



## HHG PLC 2004 Full Year Financial Results

23 March 2005

- Operating profit before tax of £107million (2003: £98million) reflecting solid performance in both Henderson and Life Services
- Profit on ordinary activities before tax\* of £41million (2003 loss: £864million) after write-downs, interest costs, amortisation, impairment of goodwill and present value of in-force business and profit on business disposals totalling £66million (2003 £-962million).
- Profit on ordinary activities after tax £38million (2003: £847million loss)
- Henderson operating profit up 63% to £52million (2003: £32million)
- Henderson cost to income ratio improved to 79% (2003:84%)
- Henderson assets under management of £69.1billion (2003: £70.6billion)
- Life Services operating profit up 6% to £86million (2003: £81million)
- Life Services' traditional embedded value £1.46billion (30 June 2004: £1.31billion, 31 December 2003: £1.15billion).
- On track for sale of Life Services – expected completion in April 2005

### Comment from Chief Executive, Roger Yates

“During 2004, we made good progress against our business objectives, including solid improvements in operating profit and efficiency. We further strengthened our financial position and created shareholder value by restructuring the Group and through the turnaround in and proposed sale of the Life Services business.

Henderson operating profit was up 63% against the same period last year on the back of improved market conditions and revenues from higher margin products. In addition, Henderson achieved its 2004 cost to income target – the improvement from 84% in 2003 to 79% for the year and 78% in the second half was driven by a shift to higher margin business and increased transaction and performance fees. This trend increased total margins on average AUM by 21% from 28bps in 2003 to 34bps in 2004.

Life Services saw improved profit in the second half of 2004 to deliver a full year result of £86million, in line with 2003. The embedded value of Life Services rose to £1.46billion due to additional capital and improved investment returns although the necessary strengthening of annuitant mortality reserves in the first half did have a negative impact.

During the period, we took action to improve the capital position and operational structure of the Group. We exited non-core or non-performing businesses through the divestiture of our investment in Virgin Money and the closure of Towry Law International.

We improved the regulatory capital position, increased provisions against risks across the business and reduced costs where we could. In addition, we simplified the Group by buying out the remaining holding in HHG Invest from Pearl and in the second half we entered into an agreement to sell Life Services and put forward proposals to return the majority of proceeds to shareholders.

All of these actions have helped to create a stronger, more streamlined Group and will ensure we are well placed for the future.'

### **Henderson – strong growth in profits and margins**

Operating profit before tax was £52million - up 63% from £32million in 2003. This reflects the recovery in equity markets from their low in early 2003 and an improvement in fee margins, a core business objective.

Total fee income in 2004 of £234million was 21% higher than in 2003 (£193million), reflecting higher management fees and greater transaction and performance fees.

Henderson's cost to income ratio improved further as growth in revenue ensured the asset management business achieved its target for the year. This was despite increases in the cost base for variable and certain other costs (such as pension contributions). In the second half of 2004 increased revenues drove the ratio to 78% compared to 79% in the first half of 2004 and 84% for 2003.

Total assets under management (AUM) at the end of 2004 were higher than anticipated at £69.1billion (up 1% on 30 June 2004, down 2% against 2003 year end). Underlying this position were the expected outflows associated with the run-off of Life Services and outflows in institutional business offset by market growth and inflows to higher margin products.

Henderson has continued to focus on its target of improving margins on AUM. Revenue lost through fund outflows from lower margin Life Services assets and some external institutional business was offset by gains in higher margin areas such as absolute return funds, US and European mutual funds and property products. This trend increased total margins on average AUM by 21% from 28bps in 2003 to 34bps in 2004.

### **Life Services – improved efficiency and realised value**

Life Services produced a relatively stable operating profit of £86million up 6% on the prior year (£81million) reflecting the release of prudential margins from the run-off of the closed books and the shareholder's share of bonuses on with-profits business. The second half 2004 profit (£54million) was significantly above the first half of 2004 (£32million), which had been impacted by the strengthening of annuitant mortality assumptions for NPIL and NPLL related business in that period.

HHG Services (the service company) achieved an £8million profit for 2004 - well ahead of the breakeven target set for the year.

The rise in embedded value for the Life Services business to £1.46billion at 31 December 2004, included the positive impact of additional capital attributed to the business unit, improved investment return, earnings from the in-force book of business partly offset by the adverse impact of strengthening the annuitant mortality basis.

Life Services capital increased during the year as a result of the sale by Pearl of its remaining 24% interest in HHG Invest to HHG PLC and the £75 million consideration arising from the disposal of HHG's interest in Virgin Money Group (Virgin Money).

### **Update on the sale of Life Services**

On 21 February 2005, at the Extraordinary General Meeting, HHG shareholders voting overwhelmingly in favour of the sale of the Life Services business. HHG is working to secure the required Pension Trustee and UK Financial Services Authority approvals and meet necessary conditions to complete the Sale in April 2005.

In addition to the Sale, HHG proposals also encompass the return of capital to shareholders through two transactions that exchange approximately £885million of the cash proceeds for share cancellation and reduce its register by over 700,000 holdings. Assuming the Sale completes, these transactions are currently expected to be executed in line with the indicative timetable included in the Circular (dated 22 December 2004) issued to shareholders and available on [www.hhg.com](http://www.hhg.com).

### **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 £18million. In the period to disposal, HHG's share of Virgin Money profit was £1million.

In May 2004 HHG announced the closure of Towry Law International (TLI) to new business. This resulted in a non-operating exceptional loss of £8million. Following recent review, management have made additional prudent provisions for TLI in order to ensure an orderly exit from these operations with no adverse impact on the Group going forward. Total provision for TLI product legacy issues stands at £43million at 2004 year end.

The closure of TLI has no impact on the operations of Towry Law in the United Kingdom, which reported a breakeven position for 2004.

### **Balance sheet and liquidity**

On 31 March 2004, HHG issued 246,160,000 new ordinary shares for a net consideration of £115million to acquire Pearl's remaining investment in HHG Invest. The capital and 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 2004 (2003:nil). 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 2004. HHG does expect, subject to the completion of the sale of Life Services, to pay a final 2005 dividend in early 2006.

## **The Board of Directors**

Four new non-executive Directors, John Roques, Duncan Ferguson, Gerald Aherne and Rupert Pennant-Rea were appointed to the HHG Board during 2004. Non-executive Director departures included the two AMP Limited directors, Andrew Mohl (February 2004) and Pat Handley (May 2004) Sir Malcolm Bates and Peter Costain (February 2005) . Rupert Pennant-Rea succeeded Sir Malcolm Bates as HHG Chairman in March 2005.

## **Outlook for full year 2005**

HHG achieved its financial objectives for 2004, including improved profitability and balance sheet strength. Henderson is benefiting from good sales of higher margin products, including property, mutual and hedge funds, which are expected to offset margins lost from outflows in assets under management during 2005. Henderson's expense ratio will be managed by growing revenues and we expect some further progress in 2005 towards our medium term target of 75%.

Towry Law UK is expected to improve its operating result in 2005 although it is likely to remain small compared to the Group as a whole. Corporate costs will be reduced from the levels seen in the first half through a decrease in shareholder servicing costs and downsizing of the Corporate Office.

We continue to manage our capital and risks within the remaining group prudently. Meanwhile, the sale of Life Services and return of cash to shareholders is on track for April 2005 and we expect to pay our first dividend in early 2006 in respect of the end of 2005.

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## **Notes to editors**

\* Excluding minority interests. Profit on ordinary activities before tax including minority interests was £47million for the year to 31 December 2004.

- In this announcement, the term "shareholders" refers to all holders of HHG PLC shares – including those whose holdings are in the form of Chess Depositary Interests on the Australian Stock Exchange.
- All words and expressions used in the Circular have, unless the context requires otherwise, the same meaning in this announcement.

## Background to the sale of Life Services

In December 2004, HHG announced the proposed sale of the Life Services business. Specifically, the Sale offers three key elements of value for shareholders:

- first, cash consideration of £1.07billion in exchange for the closed life insurance and pension books of Pearl, National Provident Life, NPI and London Life, the Service Company and other subsidiaries including the unit linked life companies,
- second, revised investment management agreements on 10 year terms, which provide revenue protection for the £28billion in assets that Henderson manages for Life Services, and
- third, the transfer out of £1.5billion of employee pension liabilities which relate to current and past employees of Life Services. This will significantly reduce future pensions risk for the Group going forward as only liabilities and assets related to current and past Henderson and Towry Law employees will be retained.

## 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 over £69billion 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.

## Financial Calendar

Annual General Meeting	9 June 2005
Release of IFRS 2004 restatements	Provided in June 2005
HHG PLC Interim Results	Expected August 2005

## Further information

[www.hhg.com](http://www.hhg.com) or

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