



HHG PLC - 2004 interim results

25 August 2004

- Operating profit before tax and other items of £51 million (compared to a loss of £34 million for the six months to 30 June 2003).
- Profit on ordinary activities before tax of £46 million compared to a loss of £902 million for the corresponding period in 2003. The adjustments for writedowns, amortisation and impairment of goodwill and acquired present value of in-force business, short-term investment return fluctuation and profit on business disposal/termination led to a negative charge of £5 million during the period compared to negative £835 million for the first half 2003.
- Henderson operating profit of £25 million (1H2003: £13 million)
- Henderson assets under management of £68.4 billion (31/12/2003: £70.6 billion)
- Life Services operating profit of £32 million (1H2003 loss of £40 million)
- Life Services traditional embedded value £1.31 billion (31/12/2003: £1.15 billion)

Comment from Chief Executive, Roger Yates

"In the first half of 2004, we made good progress against our business objectives, including solid improvements in operating profit and efficiency.

Henderson operating profit was up 92% against the same period last year, and 32% on the second half, on the back of improved market conditions. In addition, Henderson's half year cost to income ratio was below the target set for the full year - driven by higher margin business and increased transaction and performance fees.

Life Services continued to make efficiency gains and its service company is in profit well ahead of schedule. The embedded value for Life Services rose to £1.3 billion due to additional capital and improved investment returns. We took action to strengthen mortality reserves and continued to maintain prudent provisions for Life Services liabilities and risks.

During the period, we realised the investment in Virgin Money and bought out the remaining holding in Henderson from the Pearl shareholder fund. We now have a simpler corporate structure and a stronger balance sheet and the business is better placed to meet upcoming regulatory changes.

HHG has a clear strategy and is on track to deliver both its short- and long-term objectives. Assuming flat investment markets, we expect to maintain margins for Henderson and achieve further efficiency improvements in Life Services in 2004."

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Henderson – strong growth in profits

Operating profit before tax was £25 million, up 92% from £13 million in the first half 2003. This reflects the recovery in equity markets from their low in early 2003 and improvement in fee margins, a core business objective.

Total fee income in first half 2004 of £116 million was 23% higher than in the same period of 2003, reflecting higher management fees and greater transaction and performance fees.

Henderson's cost to income ratio improved further in the first half of 2004 to 79% compared to 86% in first half 2003 and in line with its targets for the full year 2004.

During the first half of 2004, total assets under management (AUM) reduced by £2.2 billion to £68.4 billion. Underlying this position were the expected outflows, associated with the run-off of Life Services, institutional business and AMP, partly offset by inflows to higher margin products and market related improvement.

Henderson has continued to focus on its target of improving margins on AUM. Revenue lost through fund outflows from lower margin Life Services and some external institutional business was offset by gains in higher margin areas such as absolute return funds, collateralised debt obligation funds, US and European Horizon mutual funds and property products.

Life Services – improved efficiency and stronger reserving

Life Services operating profit before tax and other items of £32 million for the first half of 2004 compared favourably to the loss of £40 million in the first half of 2003.

This result demonstrates improved underlying performance partly offset by stronger reserving.

Life Services operating profit reflected the release of prudential margins from the run-off of the closed books and the shareholder's share of bonuses on with-profits business. In addition, there were two major adjustments: an upward revaluation of one of two contingent loans and the strengthening of annuitant mortality assumptions for NPI-related business. The net impact of these and other adjustments was negative £25 million.

HHG Services Limited (the service company) achieved a £2 million profit in the first half of 2004 - a full 6 months ahead of forecast. Further efficiency actions have been identified and will be implemented in procurement, customer service and information technology. As a result, management has now reduced the target cost base from £130 million to £120 million for the full year 2004.

The increase in embedded value for the Life Services business to over £1.3 billion at 30 June included:

- investment return and emergence of earnings from the in-force book of business;
- the positive impact of additional capital attributed to the business unit; and
- the adverse impact of strengthening the annuitant mortality basis.

Life Services capital has increased as a result of the sale by the Pearl Assurance plc (Pearl) shareholder fund of its remaining 24% interest in HHG Invest plc to HHG PLC and the £75 million net consideration arising from the disposal of HHG's interest in Virgin Money Group (Virgin Money). These actions have ensured Life Services is better placed for further regulatory changes.

Regulatory capital

At 30 June 2004, free asset ratios (FAR) for Pearl and NPL were lower than at the full year 2003. However, we removed our reliance on implicit items for Pearl and utilise only £12 million in London Life.

Free Asset Ratio %	Pearl	National Provident Life	London Life
FY03	2.1	1.4	1.7
1H04	1.5	0.4	1.5

We continue to ensure that Life Services operates within its risk budget and is covered by appropriate provisioning.

The Financial Services Authority has now finalised its Practice Statement PS 04/16 on the calculation of realistic balance sheets for life companies. HHG provided realistic balance sheet calculations at 31 December 2003 under the guidance of the preceding Consultation Paper 195. In early October 2004, we intend to release the restatement of these calculations under the new basis and provide the realistic balance sheets as at 30 June 2004.

Other businesses

In February 2004, the sale of the AMPLE online financial services business was completed. The impact of which was provided for in the full year 2003 result.

In April 2004, HHG completed the sale of its 50% holding in Virgin Money to the Virgin Group, resulting in an exceptional profit of £18 million. In the period to disposal, HHG's share of Virgin Money profit was £1 million.

The operations of Towry Law International (TLI) were closed to new business in May 2004, resulting in a non-operating exceptional loss of £7 million for which provision was made in the first half of 2004. The closure of TLI has no impact on the operations of Towry Law in the United Kingdom, which reported an operating profit of £0.4 million for first half 2004.

Balance sheet and liquidity

On 31 March 2004, HHG PLC issued 246,160,000 new ordinary shares for a net consideration of £115 million to acquire the Pearl shareholder fund's remaining investment in HHG Invest plc. The liquidity position of HHG improved as a result of the cash received from the equity raising and from the disposal of its interest in Virgin Money.

Dividend

No ordinary dividend is proposed for the first half 2004. This is in line with HHG's previous statement that, subject to ongoing review, dividends are not likely to be paid in, or in respect of, the years 2004 or 2005.

The Board of Directors

Two new non-executive directors, John Roques and Duncan Ferguson, were appointed to the HHG Board during the year.

Outlook for full year 2004

Assuming flat markets, HHG is on track to deliver its full year 2004 objectives. Specifically, we expect to maintain margins for Henderson and continue operational efficiency improvements in Life Services.

Notes to editors

About HHG PLC

HHG PLC is a diversified financial services group listed on the London and Australian stock exchanges. It is a member of both the FTSE 250 and the ASX 100 indices.

HHG consists of:

- Henderson Global Investors (Henderson), a leading UK-based investment manager with £68 billion of assets under management.
- Life Services – made up of the life and pension books of Pearl Assurance plc, NPI Limited, National Provident Life Limited and London Life Limited, which are closed to new business, and HHG Services Limited, which provides administration services to the life companies.
- The financial advisory firm, Towry Law.

Further information

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Details of Analyst and Investor briefings

Australia – 4.30pm (Sydney time) 7.30am (London time), 25 August

For a telephone link to the briefing dial numbers below at 7.25am, for 7.30am start.

From

Australia	1800 002 087	(free call)
New Zealand	0800 446 477	(free call)
Hong Kong	800 968 584	(free call)
Singapore	800 441 1205	(free call)
United States	1866 850 9296	(free call)
All others	+44 (0) 1452 560 068	(this is not a free call)

United Kingdom – 10.30am (London time), 25 August

For a telephone link to the briefing dial numbers below at 10.25am, for 10.30am start.

From

United Kingdom	0800 953 1286	(free call)
All others	+44 (0) 1452 560 068	(this is not a local call)