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By Andrea Felsted

FRIENDS ACQUIRES LOMBARD FOR UP TO £414M

Friends Provident, the life insurer, is expanding its operations outside the UK with the acquisition of Lombard International Assurance for up to £414m.

Friends is paying £183m upfront for Lombard, which sells life insurance products designed to help Europe's rich keep their wealth.

Further amounts are payable, up to the maximum, depending on Lombard's performance.

Keith Satchell, chief executive said the acquisition was in line with Friends' goal of increasing its presence outside the UK. "This is another step on that journey," he said. Mr Satchell said Lombard, which operates in 11 European countries, would lift Friends' total new business premium derived from outside the UK, based on pro forma 2003 figures, from 16 to 17 per cent to about 30 per cent.

Friends will meet the initial payment by issuing shares to Lombard's investors. Aberdeen Asset Management, which has a 15.18 per cent stake, said it would receive Friends shares worth £26.7m after expenses on completion of the deal, a £25.6m gain on its initial £1.1m investment, or a compound annual growth rate of 27 per cent. It stands to receive up to £50.7m in total.

Standard Life, which holds just under 28 per cent, did not disclose its return.

John Stone, Lombard's chairman and founder, who will keep his post, will receive about £55m in Friends Shares as initial consideration for his 30 per cent stake and could receive up to £124m in total.

Confirmation of the acquisition came as Friends reported a 2.6 per cent fall in sales in the three months to September 30 from £114m to £111m, measured on an annual premium equivalent basis – the standard industry measure of new regular premiums plus 10 per cent of single premiums. Mr Satchell said this reflected disruption to friend's group pensions business from merging Isis, its asset management arm, with F&C.

Friends was advised by Cazenove, and Lombard by Merrill Lynch. **Fenchurch Advisory Partners** advised Aberdeen Asset Management and Standard Life on the sale of their stakes.