

BEAZLEY FURLONGE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2002



BEAZLEY FURLONGE LIMITED

DIRECTORS AND ADVISORS

Directors

Joseph D Sargent - Chairman
Andrew F Beazley
Nicholas H Furlonge
George P Blunden
Jonathan G Gray
Neil P Maidment
Arthur R Manners
Johnny G B Rowell
Jonathon G W Agnew

Secretary

S A Coope

Registered office

One Aldgate
London
EC3N 1AA

Registered Number: 1893407

Auditors

KPMG Audit plc
8 Salisbury Square
London
EC4Y 8BB

Bankers

Lloyds TSB Bank plc
113-116 Leadenhall Street
London
EC3A 4AX

BEAZLEY FURLONGE LIMITED

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Beazley Furlonge Limited, will be held at 1 Aldgate, London EC3N 1AA on 20 June 2003 for the following purposes:

Ordinary business

1. To receive, approve and adopt the financial statements of the company for the year ended 31 December 2002 together with the directors' and auditor's report thereon.
2. To reappoint KPMG Audit plc as auditor and to authorise the directors to fix the auditor's remuneration.
3. To transact any other ordinary business.

On behalf of the board



A R Manners
Director

27 May 2003

Notes:

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and on a poll vote in their place. The instrument of proxy must be in writing and specify whether the proxy is to vote for or against the specified resolutions except where such resolution is a motion for adjournment or for the appointment of a chairman.

A proxy need not also be a member.

BEAZLEY FURLONGE LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the period ended 31 December 2002.

Business review and future developments

The principal activity of the company is that of a Lloyd's managing agent.

The capacity of the managed syndicates, syndicate 623 and syndicate 2623, was £325 million and £78 million respectively for 2002 (£215 million and £Nil for 2001).

Admission to listing on the London Stock Exchange

On 12 November 2002, the company's parent undertaking, Beazley Group plc, was admitted to full listing on the London Stock Exchange consisting of its entire issued capital, amounting to 229,479,452 ordinary shares of 5p each.

Change of accounting reference date

Beazley Group plc, the parent undertaking of the company formerly made up its accounts to 30 June in each year. During the period the parent undertaking changed its accounting reference date from 30 June to 31 December so as to coincide with the accounting reference date of syndicate 2623. Consequently the company also changed its accounting reference date to 31 December. As a result, this report and the attached financial statements cover the six month period to 31 December 2002.

Profit and appropriations

The results for the period are shown in the profit and loss account on page 6. The directors do not recommend the payment of a final dividend (year to 30 June 2002: £Nil). The surplus remaining of £68,762 has been transferred to reserves (30 June 2002: £44,505).

Directors

The names of the directors who served during the year and to the date of this report are as follows:-

Joseph D Sargent - chairman
Andrew F Beazley
Nicholas H Furlonge
George P Blunden
Jonathan G Gray
Neil P Maidment
Arthur R Manners
Johnny G B Rowell
Jonathon G W Agnew

BEAZLEY FURLONGE LIMITED

DIRECTORS' REPORT (continued)

Directors' interests

None of the directors have an interest in the share capital of the company. The interests of the directors in the share capital of the ultimate parent undertaking, Beazley Group plc, are disclosed in that company's accounts. Copies of those accounts may be obtained from the registered office of this company, as set out on page 1.

The following directors participated in syndicate 623 through Namesco for the 2002 year of account:

	<u>2001 Year of</u> <u>Account</u>	<u>2002 Year of</u> <u>Account</u>
	£	£
A F Beazley	1,000,000	1,100,000
A R Manners	375,000	375,000
J G B Rowell	1,000,000	1,000,000
J D Sargent	600,000	848,000

Mr George Blunden is a director of Alliance Capital Limited. Alliance Capital Limited provide investment management advice to the Beazley Group.

Fixed assets

Details of tangible fixed assets are set out in note 6 to the financial statements.

Charitable donations

During the period the company paid £11,000 in charitable donations (year to 30 June 2002: £10).

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

BEAZLEY FURLONGE LIMITED

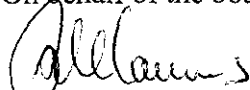
DIRECTORS' REPORT (continued)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the prevention and detection of fraud and other irregularities.

Auditors

KPMG Audit plc have indicated their willingness to continue in office and a resolution to that effect will be put to the members at the Annual General Meeting.

On behalf of the board



A R Manners
Director

1 Aldgate
London
EC3N 1AA

27 May 2003

BEAZLEY FURLONGE LIMITED

Independent auditors' report to the members of Beazley Furlonge Limited

We have audited the financial statements on pages 7 to 19.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on pages 4 and 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the requirements of the Companies Act 1985.

KPMG Audit Plc
KPMG Audit plc
Chartered Accountant
Registered Auditor
27 May 2003

8 Salisbury Square
London
EC4Y 8BB

BEAZLEY FURLONGE LIMITED

PROFIT & LOSS ACCOUNT
6 MONTHS ENDED 31 DECEMBER 2002

	<u>Note</u>	6 months ended 31 December 2002 £	Year ended 30 June 2002 £
Turnover	2	1,440,000	2,106,138
Administrative expenses	3	(1,300,503)	(1,950,772)
		139,497	155,366
Other operating income		-	101
		139,497	155,467
Operating profit		139,497	155,467
Interest receivable		8,607	23,619
		148,104	179,086
Profit on ordinary activities before taxation		148,104	179,086
Tax on profit on ordinary activities	5	(79,342)	(134,581)
		68,762	44,505
Profit on ordinary activities after taxation		68,762	44,505
Retained profit for the year	11	68,762	44,505

The company's turnover and expenses all relate to the continuing operations. There were no recognised gains or losses during the year other than those passing through the profit and loss account.

The notes on pages 9 to 19 form part of these financial statements.

BEAZLEY FURLONGE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2002

	<u>Note</u>	<u>31 December 2002</u> £	<u>30 June 2002</u> £
Fixed assets			
Tangible assets	6	-	-
Investments	7	<u>19,922</u>	<u>19,922</u>
Current assets			
Debtors	8	1,151,259	384,828
Cash at bank and in hand		292,400	728,443
		1,443,659	1,113,271
Creditors: amounts falling due within one year	9	<u>(680,449)</u>	<u>(418,823)</u>
Net current assets		763,210	694,448
Net assets		<u>783,132</u>	<u>714,370</u>
Capital and reserves			
Called up share capital	10	400,000	400,000
Profit and loss account	11	383,132	314,370
		<u>783,132</u>	<u>714,370</u>

The financial statements on pages 6 to 19 were approved by the board of directors on 27 May 2003.

Signed on behalf of
the board of directors


A R Manners

The notes on pages 9 to 20 form part of these financial statements.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. A summary of the more important policies is set out below which have been applied consistently.

Turnover

Turnover represents agency salaries and profit commission derived from underwriting Names at Lloyd's.

Agency salaries represent net retained salaries in respect of one half of the 2002 underwriting account (2002: one half of the 2001 underwriting account and one half of the 2002 underwriting account).

Profit commission is accounted for on a received basis.

Operating leases

Rentals payable under operating leases are charged on a straight line basis over the term of the lease.

Deferred taxation

Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date to the extent that it is more likely than not to crystallise.

Investments

Investments are shown at cost in the balance sheet.

Cash flow statement

Under FRS 1 (revised 1996) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own consolidated financial statements.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Turnover and profit

	6 months ended 31 December 2002	Year ended 30 June 2002
	£	£
Underwriting agency salaries	1,440,000	1,614,329
1999 Closed Year of Account profit commission	-	491,809
	1,440,000	2,106,138

Turnover and profit before taxation arise in the United Kingdom, from business underwritten at Lloyd's on behalf of Names resident in the United Kingdom and overseas.

3. Profit on ordinary activities before taxation

	6 months ended 31 December 2002	Year ended 30 June 2002
	£	£
Profit on ordinary activities before taxation is stated after charging and crediting the following:-		
Depreciation	-	45,271
Auditors' remuneration - audit	14,500	12,000
- other	81,436	13,852
Staff costs	4,585,364	5,990,318
Rental payments under operating leases		
- buildings	154,217	151,945
- motor vehicles	63,156	143,483
	4,898,673	6,356,869
Other costs	2,389,626	2,506,242
Recharged to managed syndicate	(5,987,796)	(6,912,339)
Administrative expenses	1,300,503	1,950,772

Included within "other costs" is £258,488 in respect of services provided in connection with capital raising and also £67,835 within "Auditors' remuneration - other". These costs are of a non-recurring nature.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Directors and employees

	6 months ended <u>31 December 2002</u>	Year ended <u>30 June 2002</u>
	£	£
Staff costs including directors' emoluments		
Salaries	3,324,373	4,862,851
Social security	339,324	503,067
Pension costs	921,667	624,400
	4,585,364	5,990,318
Average number employed including executive directors	70	58
	£	£
Total directors' emoluments	796,270	1,348,194
Highest paid director	166,557	313,887

The aggregate value of company contributions paid to the company pension scheme in respect of directors' qualifying services was £79,842 (30 June 2002: £135,364).

	<u>Number of directors</u>	
	6 months ended <u>31 December 2002</u>	Year ended <u>30 June 2002</u>
Retirement benefits are accruing to the following number of directors under defined benefit Schemes	6	6

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Directors and employees (continued)

The value of the highest paid director's accrued retirement benefit at the end of the period was £98,165.

Directors and employees of the company who participate on syndicates managed by the company do not pay agency salaries or profit commission on those participations.

5. Taxation

	6 months ended 31 December 2002 £	Year ended 30 June 2002 £
<i>UK corporation tax on:</i>		
Profit on ordinary activities at 30% (30 June 2002: 30%)	74,641	138,646
Adjustment in respect of prior year	6,751	-
Deferred tax (See note 8)	(2,050)	(4,065)
	79,342	134,581

Factors affecting the tax charge for the current period

The corporation tax liability for the period is higher than the standard rate of corporation tax in the UK due to the differences explained below;

	6 months ended 31 December 2002 £	Year ended 30 June 2002 £
Profit on ordinary activities before tax	<u>148,104</u>	<u>179,086</u>
Current tax at 30% (30 June 2002: 30%)	44,431	53,726
<i>Effect of:</i>		
Expenses not deductible for tax	28,160	78,268
Capital allowances for the period Higher than depreciation	2,050	6,652
	74,641	138,646

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Tangible fixed assets

	<u>Short leasehold land and buildings</u>	<u>Furniture Motor vehicles & equipment</u>	<u>Total</u>
Cost	£	£	£
At 1 July 2002	279,957	267,731	547,688
Additions	-	-	-
At 31 December 2002	279,957	267,731	547,688
Depreciation			
At 1 July 2002	279,957	267,731	547,688
Charge for the year	-	-	-
At 31 December 2002	279,957	267,731	547,688
Net book amount			
At 30 June 2002	-	-	-
At 31 December 2002	-	-	-

7. Investments

	<u>Cost</u>	<u>Market Value</u>
	£	£
Other fixed asset investments:-		
Asia Pacific Underwriting Agency	19,922	19,922

The investment in Asia Pacific Underwriting Agency (APUA) represents the start up costs and the consideration paid for additional shares in APUA. APUA is an underwriting agency established in Hong Kong that underwrites on behalf of Syndicate 623 and others. All income and costs that were attributable to the investment are for the benefit of the Names of Syndicate 623.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Debtors

	<u>31 December 2002</u>	<u>30 June 2002</u>
	£	£
Amounts owed by group undertakings	1,010,875	247,978
Amounts owed by associate undertakings	100,454	83,554
Other debtors	39,930	43,279
Prepayments and accrued income	-	10,017
	1,151,259	384,828

Included in other debtors is a deferred tax asset of £18,737 (30 June 2002; £20,787), which relates to the difference between the tax written down value of fixed assets and their carrying value of £60,717 (30 June 2002; £69,391).

9. Creditors: amounts falling due within one year

	<u>31 December 2002</u>	<u>30 June 2002</u>
	£	£
Amounts owed to group undertakings	145,176	-
Corporation tax	226,454	138,438
Other creditors including taxation and social security	165,579	180,639
Accruals and deferred income	143,240	99,746
	680,449	418,823

10. Share capital

	<u>31 December 2002</u>	<u>30 June 2002</u>
	£	£
	Authorised	Allotted and paid up
Ordinary shares of £1 each		
At 1 July 2002	400,000	400,000
At 31 December 2002	400,000	400,000

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Profit and loss account

	<u>31 December 2002</u>	<u>30 June 2002</u>
	£	£
At 1 July 2002	314,370	269,865
Retained profit for the year	68,762	44,505
At 31 December 2002	£383,132	£314,370

12. Pension commitments

As from 1 January 2002 all new employees are entitled to join a non-contributory defined contribution scheme where the company contributes 12.5% of salary. For employees who joined prior to 31 December 2001, Beazley Furlonge Limited operates a pension scheme ('the Beazley Furlonge Pension Scheme') providing benefits based on final pensionable pay, with contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. This fund was closed to new entrants from 31 December 2001. The contributions are determined by a qualified actuary using the projected unit method and the most recent ongoing valuation was at the valuation date of 10 August 2002. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. The net of expenses investment return used was 6.75% in deferment and 5.75% in payments (1 April 2002; 6.75/5.75%), the rate of earning increased used was 4.0% (1 April 2002; 5.0%) and the rate of pension increase used was 2.0% (1 April 2002; 2.0%).

The most recent actuarial valuation showed that the market value of the scheme's assets was £3,152,000 at August 2002 including a single contribution of £250,000 paid in November 2002 (£3,558,000 at 1 April 2002) and that the actuarial value of those assets represented 78% (92% at 1 April 2002) of the benefits that had accrued to members on an ongoing basis, after allowing for expected future increases in earnings. The contributions of the company have been estimated at 21% of earnings. The pension charge for the period was £921,667 (30 June 2002: £565,000). Each year substantially all of the pension costs are recharged to the managed syndicates.

Whilst the company continues to account for pension costs in accordance with SSAP 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required.

The valuation was calculated by the actuary on a FRS 17 "Retirement benefits", basis as at 31 December 2002 and 30 June 2002.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Pension Commitments (continued)

The major assumptions used in these valuations were:

	<u>31 December 2002</u>	<u>30 June 2002</u>
Rate of increase in salaries	4.0%	4.5%
Rate of increase in pensions	2.0%	2.5%
Discount rate applied to scheme liabilities	5.5%	6.0%
Inflation assumption	2.0%	2.5%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long term rate of return 31 Dec 2002	Value at 31 Dec 2002 £000	Long term rate of return 30 June 2002	Value at 30 June 2002 £000
Equities	6.5%	2,572	7.3%	3,133
Bonds	4.5%	705	4.5%	563
Cash	2.5%	552	2.5%	-
Fair value of assets		3,829		3,696
Present value of scheme's liabilities		(6,240)		(5,309)
Gross pension liability		(2,411)		(1,613)
Deferred tax asset arising on pension liability		-		484
Net pension liability		(2,411)		(1,129)

The amount of this net pension liability would have a consequential effect on the company's reserves.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Pension Commitments (continued)

Movement in deficit during the year:

	Value at 31 Dec 2002 £000	Value at 30 June 2002 £000
Deficit in the scheme at beginning of year	(1,613)	(621)
Current service cost	(287)	(710)
Contributions paid	544	565
Past service cost	-	-
Other finance income/cost	(21)	19
Actuarial gain/loss	(1,034)	(866)
Deficit in the scheme at end of year	(2,411)	(1,613)

Analysis of amounts included in other finance income/costs:

	Value at 31 Dec 2002 £000	Value at 30 June 2002 £000
Expected return on pension scheme assets	140	277
Interest on pension scheme liabilities	(161)	(258)
	(21)	(19)

Analysis of amount which would have been recognised in statement of total recognised gains and losses:

	Value at 31 Dec 2002 £000	Value at 30 June 2002 £000
Actual return less expected return on scheme assets	(551)	(890)
Experience gains arising on scheme liabilities	(475)	24
Changes in assumptions underlying the present value of scheme liabilities	(8)	-
Actuarial loss recognised in statement of total recognised gains and losses	(1,034)	(866)

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Pension Commitments (continued)

From 1 April 2002 to 10 August 2002, no benefits accrued under the scheme. During this period, Beazley Furlonge Limited participated in the Lloyd's Superannuation Fund ('LSF') and employees accrued benefits under the LSF. Beazley Furlonge Limited terminated its participation in the LSF on 10 August 2002. Beazley Furlonge Limited has confirmed to those of its employees who participated in the LSF that they will be granted continuous pensionable service in the Scheme in respect of the period of participation in the LSF. The liability in respect of this period of service is not included in the actuarial valuation report referred to above, but is included in the FRS 17 valuation at 31 December 2002. The market value of the estimated transfer value at that date was included in the market value of the Scheme's assets in the FRS 17 valuation. The cost to the Scheme of providing continuous service using the actuarial valuation basis has been estimated at £705,000 as at 10 August 2002. The proposed transfer payment from the LSF has not yet been confirmed but the trustees of the LSF have indicated that it could be in the region of £180,000. The directors of Beazley Furlonge Limited are in discussion with the trustees of the LSF to determine the amount required to be transferred. In anticipation of any potential shortfall in the expected transfer amount requested from the trustees of the LSF, Beazley Furlonge Limited has agreed with the trustees of the Scheme to make three annual contributions of £175,000 to the Scheme. To the extent that assets received from the LSF trustees exceed £180,000, future annual contributions will be adjusted accordingly. In addition to the three annual contributions referred to above, Beazley Furlonge Limited has agreed to make a special contribution to the Scheme of £250,000. The contribution was paid in October 2002. The Directors of Beazley Furlonge Limited consider that all of these payments will be proper expenses for the 2001 and 2002 years of account of Syndicate 623 and will be recharged accordingly. The impact of the shortfall on the FRS 17 valuation would be to reduce the market value of the Scheme's assets at 31 December 2002 by up to £470,000.

13. Ultimate holding company

The ultimate holding company is Beazley Group plc, a company incorporated in England. The group financial statements can be obtained from the Registered Office address given on page 1 of these accounts.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Contingent liabilities and financial commitments

The company entered into a leasehold tenancy agreement on 11 January 2002 in respect of One Aldgate, replacing an old lease on the building, which expired in March 2002. The company was committed to make minimum rental payments amounting in the aggregate to £2,632,647 in respect of the remaining 4 year period of the tenancy until the first break clause (30 June 2002 - £7,733,288 in respect of the remaining 12 years)

	<u>31 December 2002</u>	<u>30 June 2002</u>
	£	£
Annual commitments under operating leases:		
Expiring within one year:		-
- Other	72,855	86,089
Expiring between two and five years:		
- Land and Buildings	653,240	653,240
- Other	49,632	57,394
Expiring after more than five years:	-	-

15. Reconciliation of movements in shareholders' funds

	<u>31 December 2002</u>	<u>30 June 2002</u>
	£	£
Profit for the financial year	68,762	44,505
Dividends	-	-
	68,762	44,505
Opening shareholders' funds	714,370	669,865
Closing shareholders' funds	783,132	714,370

16. Related Party Transactions

The Company's ultimate parent undertaking, Beazley Group plc, prepares consolidated financial statements which are publicly available. Accordingly, the Company has taken advantage of an exemption in Financial Reporting Standard 8 - 'Related Party Transactions' and does not disclose transactions with other entities in the Group.