

COLLINS ♦ STEWART ♦ TULLETT

Preliminary Results 2004

March 2005

Overview

- ❑ Prebon acquired on 13th October 2004 and IDB business reorganisation well advanced
- ❑ 80% (2003: 73%) of turnover and 58% (2003: 45%) of operating profits from IDB
- ❑ Improved returns from IDB business
- ❑ Maintained returns from stockbroking business
- ❑ Successful entry into Eurobond market financing
- ❑ Operating profits up 20% and EPS up 17% (both before goodwill and exceptionals) on a statutory basis
- ❑ Dividend up by 10%
- ❑ Resolution of regulatory and legal issues

Collins Stewart Tullett Results

	2004 Actual £m	2003 Pro forma (Restated) £m	2003 Statutory (Restated) £m
Turnover	<u>582.4</u>	<u>555.3</u>	<u>473.9</u>
Operating profit before:			
- goodwill, exceptional items & option charge	97.0	87.2	77.8
- goodwill and exceptional items	90.1	84.7	75.3
Operating exceptional items	(48.5)	-	-
Profit before taxation	21.7	74.7	66.9
Profit attributable to ordinary shareholders	6.9	42.0	38.4
EPS before exceptionals and goodwill amortisation	32.5p	28.8p	27.8p
Dividend per share	8.5p	7.75p	7.75p

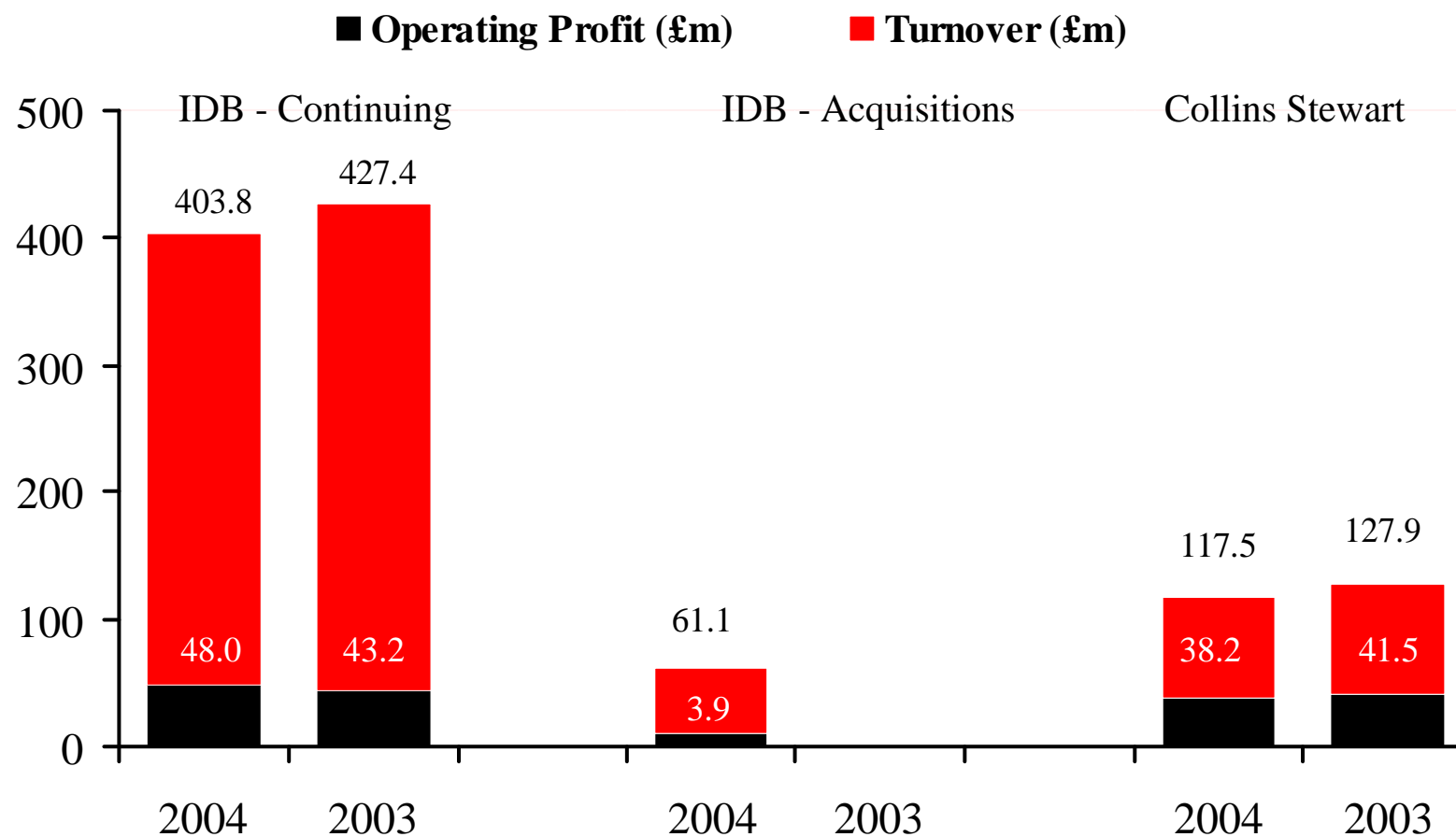
Notes: 2004 figures include Prebon results from 13 October 2004

2003 statutory figures include Tullett Liberty results from 10 March 2003

2003 pro forma figures include Tullett Liberty results for whole of 2003

2003 figures restated for the adoption of UITF 38 in respect of option awards

Collins Stewart Tullett Results



*Note: Tullett Liberty results are pro forma and are shown for full year 2003
Operating Profit shown before goodwill and exceptional items*

Group Performance Measures

	2004	2003 (Proforma)
Group Operating Margin	15.5%	15.3%
Return on Capital Employed	20.8%	23.6%
Total Shareholder Return	-10.0%	+44.4%

IDB Business

Overview

- ❑ Consolidation of position within IDB sector with Prebon acquisition.
- ❑ Tullett Liberty revenues down 3% on an underlying basis (excluding Energy acquisitions).
- ❑ Tullett Liberty operating profits up from £43.2m to £48m.
- ❑ Tullett Liberty operating margins up from 10.1% to 11.9% (12.6% excluding options charge).
- ❑ More difficult market conditions than 2003.
- ❑ Improved performances from Europe and in Derivatives and Energy.
- ❑ Reorganisation savings of £42m pa achieved by end 2004 at cost of £48.6m.

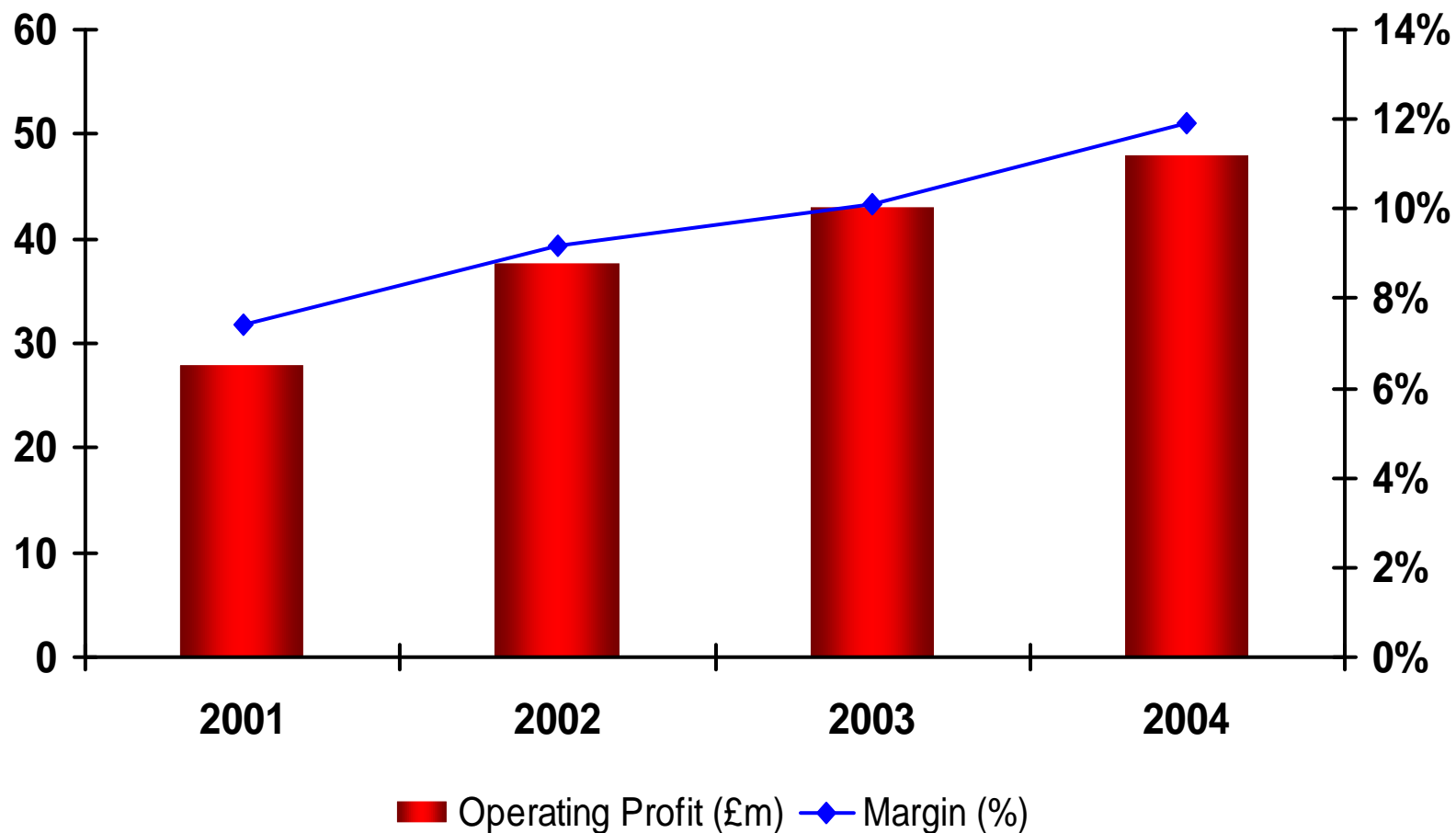
IDB Performance

	Acquisitions £m	Continuing £m	2004 Total (Restated) £m	2003 (Restated) £m
Turnover	<u>61.1</u>	<u>403.8</u>	<u>464.9</u>	<u>427.4</u>
Operating profit before:				
- options, goodwill & exceptional items	3.9	51.0	54.9	43.2
- goodwill & exceptional items	3.9	48.0	51.9	43.2
Operating margin (see Note 2)	6.4%	11.9%	11.2%	10.1%

Notes: 1. 2003 figures based on pro forma figures

2. Operating margin shown after charge for share options

Tullett Liberty Operating Performance



Note: Operating Profit from continuing operations before goodwill and exceptional items

Turnover and Operating Profits by Region

	Turnover				Op. Profit	
	Acquisitions £m	Continuing £m	2004 Total £m	2003 Total £m	2004 £m	2003 (Restated) £m
Europe	23.8	198.1	221.9	194.3	20.1	9.5
North America	25.9	170.1	196.0	196.5	27.2	27.3
Asia Pacific	11.4	35.6	47.0	36.6	4.6	6.4
	<u>61.1</u>	<u>403.8</u>	<u>464.9</u>	<u>427.4</u>	<u>51.9</u>	<u>43.2</u>

Note: 2003 based on pro forma figures

Turnover by Product Group

	Acquisitions £m	Continuing Operations £m	2004 Total £m	2003 Total £m
Fixed Income Securities	6.3	173.2	179.5	202.3
Interest Rate Derivatives	11.9	101.4	113.3	100.6
Treasury Products	29.0	69.5	98.5	72.6
Equities	2.5	39.7	42.2	42.4
Energy	10.6	10.9	21.5	1.6
Information Sales	0.8	9.1	9.9	7.9
Total	<u>61.1</u>	<u>403.8</u>	<u>464.9</u>	<u>427.4</u>

Note: 2003 figures based on pro forma figures

Europe

- ❑ Underlying turnover of Tullett Liberty business similar to 2003.
- ❑ Interest Rate and Currency Derivatives strongest performers.
- ❑ More difficult Fixed Income markets
- ❑ Operating returns improved through cost management
- ❑ Reorganisation focus on elimination of loss-making and marginal businesses.
- ❑ Overall profile and performance of European business improved by acquisition.

Americas

- ❑ Dollar average exchange rate is 12% weaker year on year.
- ❑ Underlying Tullett Liberty turnover down 5%.
- ❑ Fixed Income and Interest Rate Derivative revenues down on 2003.
- ❑ Overall returns improved.
- ❑ Power and Gas broking businesses acquired from Natsource LLC in June 2004.
- ❑ Cash Equities business acquired from Burlington Capital Markets Inc. in January 2005.
- ❑ Prebon acquisition and reorganisation enhanced capability in Treasury Products, Derivatives and Energy.

Asia Pacific

- ❑ Tullett Liberty underlying revenues and operating returns down on 2003.
- ❑ Significant competitor activity post completion.
- ❑ Offices in Hong Kong and Singapore being integrated.
- ❑ Sale of investment in Totan Capital Markets to our co-shareholders.

Information Sales and Information Technology

- ❑ Revenues from Information Sales improved.
- ❑ Information Sales profits improved due to cost control and product enhancements.
- ❑ Enlarged IDB business migrating to Tullett Liberty systems and infrastructure over the next twelve months.
- ❑ Significant reduction in operating costs anticipated.

Reorganisation Programme

- ❑ New management team in place from completion.
- ❑ Front office reorganisation substantially complete in Europe and North America.
- ❑ Hong Kong and Singapore offices being integrated.
- ❑ Technology and other support functions under common management. Savings will be realised during 2005.
- ❑ Rationalisation of technology and premises started.
- ❑ On schedule to deliver planned savings by end 2005.

Reorganisation Savings and Costs

	Position at end 2004 £m	Plan £m
Savings	42.0	60.0
Costs incurred:		
- Operating exceptional items	38.5	
- Goodwill (contractual payments)	10.1	
	48.6	80.0
Headcount reduction	340	

Performance Measures - IDB

	2004*	2003 (Proforma)
Average revenues per broker	£350,000	£355,000
Broker employment costs : broking revenue	56%	59%
Ratio Broker : Support Staff	2.1 : 1	2.1 : 1
Operating margin before goodwill, exceptionals & option charges	12.6%	10.1%

* Based on Tullett Liberty business only

Comparison with Sector

	Turnover £m	Operating Profit £m	Operating Margin %
ICAP	801.4	160.3	20.0%
Collins Stewart Tullett	582.4	90.1	15.5%
Collins Stewart Tullett IDB	464.9	51.9	11.2%
Tullett Liberty	403.8	48.0	11.9%
Tradition	373.9	23.9	6.4%
GFI	208.9	24.4	11.7%
eSpeed	88.8	25.7	28.9%

Note: All figures for year to 31 December 2004 except ICAP which are based on year to 31 March 2004.

Stockbroking

Overview

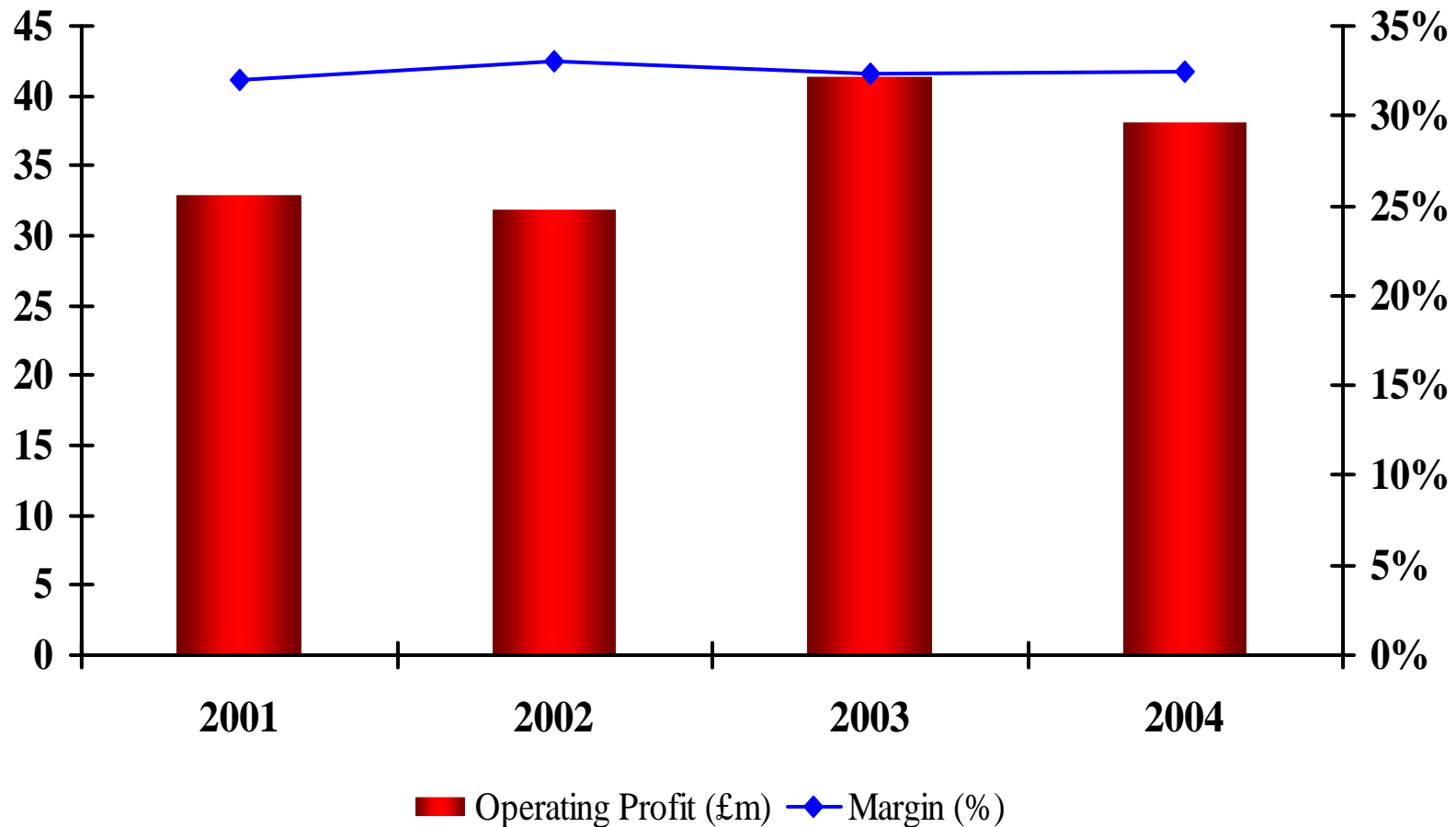
- ❑ Turnover down.
- ❑ Returns maintained.
- ❑ Fewer corporate finance deals less AIPO income.
- ❑ Improved results from all other divisions.
- ❑ Regulatory and legal issues resolved.

Collins Stewart Results

	2004 £m	2003 £m
Turnover	117.5	127.9
Operating profit before:		
- options, goodwill & exceptional items	42.1	44.0
- goodwill & exceptional items	38.2	41.5
Exceptional items	(10.0)	-
Operating margin (see Note)	32.5%	32.4%

Note: Operating margin after charge for share options

Collins Stewart Operating Performance



Note: Operating profit before goodwill and exceptional items

Breakdown of Turnover by Divisions

	2004	2003
	£m	£m
Turnover		
Smaller Companies	45.1	64.9
Larger Companies and QUEST™	25.8	25.2
Private Clients	32.0	27.6
Investment Trusts	8.9	6.7
Fixed Income	5.7	3.5
	<u>117.5</u>	<u>127.9</u>

Breakdown of Turnover by Activity

	2004	2003
	£m	£m
Turnover		
Market Making	13.5	13.0
Commissions	47.8	44.6
Corporate Finance Income	42.3	59.2
Management Fees	13.4	10.8
Other	0.5	0.3
	<u>117.5</u>	<u>127.9</u>

Stockbroking

- ❑ Smaller Companies
 - Raised £0.7bn new equity (2003 : £1.3bn) from 40 (2003 : 52) transactions
 - Award for IPO of the Year – Hamworthy Plc (Growth Company Investor)

- ❑ Larger Companies and QUEST™
 - Turnover up 2% on 2003 despite challenging markets

Stockbroking

- ❑ Private Clients
 - Funds under management increased by 9% to £2.5bn
 - Discretionary funds increased 16% to £1.9bn

- ❑ Investment Trusts
 - Increased market activity
 - Fundraising for Invesco UK Property Income Trust

- ❑ Fixed Income
 - Benefit of new Convertibles team

Collins Stewart Tullett

Balance Sheet

	Dec 2004 £m	Dec 2003 £m
Goodwill	403.9	282.2
Other fixed assets	36.7	35.3
Net funds (cash & cash equivalents less debt)	54.8	183.5
Net creditors	(24.9)	(105.2)
Net assets	470.5	395.8
Share capital/premium	302.7	243.2
Merger reserve	121.5	100.4
Profit and loss account (incl. minority interests)	46.3	52.2
Shareholders Funds	470.5	395.8

Prebon Acquisition

	Book value on acquisition £m	Fair value adjustments £m	Provisional fair value £m
Fixed Assets and Associates	10.0	2.7	12.7
Debtors	70.3	3.3	73.6
Cash and short term deposits	21.0	-	21.0
Creditors and Provisions	(150.4)	(17.8)*	(168.2)
	<u>(49.1)</u>	<u>(11.8)</u>	<u>(60.9)</u>
Goodwill arising			<u>138.7</u>
Purchase consideration			<u>77.8</u>
Purchase consideration comprised:			
Cash			49.6
Issue of shares			22.5
Costs			<u>5.7</u>
			<u>77.8</u>

* Includes £10.1m of contractual completion payments

Analysis of Net Funds

	Dec 2004 £m	Dec 2003 £m
Net cash	125.9	176.8
Loan notes due within 1 year	(1.3)	(1.3)
Loans due within 1 year	-	(8.3)
Loans due after 1 year	(148.3)	(43.2)
Finance lease/hire purchase	(3.1)	(3.2)
	(152.7)	(56.0)
Current asset investments	81.6	62.7
Net Funds	54.8	183.5

Cashflow

	Dec 2004 £m	Dec 2003 £m
Operating profit	21.7	66.9
Amortisation, depreciation and other non-cash items	38.2	22.0
Increase in positions (net)	(20.2)	-
Working capital	(80.6)	38.4
Taxation	(40.4)	(27.5)
Capital expenditure	(5.5)	(7.2)
Acquisition (net)* and disposals	(85.1)	(35.6)
Dividends	(14.9)	(16.4)
Net equity finance	58.1	101.4
Change in net funds	(128.7)	142.0

* Note: Includes cash, debt, leases and current asset investments acquired

Taxation

	2004	2003
	£m	Statutory (Restated) £m
Profit before tax	21.7	66.9
Add back: Exceptional items (operating & non-operating)	49.4	(4.5)
	<u>71.1</u>	<u>62.4</u>
Tax charge	14.0	27.9
Add back: Tax on Exceptional items	14.7	-
Tax charge excluding exceptionals	<u>28.7</u>	<u>27.9</u>
Effective rate of tax (excl. Exceptionals)	40.4%	44.7%
Effective rate of tax (excl. Exceptionals and goodwill amortisation)	31.6%	36.6%

IFRS Key Impacts

- ❑ Share option accounting
 - New valuation basis

- ❑ Improvement of goodwill
 - No amortisation
 - Impairment testing

- ❑ Financial instruments
 - Marked-to-market or fair value

- ❑ Defined benefit pension plans recognised fully on balance sheet

- ❑ Revaluation of available-for-sale assets
 - Marked-to-market

- ❑ Gross-up of balance sheet for matched principal business

Estimated IFRS Adjustments (Unaudited)

	Income Statement 2004 (P&L) £m	Statement of Recognised Income & Expense £m	Reserves £m	Net Assets £m
Share-based Payments	1.6	-	(1.6)	-
Goodwill	17.9	-	-	17.9
Financial Instruments	(2.1)	2.2	-	0.1
Defined Benefit Pension Plan	(1.0)	(6.8)	4.6	(3.2)
Other Identified IFRS Items	1.0	-	0.4	1.4
Estimated Tax Effect	(0.7)	1.9	(1.4)	(0.2)
Final Dividend	-	-	11.9	11.9
Total	16.7	(2.7)	13.9	27.9

IFRS and the Balance Sheet

- ❑ Gross-up of balance sheet for matched principal business
 - Debtors and creditors to increase by £68bn
 - No change to underlying transactions

- ❑ Dividends
 - Proposed dividends only recognised in years declared

- ❑ Reclassifications
 - Software from fixed assets to amortised intangible
 - Other investments to available-for-sale investments
 - Pension deficit tax assets to be included in deferred tax assets

- ❑ Overall IFRS has no impact on the Group's
 - Risk profile
 - Cashflow
 - Regulatory capital

Update on legal and regulatory issues

- ❑ Middleweek case closed
- ❑ Splits Investigation closed
- ❑ Financial Times defamation case
- ❑ Proceedings against BGC in Singapore

Collins Stewart Tullett Plans

- ❑ IDB business
 - Deliver reorganisation savings
 - Improved returns for enlarged business
 - Electronic broking strategy

- ❑ Collins Stewart
 - Look for ways to deepen and broaden product offering
 - Enhance returns from existing businesses
 - Managed increase in risk appetite

- ❑ Collins Stewart Tullett
 - Deliver superior returns for shareholders by developing businesses organically and by acquisition

Appendix

Major Shareholders as at 21 February 2005

Fund Manager / Investor		Holding February 2005	(%)
1.	Toscafund Ltd	18,584,182	8.76
2.	Barclays Global Investors	13,107,381	6.18
3.	Director & Related Holdings	9,742,522	4.60
4.	Legal & General Investment Management	8,407,966	3.96
5.	Lazard asset Management	7,011,764	3.30
6.	Fidelity	6,912,461	3.26
7.	CST Employee Share Ownership Trust	6,749,458	3.18
8.	M & G Investment Management	5,530,948	2.60
9.	Scottish Widows Investment Partnership	5,402,279	2.54
10.	Morley Fund Management	5,356,512	2.52
11.	Dresdner Bank Investment Management	4,581,124	2.16
12.	Baillie Gifford & Co	3,886,088	1.83
13.	AXA Investment Managers	3,649,241	1.72
14.	HSBC Asset Management	3,414,794	1.61
15.	Collins Stewart Nominees	3,212,783	1.51
16.	Morgan Stanley Securities	2,744,974	1.29
17.	Britannic Asset Management	2,586,970	1.22
18.	Hermes Pension Management	2,119,694	1.00
19.	Oppenheim KAG	2,038,286	0.96
20.	Lincoln Fund Managers	1,999,851	0.94
Total		117,039,278	55.14

Source: Capita Registrars

Comparison Data

- ❑ Tradition, GFI and eSpeed have 31 December year ends. Information has been extracted from their 2004 preliminary announcements.
- ❑ ICAP has a 31 March year end. Information has been taken from ICAP's Annual Report.
- ❑ Turnover excludes JVs.
- ❑ Operating profits are reported before amortisation of goodwill, exceptional items and interest income/expense where these can be separately identified.
- ❑ Operating margin = operating profit/turnover
- ❑ Currencies have been converted to GBP using the following rates
£1:CHF2.2726 and £1:US\$1.8355.

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March 2005