

BEAZLEY FURLONGE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2012

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Beazley Furlonge Limited

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Beazley Furlonge Limited

Directors and Advisors

Directors

D Holt - Chairman – (appointed 27/03/2012)
J G W Agnew – (resigned 27/03/2012)
G P Blunden
M L Bride – Finance director
A P Cox
R V Deutsch
N H Furlonge
J G Gray
A G K Hamilton
D A Horton - Chief executive officer
N P Maidment - Active underwriter
R A W Tolle
C A Washbourn

Secretary

S A Coope

Registered office

Plantation Place South
60 Great Tower Street
London
EC3R 5AD

Registered Number

01893407

Auditors

KPMG Audit Plc
15 Canada Square
London
E14 5GL

Banker

Lloyds Banking Group plc
113-116 Leadenhall Street
London
EC3A 4AX

Beazley Furlonge Limited

Directors' report

The directors present their report and the audited financial statements of Beazley Furlonge Limited (company no: 01893407) ('the company') for the period ended 31 December 2012.

Business review and principal activity

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

The capacity of the managed syndicates was, syndicate 623 £214m, syndicate 2623 £946m, syndicate 3622 £13m, syndicate 3623 £135m and syndicate 6107 £10m respectively for 2012 (2011: 623 £215m, syndicate 2623 £943m, syndicate 3622 £13m, syndicate 3623 £135m and 6107 £14m).

Principal risks and uncertainties

The principal risks and uncertainties of the company arise from the management of syndicates 2623, 6107, 623, 3622 and 3623. The principal risks and uncertainties of Beazley plc, which include those of the company, are discussed on pages 51 to 53 and 104 to 117 of Beazley plc's annual report which does not form part of this report.

Key performance indicators ("KPIs")

The company's directors are of the opinion that the KPIs for the company are best represented by the financial statements and related notes set out on pages 6 to 16.

Profit and appropriations

The results for the period are shown in the profit and loss account on page 7. A total dividend of £8.0m was paid in 2012 (2011: £19.4m).

Directors

The directors of the company at 31 December 2012, who served during the year and to the date of this report, were as follows:

D Holt * - Chairman **
J G W Agnew – (resigned 27/03/2012) **
G P Blunden *
M L Bride – Finance director
A P Cox
R V Deutsch *
N H Furlonge *
J G Gray
A G K Hamilton *
D A Horton – Chief executive officer
N P Maidment – Active underwriter
R A W Tolle *
C A Washbourn

* denotes non-executive director

** J G W Agnew resigned from the Board on 27 March 2012. Dennis Holt was appointed as chairman of the board on 27 March 2012.

Beazley Furlonge Limited

Directors' report (continued)

The directors of Beazley Furlonge Limited during the period covered by this annual report who participated in syndicate 623 either directly as a name or through Beazley Staff Underwriting Limited are as follows:

Year of Account	Total bonuses deferred and at risk £	2011 year of account underwriting capacity £	2012 year of account underwriting capacity £	2013 year of account underwriting capacity £
M L Bride	216,000	350,000	400,000	400,000
A P Cox	216,000	350,000	400,000	400,000
J G Gray	216,000	350,000	400,000	400,000
D A Horton	216,000	350,000	400,000	400,000
N P Maidment	216,000	350,000	400,000	400,000
C A Washbourn	216,000	350,000	400,000	400,000

Going Concern

The directors have prepared these accounts on a going concern basis, as they are of the opinion that the company will be able to pay its debts as and when they fall due.

As a wholly owned subsidiary of Beazley plc, the directors expect the company to have adequate resources to remain in existence for the foreseeable future

Charitable donations

During the period the company made no charitable donations (2011: £nil).

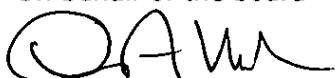
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

On behalf of the board



D A Horton
Director

6 March 2013

Plantation Place South
60 Great Tower Street
London
EC3R 5AD

Beazley Furlonge Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



M L Bride
Director

6 March 2013

Beazley Furlonge Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY FURLONGE LIMITED

We have audited the financial statements of Beazley Furlonge Limited for the year ended 31 December 2012 set out on pages 6 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion.

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Stuart Crisp (Senior Statutory Auditor)
for and on behalf of KPMG Audit plc, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

6 March 2013

Beazley Furlonge Limited

Profit & loss account

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Turnover	2	11.3	10.7
Other operating income	2	101.4	86.4
		112.7	97.1
Administrative expenses	3	(102.9)	(87.2)
Operating profit		9.8	9.9
Profit on ordinary activities before taxation		9.8	9.9
Income tax expenses	4	(1.2)	(1.6)
Profit for the financial year		8.6	8.3

The company's operating activities all relate to continuing operations.

The notes on pages 9 to 16 form part of these financial statements

Beazley Furlonge Limited

Statement of total recognised gains and losses For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Profit after tax for the financial year		8.6	8.3
Actuarial loss on retirement benefit obligations	9	(0.7)	(0.4)
Transferable from managed syndicates		0.7	0.4
Total recognised gains for the year		8.6	8.3

The notes on pages 9 to 16 form part of these financial statements

Beazley Furlonge Limited

Balance sheet As at 31 December 2012

	Note	2012 £m	2011 £m
Current assets			
Debtors (including £0.8m (2011: £nil) due after more than one year)	5	18.3	18.8
Creditors' amounts falling due within one year	6	(8.7)	(9.7)
Net current assets		9.6	9.1
Total assets less current liabilities		9.6	9.1
Retirement benefit obligations	9	(0.4)	(0.5)
Net assets		9.2	8.6
Capital and reserves			
Called up share capital	7	0.4	0.4
Profit and loss account	8	8.8	8.2
Equity shareholders funds	10	9.2	8.6

The financial statements on pages 6 to 16 were approved by the board of directors on 6 March 2013

Signed on behalf of the board of directors



M L Bride

The notes on pages 9 to 16 form part of these financial statements.

Beazley Furlonge Limited

Notes to the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relations to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The financial statements are presented in pounds sterling being the functional currency of the company.

Under FRS1 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

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Turnover

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

Agency fees represent net retained fees in respect of the 2012 underwriting account.

Profit commission is recognised as profit is earned

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

Foreign currencies

Transactions in foreign currencies are translated using the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date. Any gains or losses arising on translation are included in the profit and loss account.

Beazley Furlonge Limited

Notes to the financial statements (continued)

1. Accounting policies (continued)

Post retirement benefits

The company operates a defined benefit pension plan that is now closed to future service accruals. The scheme is generally funded by payments from the company taking account of the recommendations of an independent qualified actuary. All employees now participate in a defined contribution pension funded by the company.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors like age, years of service and compensation. The pension costs are assessed using the projected unit credit method. Under this method the costs of providing pensions are charged to the income statement so as to spread the regular costs over the service lives of employees in accordance with the advice of the qualified actuary, who values the plans annually. The pension obligation is measured at the present value of the estimated future net cash flows and is stated net of plan assets.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are not recognised in the financial statements but are disclosed in the notes to the financial statements.

2 Turnover and other operating income

	2012 £m	2011 £m
Underwriting agency fees	7.7	7.8
Profit commission	3.6	2.9
	11.3	10.7

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.

Other operating income of £101.4m; (2011: 86.4m) represents charges to other group companies. All charges to the syndicates (623/2623/3622/3623/6107) other than those directly charged by Lloyd's to the syndicates are now paid by Beazley Management Limited and are then charged through Beazley Furlonge Limited to the relevant syndicate.

Beazley Furlonge Limited

Notes to the financial statements (continued)

3. Administrative expenses

	2012 £m	2011 £m
Recharged from Beazley Management Limited	102.9	87.2
Administrative expenses	102.9	87.2

Amounts receivable by the company's auditor and its associates in respect of the audit of financial statements is £23,265 (2011: £23,265) These were paid by Beazley Management Limited.

Amounts receivable by the company's auditor and its associates in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the company's parent, Beazley plc.

All staff are employed by Beazley Management Limited

The directors of the company are paid by Beazley Management Limited

4. Income tax expense

	2012 £m	2011 £m
<i>Current tax</i>		
UK corporation tax on profit for the period	1.1	1.5
Adjustment in respect of prior year	0.1	0.1
Income tax expense	1.2	1.6

Factors affecting the tax charge for the current period

The current tax charge for both the current year and prior years is lower than the standard rate of corporation tax in the UK, 24.5% (2011: 26.5%) due to the differences explained below

	2012 £m	2011 £m
Profit on ordinary activities before taxation	9.8	9.9
Current tax at 24.5% (2011: 26.5%)	2.4	2.6
<i>Effect of;</i>		
Permanent differences	(1.3)	(1.1)
Prior year over provision	0.1	0.1
Current tax charge for the year	1.2	1.6

Beazley Furlonge Limited

Notes to the financial statements (continued)

4. Income tax expense (continued)

The UK Chancellor's Autumn Statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the company's future current tax charge accordingly.

5. Debtors: amounts falling due within one year

	2012 £m	2011 £m
Amounts owed by group companies	14.8	12.2
Profit commission receivable	3.5	6.6
	18.3	18.8

Debtors include profit commission receivable of £0.8m (2011: £nil) due after more than one year.

6. Creditors: amounts falling due within one year

	2012 £m	2011 £m
Amounts owed to group companies	7.6	5.1
Amounts owed to managed syndicates	-	2.4
Amounts owed to syndicate 623	-	0.6
Current income tax liability	1.1	1.6
	8.7	9.7

7. Share capital

	2012 £m	2011 £m
Authorised: 400,000 ordinary shares of £1 each	0.4	0.4
Allotted, issued and fully paid	0.4	0.4

Beazley Furlonge Limited

Notes to the financial statements (continued)

8. Profit and loss account

	2012 £m	2011 £m
Balance brought forward at 1 January	8.2	19.3
Profit for the financial year	8.6	8.3
Dividends paid	(8.0)	(19.4)
Balance carried forward 31 December	8.8	8.2

During 2012 dividends of £8.0m (2011: £19.4m) were paid to the company's parent company. This was part of an exercise to manage the surplus capital held by subsidiaries within the Beazley Group and facilitate future dividend payments to external shareholders of Beazley plc, the company's ultimate parent. Following payment of this dividend the company retains sufficient capital to meet its regulatory and trading requirements.

9 Retirement benefit obligations

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of funded obligations	20.3	17.8	16.9	15.4	10.3
Fair value of plan assets	19.9	17.3	15.8	12.9	10.0
Experience (losses)/gains on scheme liabilities	(0.1)	(0.2)	(0.1)	0.3	1.1

Beazley Furlonge Limited operates a defined benefit pension scheme ('the Beazley Furlonge Limited Pension Scheme') which closed to new members in January 2002. The scheme provides 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. No additional years of service can be accrued for those members still employed by the company. Contributions are determined by a qualified independent actuary using the projected unit credit method and the most recent valuation was at 31 December 2012.

The major assumptions used in this valuation were:

	2012	2011
Future salary increases	5.2%	5.5%
Future pensions increases	2.1%	2.3%
Discount rate	4.1%	4.7%
Inflation rate	2.4%	2.7%
Life expectancy	88 years	88 years

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

Beazley Furlonge Limited

Notes to the financial statements (continued)

9. Retirement benefit obligations (continued)

Plan Assets

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

	2012 £m	2011 £m
Equities	10.0	9.0
Bonds	9.0	8.2
Cash	0.9	0.1
Fair value of plan assets	19.9	17.3
Present value of funded obligations	(20.3)	(17.8)
Net pension liability	(0.4)	(0.5)

The expected rates of return on the assets in the scheme were:

	2012	2011
Equities	5.3%	4.5%
Bonds	3.4%	2.9%
Cash	0.3%	0.5%

Movement in defined benefit obligation

	2012 £m	2011 £m
Balance at beginning of year	17.8	16.9
Interest cost	0.8	0.9
Actuarial losses	1.9	0.3
Benefits paid	(0.2)	(0.3)
Balance at the end of year	20.3	17.8

Movement in fair value of plan assets

	2012 £m	2011 £m
Balance at beginning of year	17.3	15.8
Expected return on assets	0.7	0.9
Contributions paid	1.0	1.0
Actuarial gains/(losses)	1.1	(0.1)
Benefits paid	(0.2)	(0.3)
Balance at the end of year	19.9	17.3

Beazley Furlonge Limited

Notes to the financial statements (continued)

9. Retirement benefit obligations (continued)

Analysis of amounts recognised in statement of total recognised gains and losses

	2012 £m	2011 £m
Actual return less expected return on plan assets	1.1	(0.1)
Experience losses arising on scheme liabilities	(0.1)	(0.2)
Changes in assumptions underlying the present value of scheme liabilities	(1.7)	(0.1)
Actuarial losses recognised in statement of total recognised gains and losses	(0.7)	(0.4)

	2012 £m	2011 £m
Difference between the expected and actual return on scheme		
- Amount	1.1	(0.1)
- Percentage of year end scheme assets	6%	1%
Experience losses on scheme liabilities		
- Amount	(0.1)	(0.2)
- Percentage of year end present value of scheme liabilities	1%	1%
Total recognised in statement of total recognised gains and losses		
- Amount	(0.7)	(0.4)
- Percentage of year end present value of scheme liabilities	3%	2%

10. Reconciliation of movements in shareholders' funds

	2012 £m	2011 £m
Opening shareholders' funds	8.6	19.7
Profit for the financial year	8.6	8.3
Dividends paid	(8.0)	(19.4)
Closing shareholders' funds	9.2	8.6

Beazley Furlonge Limited

Notes to the financial statements (continued)

11. Dividends

The following dividends were recognised during the period:

	2011 £m	2010 £m
£20.0 (2011: £48.5) per qualifying ordinary share	8.0	19.4

12. Ultimate controlling company

The company's ultimate controlling company is Beazley plc incorporated in Jersey. The immediate controlling company is Beazley Furlonge Holdings Limited incorporated in the UK.

The largest and the smallest group in which the results of the company are consolidated is that headed by Beazley plc. No other group financial statements include the results of the company.

13. Related party transactions

Certain of the directors of the company and its subsidiaries are or have been names on the Lloyd's syndicates which are managed by the group. The details of the participations are disclosed on page 3.

Beazley service companies

Beazley plc owns the following service companies (managing general agents):

Beazley Solutions Ltd – (UK & Europe);
Beazley USA Services Inc. – (USA);
Beazley Ltd – (Hong Kong); and
Beazley Pte Ltd – (Singapore).

The entities listed above are service companies for syndicates 623 and 2623.

Beazley Underwriting Proprietary Ltd, Blue-GUM Special Risks Pty Ltd and Australian Income Protection Pty Ltd are service companies for syndicate 3623.

Beazley Underwriting Services Ltd is a service company for syndicates 3622 and 3623.

The syndicates will be charged commissions for the type of business underwritten by these companies. The commission is based on the costs incurred by these service companies in generating the business on behalf of the syndicates.

Beazley USA

Beazley plc has a licensed insurance company in the US (Beazley Insurance Company, Inc. (BICI)) to write business not normally available to the Names of the syndicate. Reinsurance contracts from BICI will be placed with the syndicates, for which the syndicates pay a commission. The commission is based on the costs incurred by BICI in generating the business relating to the reinsurance contracts.