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Wednesday, 28 May 2003

Benfield launches initial public offering

Benfield Group Limited ("Benfield" or "the Group"), one of the world's largest reinsurance intermediaries, has announced the launch of a global offer of shares ("the Global Offer") to raise £100 million through a primary institutional offering as part of plans to float the Company on the London Stock Exchange.

Merrill Lynch International and Morgan Stanley will act as joint bookrunners for the Global Offer and joint financial advisers to Benfield. Merrill Lynch has been appointed sole sponsor and broker. Co-leads for the Global Offer are Fox-Pitt, Kelton and Deutsche Bank. Lexicon Partners is acting as joint financial adviser to Benfield.

Highlights:

- Benfield is floating to improve liquidity in the trading of the Company's common shares so as to incentivise employees and to raise proceeds in order to reduce debt.
- The Global Offer will allow new institutional investors the opportunity to participate in the future growth of Benfield.
- The indicative price range is 200p to 260p per common share, which would imply an equity value of approximately £500 million to approximately £660 million.
- In addition to the issue of £100 million of new common shares by the Company, the Global Offer features a secondary offer of up to £45 million of existing common shares. These shares are being offered to facilitate a cashless exercise of options and the repayment of loan facilities granted to employees.
- Together, the new and existing common shares to be sold in the offering amount to approximately 25% of the Company's enlarged share capital.
- No shareholders, directors or employees will receive proceeds from the sale of existing common shares in the Global Offer. Existing shareholders are subject to lock-ups of varying periods.
- Subject to market conditions, unconditional dealing in the shares of Benfield will begin on the London Stock Exchange on 18 June 2003.
- An institutional roadshow begins today (28 May 2003).

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Grahame Chilton, Chief Executive of Benfield said:

“This flotation is the next exciting stage in the development of Benfield. The Company has grown significantly over the past few years into one of the world’s largest reinsurance intermediaries.

“Benfield is now poised to take full advantage of its global platform and we aim to deliver sustainable revenue growth and margin expansion.”

John Coldman, Chairman of Benfield said:

“We are delighted to have the full support of our directors, employees and our other shareholders, none of whom is realising cash from their investments in the Company through the Global Offer. We look forward to partnering our new investors in what we believe will be a phase of strong growth.”

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Benfield

Introduction

Benfield is one of the largest reinsurance intermediaries in the world. It has achieved this position through a combination of organic growth and the successful completion of a number of strategic transactions. The Group provides reinsurance intermediary and risk advisory services to more than 1,000 customers located in over 90 different countries.

The Group is headquartered in London and incorporated in Bermuda. It has an international network of 37 offices located in 23 countries and a leading presence in many of the major markets for reinsurance products including the United States, the United Kingdom, Continental Europe, Bermuda and the Pacific Rim.

As a reinsurance intermediary, Benfield specialises in structuring, arranging and placing reinsurance programmes on behalf of insurance and reinsurance companies. The Group does not underwrite risks for its own account.

The combination of Benfield's global presence, technical expertise and proprietary technology allows the Group to offer innovative solutions to its customers worldwide. The majority of the Group's customers are insurance and reinsurance companies.

The Group has experienced excellent customer retention with the top 10 customer relationships having been in place for an average of 24 years. This provides a stable platform with existing customers of the Group accounting for more than 85 per cent of 2002 turnover.

The Group has a highly experienced executive management team that has an average of over 20 years service in the industry. In addition, Benfield employs skilled and experienced individuals, with senior brokers having an average of over 9 years of service with the Group.

For the year ended 31 December 2002 the Group reported operating revenue of £291 million and a trading profit before amortisation of goodwill, depreciation of tangible fixed assets and exceptional costs of £69 million.

Historical background and current shareholding

The origins of Benfield date back to the 1970s with the establishment of Benfield Lovick & Rees, a London based reinsurance broker. In 1988, this business was acquired by its management team which included John Coldman and Grahame Chilton, the current Chairman and Chief Executive of Benfield respectively. Subsequently, the Group successfully acquired and integrated a number of reinsurance intermediary businesses, such as Ellinger Heath Western in 1995, Greig Fester in 1997, Bates Turner in 1999 and E W Blanch in 2001.

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Business strategy

The Group's primary objective is to be the reinsurance intermediary of choice in the key markets in which it operates. By focusing on enhancing its customer relationships and using its competitive strengths to win new customers and business, Benfield intends to deliver sustainable growth in revenue, cash flow and earnings.

The Directors believe that current reinsurance market conditions provide an attractive environment for sustainable revenue growth by the Group.

The Directors believe that the Group is well positioned to take advantage of the increasing demand for reinsurance intermediaries by enhancing customer relationships, capitalising on its competitive strengths, managing operating costs and retaining and incentivising high quality people.

Key elements of the strategy include:

Capitalising on competitive strengths

The Directors believe Benfield can build on its competitive strengths to win new customers, especially from growth opportunities in several geographic markets and from product development.

These opportunities include the following:

- building further on the Group's relatively low market share in the United States
- benefiting from the prospect of increased use of reinsurance intermediaries in continental Europe
- capitalising on the Group's market share in Eastern Europe
- benefiting from deregulation and market growth in the Pacific Rim
- capitalising on the Group's sophisticated risk transfer capabilities
- expanding the casualty operations in the Group's International division

The Group intends to build further on its global presence and reputation by focusing on large, multinational customers with complex risk profiles, who demand innovative solutions.

In addition, the Group will continue to focus on value-added higher margin business, such as excess of loss catastrophe cover, which represents a substantial proportion of the Group's revenue.

Managing operating costs

The Directors believe that Benfield can sustain profitable growth by leveraging the existing platform to generate increased revenue whilst maintaining a relatively flat cost base.

The Group has implemented the following initiatives in order to manage costs and improve margins:

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- controlling headcount, rationalising office space, implementing a programme of central purchasing and applying a Group-wide unified expense policy
- rationalisation of those areas that the Directors do not believe will be capable of meeting the Group's long-term margin and growth objectives
- enhanced forecasting and budgeting procedures, which have set clear divisional targets and have improved the reliability of revenue and cost forecasts

The Directors believe these actions should allow the Group to deliver margin improvement whilst maintaining sustainable revenue growth.

Retaining, recruiting and incentivising high quality people

The Group's success depends on the quality of its employees. Benfield aims to attract and retain the most talented people by maintaining a team-based structure that fosters a commitment to excellence. It achieves this by offering attractive performance-based compensation packages and by encouraging a high level of employee share ownership.

Reasons for flotation

The Group is undertaking the Global Offer to improve liquidity in the trading of the Company's shares in order to incentivise employees further and to raise proceeds to reduce debt.

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