

2006 Interim Results

25 August 2006

Financial highlights

- Group operating profit before tax from *continuing operations* £46.2 million, +31% on first half 2005 (1H2005: £35.4 million).
- Group operating profit before tax from *all operations* £44.2 million, +26% on first half 2005 (1H2005: £35.1 million).
- Henderson Global Investors pre-tax profit £46.6 million, +23% on first half 2005 (1H2005: £38.0 million).
- Henderson Global Investors cost to income ratio 69.2% for first half 2006, improved from 70.6% in first half 2005.
- Total assets under management £63.1 billion at 30 June 2006 (£67.7 billion at 31 December 2005).
- Earnings per share from *continuing operations* of 3.2 pence.
- Interim dividend declared 0.88 pence per ordinary share.

Key business developments

- £2 billion net of high margin product inflows, including mutual funds, hedge funds, property funds and structured products.
- Total revenue margin 43bps (1H2005: 37bps) and management fee margin 32bps (1H2005: 28bps) on average assets under management.
- Subject to shareholder and UK Court approval, approximately £200 million surplus cash to be returned to shareholders by 24 October 2006.
- Entered new Investment Management Agreements (IMAs) with Pearl, revenue neutral with upside performance fee opportunity.
- Completed sale of Towry Law UK at a pre-tax profit of £9.5 million, 36% over book value.

Comment from Chief Executive, Roger Yates

“We have seen promising trends in business performance in the first half of this year, despite unsettled market conditions. Our strategy of focusing on specialist product areas in Henderson Global Investors has delivered good results, with £2 billion of net inflows into higher margin products such as Mutual Funds, Absolute Return funds and Property. These flows helped drive revenues and margins higher and more than offset the revenue lost from expected fund outflows from Pearl Group and our Institutional business.”

Net profit after tax from continuing operations was £37.6 million in the first half of 2006, up 32% from the first half of 2005. Net profit after tax from all operations was £35.5 million in the first half of 2006, an increase of 50% compared with the first half of 2005. The first half 2006 income tax charge for the Group included a £8.6 million charge for continuing operations and an effective tax rate of 18.6%. The effective tax rate for the Group overall (continuing and discontinued operations) was 19.7%. We expect the effective tax rate for the continuing operations to increase to the expected rate, i.e. 30%, over the medium term.

Henderson Global Investors – inflows into higher margin business

Operating profit before tax for Henderson Global Investors was £46.6 million – up 23% from £38.0 million in the first half of 2005, mainly due to increases in management and performance fee income.

Management fee income increased 14% to £108.4 million in the first half of 2006 compared to the first half of 2005, primarily as a result of improved margins and favourable equity markets. The largest contributors to this increase included Mutual, Property and Absolute Return Funds.

Transaction fee income decreased by 3% to £12.6 million in the first half of 2006. Performance fees increased by 46% to £24.2 million in the first half of 2006 and continue to come from a range of products. Absolute Return, Property and Horizon Funds were the largest contributors in the first half of 2006. Therefore, total fee income in the first half of 2006 was £145.2 million, up 16% from £124.9 million in the first half of 2005.

Continued growth in specialist product areas and expected outflows in the generalist, lower margin areas produced a more profitable product mix, with the total revenue margin for Henderson Global Investors up from 37bps in the first half of 2005 to 43bps in the first half of 2006. Management fee margins rose to 32bps on average from 28bps in the first half of 2005. Net margins increased from 11bps in the first half of 2005 to 14bps in the first half of 2006.

Investment income increased 43%, from £4.4 million in the first half of 2005 to £6.3 million in the first half of 2006, largely due to profits on seed investments.

Total operating expenses increased by 15% to £103.5 million in the first half of 2006. Savings in investment administration and other costs were offset by increases in staff expenses and IT expenditure. The increase in staff expenses was due almost entirely to variable remuneration schemes reflecting improved operational performance.

Overall, the increase in total revenue exceeded the higher costs in the first half of 2006 resulting in an improvement in the cost to income ratio from 70.6% in the first half of 2005 to 69.2% in the first half of 2006.

Total assets under management declined from £67.7 billion at the end of 2005, to £63.1 billion at the end of June 2006. This decrease in assets was due to expected outflows associated with the Virgin Money Group (£2.4 billion), the closed life books of Pearl Group (£1.5 billion) and lower margin Institutional business (£2.9 billion). The impact of these outflows on revenues and margins was more than offset by continued strong inflows into the specialist, higher margin business areas, with net inflows of £2 billion in the first half of 2006.

Pearl Group – new IMAs

The transition to the new IMAs is well in hand. The £1.5 billion outflow of Pearl Group's assets is consistent with the expected outflow associated with the run-off of the closed life books. As announced on 30 June 2006, under the new IMAs, Pearl will have greater flexibility over assets under management and this will make it more difficult for us to predict what the potential future fund flows of Pearl will be. That said, we have secured minimum payments over the next nine years regardless of asset levels and thus have certainty of revenues. We also have a realistic opportunity to earn performance fees.

Corporate office

Corporate costs were £7.0 million in the first half of 2006, down slightly from £7.2 million in the first half of 2005. As indicated previously, one-off legal and professional costs incurred in the first half of 2006 have inflated Corporate office costs in the period by £2 million. The one-off costs relate to our discussions with the Pearl Group and the potential acquisition we reviewed.

The return on Corporate cash was £6.6 million in the first half of 2006 compared to £4.6 million in the first half of 2005. This is largely due to interest earned on cash retained after the sale of the Life Services business.

Discontinued operations

Discontinued operations comprise Towry Law International, which was closed to new business in May 2004; the Life Services business, which was sold in April 2005 and Towry Law UK, which was sold in May 2006. The £2.0 million loss before tax from discontinued operations consists mainly of the profit on disposal of Towry Law UK (£9.5 million, a significant premium to book value) offset by the crystallisation of warranty claims under the sale agreement for the Life Services business (£11.7 million).

We announced a number of payment schemes in May 2006 in relation to legacy product issues in Towry Law International. These schemes are proceeding satisfactorily and the provisions set aside for this purpose remain adequate in the view of the Board.

Pensions

In conjunction with the planned return of approximately £200 million surplus capital, Henderson Group agreed with its Pension Scheme Trustees to contribute £80 million, in excess of regular contributions, over the next two years towards the Scheme's deficit, to strengthen its mortality provisions and to re-orientate the Scheme's investment strategy to a liability driven investment approach. The additional contribution will be made in three instalments: £40 million (which was provided for under IAS principles on the 31 December 2005 balance sheet) will be paid in October 2006, and £20 million in October 2007 and 2008 respectively. As previously announced, most of the Towry Law UK sale proceeds have been earmarked to fund the balance of the additional contributions.

Balance sheet and liquidity

The balance sheet remains strong with Group net assets at 30 June 2006 of £681 million. Subject to shareholder and UK Court approval, surplus cash of approximately £200 million will be returned to shareholders during October 2006.

Dividend

Our policy is to pay a sustainable flow of dividends out of operating profits, whilst maintaining dividend cover of approximately 2x. The Directors have declared a dividend in respect of the six months ended 30 June 2006 of 0.88 pence per ordinary share (2005: £nil). We plan to pay the dividend on 24 October 2006 to shareholders on the register on 13 October 2006, together with the proposed return of cash payment.

Outlook for full year 2006/2007

We expect to add further assets in our higher margin product areas of Mutual Funds, Absolute Return Funds and Property, although at a slower rate than in the first half, given the phasing of product launches and more unsettled markets in recent months. As regards outflows from Pearl and our Institutional business, the trend is harder to predict. Given the freedom of movement of assets available to Pearl, it is possible that outflows here could accelerate, although this would not impact on revenues which are secured. Institutional outflows are gradually starting to subside, although we still expect a further outflow in the second half. Importantly, however, sales of higher margin products to Institutional clients remain positive. The outflow from Virgin Money, foreshadowed at the time of the sale of that business, will not recur.

In the longer term, fund flows are driven by investment performance and here the picture is generally positive but is still short of where we would like it to be. In general, performance is strongest in the higher margin product areas, including Mutual Funds, Property and Absolute Return Funds. However, core institutional performance has not yet improved markedly, notwithstanding the new investment hires made in the last 18 months. More encouraging, however, is the positive consultant and client reaction to those hires.

As regards profitability, the emphasis on high margin products is driving revenues and profitability in the right direction – hence the 1.4% improvement in the Henderson Global Investors cost to income ratio in the first half compared to the first half of 2005. For the full year we can improve further on this and expect not to exceed a 73% cost to income ratio compared to 75.5% in 2005. For 2007 we believe that a 70% cost to income ratio is achievable through further revenue growth and careful control of costs.

On capital planning, we aim to complete the return of approximately £200 million to shareholders by the end of October this year. The return on Corporate cash should fall correspondingly in the second half of 2006. Our initial analysis suggests that a further return of £150 million to £200 million could be possible in 2007 with the introduction of a prudent level of gearing to the balance sheet, which we are examining in conjunction with the implementation of the new Capital Requirements Directive expected in early 2007.

Overall, the business is on the right track with good momentum in key high margin areas, further opportunities to improve profitability and scope to provide a further capital return to shareholders next year. All of this remains subject, of course, to benign market conditions.

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This interim results announcement does not constitute the Interim Statement 2006 for the half year ended 30 June 2006. The Interim Statement will be published in the Financial Times in the UK on 29 August 2006. The ASX Appendix 4D, Announcement of 2006 Interim Results, was released today on both the Australian and London Stock Exchanges.

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 Interim Results, please see the ASX Appendix 4D lodged together with this stock exchange announcement.

Details of market briefings: Friday 25 August

Australia – 5.00pm (Sydney time) / 8.00am (London time)

For a telephone link to the briefing dial one of the numbers below from 4.45pm (Sydney time), for a 5.00pm start.

From

Australia 1800 9889 41 (free call)
United Kingdom 0500 5510 77 (free call)
All other countries +44 20 7162 0025 (this is not a free call)

Replay number +44 20 7031 4064 Pass code: 714315

United Kingdom – 10.30am (London time), 7.30pm (Sydney time)

For a telephone link to the briefing dial one of the numbers below from 10.15am (London time), for a 10.30am start.

From

United Kingdom 0500 5510 88 (free call)
All other countries +44 20 7162 0125 (this is not a free call)

Replay number +44 20 7031 4064 Pass code: 714316

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 £63.1 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 Depository Interests on the Australian Stock Exchange.

Further information

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