in 2006, an increase of 28% compared with 2005. Earnings per share rose to 6.3 pence per share from 3.2 pence before one-off restructure costs. The 2006 income tax charge for the Group included an £11.1 million charge for continuing operations and an effective tax rate of 14.9%. The effective tax rate for the Group was lower than the 30% statutory rate in 2006, due to the utilisation of previously unrecognised deferred tax assets and greater clarity on the level of tax provisioning required for prior years. Although a welcome feature of our results, the lower tax rate is temporary and we expect a return to a more normal corporate rate by 2009/2010.

Henderson Global Investors – significant growth in revenues and profits

Operating profit before tax for Henderson Global Investors (Henderson) was £81.1 million – up 29% from £62.9 million in 2005, due to increases in management and performance fee income.

Management fee income for Henderson increased 13% from 2005 to £221.2 million in 2006. Although total assets under management declined in the year, net inflows into higher margin business and higher investment markets resulted in increased revenue. The largest contributors to the increase in management fee income were Mutual Funds, Property and Hedge Funds.

Transaction fee income of £24.6 million was in line with 2005 (£24.4 million). Net performance fees rose strongly by 41% from £26.5 million in 2005 to £37.3 million in 2006. These fees continue to come from a wide range of products and the number of funds on which we earn performance fees continues to rise. The largest contributors to performance fee income in 2006 were Hedge Funds, Property, Investment Trusts and Horizon Funds.

Therefore, total net fee income in 2006 was £283.1 million², a 15% increase from £247.2 million in 2005.

As a result of strong flows into higher margin specialist products, and higher management and performance fee income earned during 2006, our average fee margins increased: total, management and net margins were all up on prior periods. The total fee margin for Henderson was up to 44bps in 2006, from 37bps in 2005. Management fee margins rose from 29bps in 2005 to 34bps in 2006. Net margins increased from 9bps in 2005 to 12bps in 2006.

Investment income increased by 27% from £9.9 million in 2005, to £12.6 million³ in 2006, due to interest earned on cash balances and returns from seed investments in Henderson's products.

² Net fee income of £283.1m (FY05: £247.2m) represents gross fee income and commission receivable on sales of £372.8m (FY05: £290.6m), less commissions and fees payable against income of £89.7m (FY05: £43.4m).

³ Finance income from continuing operations £25.2m (FY05: £23.2m): Henderson £12.6m (FY05: £9.9m); Corporate £12.6m (FY05: £13.3m).

Operating expenses increased 12% to £211.8 million⁴ in 2006 compared to £189.1 million in 2005, due to higher staff and IT expenses. The increase in staff costs was almost entirely due to higher variable staff costs. This related to provisions for variable remuneration schemes which reflect the improving operational performance of the business. The higher IT expenditure was due to increased spend on investment management data services and the cost of upgrading our derivatives trading platform. These higher costs were partially offset by savings in investment administration, office expenses and a number of other costs.

Overall, the increase in operating expenses was more than offset by the increased revenues, which resulted in an improvement in the cost to income ratio for Henderson from 75.5% in 2005 to 72.6% in 2006.

Total assets under management declined from £67.7 billion at the end of 2005 to £61.9 billion at 31 December 2006. This decrease in assets under management was due to low margin outflows associated with Virgin Money Group (£2.4 billion), Pearl Group (£8.7 billion) and traditional Institutional business (£3.3 billion). Outflows of Institutional assets slowed to £0.4 billion in the second half of 2006, compared to outflows of £2.9 billion in the first half of 2006, and outflows of £8.8 billion in 2005. The impact of outflows on revenues and margins was more than offset by continued strong flows into the specialist higher margin business areas which totalled £4.3 billion in 2006 (FY05: £1.9 billion).

We are pleased with the improvement in investment performance over the past year. Although there remain some weaker areas, in general investment performance in 2006 was good. The strongest investment performance continues to be in the higher margin areas of the business which include Mutual Funds, Hedge Funds and Property. In our UK Wholesale range, 79% of funds beat their benchmark in 2006. In our Horizon range of mutual funds, sold to European and Asian clients, this number was 68%, while for North American mutual funds it was 100% and for our Hedge Funds the number was 78%. Similarly, we enjoyed excellent performance in our Property business, where 83% of funds met or exceeded their benchmark.

Corporate office – in profit

Corporate produced a profit of £1.1 million in 2006. Corporate costs were lower in 2006 (£11.5 million) compared to 2005 (£12.8 million), even though one-off legal and professional expenses inflated these costs by £2 million in 2006. The one-off costs were incurred in the first half of 2006 and relate to revised investment management and related agreements with the Pearl Group and the costs incurred by a potential acquisition opportunity. We expect Corporate costs to be lower in 2007, approximately £10 million.

The income earned on Corporate cash balances declined slightly to £12.6 million in 2006, from £13.3 million in 2005. This income was largely from interest earned on cash proceeds retained after the sale of the Life Services business. The net interest figure for Corporate is expected to be zero or negative in 2007, compared to 2006. This is due to the combined effects of lower cash balances, having now returned all of the proceeds from the sale of the Life Services business to shareholders, and potentially taking some debt onto the balance sheet in the first half of 2007.

Restructure cost

We restructured Henderson in the second half of 2006, to align resources more closely with our business strategy. The cost of the changes was £7.8 million, all of which was charged in 2006.

⁴ Administration costs of continuing operations £223.3m (FY05: £201.9); Henderson £211.8m (FY05: £189.1m); Corporate £11.5m (FY05: £12.8m).

Discontinued operations

There were no movements in the results of discontinued operations during the second half of 2006. The £2.0 million loss before tax from discontinued operations comprises:

- a pre-tax profit of £9.5 million on the disposal of Towry Law UK, which completed on 3 May 2006;
- a £0.2 million profit from Towry Law UK up to the date of its disposal; and
- a warranty claim from the Pearl Group of £11.7 million agreed on 30 June 2006 under the terms of the revised investment management and related agreements.

All non-investment management businesses have now been disposed of.

Balance sheet – remaining strong with good liquidity

The balance sheet remains healthy, with high liquidity, no current gearing and appropriate provisions. Net assets for the Group were £496 million at 31 December 2006 (2005: £647 million).

As we have previously flagged, we intend to take on a prudent level of debt in 2007, in order to enhance capital efficiency. Subject to market conditions, we are considering a Sterling debt issuance of between £125 million and £175 million in the first half of 2007.

Last October's capital return of £200 million, together with its counterpart in May 2005, means the Group has returned £1.07 billion to shareholders in the past two years. In addition, we stated in 2006 that there was potential for a further capital return of between £150 million and £200 million in 2007. In January 2007, the UK Financial Services Authority granted the Group approval of its waiver application from consolidated supervision. As a result, the Group's financial resources are no longer constrained by inadmissible goodwill and our regulatory capital surplus has increased. We are, therefore, now considering a further return to shareholders of approximately £200 million in the second half of 2007.

Dividend

Our policy is to pay a sustainable flow of dividends out of operating profits, whilst maintaining dividend cover of approximately 2x. The Directors are proposing a final dividend of 2.27 pence or equivalent per share in respect of second half 2006 profits. Approval of this dividend will be sought at the AGM on 3 May 2007. Payment will be made on 29 May 2007.

Outlook for full year 2007

We aim to build on the good investment performance in our higher margin products to grow assets in these areas. We also plan to build on the better investment performance in our Institutional business.

As a consequence, we expect profitability and the cost to income ratio to show further improvements. As stated before, we believe we can achieve a 70% cost to income ratio for Henderson Global Investors for the full year 2007, principally through profitable revenue growth.

We will continue to look at ways in which we can improve balance sheet efficiency, to drive return on equity and earnings per share higher.

Overall, the business is on the right track and future prospects for the Group are good.

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This announcement contains forward-looking statements with respect to the financial condition, results and business of Henderson Group. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Henderson Group's actual future results may differ materially from the results expressed or implied in these forward-looking statements. Nothing in this announcement should be construed as a profit forecast.

For further detail on the 2006 Full Year Results, please see the ASX Appendix 4E lodged together with this stock exchange announcement.

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Details of market briefings: Wednesday 28 February
Australia – 8.00pm (Sydney time) / 9.00am (London time)

For a telephone link to the briefing dial one of the following numbers 10 minutes prior to the start of the call.

From
Australia 1800 988941 (free call)
United Kingdom 0500 101630 (free call)
All other countries +44 (0)20 7162 0025 (this is not a free call)

Replay number +44 (0)20 7031 4064 Access code: 737094 (available from 28 February to 7 March)

Alternatively you can listen to a live audiocast of the briefing. To listen to the briefing go to www.hendersongroupplc.com and click on the relevant link on the homepage.

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Notes to editors

About Henderson Group plc

Henderson Group plc is headquartered in London and listed on the London and Australian Stock Exchanges. It is a member of both the FTSE 250 and the ASX 200 indices. Henderson Group consists of a Corporate office and Henderson Global Investors, a leading European based investment manager with £61.9 billion assets under management. The focus of the Group is to build the asset management operations into a more profitable and valuable business.

In this announcement, the term "shareholders" refers to all holders of Henderson Group plc shares, including those whose holdings are in the form of CHESS Depositary Interests on the Australian Stock Exchange.

Further information

www.henderson.com or

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