

4 July 2005

Equity Research

INITIATION OF COVERAGE

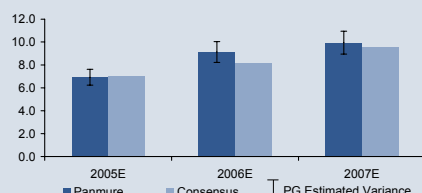
Key Data

Price	117p
Price Target	130p
Market Cap	£288m
FT All Share	2,504
Sector	Specialty & Other Finance
Stock codes	ADN.L / ADN.LN
Next Event	Finals - December 2005
Gearing	44%

Absolute & relative performance



Panmure Gordon EPS rel to consensus



Source Reuters, Panmure Gordon

ABERDEEN ASSET MANAGEMENT HOLD

Needs another deal

Despite raising more than £100m from recent convertible issues, we think Aberdeen needs another £60m from asset disposals and/or further fund raising to meet its medium-term financial commitments.

- **Non-core disposals.** Aberdeen is considering non-core asset disposals, including the sale of all or part of its Property Management division. We believe the property business and the group's stake in New Star could together be worth some £60m.
- **Acquisitions?** An acquisition for shares followed by some non-core disposals for cash could be an alternative solution. Aberdeen is known to be a potential buyer of Deutsche Asset Management's UK businesses.
- **Underlying momentum.** Funding issues aside, the group's core business – equity and fixed income asset management – is performing well. Interim results for the half year to end March reported strong new business momentum and a sharp recovery in profits.
- **Valuation.** With corporate activity looking inevitable, valuing Aberdeen in relation to its current structure is meaningless. Assuming the group realises a net £60m from disposals, we tentatively estimate a fair value for the underlying business broadly in line with current levels. We therefore initiate coverage with a Hold recommendation and a 130p per share price target.

Year end September	Revenues (£m)	PBTA (£m)	EPS (p)	P/E (x)	DPS (p)	Yield (%)
2004A	140.0	17.4	4.68	25.0	4.00	3.4
2005E	150.3	28.3	6.92	16.9	4.40	3.8
2006E	178.1	37.6	9.13	12.8	4.75	4.1
2007E	191.7	41.1	9.95	11.8	5.18	4.4

Source Company Data, Panmure Gordon

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INVESTMENT CASE

Aberdeen's investment case is a frustrating one: on the one hand, its core investment management enterprise is delivering good new business momentum and strong revenue growth; on the other, the group's financial structure remains fragile. As such, the shares are a deal short of a Buy.

FINANCIAL STRUCTURE REMAINS FRAGILE

We calculate that Aberdeen needs at least an additional £60m from asset disposals or capital raising

In spite of recent disposals – including unit trust contracts to New Star, a property business to Arlington and insurance assets to Friends Provident – and some significant refinancing, Aberdeen needs to raise at least an additional £60m by end 2006 to be able to meet its financial commitments, in our view, given its cash commitments and current financial structure. The group's options are: (i) further disposals (the sale of a stake in the property division looks imminent), and/or (ii) an all-share acquisition followed by the sales of assets or management contracts for cash. Aberdeen is known to be a potential buyer of Deutsche Asset Management's UK businesses.

STRONG UNDERLYING MOMENTUM

The first half saw continued strong growth in new business volumes and a near doubling of Investment Management operating profits

The group's interim results for the half year to end March reported continued strong new business momentum. Equity and fixed income net inflows during the period amounted to £1.25bn, with another £360m awarded but yet to fund, adding up to 9% of the half-year's opening assets under management (AUM). First half investment management revenues (ie ex-property management) were up 13% on the first half last year, and up 8% on the second half. The division's operating profits almost doubled yoy, from £7.2m to £14.1m.

KEY OPERATING RISKS ARE COSTS AND LIFE CONTRACTS

Rising staff costs and the significance of the LAHC contract to core revenues are key operating risk factors

The main concerns we have over the core business are (i) rising staff costs – “reasonable and unreasonable bonus expectations” according to management – which could dampen profit growth, and (ii) revenue exposure to loss of term contracts. The acquisition of Century Life by Britannic will result in the loss of £1.5bn AUM from October, reducing next year's profits by around £2m (7% of forecast profits this year). The group's main term contract – the management of £5.5bn for Windsor Life/LAHC – runs until 2011 but comes with significant early termination penalties. However, since it currently accounts for a quarter of non-property AUM and 10% of core revenues, the stability of this contract needs monitoring closely.

CAPACITY ISSUES IN ASIA EX-JAPAN?

The closure to new segregated business of Asia ex Japan could signal capacity constraints in a key growth area

On 22 June, Aberdeen announced that it's Asia Pacific ex Japan equity business was to close for a period to new segregated business, and that closure was immediate. The reason given for the closure was breathing space to digest substantial new assets, which in our view means capacity constrained.

LITIGATION RISK - REO FINALLY ACTS

This week, REO finally pulled the trigger and served proceedings on Aberdeen

On 28 June, Real Estate Opportunities (REO) finally announced it was serving proceedings on Aberdeen subsidiaries, seeking compensation for the substantial losses it suffered following the collapse of the split capital investment trust sector in 2002. Although Aberdeen has rejected REO's claims, and will defend its actions, this litigation adds another layer of uncertainty for equity investors.

Based on our disposal assumptions, the core business trades on a 2006E EV/NOPAT multiple of around 16.7x

Aberdeen remains a high risk investment despite improving fundamentals at the core business

VALUATION

Since further corporate activity will be required to finance future cash commitments, and since the options available will involve changes to the group's earnings outlook and/or its capital structure, valuing Aberdeen in relation to earnings estimates based on the current structure is virtually meaningless.

Assuming the group realises £60m in total from the sale of its remaining property management activities and its stake in New Star, and an "in-force" value for the LAHC contract of £52m, our valuation of the core Investment Management division supports a fair value for the shares of around 130p. Although this appears to underpin Aberdeen's current price, the disposals it assumes are by no means certain, and the analysis is tentative at best.

INVESTMENT SUMMARY

Until the group's financial structure is strengthened – through disposals and/or additional fundraising – Aberdeen remains a high risk investment proposition. Despite improving fundamentals at the core business, the overall strategy appears to be driven by the need to satisfy the group's two main creditors, Bank of Scotland and JP Morgan, rather than for the benefit of ordinary shareholders. Ahead of new news, the shares are likely to appeal to risk tolerant investors only. We therefore initiate coverage with a Hold recommendation.

CATALYSTS

- Asset disposal and/or capital raising news flow
- Resolution of REO litigation
- Pre-close trading update in September
- Final results in December

RISKS

The key upside risks are reduced funding strain due to lower than anticipated cash outflows and/or higher than expected disposal proceeds. The key downside risks are inability to meet scheduled debt repayments and/or uplift package commitments and additional significant AUM losses.

UPSIDE RISKS

- **Acquisition by a third party.** Aberdeen could present an attractive acquisition opportunity to a larger financial willing to look through the group's capital structure.
- **Lower than assumed cash outflows.** Our funding concerns assume a pattern of Progressive Growth uplift package payments that could prove to be overly prudent.
- **Higher than estimated sales proceeds.** We have tentatively assumed around £60m from non-core asset disposals, which could prove to be an underestimate.

DOWNSIDE RISKS

- **Funding.** Insufficient funds to finance the full repayment of the 5.875% Convertible Bonds due January 2007. Even assuming Aberdeen is able to refinance its revolving bank facility (which expires in December 2006), we calculate it will need another £60m to be able to fully redeem the 2007 bonds and meet estimated uplift package payments.
- **Life contracts.** Following the purchase of Century Life by Britannic Group, Aberdeen announced it would lose the contract to manage £1.5bn of Century's assets from 1 October this year. Aberdeen continues to manage £5.5bn for Life Assurance Holding Corporation.
- **Key man risk.** The loss of key individuals such as Martin Gilbert (CEO) or Hugh Young (MD Asia), for example, would be taken badly by markets.

OUR CENTRAL CASE

Management efforts to reduce or restructure the group's debts are to be applauded. Nevertheless, funding issues continue to dominate the company's overall strategy, overshadowing progress in the underlying investment management business.

FUNDING

A combination of events in 2001 and 2002 has necessitated a programme of asset sales and fund raisings to de-leverage Aberdeen's balance sheet

Funding issues have been central to Aberdeen's overall strategy since early 2002 and the beginnings of the collapse of the UK split capital investment trust sector. In short, the combination of an already highly leveraged balance sheet at the beginning of the crisis, together with significantly reduced revenues (and cash outflows) as a result of it, has necessitated the cost reduction, disposal and debt restructuring programme that has dominated management time and investor attention for two years now.

The current position

In total, the group has £170m of prior charges over its ordinary equity, of which £80m are preference shares (Tier 1 capital)

The group's end-March net debt (and a pro forma position adjusted for this month's £80m convertible preference share issue), are set out below.

End-March 2005 borrowings, shareholders' funds & gearing (£000)

	Mar-05 actual	Mar-05 pro forma
Bank debt (to December 2006)	55,125	55,125
5.875% Convertible Bonds 2007	98,645	98,645
4.50% Convertible Bonds 2010	25,624	25,624
Guaranteed ULS	1,998	1,998
Net cash	-15,546	-10,796
Proceeds from 6.75% units (gross)		-80,000
Borrowings	165,846	90,596
Equity shareholders' funds	130,952	130,952
Preference shareholders' funds (net)		75,250
Shareholders' funds	130,952	206,202
Gearing ratio	127%	44%

Source Company

In issuing irredeemable preference capital, Aberdeen will be able to retire three-quarters of its 5.875% Convertible Bonds due in January 2007, and on the face of it, reduce its balance sheet gearing from 127% to below 45%.

In practise, since preference capital still represents a prior charge over the group's ordinary share capital, the new preference shares essentially only extend the term of Aberdeen's funding. From a regulatory perspective, an additional benefit is that it counts as Tier 1 for capital adequacy purposes.

We estimate that Aberdeen needs another £60m at least to be able to meet expected cash calls

As shown below, however, Aberdeen is facing cash calls estimated at around £135m between April 2005 and January 2007, partly offset by additional deferred disposal proceeds budgeted at around £17m. Since we expect Aberdeen would be able to renegotiate the £55m bank debt element of this total (a facility that currently extends only to December 2006), this still leaves an additional funding requirement of around £60m.

This is acknowledged by the company. According to the June 2005 preference share prospectus, "the Aberdeen Group has sufficient working capital for its present requirements that is for at least the next 12 months from the date of this document". In discussing disposals, it acknowledges that "failure to realise such disposals may result in Aberdeen having to seek funding from alternative sources".

Non-operating cash flows (£m)

	Split cap central fund	Progressive uplift plan	Disposal proceeds*	Bank debt	Outstanding 2007 bonds	Total
Apr-05			7.0			7.0
Jun-05	-17.5		2.5			-15.0
Aug-05		-6.4				-6.4
Sep-05		-5.6				-5.6
Oct-05		-4.0				-4.0
Jan-06		-4.8				-4.8
Apr-06		-6.9	3.5			-3.4
Jul-06		-9.0	3.5			-5.5
Oct-06		-1.4				-1.4
Dec-06				-55.1		-55.1
Jan-07					-22.8	-22.8
Total	-17.5	-38.1	16.5	-55.1	-22.8	-117.0

*Lombard & UK Property disposals only

Source Company, Panmure Gordon

The group's options appear to be:

1. Further non-core asset sales

Aberdeen's management has declared Property Management as non-core, and that it is currently in negotiations that may lead to a partial sale of the business.

Based on our 2006E estimates, we consider £50m to be a crude but reasonable estimate as to the market value of the Property division, suggesting Aberdeen could receive £25m from the sale of a 50% share of this business.

The group's shareholding in New Star Asset Management – currently carried at £6m – could be worth around £10m on a New Star flotation. Clearly the timing of such an event is out of Aberdeen's control.

2. Additional fund raising

We see little scope for additional debt or preference share issuance. At its EGM in March, Aberdeen sought approval to issue up to £125m of preference shares. In the end, it issued £80m of convertible preference shares, the conversion option (the detachable warrants) apparently being necessary to hold the dividend down to its eventual 6.75% (the required return on a straight preference share issue was closer to 10%, we understand).

An acquisition for shares followed by the sale of non-core assets or management contracts for cash seems more likely, and we note Aberdeen's interest in the sale of Deutsche Asset Management in this context.

Lock-up provisions associated with this month's preference share placing could delay such a transaction, however (Aberdeen would need JP Morgan's permission to issue equity within a 90 day lock-up that commenced on 3 May).

3. Renegotiation of the LAHC contract?

Less likely, but worth considering, is the potential for Aberdeen to negotiate the transfer/early termination of at least part of its contract to manage LAHC. Since the contract yields revenues of around £11m per annum, we estimate an "in-force" value (the contract runs until June 2011) of £50-55m, around the level of its current early termination compensation value of £52m. Hypothetically, at least, the "sale" of half of the contract could release around £25m (in effect, the early recognition of part of the contract's in-force value).

Contingent liabilities

The above analysis takes no account of Aberdeen's significant contingent liability, its dispute with Real Estate Opportunities Limited (REO):

Aberdeen is currently in negotiations that may lead to a partial sale of the Property Management division

Issuing shares to fund an acquisition, followed by some disposals for cash, is an alternative solution...

...although there is a lock-up agreement that lasts until early August

REO has finally pulled the trigger and served proceedings on Aberdeen

- On 3 April 2003, REO announced it had terminated its management contract with Aberdeen with immediate effect and indicated that it held Aberdeen liable for damages relating to split capital trust holdings in its income portfolio.
- On 28 June 2005, REO announced it had served proceedings on two of Aberdeen's subsidiaries (and UBS), and that it was seeking compensation for the substantial losses suffered in its income portfolio, which was established by Aberdeen and UBS in June 2001.
- Also on 28 June, Aberdeen stated that it continued to reject REO's allegations, and that it will be bringing a counterclaim (for fees relating to the 12 months' notice period provided for in the REO management contract that were not paid) in due course.

No provision has been made by Aberdeen for additional legal and/or settlement costs in relation to this litigation.

Pension funding

Aberdeen's combined end-September 2004 pension fund deficit totalled £19m

As at end September 2004, the combined deficit in the group's various defined benefit pension schemes on an FRS 17 basis amounted to £19.0m. Although the deficit is being reduced through annual contributions totalling £4.1m, it will be deducted from Aberdeen's net assets following the implementation of IFRS from 1 October this year.

Needs another deal

In summary, Aberdeen needs at least one more sizeable transaction – a disposal and/or an acquisition

Given its remaining, relatively near-term funding requirements, Aberdeen needs at least one more sizeable transaction – the disposal of property and perhaps an acquisition for shares – to be in a position to meet scheduled debt repayments and other committed cash calls over the next 18 months or so. Another deal might also loosen the hold Bank of Scotland and JP Morgan currently have on the group's strategy.

Investment Management and Property Management divisions

ASSET MANAGEMENT ACTIVITIES

Aberdeen's activities can be grouped into its equity and fixed income activities and its remaining Nordic and Continental European property investment businesses.

Assets under management

The table below sets out the growth and mix of the group's assets under management (AUM) over the past five years.

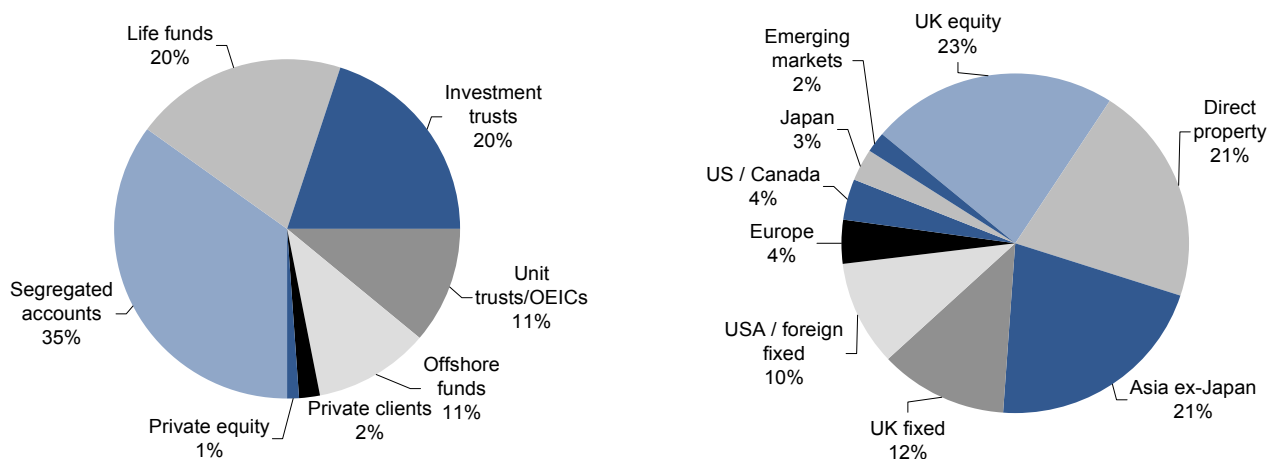
Assets under management (£m)

Year to September	2000A	2001A	2002A	2003A	2004A	Mar-05A
Institutional funds	10,264	20,025	12,902	12,212	11,821	13,897
Unit trusts & unit linked	6,351	5,838	4,379	2,327	2,594	2,874
UK investment trusts	2,791	6,443	4,480	3,990	4,966	5,016
Offshore funds	1,752	1,413	965	1,227	1,961	2,851
Discretionary accounts	657	526	432	389	393	412
Private equity	85	478	493	455	363	362
	21,900	34,723	23,651	20,600	22,098	25,412
Equities:						
UK	7,739	9,997	5,417	4,814	6,740	6,076
European	1,765	2,910	1,420	1,235	994	1,087
USA	2,444	1,943	1,074	870	1,215	1,098
Asia Pacific	815	1,331	1,371	1,950	4,006	5,557
Japan	543	740	397	400	560	640
Emerging Markets	272	298	221	194	266	278
	13,578	17,219	9,900	9,463	13,781	14,736
Fixed interest & cash	7,446	10,766	7,107	5,468	4,405	5,406
Property	876	6,738	6,644	5,669	3,912	5,270
	21,900	34,723	23,651	20,600	22,098	25,412

Source Company

As at end March 2005, equities accounted for 58% of AUM, with fixed income/cash and direct property each accounting for 21% of the asset mix.

Assets under management – end-March 2005 breakdown by (i) client type, (ii) asset class/geography



Source Company

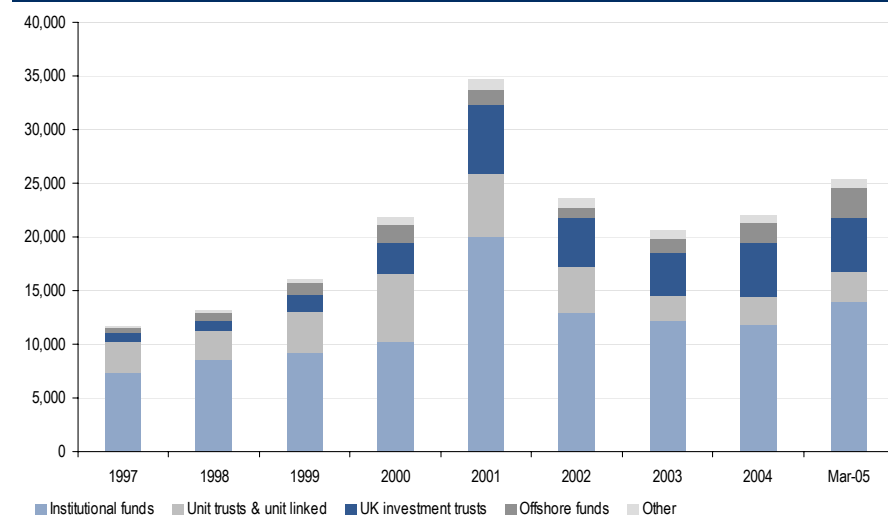
UK assets accounted for just over a third of end-March AUM (23% equities, 12% fixed income) with Asia the next largest region at 24% (21% Asia excluding Japan, 3% Japan).

Acquisitions and disposals have dominated asset flows

Asset flows

Aberdeen's AUM progression has reflected a combination of investment returns and asset flows, set out below for 2001-2005. The three key elements of Aberdeen's asset flows have been (i) net new business, (ii) the acquisition and disposal of businesses, and (iii) the purchase, sale and loss of significant life assurance management contracts.

Assets under management (£m)



Source Company

1. Net new business

The group's net new business record improved in 2004 following two difficult years during which modest institutional and open-ended fund inflows were offset by outflows relating to split capital investment trust issues (see Appendix II).

Investment returns & asset flows (£bn)

Year to September	2001A	2002A	2003A	2004A	H105A
Opening AUM	21.9	34.7	23.7	20.6	22.1
Investment return	-6.3	-2.2	0.9	0.8	0.7
Net new business	2.0	0.1	-2.3	2.0	1.5
Other	17.1	-8.9	-1.7	-1.4	1.2
Closing AM	34.7	23.7	20.6	22.1	25.4
Average AUM	28.3	29.2	22.2	21.3	23.8

Source Company

- Recovery in 2004 reflected improved investment performance (in part due to the adoption of a consistent, bottom-up equity investment process), and a more focused sales and marketing effort. Aberdeen won some £650m of new institutional mandates in 2004, mainly in Asian and emerging market equities, and saw net inflows of some £800m into its offshore and UK closed-end funds. Continuing property management activities saw £564m of net new business.
- The interim results for the half year to end March reported continued new business momentum. Equity and fixed income net inflows during the period amounted to £1.25bn, with another £360m awarded but yet to fund, adding up to 9% of the half-year's opening assets under management (AUM). Net new business inflows included inflows from Europe, North America, the Middle East and Asia Pacific. UK mandates included The New India Investment Trust and Aberdeen's appointment as one of the two new managers of the F&C Pacific Investment Trust.

Net new business flows – continuing businesses (£m)

Year to September	H104A	H204A	2004A	H105A
Net sales of open-ended funds	454	471	926	711
Segregated account mandates	298	351	649	376
New closed end funds				299
Liquidations, buy-backs & closures	-48	-79	-127	-136
Investment Management	704	743	1,447	1,250
Nordic Property	150	414	564	250
Total	854	1,157	2,011	1,500

Source Company

Last week, Aberdeen announced that it had closed its Asia ex Japan unit to new segregated business, effective immediately

Asia Pacific ex Japan closed to new segregated business. On 22 June, Aberdeen announced that its Asia Pacific ex Japan equity business was to close for a period to new segregated business, and that closure was immediate. Aberdeen has continued to pursue mandates for which it had already pitched, and clients with an existing Asia Pacific ex Japan segregated portfolio are still able to allocate additional funds to their accounts. Aberdeen's Asia Pacific ex Japan pooled funds, segregated equity products and pooled vehicles for single countries (such as China and India), Asia Pacific inc Japan, Asia Pacific ex Japan smaller companies and Global Emerging Markets are unaffected. The reason given for the closure was for breathing space to digest substantial new assets, which in our view means capacity constrained.

In the 16 months to end-January 2002, Aberdeen purchased £17bn of AUM; since then it has sold £12bn

2. Purchases & sales

The purchase or sale of businesses or management contracts has had more of an impact on group AUM over the past five years than either of investment returns or net new business. Appendix II tracks and explains the strategic logic underlying these transactions. However, in the 16 months to end-January 2002, Aberdeen acquired businesses or contracts with a total of £17.3bn of AUM. Since then, Aberdeen has sold (or bought and sold) around £12bn.

The loss of the Scottish Provident contract was a significant blow; the loss of Century Life will impact profits next year

3. Life assurance contracts

Aberdeen has lost two sizeable life assurance contracts over the last three years. The first, the loss of the contract to manage the £7bn Scottish Provident life fund that came as part of the acquisition of Prolific in 1997, followed the acquisition of Scottish Provident by Abbey National in 2002. The second, the loss of the contract to manage £1.5bn for Century Life, followed the acquisition of Century by Britannic Group in March this year.

Aberdeen has stated that the Century contract accounted for 2.1% of its 2004 revenues. Since revenues were £140m last year, this implies revenues from the contract of £2.9m (which amounts to 3.2% of 2004 revenues from the group's core Investment Management division³). The six month notice period on the contract means that the impact of the loss won't be registered until the 2005/06 financial year.

The LAHC contract runs until June 2011 and contributes revenues of around £11m p.a.

The LAHC contract

In this context, it is important to note that Aberdeen still has one very significant life assurance contract. On 12 April 2001, Aberdeen announced it had agreed terms with Life Assurance Holding Corporation (LAHC), under which Aberdeen would become the manager of the investment funds of the LAHC Group and specifically its principal subsidiary Windsor Life. As consideration, Aberdeen issued 15.1m new shares and loan notes worth £10m to LAHC, in aggregate valued at £87.6m at the time of the transaction.

The assets involved amounted to (and still amount to) approximately £5.5bn and which generate annual fees for Aberdeen of around £11m (8% of total 2004 revenues, 12% of core revenues). The contract is exclusive, runs until June 2011,

and has sizeable early termination clauses written into it (currently, Aberdeen would receive £52m in compensation for early termination).

We highlight the LAHC contract for the following reasons:

- In January, Windsor Life (now a wholly owned subsidiary of Swiss Re) disposed of its 15.1m shares in Aberdeen, and John Wybrew (former Chairman and managing director of Windsor Life) announced his intention to resign as a non-executive director following this year's AGM, having joined the board following the LAHC acquisition in 2001. As a result, Windsor Life has somewhat distanced itself from Aberdeen, even if these events have had no impact on the management contract itself.
- That the contract has only another six years to run has implications for valuation. We calculate the revenue stream has an NPV of around £55m, not far from the "value" of early termination compensation. We argue that the correct way to value Aberdeen is to subtract this figure from Aberdeen's enterprise value to derive an implied value for continuing core Investment Management activities, and to exclude the LAHC revenue stream from underlying earnings. We consider this in the Valuation section below.
- The recent transfer of term life assurance contracts that have negatively impacted other asset managers (in particular, F&C Asset Management following the acquisition of Resolution Life by Britannic Group).

Investment Management & Property Management divisions

Aberdeen's continuing activities can be separated into its Investment Management activities (equity and fixed income asset management) and its remaining Property Management activities. The income and expense records of these two divisions are set out below.

Income & expenses – continuing activities (£m)

Year to September	2001A	2002A	2003A	2004A	H105A
Investment Management					
Income	163.1	141.5	90.1	92.8	51.6
Expenses	-107.5	-94.3	-79.9	-73.6	-37.5
Operating profit	55.5	47.2	10.2	19.2	14.1
Operating profit margin	34.1%	33.3%	11.3%	20.7%	27.3%
Property Management					
Income	19.1	38.7	37.1	35.7	21.4
Expenses	-15.7	-29.4	-29.6	-30.5	-19.3
Operating profit	3.4	9.3	7.5	5.2	2.1
Operating profit margin	18.0%	23.9%	20.1%	14.6%	9.9%
Group					
Income	182.1	180.2	127.1	128.5	72.9
Expenses	-123.2	-123.8	-109.5	-104.0	-56.7
Operating profit	59.0	56.4	17.7	24.4	16.2
Operating profit margin	32.4%	31.3%	13.9%	19.0%	22.2%

Source Company

Property Management is clearly designated as "non-core"

Property Management. In the group's interim results, announced 3 May, Aberdeen made the following comments regarding its Property Management division: "The Board recognises that to maximise the growth opportunities available in this division will require additional financing and we have entered exclusive discussions with a potential partner who can provide the additional resources required to properly seed these new initiatives." In its Preference Share Unit Placing & Open Offer circular, published in June, Aberdeen went a little further, stating that: "the Board is considering the disposal of further non-core

assets, including the possibility of selling a shareholding in the property management division”

From a forecasting perspective, we continue to assume Property Management remains 100%-owned. From a valuation perspective, we have assumed the sale of this business (for £50m) and excluded its contribution to group earnings.

Investment Management has delivered strong revenue growth and even stronger profit growth

Investment Management. The table below summarises the key margins and ratios of the core Investment Management division:

Investment Management division (£m)

Year to September	H104A	H204A	2004A	H105A
Income	45.5	47.3	92.8	51.6
Expenses	-38.3	-35.3	-73.6	-37.5
Operating profit	7.2	12.0	19.2	14.1
Opening AUM	14,931	17,366	14,931	18,186
Investment return	369	-6	363	687
Net flows	704	743	1,447	1,250
Acquisitions/disposals	1,362	83	1,445	157
Closing AUM	17,366	18,186	18,186	20,280
Average AUM	16,149	17,776	16,559	19,233
Income/avgAUM	0.56%	0.53%	0.56%	0.54%
Expenses/avgAUM	-0.47%	-0.40%	-0.44%	-0.39%
Operating profit/avgAUM	0.09%	0.14%	0.12%	0.15%
Operating profit margin	15.8%	25.4%	20.7%	27.3%

Source Company, Panmure Gordon

- Based on the first half, the division’s revenue run-rate is currently around £103m, a revenue margin on average AUM of 54 basis points. Since the Century Life contract looks to have paid around 15 basis points, the outlook is for the division’s margin to rise following the loss of the contact this October (we forecast a revenue margin of 57 basis points in 2006).
- The division’s operating profit margin on revenues has increased from 16% in the first half last year, to 27% this year. Management has targeted a divisional margin of around 30%, to be driven by revenue growth as opposed to further reductions in the cost base.
- The improvement in profitability reflected in the division’s operating margin has turbocharged profit growth. Whilst first half revenues increased by 13%, operating profits almost doubled.

Near-term operational issues

As we see them, the key near-term issues relating to the underlying business are:

Revenue loss. The forthcoming loss of the Century contract will impact revenue growth in 2006. As previously discussed, there is additional revenue risk relating to the LAHC/Windsor Life contract (to the outright loss of the contract or a renegotiation of its terms).

Rising costs. Management has on a number of occasions made reference to “reasonable and unreasonable” bonus expectations. In addition, we estimate that the amortisation of the combined expenses of the 4.5% Convertible Bonds and the 6.75% Convertible Preference Share Units will increase costs by around 1.5% from next year. Looking forward, we expect cost pressures to limit further operating profit margin expansion.

SHAREHOLDER BASE

Aberdeen’s shareholder register has seen some significant changes over the past six months. The largest shareholders as at end December 2004 – Phoenix

Near term operational issues include the loss of Century Life revenues and rising staff costs

The group’s share register has seen major changes over the past six months

Companies (16.1%), Hermes (8.0%) and LAHC (6.4%) – all sold between 11 January and 4 February this year. In their place, the group has seen the emergence of some new names – Jupiter (6.7%), Liontrust (5.1%), Stavanger Fondsforvaltning (4.2%), Fidelity (3.9%), and non-beneficial holdings at Goldman Sachs (4.5%) and JP Morgan (3.4%).

INVESTMENT SUMMARY

Ahead of the announcement of disposals or additional fundraisings, the shares are likely to appeal to risk tolerant investors only

Since further corporate activity will be required to finance future cash commitments, and since the options available will involve changes to the group's earnings outlook and/or its capital structure, valuing Aberdeen in relation to earnings estimates based on the current structure is virtually meaningless.

Assuming the group realises £60m in total from the sale of its remaining property management activities and its stake in New Star, and an "in-force" value for the LAHC contract of £52m, our valuation of the core Investment Management division supports a fair value for the shares of around 130p. Although this appears to underpin Aberdeen's current price, the disposals it assumes are by no means certain, and the analysis is tentative at best.

ANALYSIS OF FORECASTS

In addition to group forecasts based on the existing structure, we also forecast earnings excluding non-core assets and also excluding on an "ex-LAHC" basis

Our group forecasts reflect the current operating and capital structures, which includes contributions from both the core Investment Management and non-core Property Management divisions. In addition, we also forecast earnings assuming the disposal of non-core assets and excluding the LAHC life assurance contract.

BASE CASE FORECASTS

Our base case group forecasts, including contributions from Investment Management and Property Management divisions and assuming the existing capital structure, are set out in detail later in this note. Our forecasts have been prepared on a UK GAAP basis since Aberdeen will not move to IFRS until 1 October this year. The key assumptions underlying these forecasts are as follows:

Asset growth

- A 6% full year (to September 2005) investment return on Investment Management division opening AUM, and a 2% return at Property Management.
- Net new business inflows of £2.1bn at Investment Management this year (£0.8bn in H2), and £378m from Property (£128m in H2).
- Including first half acquisitions, we assume 18% growth in Investment Management AUM this year and 38% growth at Property.
- For the year to September 2006, we have factored in a £1.5bn reduction in Investment Management division AUM on 1 October 2005 to account for the loss of Century Life assets.
- For Investment Management, we have assumed a 7% investment return and net new business equal to 3% of opening AUM for both 2006 and 2007. Together with the Century loss, these assumptions deliver 3% and 10% AUM growth respectively.
- For property, we have assumed 10% AUM growth in both 2006 and 2007.

Margins

- But for the loss of Century Life assets, which increases the average return on Investment Management division AUM from 54bps this year to 57bps in 2006, we have assumed stable gross margins at both divisions out to 2007.
- We forecast a modest fall in the Investment Management operating profit margin in the second half this year (from 27.3% to 26.9%), to reflecting higher staff costs. For 2006 and 2007, we forecast an increase in the division's operating margin to just below 30%.
- For property, we have assumed a recovery in the operating margin, from 9.9% in H1 to 12.1% for the full year and to around 16% in 2006 and 2007.

Net interest and dividends

- Our net debt and hence net interest payments are based on the group's existing capital structure, expected cash outflows relating to split capital-related settlement and uplift packages, and dividend payments.
- For dividends, we have assumed 10% growth this year (effectively predicted in the 6.75% preference share prospectus), followed by 8% in 2006 and 9% in 2007. (These assumptions trigger adjustments to the conversion terms/exercise price of the group's recent convertible issues and hence increases fully diluted shares.)

Tax

- We assume a 25% group tax charge throughout the forecast period.

EX-PROPERTY & EX-PROPERTY/LAHC FORECASTS

The forecasts below assume: (i) the sale of the Property Management division and the New Star stake for net proceeds of £60m, used to pay down debt (we have assumed these disposals were effective at the beginning of the second half of the current financial year); (ii) in addition, the termination of the LAHC contract, effective 1 October 2005, with a compensation payment of £52m used to pay down debt (the loss of the contract reduces our 2006 and 2007 revenue and profit forecast by £11m and £9m p.a.).

Ex-Property forecasts (£m)

Year to September	2005E	2006E	2007E
Income	106.2	124.4	132.5
Expenses	-77.4	-87.3	-93.0
Operating profit	28.8	37.1	39.5
Net interest	-9.4	-5.5	-5.3
Profit before tax	19.4	31.6	34.2
Tax	-4.8	-7.9	-8.5
Preference dividends	-1.3	-3.8	-3.8
Attributable profit	13.3	19.9	21.9
EPS	5.5	8.2	9.0
Diluted EPS	5.6	7.7	8.3
Opening AUM	18,186	21,496	22,146
Investment return	1,092	645	664
Net flows	2,061	1,505	1,550
Acquisitions/disposals	157	-1,500	0
Closing AUM	21,496	22,146	24,360
Average AUM	19,841	21,821	23,253
Income/avgAUM	0.54%	0.57%	0.57%
Expenses/avgAUM	-0.39%	-0.40%	-0.40%
Operating profit/avgAUM	0.15%	0.17%	0.17%
Operating profit margin	27.1%	29.8%	29.8%

Source Panmure Gordon

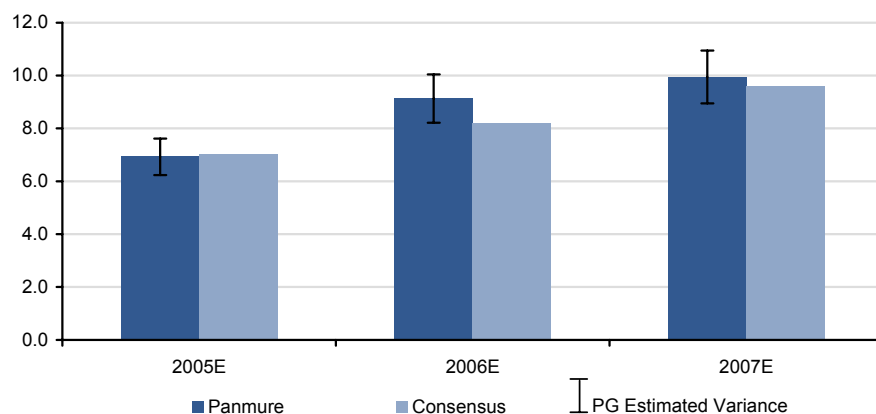
Ex-Property/LAHC forecasts (£m)

Year to September	2005E	2006E	2007E
Income	106.2	113.4	121.5
Expenses	-77.4	-85.3	-91.0
Operating profit	28.8	28.1	30.5
Net interest	-9.4	-3.5	-3.3
Profit before tax	19.4	24.6	27.3
Tax	-4.8	-6.2	-6.8
Preference dividends	-1.3	-3.8	-3.8
Attributable profit	13.3	14.7	16.7
EPS	5.5	6.1	6.9
Diluted EPS	5.6	6.1	6.7
Opening AUM	18,186	21,496	16,646
Investment return	1,092	645	664
Net flows	2,061	1,505	1,550
Acquisitions/disposals	157	-7,000	0
Closing AUM	21,496	16,646	18,860
Average AUM	19,841	19,071	17,753
Income/avgAUM	0.54%	0.59%	0.68%
Expenses/avgAUM	-0.39%	-0.45%	-0.51%
Operating profit/avgAUM	0.15%	0.15%	0.17%
Operating profit margin	27.1%	24.8%	25.1%

Source Panmure Gordon

Panmure Gordon relative to consensus forecasts (EPS)

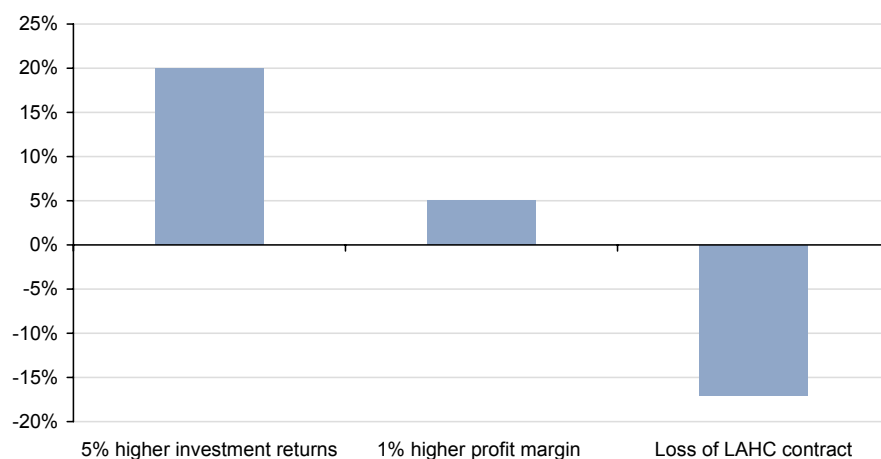
Our base case forecasts are broadly in line with the market consensus for the current year, 10% ahead of consensus for 2006E and 4% above for 2007E



Source Reuters, Panmure Gordon

Sensitivities for Panmure Gordon 2005E forecasts

Investment returns, Investment Management division operating profit margin and the retention of the LAHC contract are key sensitivities



Source Panmure Gordon

VALUATION

Since additional non-core asset sales seem inevitable, we value Aberdeen in relation to core Investment Management division earnings, excluding forecast revenues and profits from the LAHC contract.

RELATIVE VALUATION

On an EV/NOPAT basis, the core business looks to be trading on around 17x 2006E, between equivalent multiples for AMVESCAP and Schroders

EV/NOPAT multiples for Aberdeen's core investment management activities are set out in the following table. In deriving a core enterprise value, we have added net debt/prior charges and subtracted a crude estimate of the proceeds from asset sales and the "in-force" value of the LAHC term contract. The 2006E and 2007E revenue and NOPAT forecasts exclude forecast revenues and profit, net of 25% tax, from the LAHC contract (£11m and £6.75m p.a. respectively).

Investment Management division EV/NOPAT valuation (£m)

Market value	292.7		
Net debt/prior charges	170.6		
Group enterprise value	463.3		
Asset sales	-60.0		
LAHC in-force	-52.0		
Investment Management EV	351.3		
Year to September	2005E	2006E	2007E
Investment Management revenues	106.2	113.4	121.5
Investment Management NOPAT	21.6	21.1	22.9
EV/revenues	3.3	3.1	2.9
EV/NOPAT	16.3	16.7	15.3

Source Panmure Gordon

In comparison with Schroders (similarly on an EV/NOPAT basis) and AMVESCAP, Aberdeen's core business appears reasonably valued, being cheaper than Schroders and more expensive than AMVESCAP. (We focus on the 2006E and 2007E comparisons since they incorporate Aberdeen's loss of the Century Life contract and the full interest and dividend costs of the recent convertible bond and preference share issues.)

Relative valuations

Year to September	2005E	2006E	2007E
Aberdeen Asset Management	16.3	16.7	15.3
AMVESCAP*	15.9	14.1	12.1
Schroders*	22.6	19.6	16.8

*December

Source Panmure Gordon

ABSOLUTE VALUATION

AN ex-Property/LAHC DCF analysis indicates a central case current fair value of 133p...

In the following table we have valued Aberdeen's core business in relation to discounted cash flows, before interest and preference dividends, but after 25% tax. We then subtract net debt/prior charges assuming cash inflows of £112m (£60m for Property/New Star, £52m for LAHC).

The analysis results in a fair value estimate of £322m or 133p per share, which equates to 16.6x 2007E core earnings.

For sensitivity purposes, increasing the discount rate from 9% to 10% reduces the fair value to 115p per share, whilst increasing the steady state asset growth rate from 7% to 8% increases estimate to 143p per share. Increasing the steady state return on average AUM assumption by 10% increases the fair value estimate to 147p.

DCF-based valuation (£m)

Steady state AUM growth	7.0%
Steady state RoAUM	0.129%
Discount rate	9.0%
Terminal multiple	11.1

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Terminal
Average AUM	19,841	19,071	17,753	18,996	20,326	21,748	23,271	24,900	26,643	28,508	30,503	32,639	34,923	34,923
Asset growth	20%	-4%	-7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	
Operating profit	28.8	28.1	30.5											
less tax @25%	-7.2	-7.0	-7.6											
NOPAT	21.6	21.1	22.9	24.5	26.2	28.1	30.0	32.1	34.4	36.8	39.3	42.1	45.1	500.6
RoAvgAUM	0.109%	0.110%	0.129%	0.129%	0.129%	0.129%	0.129%	0.129%	0.129%	0.129%	0.129%	0.129%	0.129%	
PV (free cash flow)	21	19	18	18	18	17	17	17	17	16	16	16	15	156
NPV (free cash flow)	381													
NPV per share	158													

			2007E	EV/
Investment Management	£m	p	NOPAT	NOPAT
NPV (free cash flow)	381	158	22.9	16.6
Net debt*	-59	-24		
Total	322	133		

*Assuming £60m asset disposals and £52m realisation of LAHC in-force

Source Panmure Gordon

THE NUMBERS

Group financial summary (£m)

Year to September	2001A	2002A	2003A	2004A	2005E	2006E	2007E
Net revenues	182.1	192.1	142.3	140.0	150.3	178.1	191.7
Administrative expenses	-123.2	-134.8	-123.3	-113.8	-116.2	-132.6	-142.8
Operating profit	58.9	57.3	19.0	26.2	34.1	45.6	48.9
Interest/investment income	-10.7	-15.5	-14.0	-12.3	-10.6	-7.9	-7.7
Core PBT	48.2	41.7	5.0	14.0	23.5	37.6	41.1
Investment disposal gains				2.4	4.8		
Other income/expenses				1.1			
Pre-exceptional PBT	48.2	41.7	5.0	17.4	28.3	37.6	41.1
Exceptional items	-11.0	-3.8	7.0	-85.9			
Goodwill amortisation	-12.6	-19.6	-18.4	-19.1	-18.4		
Profit before tax	24.6	18.3	-6.4	-87.6	9.9	37.6	41.1
Taxation	-9.6	-11.2	-8.2	7.0	-5.9	-9.4	-10.3
Minority interests	0.0	-0.2	-0.2	-0.2	-0.1	0.0	0.0
Preference dividends	-1.3	-1.1	-0.6	0.0	-1.3	-3.8	-3.8
Attributable profit	13.7	5.7	-15.5	-80.8	2.6	24.4	27.1
Dividends	-17.6	-10.5	-7.1	-9.4	-10.6	-11.5	-12.5
Retained earnings	-3.9	-4.8	-22.5	-90.3	-8.0	13.0	14.5
Opening AUM (£bn)	21.9	34.7	23.7	20.6	22.1	26.9	28.1
Investment return	-6.3	-2.2	0.9	0.8	1.2	0.9	1.0
Net flow	2.0	0.1	-2.3	2.0	2.4	1.8	1.8
Other	17.1	-8.9	-1.7	-1.4	1.2	-1.5	0.0
Closing AM	34.7	23.7	20.6	22.1	26.9	28.1	30.9
Average AUM (£bn)	28.3	29.2	22.2	21.3	24.5	27.5	29.5
Revenue/AvgAUM	64bps	66bps	64bps	66bps	61bps	65bps	65bps
Admin expenses/AvgAUM	-44bps	-46bps	-56bps	-53bps	-47bps	-48bps	-48bps
Operating profit/AvgAUM	21bps	20bps	9bps	12bps	14bps	17bps	17bps
Operating profit margin	32.3%	29.8%	13.4%	18.7%	22.7%	25.6%	25.5%
Equity	188.8	186.5	168.3	132.9	124.9	137.9	152.4
Minorities	0.2	0.5	0.7	0.3			
Intangible assets	57.5	76.8	42.4	40.8	40.8	40.8	40.8
Goodwill	350.6	331.8	302.5	297.1	278.7	278.7	278.7
Tangible equity	-219.3	-222.1	-176.6	-204.9	-194.5	-181.6	-167.1
Preference shares	31.0	20.7	10.3	0.0	80.0	80.0	80.0
Net debt	182.9	234.5	185.3	169.3	96.0	102.7	91.1
Debt:equity	97%	126%	110%	127%	77%	75%	60%
Average equity	144.1	187.6	177.4	150.6	128.9	131.4	145.1
Effective tax rate	-25%	-25%	-25%	-25%	-25%	-25%	-25%
Pre-exceptional ROE	40.9%	27.1%	3.1%	11.4%	21.7%	32.9%	32.8%
Diluted avg shares	180.9	175.2	176.5	231.6	277.5	318.7	318.7
End-period shares	175.5	175.5	176.9	235.0	241.9	241.9	241.9
Add-back	1.2				2.3	4.6	4.6
Reported EPS (p)	7.57	3.28	-8.76	-34.90	1.13	10.40	11.51
Adjusted diluted EPS (p)	19.49	16.47	3.10	4.68	6.92	9.13	9.95
Net DPS (p)	10.50	6.00	4.00	4.00	4.40	4.75	5.18

Source Company, Panmure Gordon

2004 represents the low point in both revenues and costs, according to our forecasts

The full cost of Aberdeen's £80m preference share issue is recognised in 2006E

We assume continued strong net inflows

319m fully diluted shares in issues, assuming our dividend growth forecasts

Half-yearly profit record & estimates (£m)

	Year to September	H103A	H203A	H104A	H204A	H105A	H205E
Continued strong operating profit growth forecast for H2...	Net revenues	74.9	67.3	73.4	66.6	72.9	77.4
	Administrative expenses	-61.6	-61.6	-61.5	-52.3	-56.7	-59.5
	Operating profit	13.3	5.7	11.9	14.3	16.2	17.9
	Interest/investment income	-7.7	-6.3	-6.4	-5.9	-5.8	-4.8
	Core PBT	5.6	-0.5	5.5	8.4	10.4	13.1
	Investment disposal gains	0.0	0.0	0.0	2.4	4.8	0.0
	Pre-exceptional PBT	5.6	-0.5	5.5	11.9	15.2	13.1
	Exceptional items	45.5	-38.5	-5.5	-80.4	0.0	0.0
	Goodwill amortisation	-9.2	-9.3	-9.7	-9.4	-9.3	-9.1
	Profit before tax	41.9	-48.3	-9.6	-77.9	5.9	4.0
...offset by higher net interest and preference share funding costs	Taxation	-10.8	2.6	-2.0	8.9	-2.3	-3.6
	Minority interests	-0.3	0.1	-0.2	0.0	-0.1	0.0
	Preference dividends	-0.3	-0.3	0.0	0.0	0.0	-1.2
	Attributable profit	30.4	-45.9	-11.9	-69.0	3.5	-0.8
	Dividends	-3.5	-3.5	-4.7	-4.7	-5.2	-5.4
	Retained earnings	26.9	-49.4	-16.6	-73.7	-1.7	-6.3
	Opening AUM (£bn)	23.7	20.0	20.6	23.4	22.1	25.4
	Investment return	-1.0	1.9	0.5	0.3	0.7	0.5
	Net flow	-1.0	-1.3	0.8	1.2	1.5	0.9
	Other	-1.7	0.0	1.5	-2.9	1.2	0.0
	Closing AM	20.0	20.6	23.4	22.1	25.4	26.9
	Average AUM (£bn)	22.0	20.3	22.0	22.8	23.8	26.1
	Revenue/AvgAUM	68bps	66bps	67bps	59bps	61bps	59bps
	Admin expenses/AvgAUM	-56bps	-61bps	-56bps	-46bps	-48bps	-45bps
	Operating profit/AvgAUM	12bps	6bps	11bps	13bps	14bps	14bps
	Operating profit margin	17.7%	8.5%	16.2%	21.5%	22.2%	23.1%
	Equity	217.4	168.3	205.9	132.9	131.0	124.9
	Minorities	0.8	0.7	0.4	0.3	0.0	0.0
	Intangible assets	47.3	42.4	41.6	40.8	29.0	40.8
	Goodwill	324.2	302.5	332.6	297.1	293.1	278.7
	Tangible equity	-154.1	-176.6	-168.2	-204.9	-191.1	-194.5
	Preference shares	10.3	10.3	0.0	0.0	0.0	80.0
	Net debt	174.0	185.3	187.3	169.3	165.8	96.0
	Debt:equity	80%	110%	91%	127%	127%	77%
	Average equity	201.9	192.8	187.1	169.4	131.9	127.9
	Effective tax rate	-25%	-25%	-25%	-25%	-25%	-25%
	Pre-exceptional ROE	6.3%	-0.9%	7.1%	12.5%	19.6%	23.6%
	Diluted avg shares	176.1	176.9	211.4	235.0	236.3	318.7
	End-period shares	176.9	176.9	235.0	235.0	241.9	241.9
	Add-back	0.0	0.0	0.0	0.0	0.0	2.3
Gives forecast 2005E H2 EPS growth of 13%	Reported EPS (p)	17.29	-26.05	-5.61	-29.29	1.47	-0.34
	Adjusted diluted EPS (p)	2.01	1.09	1.56	3.12	3.38	3.54
	Net DPS (p)	2.00	2.00	2.00	2.00	2.20	2.20

Source Company, Panmure Gordon

DIVISIONS

Investment Management (£m)

Year to September	2004A	H105A	H205E	2005E	2006E	2007E
Income	92.8	51.6	54.6	106.2	124.4	132.5
Expenses	-73.6	-37.5	-39.9	-77.4	-87.3	-93.0
Operating profit	19.2	14.1	14.7	28.8	37.1	39.5
Opening AUM	14,931	18,186	20,280	18,186	21,496	22,146
Investment return	363	687	406	1,092	645	664
Net flows	1,447	1,250	811	2,061	1,505	1,550
Acquisitions/disposals	1,445	157	0	157	-1,500	0
Closing AUM	18,186	20,280	21,496	21,496	22,146	24,360
Average AUM	16,559	19,233	20,888	19,841	21,821	23,253
Income/avgAUM	0.56%	0.54%	0.52%	0.54%	0.57%	0.57%
Expenses/avgAUM	-0.44%	-0.39%	-0.38%	-0.39%	-0.40%	-0.40%
Operating profit/avgAUM	0.12%	0.15%	0.14%	0.15%	0.17%	0.17%
Operating profit margin	20.7%	27.3%	26.9%	27.1%	29.8%	29.8%

2006E AUM growth hit by loss of £1.5bn
Century Life contract from 1 October 2005

Property Management (£m)

Year to September	2004A	H105A	H205E	2005E	2006E	2007E
Income	35.7	21.4	22.8	44.2	53.8	59.1
Expenses	-30.5	-19.3	-19.6	-38.8	-45.3	-49.8
Operating profit	5.2	2.1	3.2	5.3	8.5	9.3
Opening AUM	1,358	3,912	5,132	3,912	5,389	5,928
Investment return	484	-36	128	92	269	296
Net new business	564	250	128	378	269	296
Acquisitions/disposals	1,507	1,006	0	1,006	0	0
Closing AUM	3,912	5,132	5,389	5,389	5,928	6,520
Average AUM	2,635	4,522	5,261	4,650	5,658	6,224
Income/avgAUM	1.35%	0.95%	0.87%	0.95%	0.95%	0.95%
Expenses/avgAUM	-1.16%	-0.85%	-0.74%	-0.84%	-0.80%	-0.80%
Operating profit/avgAUM	0.20%	0.09%	0.12%	0.12%	0.15%	0.15%
Operating profit margin	14.6%	9.9%	14.1%	12.1%	15.8%	15.8%

Property division operating profit margin is
forecast to recover in 2005E H2

Source Panmure Gordon

APPENDIX 1 – CAPITAL STRUCTURE

Capital structure

	Capital (£000)	Shares (m)	Issued on conversion (m)	Diluted shares in issue (m)
Ordinary shares of 10p	24,192	241.9		241.9
6.75% Convertible Preference Shares	80,000		57.7*	57.7
5.875% Convertible Bonds 2007	98,645		**	
4.50% Convertible Bonds 2010	25,624		17.7	17.7
	273,461		75.4	317.3

*Minimum, assuming zero dividend growth 2006-2012

Source Company, Panmure Gordon

**Deep out of the money (conversion price 520p)

CONVERTIBLE PREFERENCE SHARES

Aberdeen issued £80m of undated 6.75% Convertible Preference Share Units in June

Alongside the publication of its interim results on 3 May, Aberdeen announced JP Morgan had agreed to underwrite an issue of £75m convertible preference share units, subject to an over-allotment option of a further £5m, in a Placing and Open Offer (on 28 June, JP Morgan announced it had exercised its over-allotment option). The proceeds of the issue will be used to finance the purchase of existing 5.875% convertible bonds due 2007 (JP Morgan has agreed to sell not less than £75m of the 5.875% bonds at a price of 101% plus accrued interest). It was announced on 27 June that applications totalling £11.3m had been received from qualifying shareholders in the open offer, leaving £68.7m to be placed by JP Morgan.

Full details of the new convertible share units (which will count as Tier 1 for capital adequacy purposes), are set out in a circular dated 2 June. The key features of the units are summarised below:

Convertible Preference Share Units

Each unit consists of a preference share and a detachable warrant

A Convertible Preference Share Unit includes one preference share and one warrant. Initially, the units will trade as a single security but its components are capable of being traded separately at the option of the holder. Aberdeen is seeking separate trading facilities for the preference shares and the warrants with the London Stock Exchange.

Preference Shares

- Subject to Director's discretion, preference shareholders will receive a non-cumulative preferential dividend accruing at a rate of £67.50 per share per annum, payable annually in arrear on 30 June.
- On non-payment of preference share dividends, Aberdeen cannot pay a dividend on its ordinary shares, other preference shares or other share capital, or redeem, purchase, reduce or otherwise acquire any of its share capital.
- The preference shares have no maturity date, but are redeemable in whole at Aberdeen's option on 30 June 2010 or any dividend payment date thereafter at a price equal to the aggregate of £1,000 and any dividends accrued for the then current dividend period;

Although undated, the preference shares can be called in June 2010

Warrants

- The warrants are exercisable at any time from 10 August 2005.
- Warrants expire on or after 30 June 2012, if the closing price of the ordinary shares is at least 150% of the exercise price for at least 20 out of 30 consecutive dealing days. The warrants also expire if the preference shares are redeemed in whole.

Warrants expire in June 2012, unless the preference shares have been called

The warrants have an initial exercise price of 138.75p per ordinary share, although this is reduced if the ordinary dividend exceeds 4.4p

- On exercise, each warrant entitles the holder to effectively subscribe for ordinary shares on the basis of the unit issue price (£1,000) divided by the “Exchange Price” (the exercise price) in effect on the exercise date. The exercise price is currently set at 138.75p but it is subject to adjustment (see below), and may be satisfied in cash or by the delivery of one preference share.
- The exercise price is adjustable following special or extraordinary dividends or distributions. The exercise price is also adjustable if the dividend in any given year exceeds 4.40p per share (the market’s expectation for the full year dividend this year).

Unless permitted to by JP Morgan, Aberdeen is locked-up from issuing additional shares until early August 2005

Lock up

As part of the Placing & Open Offer agreement, for a period of 90 days after 3 May 2005, Aberdeen cannot (without the prior written consent of JP Morgan) issue, offer, sell, contract to sell, grant any option to purchase or right to acquire or otherwise dispose of, any of its Ordinary Shares, or any securities convertible into or exchangeable into its Ordinary Shares (other than in relation to its employee share option plans and LTIP).

In March, Aberdeen issued £26.6m of 4.5% Convertible Bonds, with a 150p exercise price and a March 2010 redemption date

4.50% CONVERTIBLE BONDS 2010

Aberdeen issued £26.57m 4.50% convertible bonds due 2010 on 10 March 2005. The 2010 Bonds are convertible into Ordinary Shares at the option of the holders at any time until close business on 3 March 2010 at an initial conversion price of 150p, but is subject to adjustments (see below). Unless previously redeemed, purchased and cancelled or converted, the 2010 Bonds are redeemable on 10 March 2010 at their principal amount.

The conversion price is adjustable following special or extraordinary dividends or distributions. The conversion price is also adjustable if the annual dividend on the ordinary shares between 2005 and 2010 exceeds the higher of (i) a dividend that would result from 5% per annum dividend growth in the years 2005-2010, and (ii) 4% of the stock price on the day prior to the announcement of the annual dividend.

The majority of the 5.875% Convertible Bonds will be redeemed through the 6.75% Preference Share issue. The outstanding ~£19m are redeemable in January 2007

5.875% CONVERTIBLE BONDS 2007

Aberdeen issued £100m 5.875% convertible bonds due 2007 on 14 January 2002. The 2007 Bonds are convertible into fully paid Ordinary Shares at the option of the holders at any time until 7 January 2007 at an initial conversion price of 520p (subject to adjustment in certain circumstances). There is currently £99.997m in principal amount of 2007 Bonds in issue convertible into a maximum of 19,199,424 Ordinary Shares, of which JP Morgan holds £76.155m. Unless previously redeemed, purchased and cancelled or converted, the Bonds are redeemable on 14 January 2007 at their principal amount.

Aberdeen’s £55m revolver with Bank of Scotland runs until December 2006

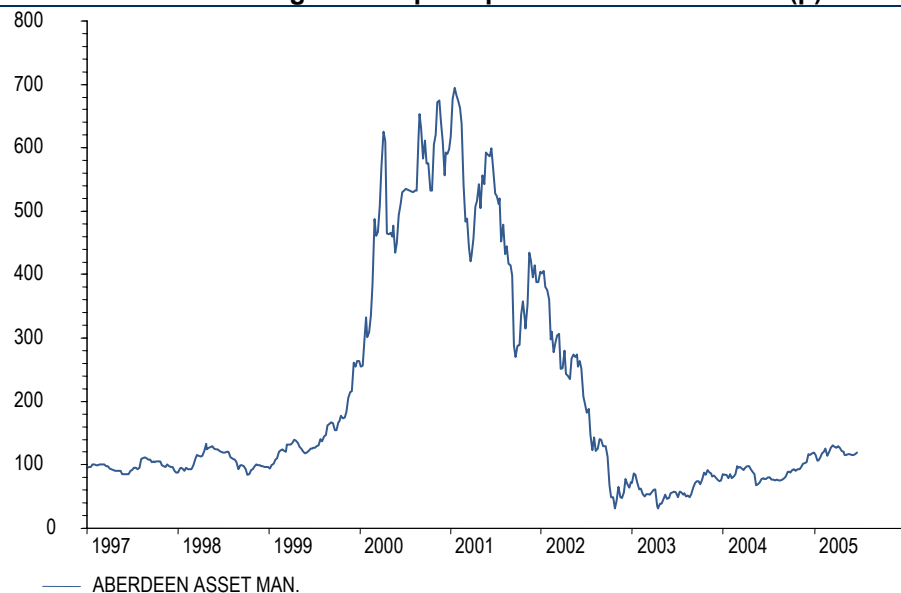
BANK DEBT

Bank of Scotland has provided Aberdeen with a revolving loan facility with a limit of £55.125m expiring December 2006. The company has not disclosed the interest terms of this facility. A new overdraft facility of £15m with Bank of Scotland has been agreed bearing interest at 1% over base rate.

APPENDIX II – BACKGROUND

As background to the investment issues discussed in the body of this note, we set out below the key events that have effectively dictated its strategy over the past five years.

Aberdeen Asset Management – price performance 1997-2005 (p)



Source Datastream

The acquisition of Prolific and the contract to manage Scottish Provident Institution life assets in 1997 started a chain of events...

...the loss of substantial revenues following Abbey National's purchase of SPI...

...and the sale of SPI's 58m shares in Aberdeen

The need to replace the SPI revenue stream resulted in a £390m acquisition spree

PROLIFIC & THE SCOTTISH PROVIDENT CONTRACT

Aberdeen acquired Prolific Group from Scottish Provident Institution (SPI) in September 1997 for £56.8m, satisfied through the issue of 58.4m new Aberdeen shares at 95p. The acquisition brought in some £10.5bn of AUM (including the £7bn SPI life fund) and SPI as a 41% shareholder in the enlarged group. The announcement of the proposed acquisition of SPI by Abbey National in late 2000 had the following implications:

- The loss of the SPI contract: Abbey clearly stated it would transfer the SPI contract to its own asset management subsidiary shortly after completion of the acquisition;
- The sale of the SPI stake in Aberdeen: Although owned by SPI policyholders following the acquisition, rather than by Abbey itself, the rationale for SPI holding such a large stake in Aberdeen would be lost following the transfer of the management contract.

The SPI stake was eventually placed with institutions at 500p per share in May 2001, whilst the financial impact of the loss of the SPI management contract was softened by the payment of £9m in compensation, spread equally over the group's 2001 and 2002 financial years.

REPLACING SPI REVENUES

Aberdeen's acquisition spree in 2000-2002 was driven primarily by the need to replace SPI revenues in advance of their departure to Abbey National Fund Managers. The table below shows that Aberdeen spent some £390m (£296m in cash) in this endeavour during the 16 months from October 2000 to January 2002.

Replacing SPI revenues

Date	Acquisition	Cost (£m)	Cash/shares	AUM (£m)
1-Oct-2000	Barclays Property Investors	23.3	Cash	1,400
30-Nov-2000	Murray Johnstone	155	Cash	3,800
22-Dec-2000	EquitiLink	52.4	Cash	2,100
27-Apr-2000	Rreef	7.8	Cash	1,700
3-May-2001	Celexa	18.1	2.9m shares + £1.4m cash	1,900
3-Jun-2001	LAHC contracts	87.6	15m shares + £10m cash	5,500
29-Aug-2001	Ivory & Sime Asset Mgmt.	9.9	Cash	600
17-Jan-2002	Old Mutual (IOM)	36.2	Cash	300
		390.3		17,300

Source Company, Panmure Gordon

The implosion of the split capital closed-end fund sector significantly reduced Aberdeen's revenues and profits...

SPLIT CAPITAL INVESTMENT TRUSTS

Just as the SPI stake in Aberdeen was being placed with institutions, a research report warning of inherent instability in the “split capital” investment trust sector was published. Within 12 months, the sector had imploded, and a number of split capital trusts had either failed or were forced to suspend dividend payments. Between March 1999 and March 2001, split capital trusts with more than 20% of their assets accounted for by cross-holdings in other split capital trusts had seen their value fall by 80-100%.

As a significant player in the split-capital trust sector, the initial impact of this implosion was on Aberdeen's revenues. In addition to the fall in the value of its split-cap assets under management, Aberdeen also waived management fees on a number of these vehicles. More significant was the outcome of the Financial Services Authority investigation into the split-capital trust sector (discussed below).

THE DISPOSAL PROGRAMME

...necessitating a disposal programme to reduce balance sheet leverage

Following the strategic review in November 2002, Aberdeen began a programme of asset sales. This was necessary to refinance its debt in the face of reduced profits and potentially breached banking covenants.

The first of these transactions involved the sale of unit trust management contracts to New Star. The second transaction involved the acquisition of Edinburgh Fund Managers (EFM) for shares and the simultaneous sale of EFM's unit trust management contracts for cash to New Star. Additional EFM assets have also since been sold. In May 2004 Aberdeen completed the sale of its UK and Continental European property businesses.

The table below summarises the progress of this programme to date.

Disposal programme -- 2003 to date

Year	Disposals	Proceeds
2003	Unit trust contracts to New Star	£82.1m (£86.8m less £4.7m in costs)
	AVI (formerly Ivory & Sime AM)	Earn-out (30% revenues in 3 yrs to Sep 06)
	EFM management contracts	£27m cash plus £6m in New Star shares
2004	Aberdeen Property Investors (formerly BPI)	£43.4m plus up to £6.6m over 2 yrs to Sep 05
	Lombard International Insurance stake	£26.7m plus up to £24m over 3 yrs to Dec 06
2005	Aberdeen (IOM) (formerly Old Mutual (IOM))	£7.4m plus up to £4.7m over 5 yrs to ~Dec 10
	Total	£186.6m, in shares plus up to £40m-£50m

Source Company, Panmure Gordon

THE FSA AND PROGRESSIVE GROWTH SETTLEMENTS

On 24 December 2005, Aberdeen announced it had agreed to be one of 18 contributors to a £194m settlement package following the FSA's investigation

into the split capital investment trust sector. Under the terms of the agreement, Aberdeen agreed to make a voluntary contribution to the fund which will make payments to eligible investors in relation to losses they may have incurred through investing in splits (and associated instruments and products). Under the settlement, Aberdeen contributed £17.5m to the central fund in December and will make a further contribution of £17.5m this month (June 2005).

At the same time, Aberdeen announced it would also implement an Uplift Plan for investors in the Aberdeen Progressive Growth Unit at estimated cost of £43.3m. Under the terms of this plan, an initial £5.2m was paid in January, with further payments to be made between August 2005 and October 2006. The group made a £39m provision for these payments in its accounts for the year to September 2004.

Distribution of investment ratings for equity research (as of 31 March 05)

Overall Global Distribution (Banking Client*)		
Buy	Hold	Sell
46% (29%)	38% (11%)	16% (3%)

* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients

Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)

Buy	Expected to produce a total return of 15% or better in the next 12 months
Hold	Fairly valued: total return in the next 12 months expected to be $\pm 10\%$
Sell	Stock is expected to decline by 10% or more in the next 12 months

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Registered office: Moorgate Hall, 155 Moorgate, London EC2M 6XB, UK

4 July 2005

Equity Research

COMPANY PROFILE

Business Profile

Aberdeen Asset Management is an independent fund management group managing assets for institutional and retail clients. These include open-ended funds domiciled in the UK, Luxembourg and Dublin and marketed internationally, open-ended funds domiciled in Singapore and marketed locally, closed-end funds listed in the UK and Jersey, closed-end funds listed in the US and Canada, segregated accounts, funds managed on behalf of life companies, a private client business, a private equity business and an institutional property asset management business.

The group has over 700 employees worldwide, is headquartered in Aberdeen and has its main investment offices in London, Edinburgh, Glasgow, Singapore, Bangkok and Sydney. It operates from 20 offices worldwide including offices in 9 towns and cities in the UK, together with offices in Europe, North America, Asia and Australia. As at 31 March 2005, assets under management totalled £25.4bn.

Recent News

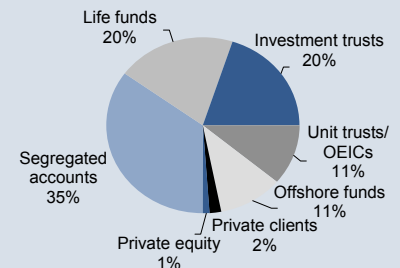
The interim results for the half year to end March reported continued new business momentum. Equity and fixed income net inflows during the period amounted to £1.25bn, with another £360m awarded but yet to fund, adding up to 9% of the half-year's opening assets under management.

The Investment Management division's operating profit margin increased to 27% in the first half, up from 16% in 2004. This improvement in profitability has turbocharged profit growth: whilst first half revenues increased by 13%, operating profits almost doubled.

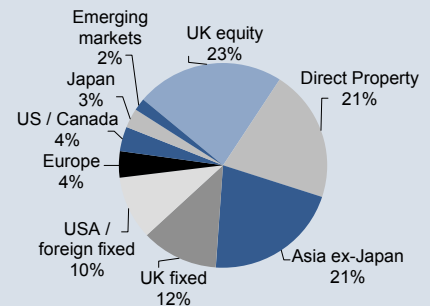
Company Information

Company	Aberdeen Asset Management
Address	10 Queen's Terrace, Aberdeen, AB10 1YG
Tel no	+44 (0) 1224 631999
Website	www.aberdeen-asset.com
Chairman	Charles Irby
Chief Executive	Martin Gilbert
Finance Director	Bill Rattray
IR Officer	Shelley O'Donnell

March 2005 AUM by client (%)



March 2005 AUM by asset (%)



Source Company

Major Shareholders (%)

Jupiter Asset Management	6.7%
Liontrust	5.1%
Goldman Sachs (non-beneficial)	4.5%
Stavanger Fondsforvaltning	4.2%
Fidelity	3.9%

Financial Diary

Next Statement	Pre-close – Sep 2005
Next Results	Finals – Dec 2005
Next ex dividend	2005E final (2.2p) Dec

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