

SPECIAL CONTINGENCY RISKS LIMITED

(Registered No. 617667)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

DIRECTORS

CM London – Chairman (appointed 30 April 2004)
JR Holliday
DR Milne

SECRETARY

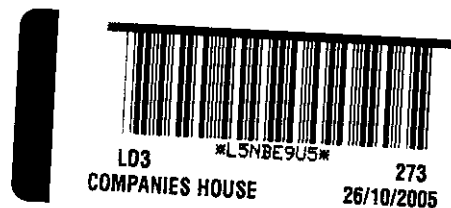
SK Bryant

REGISTERED OFFICE

28 Great Tower Street
London EC3R 5AT

AUDITORS

Deloitte & Touche LLP
London



DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

The directors present their report, together with the financial statements, for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES AND REVIEW OF DEVELOPMENTS

The Company is a Lloyd's broker engaged in international insurance broking.

RESULTS

The profit on ordinary activities after taxation amounted to £2,858,000 (2003: £2,697,000).

FUTURE DEVELOPMENTS

The Company does not anticipate any changes to its business in the coming years.

DIVIDENDS

No interim dividend was paid in the year (2003: £nil). The directors do not recommend the payment of a final dividend (2003: £nil).

DIRECTORS AND THEIR INTERESTS

The present directors of the Company are named on page 1, which forms part of this report. RJS Bucknall resigned as a director of the Company with effect from 30 April 2004 and JA Ratcliffe resigned as Chairman and director of the Company with effect from 3 September 2004.

The directors have no disclosable interests in the shares of the Company or of its fellow group companies. Advantage has been taken of the provisions of the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The directors are required to report on their responsibilities in relation to the preparation of financial statements for each financial year and the following statements should be read in conjunction with the auditors' statement of their responsibilities set out on page 4.

The Companies Act 1985 (as amended) 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 year and of the profit or loss for the financial year.

In preparing the financial statements on pages 5 to 12 the directors consider that:

- (a) they have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates;
- (b) all applicable accounting standards have been followed;
- (c) it is appropriate to prepare the financial statements on the going concern basis.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985 (as amended).

They are also responsible for the system of internal control, for safeguarding the assets of the Company and have taken reasonable steps for the prevention and detection of fraud and other irregularities.

SPECIAL CONTINGENCY RISKS LIMITED

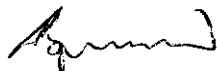
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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

AUDITORS

The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of section 386(2) of the Companies Act 1985.

By Order of the Board



SK Bryant
Secretary

12 October.....2005

Ten Trinity Square
London EC3P 3AX

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SPECIAL CONTINGENCY RISKS LIMITED

We have audited the financial statements of Special Contingency Risks Limited for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet, the movement in shareholders' funds and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' report and for no other purpose. To the fullest extent permitted by the 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 described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

21 October
.....2005

SPECIAL CONTINGENCY RISKS LIMITED**5****PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	2004 £000	2003 £000
Brokerage and fees	3	9,294	8,725
Interest and investment income		65	69
OPERATING REVENUE		9,359	8,794
Operating expenses		5,460	5,003
OPERATING PROFIT	4	3,899	3,791
Interest receivable from group undertakings		207	86
Interest payable	5	-	1
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,106	3,876
Tax on profit on ordinary activities	8	1,248	1,179
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		2,858	2,697
RETAINED PROFIT FOR THE FINANCIAL YEAR	13	2,858	2,697

All activities derive from continuing operations.

RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2004

There are no recognised gains or losses other than the profit attributable to shareholders of the Company of £2,858,000 in the year ended 31 December 2004 and of £2,697,000 in the year ended 31 December 2003.

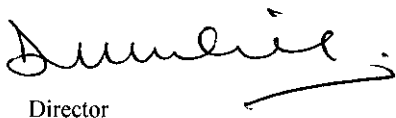
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BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 £000	2003 £000
CURRENT ASSETS			
Debtors	9	22,661	14,602
Deposits and cash		6,287	5,712
		<u>28,948</u>	<u>20,314</u>
CURRENT LIABILITIES			
CREDITORS: amounts falling due within one year	11	<u>19,738</u>	<u>13,962</u>
NET CURRENT ASSETS		<u>9,210</u>	<u>6,352</u>
CAPITAL AND RESERVES			
Called up share capital	12	750	750
Profit and loss account	13	<u>8,460</u>	<u>5,602</u>
EQUITY SHAREHOLDERS' FUNDS		<u>9,210</u>	<u>6,352</u>

The financial statements were approved on behalf of the Board on 12 October 2005, and signed on its behalf:


Director

SPECIAL CONTINGENCY RISKS LIMITED

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MOVEMENT IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 £000	2003 £000
Profit for the financial year	2,858	2,697
Net movement in shareholders' funds for the year	2,858	2,697
Shareholders' funds at 1 January	6,352	3,655
Shareholders' funds at 31 December	9,210	6,352

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004**1. ULTIMATE PARENT COMPANY**

The Company is a wholly-owned subsidiary of Willis Limited. The Company's ultimate parent company and controlling party is Willis Group Holdings Limited, a company incorporated in Bermuda, whose group financial statements are available from the Company Secretary, Ten Trinity Square, London EC3P 3AX.

The largest group in which the results of the Company are consolidated is that headed by Willis Group Holdings Limited, with the smallest group being headed by TA I Limited. The consolidated financial statements for these groups are available to members of the public from the Company Secretary, Ten Trinity Square, London EC3P 3AX.

2. ACCOUNTING POLICIES

- (a) **Basis of preparation**
These financial statements have been prepared under the historical cost convention and comply with accounting standards applicable in the United Kingdom.
- (b) **Revenue recognition**
The Company takes credit for brokerage income (or fees negotiated instead of brokerage) at the inception date of the policy. Brokerage on return and additional premiums and adjustments are brought into account as and when these occur. Fees and other commissions are accounted for on an as earned basis.
- (c) **Currency translation**
Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction, or, in the case of forward contracts in respect of the current year's income, at the contracted rate. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.
- (d) **Insurance broking debtors and creditors**
Insurance brokers usually act as agents in placing the insurable risks of their clients with insurers and, as such, generally are not liable as principals for amounts arising from such transactions. Notwithstanding the legal relationships with clients and insurers, insurance brokers are entitled to retain investment income on any cashflows arising from insurance broking transactions and accounting standards require debtors and creditors arising from such transactions are shown as assets and liabilities.

Debit and credit balances arising from insurance broking transactions are reported as separate assets or liabilities unless such balances are due to or from the same party and the offset would survive the insolvency of that party, in which case they are aggregated into a single net balance.

Funds held in connection with insurance broking transactions are generally required to be held in regulated bank accounts and are generally not available for purposes other than settling insurance broking transactions.

- (e) **Pensions**
The Company participates in a group defined benefit pension scheme. The regular cost of providing benefits is charged to operating profit over the employees' service lives on the basis of a constant percentage of pensionable earnings. Variations from regular cost, arising from periodic actuarial valuations, are allocated to operating profit on a systematic basis over the expected remaining service lives of current employees. Pension contributions charged to the Company are based on pension costs across the Group's UK companies as a whole.
- (f) **Deferred taxation**
Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more or less tax, at a future date, at rates expected to apply when they reverse based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.
- (g) **Cash flow statement**
Under FRS1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is prepared at Group level.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

3. BROKERAGE AND FEES

The table below analyses the Company's brokerage and fees by the territory in which the client is domiciled. This does not necessarily reflect the original source or location of the business. Brokerage and fees are attributable to continuing operations.

	2004 £000	2003 £000
United Kingdom	5,491	5,186
North America	1,295	994
Rest of the World	2,508	2,545
	<u>9,294</u>	<u>8,725</u>

4. OPERATING PROFIT

Audit fees were borne by a fellow Group company in both the current and prior year.

5. INTEREST PAYABLE

	2004 £000	2003 £000
Bank loans, overdrafts and other loans repayable within five years :	<u>-</u>	<u>1</u>

6. EMPLOYEE COSTS

	2004 £000	2003 £000
Salaries	2,548	2,180
Social security costs	305	237
Other pension costs	160	124
	<u>3,013</u>	<u>2,541</u>

	2004 Number	2003 Number
Number of employees - average for the year	23	21

The staff working for the Company are employed by other subsidiary undertakings of Willis Group Holdings Limited. The Company bears the cost of the salaries, social security payments and pension contributions relating to such staff and reimburses the employing company for the full amount of the costs incurred, as shown above.

7. DIRECTORS' REMUNERATION

	2004 £000	2003 £000
Emoluments (excluding pension contributions and long term incentive awards)	1,169	1,089
Pension Contributions	92	83
	<u>1,261</u>	<u>1,172</u>

Highest paid director

	2004	2003
Emoluments (excluding pension contributions and long term incentive awards)	694	655
Accrued annual pension	72	69

	2004 Number	2003 Number
Directors exercising share options	3	2
Directors eligible for defined benefit pension schemes	3	2

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 £000	2003 £000
(a) Analysis of charge for the year		
Current tax:		
UK corporation tax on profits of 30% (2003: 30%)	1,449	1,179
Adjustment in respect of prior periods	252	-
Foreign tax on profits for the year	2	-
Total current tax (note 8(b))	1,703	1,179
Deferred tax credit:		
Origination of timing differences	(203)	-
Adjustments to the estimated recoverable amounts of deferred tax assets arising in prior periods	(252)	-
Total deferred tax credit (note 10)	(455)	-
Tax on profit on ordinary activities	1,248	1,179
(b) Factors affecting tax charge for the year		
The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:		
Profit on ordinary activities before tax	4,106	3,876
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	1,232	1,164
Effects of:		
Expenses not deductible for tax purposes	14	15
Foreign tax on profits for the year	2	-
Movements in short term timing differences	455	-
Current tax charge for the year (note 8(a))	1,703	1,179

9. DEBTORS

	2004 £000	2003 £000
Due within one year:		
Trade debtors	15,339	10,799
Amounts owed by group undertakings	6,404	3,696
Other debtors	114	107
Prepayments and accrued income	349	-
	22,206	14,602
Due after more than one year:		
Deferred tax asset (note 10)	455	-
	22,661	14,602

10. DEFERRED TAX

	2004 £000	2003 £000
The deferred tax included in the balance sheet is as follows:		
Included in debtors (note 9)	455	-
Deferred tax consists of:		
Other timing differences	455	-
At 1 January	-	-
Deferred tax credit in profit and loss account (note 8(a))	455	-
At 31 December	455	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

11.	CREDITORS : amounts falling due within one year	2004 £000	2003 £000
	Trade creditors	13,620	9,720
	Amounts owed to group undertakings	2,163	731
	Corporation tax	1,538	1,179
	Accruals and deferred income	2,417	2,332
		<u>19,738</u>	<u>13,962</u>
12.	CALLED UP SHARE CAPITAL	2004 £000	2003 £000
	Authorised, allotted, issued and fully paid: 750,000 ordinary shares of £1 each (2003: 750,000)	750	750
13.	PROFIT AND LOSS ACCOUNT	2004 £000	2003 £000
	1 January	5,602	2,905
	Retained profit	2,858	2,697
	31 December	<u>8,460</u>	<u>5,602</u>

14. CONTINGENT LIABILITIES

The Company has given guarantees and indemnities to bankers and other third parties amounting to £3,090 (2003: £2,415).

The Group has extensive international operations and the Company is subject to various actual and potential claims, lawsuits and proceedings relating principally to alleged errors and omissions in connection with the placement of insurance and reinsurance in the ordinary course of business.

Most of the claims, lawsuits and proceedings arising in the ordinary course of business are covered by professional indemnity or other appropriate insurance. In respect of self-insured deductibles the Company has established provisions against these items which are believed to be adequate in the light of current information and legal advice, and the Company adjusts such provisions from time to time according to developments. On the basis of current information, the Company does not expect that the outcome of the actual claims, lawsuits and proceedings to which the Company is subject, or potential claims, lawsuits or proceedings, of which we are aware, either individually or in aggregate, will have a material adverse effect on the Company's financial condition, results of operations or liquidity.

15. PENSIONS

The Company is a member of the Willis Pension Scheme in the United Kingdom ("the Scheme"), which is funded externally and is of the defined benefit type. Pension contributions are based on pension costs across the Group's UK companies as a whole. The pension cost is assessed in accordance with the advice of professionally qualified actuaries using the projected unit credit method.

The most recent actuarial valuation of the Scheme was at 31 December 2001. The most recent actuarial valuation has been reviewed and updated as at 31 December 2004 to take account of the requirements of FRS17 "Retirement Benefits", in order to assess the liabilities of the Scheme at 31 December 2004.

The directors consider that the share of the Scheme's underlying assets and liabilities attributable to the Company's employees cannot be separately identified. The FRS 17 pension liability, after related deferred tax at 30%, was \$157.0 million (£81.8 million) at 31 December 2004 compared with a liability of \$97.2 million (£54.3 million) at 31 December 2003. Company contribution rates increased from 14.1% to 15.0% of pensionable earnings with effect from 1 January 2005. Full disclosures for the Scheme under FRS17 are included in the accounts of TAI Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)**16. DIRECTORS' INTERESTS IN CONTRACTS**

The Company and other insurance broking subsidiary undertakings of Willis Group Holdings Limited place risks with syndicates in which the directors or connected persons (as defined in section 346 of the Companies Act 1985 (as amended)) participate in the normal course of their broking activities on the same basis as they do with other Lloyd's syndicates.

17. RELATED PARTY TRANSACTIONS

Financial Reporting Standard 8 exempts the reporting of transactions between Group companies in the accounts of companies 90% or more of whose voting rights are controlled within the Group. The Company has taken advantage of this exemption.