



**FRIENDS PROVIDENT**



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Embargoed until 7:00 a.m.

2 July 2004

ISIS Asset Management plc

## **Merger of ISIS and F&C to create UK's fourth largest asset manager**

### **Friends Provident to be a 51% majority shareholder of the Enlarged Group**

- Merger of ISIS and F&C to create the fourth largest asset manager in the UK and a top ten manager of European pension fund assets with £120 billion of funds under management
- Compelling strategic fit based on complementary geographic and product strengths, providing significant revenue enhancement opportunities
- Consistent with Friends Provident's and ISIS's ambition to be a top five UK asset manager
- Increases the contribution to Friends Provident's profit from asset management from 10% to 24% while improving its quality of earnings<sup>(1)(2)</sup>
- Expected annual pre-tax synergies of £33 million achievable in full by early 2006
- Expected to be earnings enhancing for ISIS (before goodwill amortisation and exceptional costs) for the financial year ending 31 December 2005 and significantly earnings enhancing for the year ending 31 December 2006<sup>(3)</sup>
- The Enlarged Group will adopt F&C's corporate name and brand
- Howard Carter will be Chief Executive of the Enlarged Group and Robert Jenkins will be non-executive Chairman

Commenting on the Merger, Howard Carter, Chief Executive of ISIS and proposed Chief Executive of the Enlarged Group, said:

“This is a unique opportunity for us to achieve our stated objective of becoming a top five UK asset manager, extend our franchise into Continental Europe, create a more diversified business and provide a platform for meeting our clients’ needs in terms of both product and investment management capability. Accordingly, I am confident that the enlarged group will be well positioned to grow revenues and benefit the interests of all our stakeholders.”

Commenting on the Merger, Robert Jenkins, Chief Executive of F&C and proposed non-executive Chairman of the Enlarged Group, said:

“This transaction achieves our aim of a listing for F&C, creates value, deepens our investment talent and does so in a way which will be non-disruptive to our clients. We are very enthusiastic about the merger.”

Commenting on the Merger, Keith Satchell, Group Chief Executive of Friends Provident, said:

“We have consistently pursued our strategy of building the importance of asset management within the Friends Provident group. This merger achieves that goal and delivers a significant diversification of our earnings into a business which generates cash and which has a terrific platform for organic growth on a pan-European basis. The combination should create significant value for our shareholders and we are committed to retaining majority ownership of the enlarged group.”

## **Structure**

F&C is currently a wholly-owned subsidiary of Eureko and ISIS is currently 67% owned by Friends Provident. The transaction will be effected by the merger of ISIS and F&C through the issue of 331 million New ISIS Shares in exchange for the acquisition of F&C by ISIS, F&C thereby representing 68.8% of the equity and 57.9% of the enterprise value<sup>(4)</sup> of the Enlarged Group.

Of the 331 million New ISIS Shares to be issued in consideration for F&C:

- Friends Provident will receive 145 million New ISIS Shares for which it will pay consideration to Eureko of £378 million (representing 260p per New ISIS share) of which £250 million will be in cash and £128 million in New Friends Provident Shares; and
- Eureko will receive 186 million New ISIS Shares of which:
  - 76 million will be placed in the market by Eureko at the time of Completion to ensure that ISIS has a free float exceeding 25%; and
  - 110 million will be retained by Eureko.

Following Completion, the approximate shareholdings in the Enlarged Group will be Friends Provident 51%, Eureko (including F&C management and employees) 23% and a free float of 26%.

Friends Provident will fund the cash consideration payable to Eureka for its subscription of New ISIS Shares principally through an institutional placing for cash of New Friends Provident Shares, further details of which are contained in a separate announcement made by Friends Provident today.

The proposed transaction has been classified as a reverse takeover for ISIS under the Listing Rules and trading in ISIS Ordinary Shares is accordingly being suspended. It is expected that this suspension will be lifted on publication of the ISIS Listing Particulars and Circular, which is anticipated to occur during August 2004. Completion is conditional on, inter alia, the receipt of requisite regulatory consents and is expected to take place in September or October 2004.

ISIS is being advised by Cazenove and Fenchurch Advisory Partners and Friends Provident is being advised by Cazenove. Eureka is being advised by Lexicon Partners and Citigroup.

This summary should be read in conjunction with the full text of the announcement.

There will be a presentation today for analysts and shareholders at Cazenove's offices at 20 Moorgate, London EC2 at 9:30 a.m. The slide presentation will be available from 11:00 a.m. on [www.fp.com/investor/presentation](http://www.fp.com/investor/presentation).

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Ref: E105

Notes:

- (1) F&C's adjusted operating profit is stated before long term incentive costs and operating exceptional items as set out in Appendix 1. F&C's adjusted operating margin is calculated as adjusted operating profit as a percentage of net revenue.
- (2) On a consolidated basis, based on pro forma 2003 profit before tax<sup>(1)</sup> (before goodwill amortisation and exceptionals) for the Enlarged Group (modified statutory profit for Friends Provident).

- (3) Nothing in this announcement should be construed as a profit forecast or be interpreted to mean that the future earnings per share of the Enlarged Group or Friends Provident (as appropriate) will necessarily be greater than the historic published earnings per share of ISIS or Friends Provident (as appropriate).
- (4) The enterprise value is based on the closing price of ISIS Ordinary Shares of 199 pence on 1 July 2004 and ISIS's long term debt of £180 million.

Cazenove is acting for ISIS and Friends Provident and no one else in connection with the transaction and will not be responsible to any person other than ISIS and Friends Provident for providing the protections afforded to the clients of Cazenove or for providing advice in relation to the transaction.

Fenchurch Advisory Partners is acting for ISIS and no one else in connection with the transaction and will not be responsible to any person other than ISIS for providing the protections afforded to the clients of Fenchurch or for providing advice in relation to the transaction.

Lexicon Partners and Citigroup are acting for Eureka and no one else in connection with the transaction and will not be responsible to any person other than Eureka for providing the protections afforded to the clients of Lexicon Partners and Citigroup or for providing advice in relation to the transaction.

No offer or invitation to acquire shares or other securities in ISIS or Friends Provident is being made by or in connection with this announcement. Any offer or invitation to acquire shares in ISIS will be made solely by means of the ISIS Listing Particulars, as updated by any supplementary listing particulars, scheduled to be published during August 2004, and any decision to keep, buy or sell ISIS shares should be made solely on the basis of the information contained in such document(s).

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ISIS Asset Management plc

### **Merger of ISIS and F&C**

The Boards of ISIS and Eureko have entered into a conditional agreement to merge the businesses of ISIS and F&C. F&C is a wholly owned subsidiary of Eureko and ISIS is 67% owned by Friends Provident.

### **Rationale for the transaction**

The Merger is based on a common vision, value creation and complementary business fit. The Merger will create a substantial, profitable and balanced pan-European asset management business and is expected to produce annual pre-tax synergies of £33 million achievable in full by early 2006. This is expected to enhance earnings per share<sup>(3)</sup> and other key financial ratios for ISIS.

The Merger is consistent with the strategy and objectives of each of ISIS, F&C, Friends Provident and Eureko and offers significant attractions for each party.

#### *Benefits for ISIS*

- Creates a top five UK-based asset manager
- Secures a significant and growing third party client business
- Benefits from a strong and established asset management brand
- Establishes a major and balancing presence in Continental Europe

#### *Benefits for F&C*

- Facilitates F&C's desire to gain a public market listing
- Offers enhanced access to UK retail marketing, brand building and domestic UK distribution skills
- Achieves the critical mass and resources to become a leading pan-European asset management company

The Enlarged Group will benefit from significant revenue enhancement opportunities, primarily through F&C's geographic and client diversity as well as a product mix which is higher margin and more performance-fee related than that of ISIS.

### *Benefits for Friends Provident*

The transaction is consistent with Friends Provident's ambitions to be a major player in its two core businesses of UK life and pensions and asset management. It will create the potential for significant long term value for Friends Provident shareholders and will:

- increase the proportion of Friends Provident's earnings from asset management from 10% to 24% (31% including the full effect of synergies)<sup>(1)(2)(3)</sup>;
- improve the quality of Friends Provident's earnings;
- deploy capital to a cash generative business with lower capital requirements; and
- strengthen Friends Provident's life and pensions offering.

In the near term, the transaction is expected to have a broadly neutral effect on Friends Provident's earnings per share.<sup>(3)</sup> Over the medium term, Friends Provident's earnings will benefit from the additional revenue opportunities expected to arise from the strength of the Enlarged Group's position.

For Friends Provident's policyholders, the transaction offers the benefit of a much enhanced investment platform.

### *Benefits for Eureko*

The transaction will:

- crystallise in part the value of Eureko's successful investment in F&C;
- allow it to achieve additional value through its ongoing interest in the Enlarged Group; and
- ensure continuity of investment management services and standards for its clients and policyholders.

### **Benefits of the combination**

The combination of F&C and ISIS will create a substantial, profitable and balanced pan-European asset management business. In particular:

- The Enlarged Group will have pro forma total assets under management of £120 billion, making it the fourth largest UK asset management group and a top ten manager of European pensions assets. Combined 2003 net revenues were £245 million and pro forma operating profit<sup>(1)</sup> (before goodwill amortisation and exceptionals) was £80 million (excluding synergies)
- Based on 2003 pro forma combined revenues, the Enlarged Group will derive 58% of revenues from the UK, 22% from the Netherlands, 9% from Portugal and 11% from other predominantly European markets
- The Enlarged Group will have an improved spread of businesses with strengths across a range of core client segments, including pension funds, insurance assets, retail funds, investment trusts and sub-advisory
- The Enlarged Group will be a leading manager of third party investment assets for insurance companies through ISIS's existing relationships with Friends Provident and RSA in the UK and F&C's relationships with Eureko (in the Netherlands and Ireland) and BCP (in Portugal)

- The Enlarged Group will benefit from long term agreements reached with major financial services clients of F&C, including Achmea, Friends First and BCP regarding exclusive investment management arrangements in addition to ISIS's current arrangements with Friends Provident and RSA
- £110 million of net revenues (based on 2003 pro forma), accounting for 45% of total pro forma net revenues, are represented by these long term arrangements
- The Enlarged Group will constitute a substantial third party asset management business, which will benefit from, but not be dependent on, its shareholders' client assets
- Management anticipate annual pre-tax synergies of £33 million achievable in full by early 2006, representing approximately 20% of the combined 2003 cost base, realised primarily through reduced premises costs, reduction in headcount and integration of the IT and outsourcing platform
- The Enlarged Group will constitute a top three manager of UK investment trusts
- The Enlarged Group will constitute the largest active manager of Dutch pension assets, the largest manager of Portuguese institutional and retail assets, the fifth largest manager of pension assets in Ireland and a rapidly growing manager of German and French assets
- The Enlarged Group will pursue a strategy of creating a leading pan-European, autonomous asset management company

### **Integration plan**

The managements of both ISIS and F&C have proven integration skills. Integration planning will leverage the strengths of the respective organisations and has been designed to ensure maximum synergies with minimal execution risk and client disruption.

### **Overview**

- The UK retail business of F&C will be incorporated into the retail organisational platform and business of ISIS
- The institutional business of ISIS will be incorporated into the institutional organisational platform and business of F&C
- F&C's institutional investment philosophy and process will be extended to the assets of the institutional clients of the Enlarged Group
- Investment trusts, a key client segment linked to the origins of both ISIS and F&C, will continue to be served in line with the wishes of the independent boards of the respective trusts
- The Enlarged Group's headquarters will remain in London. London based employees will consolidate their activities in a single location in F&C's premises at Exchange House

- The Enlarged Group will maintain its operational presence in Scotland, with its registered office remaining in Edinburgh
- Businesses and activities outside the UK are unaffected

### ***Board of the Enlarged Group***

The Board of the Enlarged Group will be as set out below, continuing the development of ISIS's Board towards full compliance with the Revised Combined Code on Corporate Governance ("RCC").

#### *Non-executive Chairman*

Sir David Kinloch has previously stated his intention to step down as Chairman of ISIS during 2004 and considers it appropriate to do so at Completion. Robert Jenkins, currently Chief Executive of F&C, will become non-executive Chairman of the Enlarged Group and will chair the Nomination Committee. Although Robert Jenkins's position of Chief Executive of F&C means that his appointment as Chairman will not meet the strict definition of independence under the RCC, all parties believe this appointment to be in the best interests of the Enlarged Group.

#### *Executive Directors*

Howard Carter - Chief Executive  
Alain Grisay - Head of Institutional Business  
Ian Paterson Brown - Finance Director

#### *Non-executive / non-independent Directors*

Keith Satchell - Group Chief Executive of Friends Provident  
Brian Sweetland - Executive Director of Friends Provident  
Jeff Medlock - Eureka nominee

### *Independent non-executive Directors*

Keith Bedell-Pearce, David Gray, Kenneth Inglis and Christopher Jemmett, all of whom are currently independent non-executive Directors of ISIS

Dick de Beus, John Heywood and Karen McPherson, all of whom are currently independent non-executive Directors of F&C

Christopher Jemmett will be Deputy Chairman and will chair the Audit Committee. Karen McPherson will chair the Remuneration Committee. Audit and Remuneration Committee membership will be composed wholly of independent non-executive Directors.

The precise terms of appointment of those persons who are to become Directors of the Enlarged Group have yet to be agreed. It is expected that these will be agreed prior to publication of the ISIS Listing Particulars and Circular.

### **Key executives**

The following key appointments have been agreed:

Howard Carter, Chief Executive of ISIS, will become Chief Executive of the Enlarged Group

Tony Broccardo, Chief Investment Officer of F&C, will become Chief Investment Officer of the Enlarged Group

Peter Cole, Head of Human Resources for F&C, will become Head of Human Resources for the Enlarged Group

Nick Criticos, Managing Director, Retail Funds for ISIS, will become co-head of Retail Business for the Enlarged Group. He will focus initially on UK retail which will include responsibility for both open-ended funds and investment trust business activity

Alain Grisay, Deputy Chief Executive of F&C, will become Head of Institutional Business for the Enlarged Group

Patrick Johns, F&C's Head of Institutional business for US/UK and Ireland, will retain these responsibilities within the Enlarged Group as well as accountability for the combined direct property business. Patrick Johns will continue to oversee global relationships with investment consultants

Laurence Llewellyn, Head of Retail for F&C, will become co-head of Retail Business for the Enlarged Group. He will focus on Continental Europe. Laurence Llewellyn plans to retire in two years at which time it is envisaged that there will be a single Head of Retail, expected to be Nick Criticos

Ian Paterson Brown, Finance Director of ISIS, will become Finance Director of the Enlarged Group

Fernando Ribeiro, Head of Alternatives and Insurance Assets at F&C, will become Head of Alternatives and Fund of Hedge Funds for the Enlarged Group. Fernando Ribeiro will remain responsible for the Enlarged Group's business in Portugal and will oversee a smooth transition of insurance asset management

Tony Tomlinson, Chief Operating Officer for F&C, will become Chief Operating Officer for the Enlarged Group. Tony Tomlinson will project manage the integration

Helene Williamson, Head of Fixed Income of F&C, will become Head of Fixed Income for the Enlarged Group

All of the above will sit on the Executive Committee of the Enlarged Group, which will be responsible for the day to day management of the business.

### ***Remuneration structure***

Long term incentives will be centred on a new restricted stock programme which will strive to adhere to best practice for listed companies. Key F&C personnel who currently participate in a shadow equity programme will be invited to rollover a significant proportion of their entitlement into restricted stock. All of the key executives from F&C described above have already agreed to do so.

### ***Branding***

The F&C brand will be the principal brand of the Enlarged Group. A number of specialist brands, such as Baronsmead and Stewardship, will retain their current identity. Investment trust branding will be determined by the independent boards of the investment trusts.

### ***Outsourcing***

In 2003, F&C outsourced its institutional fund management administration to Mellon. ISIS has reached heads of agreement with JP Morgan to outsource its institutional fund administration. A review of outsourcing arrangements will take place prior to completion to ensure that all client needs will be properly met. One key consideration will be continuity of employment of personnel who provide the experience necessary to make any future arrangements effective for clients.

### ***Structure and merger terms***

The structure of the transaction involves the merger of ISIS and F&C through the issue of New ISIS Shares, with Friends Provident being issued with such shares as are necessary for it to retain a 51% holding in the enlarged entity. Immediately prior to Completion, sufficient New ISIS Shares are proposed to be placed by Eureka into public ownership to ensure the Enlarged Group has a free float exceeding 25%, with Eureka retaining a significant minority stake and board representation.

The terms of the Merger have been struck on the basis of comparable EBITs and recognising the different capital structures of the two businesses.

The principal elements of the transaction structure are as follows:

- The Merger of F&C and ISIS will be effected through the acquisition of 100% of the issued share capital of F&C by ISIS in consideration for the issue of 331 million New ISIS Shares, representing 68.8% of the equity and 57.9% of the enterprise value<sup>(4)</sup> of the Enlarged Group;
- 145 million of these New ISIS Shares will be issued directly to Friends Provident at a price of 260p per share to give Friends Provident a 51% holding in the Enlarged Group, with Eureka receiving as consideration from Friends

Provident £250 million in cash and the balance of £128 million in New Friends Provident Shares. As set out below, a price reset mechanism has been agreed under which Friends Provident may be required to make further payments to Eureka depending on the Enlarged Group's share price after Completion; and

- Immediately prior to Completion, 76 million of the New ISIS Shares will be placed by Eureka in the market to institutional investors in order to ensure that the Enlarged Group has a minimum free float exceeding 25% in accordance with the requirements of the Listing Rules. The placing will be undertaken by way of a bookbuild prior to Completion, with delivery of the placing shares occurring at the time of Completion.

Following all of these steps, the resultant ownership structure of the Enlarged Group is therefore expected to be as follows:

	<u>%</u>
Friends Provident	51
Eureka (including F&C management and employees)	23
Public	26

Friends Provident will fund the cash consideration payable to Eureka for its subscription of New ISIS Shares principally through an institutional placing for cash of New Friends Provident Shares, further details of which are contained in a separate announcement made by Friends Provident today. This placing of New Friends Provident Shares will not be conditional on the Merger being completed.

Eureka has entered into a standstill arrangement and a 12 month lock-up in respect of its holding in the Enlarged Group. Eureka has also committed to a 12 month lock-up arrangement in respect of the New Friends Provident Shares to be issued to it on Completion.

The price reset mechanism has been designed to allow the value paid by Friends Provident to Eureka to vary depending on the ISIS share price post Completion, which it is expected will benefit from the enhanced prospects of the Enlarged Group.

In respect of the 145 million New ISIS Shares issued to Friends Provident, Friends Provident will pay additional consideration to Eureka for each such New ISIS Share, equal to the lesser of 40p and the amount by which the average trading price of the Enlarged Group during January 2005 exceeds 250p.

Any additional payment made under this mechanism up to 20p per share will be payable by Friends Provident in cash. Any further amount (i.e. up to a maximum of a further 20p per share) will be payable in cash or New Friends Provident Shares at Friends Provident's discretion.

### **Information on ISIS**

ISIS, founded in 1895, is one of the largest quoted UK asset management companies with a market capitalisation as at 1 July 2004 of £299 million and funds under management at 31 December 2003 of £63.5 billion. It is 67% owned by Friends Provident.

For the year ended 31 December 2003, ISIS had net revenues of £108 million, operating profits (before goodwill amortisation and exceptional items) of £35 million and an operating margin of 32.7%.

ISIS has a good record in managing fixed interest securities, commercial property and equities, where there has been a recent improvement in performance. In addition, it has established a particularly strong reputation in a number of specialist asset management areas:

- ISIS manages the assets of two large insurance groups – Friends Provident and RSA
- ISIS is a market leader in Socially Responsible Investment (SRI) and manages over £20 billion of SRI assets including the Stewardship range of retail products
- ISIS has experience of managing investment trusts dating back to 1895 and is a top ten investment trust provider in terms of funds under management
- ISIS was one of the first groups to launch a venture capital trust and continues to be a leading player in this market. Its private equity operation was recently nominated as private equity house of the year by the British Venture Capital Association
- ISIS has established a growing presence in the UK retail market, after integrating the fund ranges of previously acquired funds and engaging in a brand building programme

## Information on F&C

F&C is a leading pan-European investment manager. It is headquartered in London and had funds under management of approximately £56.4 billion at 31 December 2003 for both institutions and individuals in the UK and Europe. The company has a major presence in the Netherlands, UK, Portugal and Ireland and has recently established operations in Germany and France. It ranks among the top managers of pensions assets in the Netherlands and Ireland; is the leading provider of fund services to the Portuguese retail and institutional market; is a major institutional manager in the UK; and has been a foreign adviser to the German funds market for over a decade.

F&C is a renowned manager of investment trusts. The flagship Foreign & Colonial Investment Trust PLC was the first investment trust in the UK and remains the largest of its kind with a reputation for consistent long term performance and reliability.

F&C's enhanced product and asset mix has resulted in an increase in average fee rates from 21.5 basis points in 2001 to 24.8 basis points in 2003. Over the same period, F&C's adjusted operating margin<sup>(1)</sup> has increased from 18% to 33%.

For the year ended 31 December 2003, F&C had net revenues of £137 million, adjusted operating profit<sup>(1)</sup> of £45 million and an adjusted operating margin<sup>(1)</sup> of 33%. As at 31 December 2003, F&C had net assets of £75 million with no long term debt.

As at 31 December 2003, F&C had £56.4 billion of assets under management, split as follows:

- By client geography: 50% the Netherlands, 21% Portugal, 19% the UK, 5% Ireland, 3% Germany and 2% other (including 1% from the US)
- By product type: 47% segregated institutional clients, 21% Eureka-group insurance companies (Achmea and Friends First), 11% other insurance funds, 8% sub-advisory, 6% investment trusts, 5% pooled funds and 2% mutual funds
- By asset class: equities 37%, fixed income 59%, property 2% and alternative investments 2%

For the year ended 31 December 2003, F&C had £137 million of net revenues, split as follows:

- By client geography: 38% the Netherlands, 16% Portugal, 27% the UK, 3% Ireland, 12% Germany and 4% other (including 3% from the US)
- By product type: 36% segregated institutional clients, 14% Eureka group insurance companies (Achmea and Friends First), 11% other insurance funds, 14% sub-advisory, 13% investment trusts, 5% pooled funds and 7% mutual funds

## **Current trading**

In 2004, ISIS continues to perform well and trading in the period to 31 May 2004 has been in line with management forecasts. Assets under management at 31 May 2004 were £62.5 billion. The business focus during 2004, which was outlined in the annual report and accounts, was to increase revenues by focusing on new business and seeking to increase the basis points earned on assets under management through higher margin products. The first five months of 2004 have seen positive results with increased business inflows in OEICs, closed end funds and VCTs contributing to a positive development in profitability.

F&C has experienced strong inflows and business wins in the year to date offset by outflows, largely as a result of underlying client activity within its pension and insurance portfolios. The expectation of further business wins, together with the expectation of performance fees in the fourth quarter, will result in the skewing of profitability to the second half in 2004. Despite difficult market conditions, F&C achieved double digit operating earnings growth in 2002 and 2003 and is confident that 2004 will deliver solid progress.

Friends Provident's new business to the end of June 2004 is up on the same period in 2003 and the margin is expected to have benefited from an improvement in mix, although this is likely to be more than offset by the effect of economic assumption changes. Friends Provident is well prepared for the advent of multi-ties when the polarisation regime for intermediaries is dismantled later this year. Friends Provident has already secured distribution deals with Lighthouse and Sesame and further distribution announcements are in the pipeline.

## **Approvals, implementation and timetable**

The Merger is subject to, inter alia, approval by ISIS and Friends Provident shareholders and to receipt of regulatory approvals. It is anticipated that documents will be posted to shareholders during August 2004 at which point it is anticipated that the suspension of ISIS shares will be lifted. Completion is expected to occur in September or October 2004.

The Enlarged Group will release a pre-close trading statement, including an update on integration, in December 2004.

ISIS is being advised by Cazenove and Fenchurch Advisory Partners and Friends Provident is being advised by Cazenove. Eureka is being advised by Lexicon Partners and Citigroup.

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#### Notes:

- (1) F&C's adjusted operating profit is stated before long term incentive costs and operating exceptional items as set out in Appendix 1. F&C's adjusted operating margin is calculated as adjusted operating profit as a percentage of net revenue.
- (2) On a consolidated basis, based on pro forma 2003 profit before tax<sup>(1)</sup> (before goodwill amortisation and exceptionals) for the Enlarged Group (modified statutory profit for Friends Provident).
- (3) Nothing in this announcement should be construed as a profit forecast or be interpreted to mean that the future earnings per share of the Enlarged Group or Friends Provident (as appropriate) will necessarily be greater than the historic published earnings per share of ISIS or Friends Provident (as appropriate).
- (4) The enterprise value is based on the closing price of ISIS Ordinary Shares of 199 pence on 1 July 2004 and ISIS long term debt of £180 million.

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## Appendices

### 1. Audited combined financial information on F&C Group

		Year ended 31 December	
	Note	2002 £ million	2003 £ million
Net revenue		130.6	137.1
Administrative expenses before long term incentive costs and operating exceptional items	1	(91.6)	(92.0)
Long term incentive costs		(7.4)	(8.5)
Operating exceptional items	2	(15.9)	(2.2)
Total administrative expenses		<u>(114.9)</u>	<u>(102.7)</u>
Group operating profit		15.7	34.4
Group's share of operating losses of associated undertaking		(0.3)	-
<b>Total operating profit</b>		<b>15.5</b>	<b>34.4</b>
<b>Total operating profit before long term incentive costs and operating exceptional items</b>		<b>38.8</b>	<b>45.1</b>
<b>Net assets including pension liability</b>	3	<b>62.1</b>	<b>74.8</b>

Notes on the financial information:

- Note 1 Administrative expenses before long term incentive costs and operating exceptional items do not include the charge for long term incentive costs which will be met in full by Eureko on Completion. Following Completion, revised long term incentive arrangements will be put in place in the Enlarged Group. Approval of these arrangements will be sought from shareholders at the ISIS EGM.
- Note 2 These costs were incurred in connection with the development of an integrated asset management operation.
- Note 3 Net assets include an FRS 17 net pension liability of £4.1 million in 2003 (2002 £12.4 million).

## **2. Information on Friends Provident**

Friends Provident, founded in 1832, is one of the UK's leading financial services groups and a member of the FTSE 100 Index of UK shares with a market capitalisation of £2.5 billion at 1 July 2004. Friends Provident became a publicly listed company in 2001 following the demutualisation of the Friends Provident Life Office and since that time it has been one of the fastest growing UK life groups. Over the two year period from the beginning of 2002, annualised new business premiums have grown by 25% and new business achieved profits by 48%.

In 2003, Friends Provident wrote gross premiums of £3.2 billion and recorded an operating profit before tax of £266 million on an achieved basis and £260 million on a Modified Statutory Solvency basis. Friends Provident Life and Pensions Limited's (FPLP) insurer ratings are A+ (S&P) and A2 (Moody's), both with a stable outlook.

Friends Provident has two core businesses:

- Life and Pensions, conducted through FPLP and its subsidiaries, which offers life and pensions products distributed via independent financial advisers, controlled channels and business partnerships; and
- Asset management, conducted through ISIS, in which it has a 67% shareholding.

## **3. Information on Eureko**

The Eureko Group is a privately-owned, pan-European financial services group whose core businesses are primarily insurance and asset management, and which has operations in 14 European countries. The Eureko Group includes Achmea in The Netherlands; F&C; Friends First in Ireland; Interamerican Hellenic Life in Greece, Romania, Bulgaria and Cyprus; Union of Slovakia; Império of France, and, with its consortium partner, Bank Millennium SA (formerly Big Bank Gdanski), also has a strategic 31.8% investment in PZU, Poland's primary insurer, with an agreement to acquire a further 21% shareholding.

In 2003, the Eureko Group wrote gross premiums of €5.7 billion and recorded an operating profit before tax of €424 million. Eureko Group's long term counterparty credit and insurer financial strength rating is A+ (S&P) with a stable outlook.

Eureko is owned 65.0% by Achmea Association, 4.8% by Mr. D. Contominas, 4.5% by Rabobank Nederland, 3.9% by BCP and 21.8% by other European institutions, including 2.9% held by Friends Provident.

## **4. Conditions**

The Merger is subject to the satisfaction of, inter alia, the following conditions:

- The obtaining by, inter alia, Friends Provident, ISIS, F&C and Eureko of the necessary regulatory approvals from the FSA
- Regulatory approvals being obtained in the relevant overseas jurisdictions, including the Netherlands, Portugal and the Republic of Ireland

- Key investment management agreements for both ISIS and F&C being in place at Completion
- ISIS shareholders passing the necessary resolutions at the ISIS EGM, including, inter alia:
  - the approval of the Merger as a reverse takeover;
  - the approval of the Merger as a related party transaction with Friends Provident;
  - granting the necessary authority to issue the New ISIS Shares;
  - approval of the Restricted Share Plan, being the new share scheme to be adopted by ISIS
- Approval of Friends Provident's role in the Merger by the shareholders of Friends Provident as a class 1 transaction of Friends Provident for the purposes of the Listing Rules
- The Placing Agreement and the Friends Provident Consideration Share Agreement becoming wholly unconditional (save in relation to ISIS Admission and Friends Provident Admission)
- ISIS Admission and Friends Provident Admission having occurred
- Any necessary competition law notifications or clearances being made or obtained in the UK and any other applicable jurisdiction

## 5. Definitions

<b>"Achmea"</b>	Achmea Holding N.V., a company incorporated in the Netherlands;
<b>"Acquisition Agreement"</b>	the conditional agreement dated 1 July 2004 between (1) ISIS, (2) F&C Asset Management Holdings BV (a wholly owned subsidiary of Eureko) and (3) Eureko as guarantor setting out the terms and conditions of, and the arrangements for the implementation of, the Merger;
<b>"APE"</b>	Annualised Premium Equivalent. Standard industry measure of new business sales which adds together new regular premium business and one tenth of single premium business;
<b>"BCP"</b>	Banco Comercial Português SA, a company incorporated in Portugal;
<b>"Cazenove"</b>	Cazenove & Co. Ltd., a private limited company incorporated in England and Wales;
<b>"Citigroup"</b>	Citigroup Global Markets Limited, a private limited company incorporated in England and Wales;
<b>"Completion"</b>	means completion of the sale and purchase of F&C by ISIS and the associated transactions in accordance with the Acquisition Agreement;
<b>"Enlarged Group"</b>	the ISIS Group following Completion;
<b>"Eureko"</b>	Eureko B.V., a company incorporated in the Netherlands and references to Eureko shall be deemed to include, where appropriate, references to its wholly owned subsidiary, F&C Asset Management Holdings BV as seller under the Acquisition Agreement;
<b>"Eureko Group"</b>	Eureko and its subsidiaries and subsidiary undertakings;
<b>"Fenchurch Partners"</b>	<b>Advisory</b> Fenchurch Advisory Partners Limited, a private company incorporated in England and Wales;
<b>"Friends Provident"</b>	Friends Provident plc, a public limited company incorporated in England and Wales;

<b>"Friends Admission"</b>	<b>Provident</b>	means the admission of the relevant number of New Friends Provident Shares by the UK Listing Authority to its Official List in accordance with the Listing Rules and the admission of such shares by the London Stock Exchange to trading on its market for listed securities in accordance with the Admission and Disclosure Standards of the London Stock Exchange;
<b>"Friends Consideration Shares"</b>	<b>Provident</b>	means 145 million New ISIS Shares to be issued to Friends Provident pursuant to the Friends Provident Consideration Share Agreement;
<b>"F&amp;C"</b>		F&C Group (Holdings) Limited, a private limited liability company incorporated in England and Wales;
<b>"F&amp;C Group"</b>		F&C and its subsidiaries and subsidiary undertakings;
<b>"Friends First"</b>		Friends First Holdings Limited, a private limited company incorporated in Ireland;
<b>"FSA"</b>		the Financial Services Authority, the UK Financial Services Regulator;
<b>"FSMA"</b>		the Financial Services and Markets Act 2000, as amended;
<b>"ISIS"</b>		ISIS Asset Management plc, a public limited company incorporated in Scotland;
<b>"ISIS Admission"</b>		means the admission of the New ISIS Shares by the UK Listing Authority to its Official List in accordance with the Listing Rules and the admission of such shares by the London Stock Exchange to trading on its market for listed securities in accordance with the Admission and Disclosure Standards of the London Stock Exchange;
<b>"ISIS Circular"</b>		the explanatory circular to be sent to the shareholders of ISIS, as required by the Listing Rules, which will also convene the ISIS EGM;
<b>"ISIS Group"</b>		ISIS and its subsidiaries and subsidiary undertakings;
<b>"ISIS Listing Particulars"</b>		the Listing Particulars to be published by ISIS setting out details of the Merger and the New ISIS Shares;
<b>"ISIS Ordinary Shares"</b>		ordinary shares of 0.1 pence each in the capital of ISIS;

<b>"Listing Rules"</b>	the listing rules of the UK Listing Authority;
<b>"Lexicon Partners"</b>	Lexicon Partners Limited, a private limited company incorporated in England and Wales;
<b>"Merger"</b>	the proposed combination of ISIS and F&C pursuant to the terms of the Acquisition Agreement;
<b>"New Friends Provident Shares"</b>	new ordinary shares of 10 pence each in the capital of Friends Provident;
<b>"New ISIS Shares"</b>	new ISIS Ordinary Shares to be issued in connection with the Merger;
<b>"Official List"</b>	the Official List of the UK Listing Authority;
<b>"Placing"</b>	means the secondary placing of the Placing Shares pursuant to the Placing Agreement;
<b>"Placing Agreement"</b>	means the agreement to be entered into relating to the Placing;
<b>"Placing Shares"</b>	means the 76 million New ISIS Shares to be issued to Eureka on Completion which will be immediately placed under the Placing Agreement; and
<b>"RSA"</b>	Royal & Sun Alliance Insurance Group PLC and its subsidiaries and subsidiary undertakings.