

COLLINS ♦ STEWART ♦ TULLETT

Preliminary Results 2003

March 2004

Overview

- ❑ First results incorporating Tullett Liberty which was acquired on 10th March 2003
- ❑ 77% of pro forma turnover and 50% of pro forma operating profits from IDB
- ❑ Record year for both businesses
- ❑ Pro forma operating profits up 27% and EPS (both before goodwill and exceptionals) up 32%
- ❑ Dividend up by 15%
- ❑ Diversification across product ranges and markets

Collins Stewart Tullett Statutory Results

	2003 £m	2002 £m
Turnover	473.9	96.0
Operating profit before goodwill amortisation	77.8	32.2
Profit before taxation	69.4	25.5
Profit after tax	40.7	16.0
Profit attributable to ordinary shareholders	39.4	13.3
EPS before exceptionals and goodwill amortisation	28.8p	19.5p
Dividend per share	7.75p	6.75p

Note: statutory figures, include Tullett Liberty results from 10th March 2003

Collins Stewart Tullett Proforma Results

	2003 £m	2002 £m
Turnover	555.3	519.6
Operating profit before g/w amort & exceptionals	87.2	68.7
Profit before taxation	77.2	52.0
Profit after tax	44.4	26.9
Profit attributable to the ordinary shareholders	43.7	26.1
EPS before exceptionals and goodwill amortisation	29.8p	22.6p
Operating profit margin	15.7%	13.2%
Return on Capital Employed	24%	18%

Note: these pro forma figures assume that Tullett Liberty was acquired and the CS preference shares were redeemed on 1st January 2002 per Appendix 2 of Preliminary Announcement

Collins Stewart

Collins Stewart Results

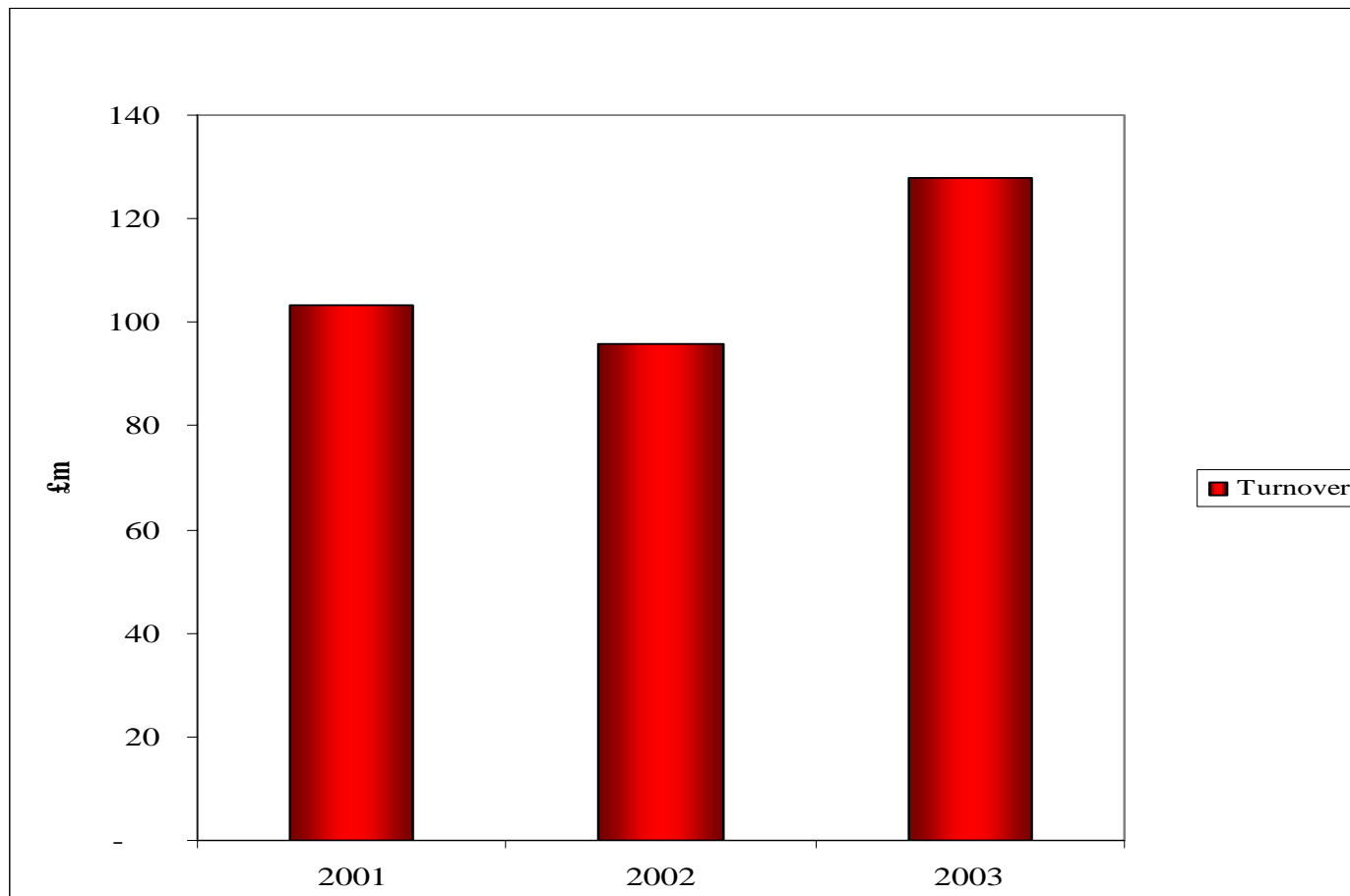
	2003 £m	2002 £m
Turnover	127.9	96.0
Operating profit pre goodwill amortisation	44.0	32.2
Pre-tax profit (<i>Notes 1,2</i>)	37.8	25.5
Profit after tax	24.7	16.0
Operating profit margin (<i>Note 3</i>)	34.4%	33.6%

Note 1 : Excludes goodwill amortisation arising on purchase of Tullett Liberty

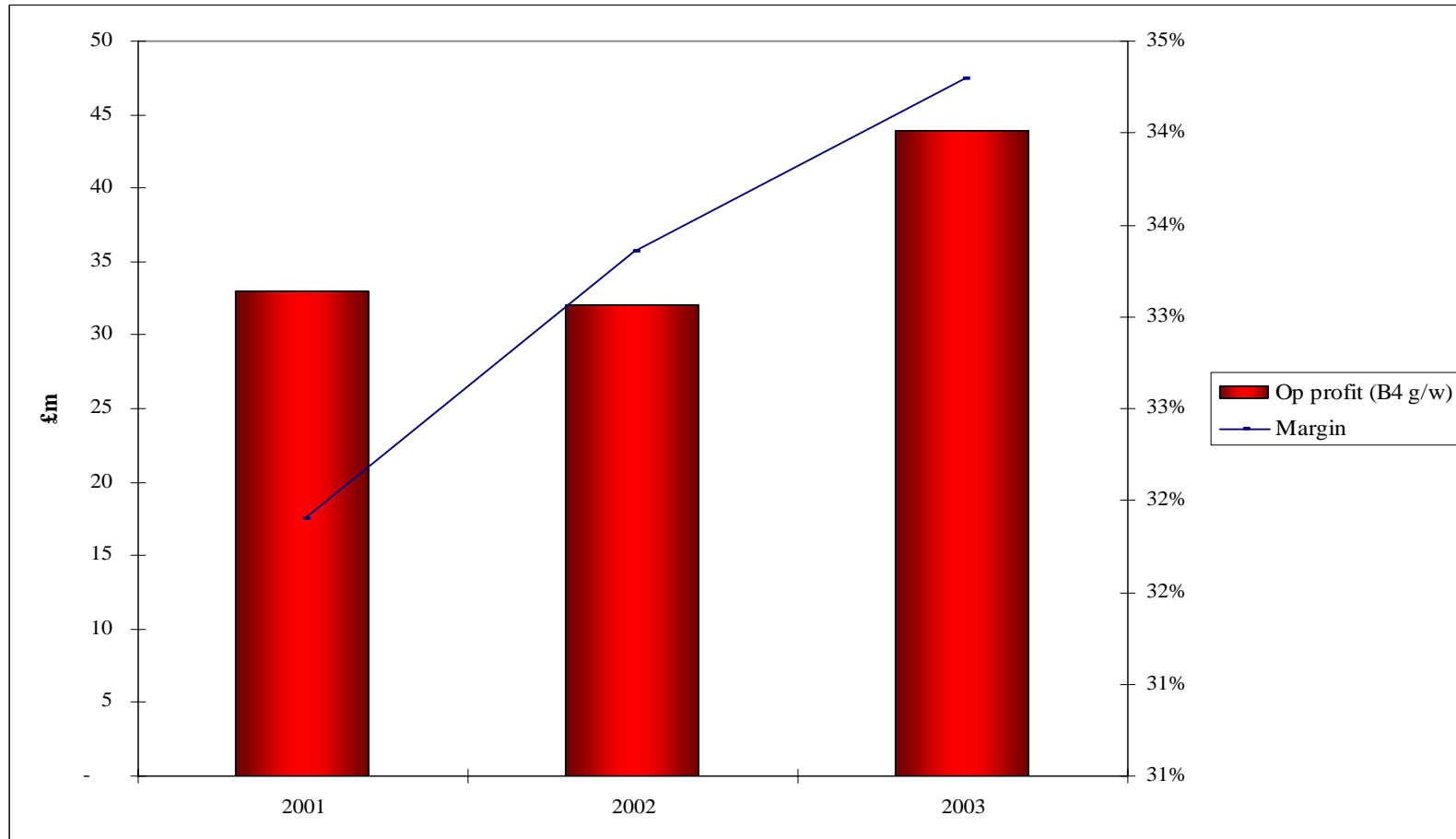
Note 2: Assumes all head office overheads are borne by Collins Stewart

Note 3 : Pre goodwill amortisation

Turnover Trends



Operating profit



Split of Business

- ❑ Small to medium company broking, trading and corporate finance
- ❑ Large company broking
 - London, NY, Dublin, Paris
 - QUEST™
- ❑ Investment Trusts
- ❑ Fixed Interest
- ❑ Private Client Division: Channel Islands, London

Small to Medium Companies

- ❑ Turnover up 102%
- ❑ Raising of £1.25bn of new equity (2002 : £0.52bn) from 52 (2002 : 29) transactions
- ❑ Pioneer of Accelerated IPO (AIPO™) – Northumbrian Water raising £389m and Center Parcs raising £245m
- ❑ No. 2 in new issue league re deal size for Europe/Africa, Middle East (*Source : Dealogic*)
- ❑ Broker/advisor to 89 clients (December 02 : 81)

Larger Company Broking

- ❑ **Agency broking : London and New York**
 - Turnover down 11%
 - Paris and Dublin offices established
 - New team from E-Trade hired in early 2004

- ❑ **QUEST™**
 - Completion of QUEST™ Plus project in H1
 - Salesforce expanded to market Asian securities

Investment Trusts and Fixed Interest

❑ Investment Trusts

- Turnover up 8%
- Recovery in secondary trading (up 233% on 2002)
- Advisor on sector's largest issue
- Improving market conditions in final quarter

❑ Fixed Interest

- Turnover down 15% in volatile markets

❑ Convertibles

- New team hired from West LB Panmure

Private Clients

❑ Channel Islands and London

- Sustained recovery in Q2-Q4, after difficult trading conditions in Q1
- 20% increase in higher margin discretionary FUM. Fee income up 21%

Breakdown of Turnover by Divisions

	2003 £m	2002 £m
Turnover		
Small to Medium Companies	64.9	32.2
Larger Companies	25.2	28.4
Investment Trusts	6.7	6.2
Fixed Interest	3.5	4.1
Private Clients	27.6	25.1
	<u>127.9</u>	<u>96.0</u>

Breakdown of Turnover by Activity

	2003	2002
	£m	£m
Turnover		
Market Making	13.0	8.0
Commissions	44.6	48.8
Corporate Finance Income	59.2	29.7
Management Fees	10.8	8.9
Other	0.3	0.6
	<u>127.9</u>	<u>96.0</u>

Tullett Liberty

Overview

- ❑ No interruptions to business or performance.
- ❑ Volatile/favourable market conditions.
- ❑ Continued increase in turnover – despite weaker dollar.
- ❑ Turnover increased 4% over last year (7% using consistent exchange rates).
- ❑ Strength in fixed income and interest rate derivatives drove improvement.
- ❑ Improvement in margins – especially in Europe.
- ❑ Reorganisation of investments.
- ❑ Acquisition of 100% of Starsupply Energy Limited.

Tullett Liberty Results

	2003 £m	2002 £m
Turnover (<i>Note 1</i>)	427.4	411.3
Operating profit from continuing operations (<i>Note 2</i>)	43.2	37.7
Pre-tax profit (<i>Notes 3</i>)	42.6	32.5
Profit after tax	22.8	16.6
Operating profit margin (<i>Note 1</i>)	10.1%	9.2%
Effective tax rate (<i>Note 4</i>)	40.7%	43.6%

Note 1 : Excluding communications business sold effective 1 January 2003

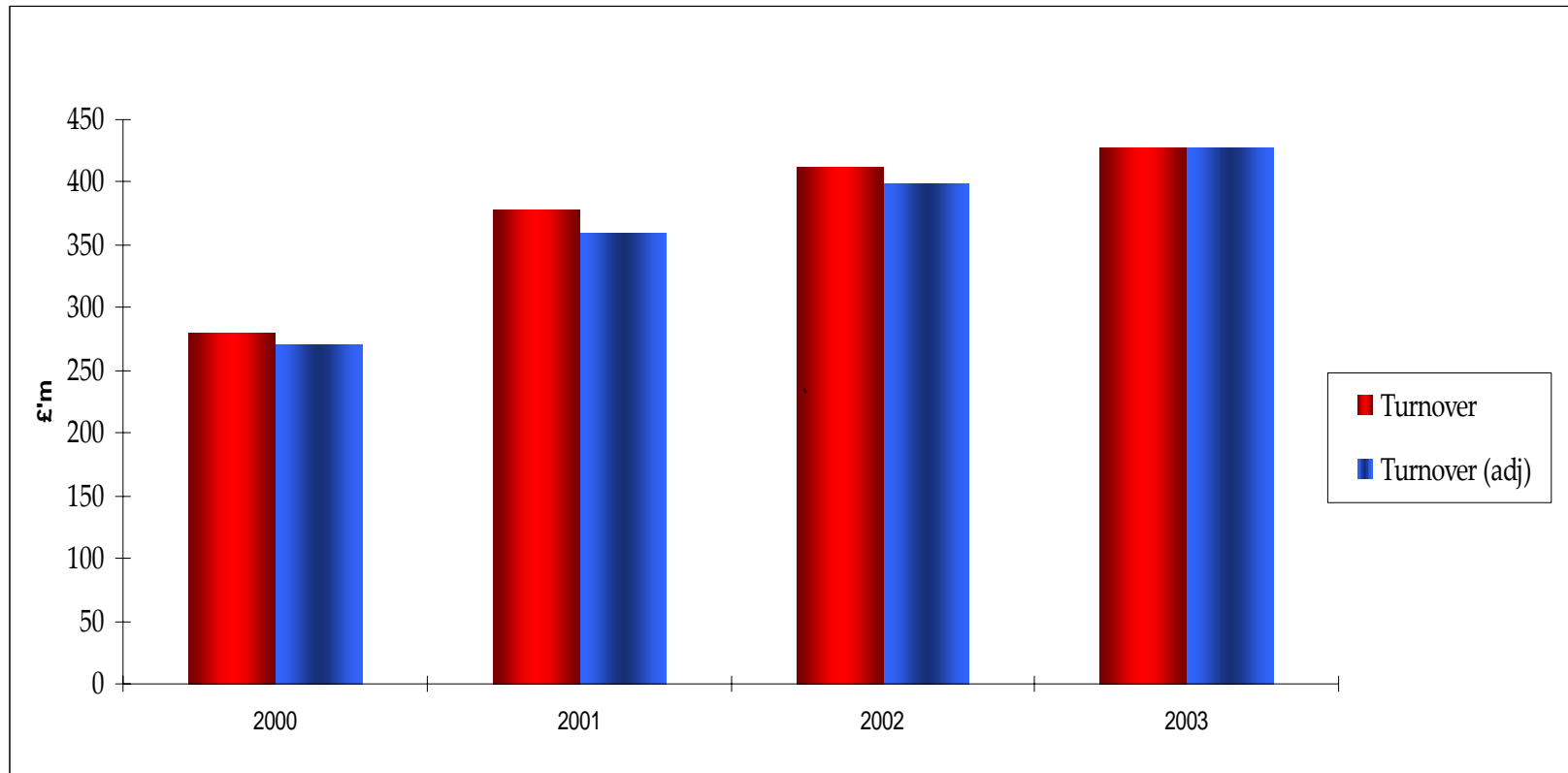
Note 2: Excludes share of operating profits / (losses) in associates, goodwill, exceptional items and losses attributable to the communications business sold effective 1 January 2003

Note 3: Including share of profits/(losses) in associates, exceptional items and profits on sale of businesses

Note 4: Pre goodwill amortisation and costs relating to the acquisition of Tullett Liberty

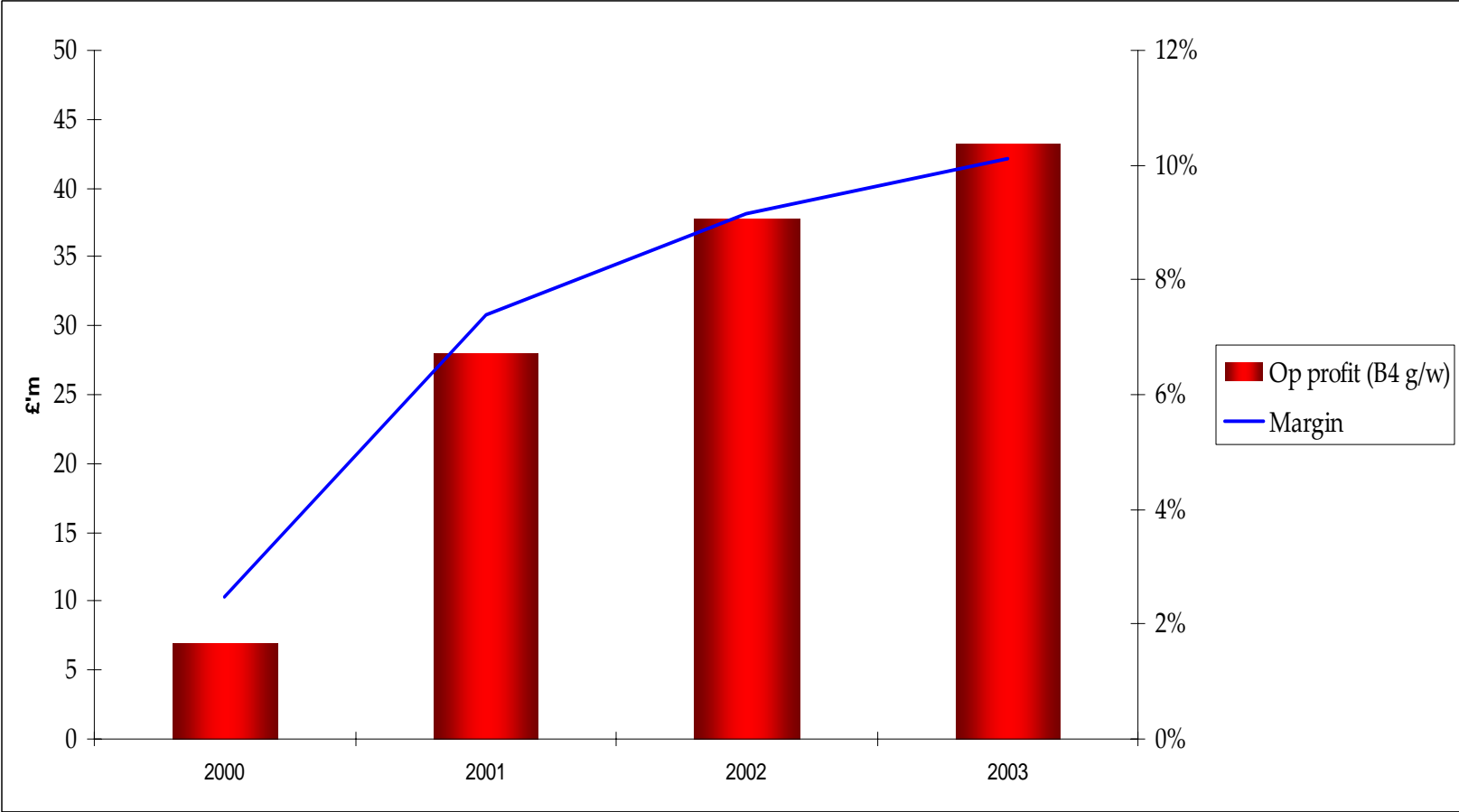
Results are full year pro-forma

Turnover Trends



Note: Turnover (adjusted) is recalculation of previous years turnover at average 2003 exchange rates.

Operating Profit



Regional Analysis of Turnover

	2003 £m	2002 £m
Europe	194.3	179.5
North America	196.5	202.2
Asia Pacific	36.6	29.6
	427.4	411.3
Communications	-	12.3
	427.4	423.6

Europe

- ❑ Turnover increase 8% year on year.
- ❑ Turnover in all product groups ahead of prior year.
- ❑ Fixed Income and Interest Rate Derivatives strongest performers.
- ❑ Operating profit up as a result of restructuring in 2002.
- ❑ Further “tuning” of desks to optimise profitability.

Americas

- ❑ North American operations maintaining performance.
- ❑ Dollar average exchange rate is 9% weaker year on year.
- ❑ Turnover is 6% up in dollar terms.
- ❑ Fixed Income cornerstone of the performance.
- ❑ Investments in relatively underperforming areas.

Asia Pacific

- ❑ Turnover 24% up year on year despite:
 - SARS
 - Earnings in Hong Kong being subject to dollar exchange rate factor

- ❑ Strong second half

- ❑ Strength in indigenous currency derivatives

Information Technology

- ❑ Continued commitment to a hybrid strategy.
- ❑ Further roll-out of “Marker” broking platform.
- ❑ Focus on development and deployment of post-trade STP (post:marker).
- ❑ Completion of communications business disposal and all earn outs achieved.
- ❑ Development of new data sales products.
- ❑ Partnership with CME for clearing OTC derivatives.

Breakdown of Turnover/Margin by Activity

	2003		2002	
	Turnover £m	Margin	Turnover £m	Margin
Securities Broking	240.4	9.3%	240.1	8.0%
Derivatives, Money Broking & Energy	179.1	10.5%	160.1	9.7%
Information Sales	7.9	24.0%	11.1	27.0%
	427.4	10.1%	411.3	9.2%
Communications	-	-	12.3	(10.0%)
	427.4	10.1%	423.6	8.6%

Comparison with Sector

Company	Turnover (£m)	Operating Profit (£m')	Average/Employees
ICAP (1)	760.7	142.6	2,519
Tullett Liberty (2)	427.4	43.2	1,672
Tradition (2)	357.7	27.8	nd
Prebon Yamane (3)	283.1	9.8	1,613
eSpeed (2)	95.2	32.4	334

Note

- 1 12-months to 30 September 2003
 2 12-months to 31 December 2003
 3 12-months to 31 March 2003
 nd not disclosed

Comparison with Sector

Company	Operating Margin	Turnover/Employee £'000	Staff Cost/Turnover
ICAP	18.7%	263.7 ⁽¹⁾	61% ⁽¹⁾
Tullett Liberty	10.1%	255.6	68%
Tradition	7.8%	nd	nd
Prebon Yamane	3.5%	175.5	70%
eSpeed	34.0%	285.0	23%

Note

(1) for year ended 31 March 2003

nd not disclosed

Tullett Liberty Option Schemes

2003 Option Scheme

- ❑ All performance conditions achieved
- ❑ First tranche of options fully vested

2004 Option Scheme

- ❑ Performance condition - improvement in operating profit margin
- ❑ Options over 4.6m shares
- ❑ Nil exercise price options
- ❑ Market purchased shares, exposure hedged, no dilution
- ❑ Major shareholders consulted

Currency Risk Management

Transaction Exposures (2004 revenues not in reporting currency)

- Approximately 70% of USD revenues protected at rates around 1.74
- Approximately 50% of Euro revenues protected at worse case rate of 1.51

Translation Exposures (2004 profits of non STG entities)

- Approximately 70% of USD based profits protected at rates around 1.74

Structural Exposure (net assets of non STG entities)

- 100% of USD based net assets hedged by USD borrowings.

Tullett Liberty Pension Scheme

- ❑ DB section. Closed to new members since 1991
- ❑ FRS17 deficit at acquisition - £24.4m (post tax)
- ❑ Deficit included in fair value adjustment (goodwill)
- ❑ Deficit reduced to £21.4m (post tax) at end of 2003
- ❑ Improvement of £3m not recorded in accounts
- ❑ Do not double count

Collins Stewart Tullett

Balance Sheet

	Dec 03 £m	Jun 03 £m
Goodwill	282.2	290.6
Other fixed assets	35.3	41.8
Net funds (cash & cash equivalents less debt)	183.5	63.3
Net creditors	(114.1)	(23.7)
Net assets	386.9	372.0
Share capital/premium	243.2	242.5
Merger reserve ⁽¹⁾	100.4	100.4
Profit and loss account	43.3	29.1
Shareholders Funds	386.9	372.0

Note: (1) Merger reserves arise from acquisition of Tullett Liberty when CST plc issued new shares.

Analysis of Net Funds

	Dec 03 £m	Jun 03 £m
Net cash	176.8	70.8
Loan notes due within 1 year	(1.3)	(1.4)
Loans due within 1 year	(8.3)	(16.3)
Loans due after 1 year	(43.2)	(51.4)
Finance lease/hire purchase	(3.2)	(3.6)
	(56.0)	(72.7)
Current asset investments	62.7	65.2
Net Funds	183.5	63.3

Cashflow

	Dec 2003 £m	Jun 2003 £m
Pre tax operating profits	40.4	29.0
Goodwill amortisation and depreciation	12.4	9.6
Working capital	86.3	(50.4)
Taxation	(15.4)	(12.1)
Capital expenditure	(4.0)	(3.2)
Acquisition (net)* and disposals	4.7	(40.3)
Dividends	(4.8)	(11.6)
Net equity finance	0.6	100.8
Change in net funds	120.2	21.8

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

Taxation

Pro forma 2003	CS Group	Tullett Liberty	CST Group
Profit before tax (excluding goodwill, including exceptional item)	44.0	48.8	92.8
Tax charge @ 30%	13.2	14.6	27.8
Local standard rate differences	(0.7)	3.3	2.6
Untaxed items	0.0	(1.3)	(1.3)
Disallowable items	0.7	3.9	4.6
Other	(0.2)	(0.7)	(0.9)
Total	13.0	19.8	32.8
Effective rate of tax	29.5%	40.7%	35.4%

- Tullett Liberty rate higher due to high percentage of profits generated in New York, where the basic tax rate is 47% and the level of disallowable items.
- Tullett Liberty benefited in 2003 from the £4.5m exceptional item, which was a tax free capital gain

Update on legal and regulatory issues

- ❑ Employment Case
- ❑ Financial Times defamation case
- ❑ Splits Investigation
- ❑ £2.6m of litigation cost provisions

Collins Stewart Tullett Plans

□ Collins Stewart

- Development of the pre-eminent independent equity stockbroking business in London
- Continued focus on mid-cap corporate finance
- QUEST™ Plus
- Develop outside London using Tullett infrastructure
- New revenue sources

□ Tullett Liberty

- Recruitment and product development
- Bring performance closer into line with ICAP – new option scheme created
- Participation in IDB sector consolidation

□ Collins Stewart Tullett

- Deliver superior returns for shareholders

Appendix

Major Shareholders as at 4 March 2004

Fund Manager / Investor March 2004		Holding	(%)
1.	Employee Share Scheme & Directors	32,153,811	17.00
2.	Fidelity Investment Services Ltd	13,934,778	7.37
3.	Scottish Widows Investment Partnership Ltd	9,752,463	5.15
4.	Lazard	8,088,887	4.27
5.	Totan Derivatives Co Ltd	7,576,134	4.00
6.	Jupiter Asset Management	6,910,298	3.65
7.	AXA Investment Managers	6,710,864	3.55
8.	ISIS Asset Management Plc	6,258,721	3.31
9.	Legal & General Investment Management Ltd	4,965,904	2.62
10.	Baillie Gifford & Co Ltd	4,467,793	2.36
11.	Standard Life Investments	3,691,343	1.95
12.	Abbey National Asset Managers	3,394,825	1.79
13.	Morley Fund Management	3,266,591	1.73
14.	The Governor & Co of the Bank of Scotland	2,904,000	1.53
15.	Shell Pensions Management Services Ltd	2,614,772	1.38
16.	Barclays Global Investors Ltd	2,402,196	1.27
17.	Lansdowne Partners LP	2,318,007	1.22
18.	Oppenheimer Management Corp	2,198,216	1.16
19.	AEGON Asset Management	2,113,493	1.12
20.	Baring Asset management	1,983,767	1.05
Total		127,706,863	67.48

Source: HSBC

Tullett Liberty Product Profile

Securities Broking

- ❑ Fixed income bonds and derivatives
- ❑ Credit derivatives
- ❑ Equities

Derivatives & Money Broking

- ❑ FX (spot & forward)
- ❑ FX options
- ❑ Cash
- ❑ Interest rate options
- ❑ Interest rate swaps

Comparison Data Calculation

- ❑ Tullett Liberty, Tradition and eSpeed have 31 December year ends, ICAP and Prebon Yamane Group have 31 March year ends
- ❑ Total reported turnover and profits excluding JVs has been used. Profits are reported before amortisation of goodwill and exceptional items where this analysis is available from published accounts.
- ❑ Average number of staff has been used to calculate turnover per employee. Where the average figure has not been disclosed, a mean of the previous year's number of employees and current year's number of employees is used
- ❑ Operating margin = operating profit before goodwill/ turnover
- ❑ Currencies have been converted to GBP using the following rates £1:CHF2.1980 and £:US\$1.6453.
- ❑ Data calculated from reported numbers in company accounts / 10-k reports