



## **Annual General Meeting**

11 May 2006

Henderson Group plc today holds its 2006 Annual General Meeting.

The scripts for the opening addresses by the Chairman and the Chief Executive are attached.

**Part one:** Henderson Group Chairman's address to Shareholders.

**Part two:** Henderson Group Chief Executive's address to Shareholders.

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**Address by Rupert Pennant-Rea,  
Chairman,  
to the Henderson Group Annual General Meeting  
11 May 2006**

The Group made further good progress in 2005 in transforming into a pure fund management group, while also producing an encouraging set of results.

Since the demerger from AMP in 2003, part of our strategy was to move out of non-core businesses and concentrate on fund management. In addition to the sale of the Life Services business, which I spoke about at last year's AGM, in December 2005 we announced the sale of Towry Law UK for £37.2 million. The sale was completed on 3 May. The sale proceeds will strengthen the Group's cash position in the short-term, however we expect that most of it will be put into the Company's Defined Benefit Pension Scheme, which will retain the accrued liabilities of past and present Towry Law employees.

Profit before tax from continuing operations – that is, profit from Henderson Global Investors and the Head Office activities we term Corporate – was £63.4 million in 2005. This is an increase of 20% on 2004 and was driven by improvements in performance and management fees in Henderson Global Investors, a reduction in Corporate staff costs and shareholder servicing costs, and higher returns earned on Corporate cash.

We also invested in our staff and systems, and we have recruited a number of key individuals. All this spending is devoted to improving the performance of Henderson Global Investors. I will now move on to a topic of real significance for the Company and all its shareholders. As you know, we have always said that capital not needed to develop the business will be returned to shareholders. We had initially planned on returning the surplus in the first half of this year, but this was delayed while we considered a possible acquisition.

Let me say something about this potential acquisition – though I can't say much, as we are still bound by confidentiality rules. Certainly it would have made strategic and financial sense to buy this particular fund manager, but only on terms that the Board would have been prepared to recommend to you, the shareholders. Unfortunately, these terms were not acceptable to the sellers, so we withdrew from the auction.

We are not currently looking at any other potential acquisitions. If, however, another opportunity did come along in the short-term, it would obviously have to bring more benefits for shareholders than we can provide by returning surplus capital to you.

You will appreciate that it takes a lot of time to consider an acquisition, so we weren't able to organise a capital return to coincide with the Notice of this AGM. But I can assure you that we intend to return £200 million in the second half of 2006.

The way we want to do this is through a capital reduction – the same method we used after we sold the Life Services business. This means that, in return for a cash payment, every shareholder has the same percentage of their shares cancelled – which, for the majority of our shareholders, is the most equitable and tax efficient way to receive the money. However, procedurally it isn't simple, as a capital reduction requires the approval both of a Court in the UK and of our shareholders at an EGM. We are currently waiting for the Court to provide us with a date for hearing our application and we hope to get dates that will enable us to return capital by October. As soon as the Court dates are fixed, we will be writing to you and providing you with more information, including the timing of the EGM.

As for the Group's capital, we continue to prepare for the new EU regulations that are being introduced on 1 January 2007 under the Capital Requirements Directive. We cannot yet be sure of the detail, as the rules are still being finalised, but we are not expecting an increase in our overall regulatory capital requirement. Indeed, we are considering taking on some debt, as our balance sheet could easily manage that, and will keep you informed of our thinking in this area.

Moving on to another subject, the Group has reached agreement with the Hong Kong Securities and Futures Commission on how to deal with various claims arising from the alleged mis-selling of products to clients of Towry Law International. We made an announcement about this on 2 May. Henderson Group was of course not involved in the mis-selling, which was something we inherited as part of the demerger from AMP. We have taken a responsible approach to this issue, and at the moment it looks as though the provisions we had in place at the end of last year will be enough to cover our expected liabilities.

Part of the reorganisation of the business after the sale of the Life Services business also included a review of the remuneration of the Chief Executive. The Remuneration Committee wanted to ensure that his total package continues to reflect the market in which the Group operates.

The Committee started with the view that exceptional performance, whether individual or corporate, should be rewarded through bonus and incentive schemes rather than base salary. This is increasingly the norm in the UK fund management industry, and ensures that the interests of senior executives are closely aligned to those of shareholders.

In that spirit, we negotiated new arrangements with the Chief Executive. The detail is contained in the annual report, but essentially his base salary has come down by just over 40% and the maximum Short-Term Incentive payment that he could earn has gone up to 600% of his new, reduced salary. We are also asking today for shareholder approval to increase the cap on LTIP grants to the Chief Executive from 300% of annual salary to 500%. The Committee wants to maintain the absolute value of the LTIP awards that can be made to the Chief Executive, which means we need to increase the maximum multiple of salary that can be applied to LTIP awards. The maximum will not be increased in the case of other employees, and should shareholders approve this increase, the Remuneration Committee proposes to make an LTIP award to the Chief Executive after the AGM.

I have left to the end what you probably wanted to hear about first: the dividend – our maiden dividend. The Directors are recommending the payment of 1.39 pence per share for the six months ended 31 December 2005. For holders of CDIs, the A\$ equivalent will be around A\$ 3.28 cents and the NZ\$ equivalent will be around NZ\$ 3.70 cents per CDI. We are aiming for a sustainable flow of dividends in the future, so this is a prudent start. We plan to pay the dividend on 26 June to shareholders on the register at 16 June. We have lodged a separate announcement a week ago confirming the relevant dates and also the exact Australian dollar and New Zealand dollar equivalents for the dividend. For those shareholders who have not yet provided us with their bank account details, we strongly encourage you to do so, as this is a safer, more convenient way for you to receive your dividends.

2005 was a year of considerable change for the Group. Thanks to the skills and commitment of our staff, we feel confident about the Group's prospects. Thank you also to our shareholders for your support and encouragement during the year.

**Address by Roger Yates,  
Chief Executive,  
to the Henderson Group Annual General Meeting  
11 May 2006**

As the Chairman has outlined, 2005 was a year in which Henderson Global Investors delivered good growth in profits, we took the steps necessary to get the Company firing on all cylinders and we completed the disposal of non-core businesses.

Profit before tax from continuing operations in the Group rose by 20% to £63.4 million, helped by eight months worth of Corporate cost savings and higher returns on Corporate cash. Within Henderson Global Investors, now the Group's only business, profits rose by 9% on 2004 to £62.9 million, due to improved margins and higher equity markets. Over the year, operating expenses were slightly higher, although higher revenues and performance fees generated a further improvement in the cost to income ratio to 75.5% from 76.4% in 2004. Assets under management were 2% lower at £67.7 billion, due to anticipated outflows from Pearl Group and the Institutional book of business.

During the year, we also took steps to revitalise Henderson, particularly as regards investment performance and fund flows into the higher margin areas of our business. We hired a number of key investment professionals at various points during the year, and these changes to our investment line-up contributed to a marked improvement in investment performance. Overall, 55% of our funds beat their benchmark but performance was strongest in the highest margin product ranges. In particular, our Absolute Return Funds, Mutual Funds sold into Europe and North America, and Property funds were all stand-out performers.

This in turn had a favourable impact on high margin fund flows, with some £1.9 billion of higher margin products sold. As regards assets under management, these positive flows were offset by larger outflows from Pearl Group and the Institutional clients. By contrast, the impact on revenues and profits was positive, reflecting the higher margins of business gained.

Overall total fee margins rose to 37bps from 34bps in 2004. This reflected the changing business mix, particularly the shift towards specialist products, including Mutual Funds, Absolute Return Funds, Property and Private Capital. For 2005 as a whole, these specialist products accounted for 24% of assets under management, but 62% of revenues. This compares to 21% of assets under management and 52% of revenues in 2004. Therefore, the key to revenue and margin growth in Henderson, is the pace at which we can add assets and revenues in the specialist, high margin areas versus the run-off of lower margin business. Overall, it is likely that assets under management will fall in 2006, while revenues and profits rise – as was the case in 2005.

We also benefited from higher performance fees at £26.5 million, compared to £18.7 million in 2004. Importantly, these fees were generated across a range of asset classes and clients which, allied to the creation of more opportunities to earn these fees in future, should make revenues from performance fees a more sustainable feature of Henderson's earnings.

Turning now to Pearl Group, we announced on 3 March 2006 that Pearl had raised a number of issues with us as regards the management of their assets and that we were investigating those. We hope to update our shareholders and the wider market in due course on the outcome, of what have so far been, constructive discussions.

There are three more items worthy of comment before touching on business trends so far in 2006. First, as the Chairman noted, we have completed the sale of Towry Law UK. At the same time, and without admission of liability to investors, we also agreed a scheme with the Hong Kong Securities and Futures Commission to cover various products sold by Towry Law International. The costs of the scheme should be within the provisions previously raised by the Group.

Second, we are seeking to address the accounting deficit in our Defined Benefit Pension Scheme, in conjunction with the planned return of capital to shareholders. Besides the existing £40 million provision held for this purpose, we anticipate that most of the proceeds of the sale of Towry Law UK will be required to tackle the deficit.

Third, the return of capital we have previously indicated to shareholders will be £200 million and will take place during the second half of the year. We will then look carefully at our financial resources, our regulatory capital position and the new EU rules on capital, to assess what additional return of capital we might do in 2007. We will update you on this in early 2007, once the new rules are in operation.

As regards Henderson's business in 2006 thus far and the outlook for the rest of the year, there are a number of positive developments. Fund flows into key high margin areas have accelerated, helped by good performance. Thus, flows into our Mutual Funds are already double the level reached in the whole of 2005; our Absolute Return Fund sales should gather momentum helped by new product launches planned for the second half of 2006; and we are steadily investing Property assets awarded by clients into the market and thereby earning fees on these assets. As anticipated, fund outflows have continued from Pearl and from the Institutional book of business but the revenue and profit impact of these outflows is more than offset by flows into higher margin areas. Finally on fund flows, when we sold our 50% joint venture holding in Virgin Money Group in April 2004, we indicated that we expected that we would continue to manage the assets of Virgin Money Group until the end of 2005. We now expect these assets, which amount to £2.5 billion, to be withdrawn in the next few months. However, this will have only a marginal revenue and profit impact.

As a result, we are on track to achieve or improve on our cost to income ratio target of 74% for Henderson Global Investors for the year, assuming benign markets. Within this, costs will likely be higher principally due to higher bonus provisioning reflecting improving profitability. However, at the profit line this should be offset by higher revenues from higher margin fund inflows and higher equity markets. Costs at the Corporate level are expected to be approximately £2 million higher than our previous guidance of £10 million of business-as-usual Corporate costs for the full year 2006. This is due to costs incurred in relation to ongoing discussions with Pearl and costs incurred on the potential acquisition opportunity. Notwithstanding these higher costs and the adverse impact of the return of capital on interest receivable, we anticipate good growth in Group profits for the year, I should add of course that this outlook will depend on a benign market background.

In summary, the business is in good shape. We have completed the disposal of non-core assets, settled issues relating to Towry Law International and established ourselves as a pure-play asset manager. Investment performance is improving, fund flows into higher margin products are strong and the cost to income ratio is on target. Overall the prospects for the year look good.

**For further information**

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