

2265140

# **BENFIELD HOLDINGS LIMITED**

## **Financial Statements**

for the year ended 31 December 2004



**BENFIELD HOLDINGS LIMITED**  
**COMPANY INFORMATION**

**DIRECTORS**

John Coldman	(Chairman)
Grahame Chilton	
Rod Fox	
Andrew MacDonald	
David Spiller	
John Whiter FCA	
Dr Keith Harris	(Non-Executive) (Resigned 15 October 2004)
Rt Hon Francis Maude PC MP	(Non-Executive) (Resigned 15 October 2004)

**SECRETARY**

George Stiff

**REGISTERED OFFICE**

55 Bishopsgate  
London EC2N 3BD

**REGISTERED NUMBER**

2265140

**AUDITORS**

PricewaterhouseCoopers LLP  
Chartered Accountants & Registered Auditors  
Southwark Towers  
32 London Bridge Street  
London  
SE1 9SY

**BENFIELD HOLDINGS LIMITED**  
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## **BENFIELD HOLDINGS LIMITED DIRECTORS' REPORT**

The Directors' present their report and audited financial statements for the year ended 31 December 2004.

### **Principal activities, business review and future developments**

The primary business activities of the Group are the provision of reinsurance intermediary, risk advisory and related services. The Group operates from a number of offices worldwide and will continue to carry on these activities.

### **Results and dividends**

The Group's profit for the financial year is £58,784,000 (2003 restated: £17,835,000). The directors do not recommend the payment of a dividend (2003: nil) so the retained profit of £58,784,000 (2003 restated: £17,835,000) has been transferred to reserves.

### **Directors and their interests**

The directors of the company are listed on page 1, and have been directors throughout the period from 1 January 2004 to the date of this report, unless stated otherwise. Details of directors' remuneration is shown in note 25 to the financial statements. During the period, no director had any material interest in a contract, to which the company or any of its subsidiary undertakings was a party, requiring disclosure pursuant to section 317 United Kingdom Companies Act 1985, other than as set out in note 29.

No director had any interest in the shares of the company during the year ended 31 December 2004. All of the directors holding office at 31 December 2004 were also directors of Benfield Group Limited, the ultimate holding company, and their interests in the shares of that company are disclosed in the financial statements of that company.

### **Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the Group and of the profit and loss of the company and the Group for that period. The directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Employment Policies**

The Board recognises that the continuing success of the Group depends on its employees and continues to adopt policies designed to attract, train, develop and retain talented individuals and teams.

Consultation with employees has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of the Group. Communication with employees is effected through a variety of media, including email, use of the Group's intranet site and regular briefing events.

The Group is an equal opportunities employer and bases decisions on individual ability regardless of race, religion, gender, age or disability. The Group's equal opportunities policy is designed to ensure that disabled persons are given the same consideration as others when they apply for jobs, and enjoy the same training, career development and prospects as other employees.

### **Creditor payment policy**

The Group's policy is to pay each supplier in accordance with the settlement terms agreed with that supplier at the time of contracting for their goods or services. At the year-end the balance owed to suppliers, excluding insurance creditors, represented 24 days of the total invoiced supplies for the year (2003: 22 days).

### **Charitable and Political Donations**

The Group made charitable donations of £196,000 during the year (2003: £149,000). The Company made no political donations during the year and intends to maintain its policy of not making such payments.

**BENFIELD HOLDINGS LIMITED**  
**DIRECTORS' REPORT**

**Going concern**

The Directors consider that the Group and the Company have adequate resources to continue in operational existence in the foreseeable future. Consequently the financial statements have been prepared on a going concern basis.

**Auditors**

The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office and a resolution proposing their re-appointment will be put to the Annual General Meeting.

By order of the Board



G R G Stiff  
Secretary

55 Bishopsgate  
London EC2N 3BD  
29 April 2005

**BENFIELD HOLDINGS LIMITED**  
**INDEPENDENT AUDITORS' REPORT**  
**For the year ended 31 December 2004**

**Independent auditors' report to the members of Benfield Holdings Limited**

We have audited the financial statements, which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movements in shareholders funds and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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 affairs of the company and the group at 31 December 2004 and of its profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
London  
29 April 2005

**BENFIELD HOLDINGS LIMITED**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
For the year ended 31 December 2004

	Notes	2004 £'000	2003 (Restated) £'000
<b>Turnover</b>	1	296,657	300,468
Interest income	2	7,937	7,194
<b>Operating revenue</b>		<u>304,594</u>	<u>307,662</u>
Net operating expenses before exceptional items		(231,957)	(247,081)
Exceptional items	3	<u>(3,229)</u>	<u>(21,193)</u>
<b>Total net operating expenses</b>		<u>(235,186)</u>	<u>(268,274)</u>
Other operating income - exceptional	3	29,183	5,950
Operating profit before exceptional items		<u>72,637</u>	<u>60,581</u>
Exceptional items	3	<u>25,954</u>	<u>(15,243)</u>
<b>Group operating profit</b>		<u>98,591</u>	<u>45,338</u>
Gain on the sale of fixed assets	3	1,124	4,452
Disposal of subsidiary operations	3	(3,252)	(1,486)
Share of losses of associated undertakings	4	(1,840)	(3,137)
Other investment income	5	2,095	937
Interest payable and similar charges before exceptional finance charges		<u>(2,122)</u>	<u>(6,218)</u>
Exceptional finance charges	3	<u>-</u>	<u>(6,050)</u>
Total interest payable and similar charges	6	<u>(2,122)</u>	<u>(12,268)</u>
<b>Profit on ordinary activities before taxation</b>	7	94,596	33,836
Taxation on profit on ordinary activities	8	<u>(35,681)</u>	<u>(16,025)</u>
<b>Profit on ordinary activities after taxation</b>		58,915	17,811
Equity minority interests		<u>(131)</u>	<u>24</u>
<b>Profit for the financial year</b>		<u>58,784</u>	<u>17,835</u>

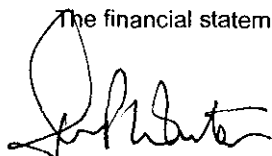
The company's turnover and expenses all relate to continuing operations.

There are no material differences between the profit on ordinary activities before taxation and the profit for the year stated above and the historic cost equivalents.

**BENFIELD HOLDINGS LIMITED**  
**BALANCE SHEETS**  
**At 31 December 2004**

	Notes	Group		Company	
		2004	2003 (Restated)	2004	2003
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Intangible assets	9	143,169	158,511	-	-
Tangible assets	10	15,686	17,715	-	-
Investments in subsidiary undertakings	11	-	-	188,378	173,488
Investments in associated undertakings	12	32	215	-	50
Investment in shares of holding company	13	10,284	10,904	9,847	10,467
Other investments	14	18,920	3,648	-	-
		<u>188,091</u>	<u>190,993</u>	<u>198,225</u>	<u>184,005</u>
<b>Current assets</b>					
Debtors – due within one year	16	3,894,365	3,829,319	201,752	216,331
Debtors – due after one year	16	4,650	3,794	-	-
Investments	17	26,918	46,744	11,302	9,390
Cash at bank and in hand – including fiduciary funds		<u>226,258</u>	<u>280,584</u>	<u>2,272</u>	<u>1,530</u>
		4,152,191	4,160,441	215,326	227,251
<b>Current liabilities</b>					
Creditors – amounts falling due within one year	18	<u>(4,179,540)</u>	<u>(4,214,324)</u>	<u>(246,919)</u>	<u>(212,137)</u>
<b>Net current (liabilities)/assets</b>		<u>(27,349)</u>	<u>(53,883)</u>	<u>(31,593)</u>	<u>15,114</u>
<b>Total assets less current liabilities</b>		160,742	137,110	166,632	199,119
Creditors – amounts falling due after more than one year	19	<u>(16,514)</u>	<u>(38,746)</u>	<u>(13,625)</u>	<u>(37,595)</u>
Provisions for liabilities and charges	21	<u>(3,108)</u>	<u>(11,499)</u>	<u>(387)</u>	<u>(3,786)</u>
<b>Net assets</b>		<u>141,120</u>	<u>86,865</u>	<u>152,620</u>	<u>157,738</u>
<b>Capital and reserves</b>					
Called up share capital	22	1,105	1,105	1,105	1,105
Share premium	23	120,739	120,739	120,739	120,739
Capital redemption reserve	23	10,263	10,263	10,263	10,263
Other reserves	23	4,500	4,500	-	-
Profit and loss account	23	<u>4,164</u>	<u>(49,964)</u>	<u>20,513</u>	<u>25,631</u>
		140,771	86,643	152,620	157,738
Equity minority interest		<u>349</u>	<u>222</u>	<u>-</u>	<u>-</u>
<b>Capital employed</b>		<u>141,120</u>	<u>86,865</u>	<u>152,620</u>	<u>157,738</u>

The financial statements on pages 6 to 30 were approved by the Board on 29 April 2005 and signed on its behalf by:



**JLP Whiter**  
Director

**BENFIELD HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the year ended 31 December 2004**

		<b>2004</b>	<b>2003</b>
	Notes	<b>£'000</b>	<b>(Restated) £'000</b>
Profit for the financial year		58,784	17,835
Exchange adjustments offset in reserves	23	(4,656)	(3,317)
Total recognised gains relating to the year		54,128	14,518
Prior year adjustment (see Accounting Policies)		(362)	
Total gains recognised since last annual report		53,766	

**RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS**  
**For the year ended 31 December 2004**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>(Restated) £'000</b>
Profit for the financial year	58,784	17,835
Other recognised gains and losses relating to the year	(4,656)	(3,317)
Increase of interest from associate to subsidiary undertaking	-	421
<b>Net change in shareholders' funds</b>	54,128	14,939
Shareholders' funds at 1 January	87,005	71,704
Prior year adjustment (see Accounting Policies)	(362)	-
<b>Shareholders' funds at 31 December</b>	<b>140,771</b>	<b>86,643</b>

## **BENFIELD HOLDINGS LIMITED**

### **ACCOUNTING POLICIES**

#### **Accounting convention**

The financial statements have been prepared on a going concern basis under the historic cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards.

#### **Basis of consolidation**

The consolidated financial statements includes the financial information of the company, its subsidiary undertakings and the Group's interests in associated undertakings. The profits and losses of subsidiary undertakings and the Group's interests in the results of associated undertakings are included from the effective date of acquisition until the effective date of disposal.

An undertaking is regarded as a subsidiary undertaking if the Group has control over its operating and financial policies, generally determined by the ownership of more than 50% of the voting stock by the investee. Undertakings over which the Group has the ability to exercise significant influence, generally determined by ownership of between 20% and 50% of the voting stock of the investee, are accounted for under the equity method of accounting as associated undertakings.

Business combinations have been accounted for by the acquisition method of accounting.

A separate profit and loss account for Benfield Holdings Limited has not been presented as permitted by section 230 of the United Kingdom Companies Act 1985.

#### **Change in accounting policy**

The Group adopted Urgent Issues Task Force Abstract 17 (revised) ("UITF 17") during the year to 31 December 2004, which requires the profit and loss charge for shares and share options awarded by ESOP trusts to employees to reflect the intrinsic value at the date of the awards rather than the average cost price of the shares. The comparative figures have been restated accordingly.

The effect on continuing operations of implementing UITF 17 was to increase net operating expenses and reduce operating profit for the year by £61,000 (2003: £362,000); to reduce net assets at 31 December 2004 by £61,000 (2003: £362,000) and to reduce the value of Group reserves at 1 January 2004 by £362,000 (2003: nil).

#### **Cashflow statement and related party disclosures**

At 31 December 2003 the company was a wholly owned subsidiary of Benfield Group Limited and is included in the consolidated financial statements of that company, which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cashflow statement under the terms of Financial Reporting Standard 1 (revised 1996). The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Benfield Group.

#### **Turnover**

The Group generates revenue principally from commissions and fees associated with placing reinsurance contracts and programmes, which includes commissions and fees arising from the provision of risk advisory and related services.

Revenues from commissions and fees relating to fixed or minimum premiums on reinsurance contracts and programmes placed are recognised at the point at which placement services are substantially complete. Revenues from commissions and fees on adjustments to minimum premiums, binding authorities and treaties are recognised on a periodic basis when the consideration due is confirmed by third parties. Commission rebates payable to ceding companies are accrued, where necessary, on an estimated basis, as the related brokerage revenue is recognised. Fees for claims, risk advisory services and other services that are billed separately are recognised as these services are rendered.

Where contractual obligations exist for the performance of post placement activities, and the cost of these activities is not expected to be covered by future revenues, a relevant proportion of revenue received on placement is deferred and recognised over the period during which these activities are performed.

#### **Interest income**

Interest income is recognised as earned and includes interest earned on cash flows arising from insurance broking debtors and creditors. As interest income forms an integral part of the Group's operating activities it is included in operating revenue.

#### **Investment income**

Investment income consists of dividends receivable for the year together with any realised investment gains and losses.

## **BENFIELD HOLDINGS LIMITED**

### **ACCOUNTING POLICIES**

#### **Lease commitments**

The rentals payable under operating leases are charged on a straight-line basis to the profit and loss account over the period of the leases.

Where a leasehold property becomes surplus to the Group's foreseeable business requirements, provision is made for the expected future net cost of the property taking account of the duration of the lease and any recovery of cost achievable from subletting.

#### **Employee share schemes**

The cost of awards to employees that take the form of shares or rights to shares is charged to the profit and loss account on a straight-line basis over the period to which the employee's performance relates. The charge is based on the intrinsic value, being the fair value of the shares at the date of grant, reduced by any consideration payable by the employee, and a reasonable expectation of the extent to which performance criteria will be met. Subsequent adjustments are made, if appropriate, to deal with leavers and changes in the probability of performance criteria being met. Changes to provisions for share options are included in the profit and loss reserve.

#### **Pension scheme contributions**

Pension scheme contributions to the Group's money purchase schemes are charged to the profit and loss account in the period to which they relate.

Defined benefit plans operated by certain subsidiary undertakings at the date of their acquisition have been wound up or are in the process of termination. Until closure the expected costs of providing pensions under these schemes has been calculated periodically by professionally qualified actuaries using valuations based on the projected unit method and is charged to the profit and loss account so as to spread the costs over the remaining service lives of the employees in the scheme. Valuation surpluses and deficits are similarly spread over the service lives of employees in the scheme. Certain disclosures have been made in note 26 in accordance with the transitional arrangements of Financial Reporting Standard 17, 'Retirement Benefits' ("FRS 17").

#### **Taxation**

The charge for taxation is based on the result for the period at current rates of tax and takes into account deferred tax.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in a future obligation to pay more tax or a future right to pay less tax have occurred. Timing differences are differences between the Group's taxable profits and its results as stated in the consolidated financial information. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associated undertakings only to the extent that, at the balance sheet date, dividends have been formally agreed by the subsidiary or associated undertaking. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

#### **Foreign currency translation**

Transactions in currencies other than the functional currency, namely pounds sterling, are recorded at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are translated at the rates of exchange prevailing at the balance sheet date and the related translation gains and losses are reported in the consolidated profit and loss account.

On consolidation, the results of overseas businesses are translated into pounds sterling at the average rates of exchange applicable to the relevant period. The assets and liabilities of the overseas businesses are translated into pounds sterling at the exchange rates ruling at the balance sheet date. Exchange differences arising on translating the net assets or liabilities of overseas businesses and on the translation of their results are taken directly to reserves.

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight-line basis over their estimated useful lives at the following annual rates:

Freehold property	Up to 2%
Leasehold property	2% or over the life of the lease, if lower
Fixtures, fittings, furniture and equipment	20% to 25%
Information technology systems	20% to 50%
Motor vehicles	20%

Information technology systems comprises assets purchased and built at cost, where the assets relate to the Group's long-term information technology infrastructure on a continuing use basis.

## **BENFIELD HOLDINGS LIMITED**

### **ACCOUNTING POLICIES**

#### **Intangible assets**

Intangible assets comprise goodwill. When a business is acquired, fair values are attributed to its separable assets and liabilities at the date of acquisition. Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the separable net assets acquired. For acquisitions prior to 1 January 1998, goodwill arising on acquisition has been written off to reserves on consolidation. Following the introduction of Financial Reporting Standard 10, 'Goodwill and Intangible Assets', goodwill arising on acquisitions after 1 January 1998 is capitalised and amortised over its useful economic life, which is 20 years. Goodwill is treated as a currency asset and revalued at the end of each reporting period.

#### **Investments**

Fixed asset investments are stated individually at cost less provisions for impairment.

Listed investments held as current assets are stated at the lower of cost and market value. Unlisted investments held as current assets are stated at the lower of cost and Directors' estimated valuation.

#### **Impairment of fixed assets and goodwill**

The Group undertakes a review for impairment of fixed assets and goodwill if events or changes in circumstances indicate that the carrying amount of a fixed asset or goodwill may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, which is the higher of net realisable value and value in use, the fixed asset or goodwill is written down to its recoverable amount. Net realisable value is the estimated amount at which an asset can be disposed of, less any direct selling costs. Value in use is the estimate of the discounted future cash flows generated from the asset's continued use, including those resulting from its ultimate disposal.

#### **Employee share ownership trusts**

Where a relevant Group company holds de facto control over the shares held by an employee share ownership trust, the assets and liabilities of the trust are recognised in the balance sheet of that company. The assets and liabilities of the trusts are included in the Group's consolidated balance sheet.

The Benfield Employee Benefit Trust, the Benfield 1998 Employee Benefit Trust, the Greig Fester Group Employee (Guernsey) Trust (1990) and the Greig Fester Group 1993 Employee (Guernsey) Trust own shares in Benfield Group Limited, the ultimate holding company, and these are included within fixed assets in the consolidated balance sheet.

#### **Insurance broking assets and liabilities**

Reinsurance brokers normally act as agents in placing the risks of insurance companies with reinsurers and as such, generally are not liable as principals for amounts arising from such transactions. Notwithstanding such legal relationships, assets and liabilities arising from insurance broking transactions are included within insurance broking assets and liabilities recognising the fact that reinsurance intermediaries are entitled to retain investment income on any cash flows arising from such transactions. Similarly, fiduciary cash arising from insurance broking transactions is included within cash and deposits.

Insurance broking debtors and creditors are reported in accordance with the requirements of Financial Reporting Standard 5, 'Reporting the Substance of Transactions'. The standard precludes assets and liabilities being offset unless net settlement is legally enforceable, and as a result the insurance broking debtors and creditors have been shown as the gross amounts due in respect of each contract, instead of the net amount due to or from customers and underwriters.

Allowances are recorded, where necessary, for amounts considered by the Directors to be sufficient to meet probable future losses related to uncollectible accounts.

#### **Provisions**

A provision is recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**BENFIELD HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2004

**1. SEGMENTAL REPORTING**

In the opinion of the Directors, the Group had only one business segment during the year ended 31 December 2004, being the provision of reinsurance intermediary, risk advisory and related services.

**Turnover and Profit on ordinary activities before taxation**

Analysis by originating office location:

	Turnover 2004 £'000	Operating profit before exceptionals 2004 £'000	Operating exceptionals 2004 £'000	Share of associates 2004 £'000	Non- operating exceptionals 2004 £'000	Profit before tax 2004 £'000
<b>Geographical analysis</b>						
United Kingdom	154,908	21,538	26,437	(1,840)	(2,180)	43,955
North America	116,945	43,014	(491)	-	26	42,549
Continental Europe	9,522	2,848	10	-	-	2,858
Other	15,282	5,237	(2)	-	26	5,261
	<u>296,657</u>	<u>72,637</u>	<u>25,954</u>	<u>(1,840)</u>	<u>(2,128)</u>	<u>94,623</u>
Investment income						2,095
Interest payable and similar charges						(2,122)
						<u>94,596</u>

	Turnover 2003 £'000	Operating profit before exceptionals 2003 (Restated) £'000	Operating exceptionals 2003 £'000	Share of associates 2003 £'000	Non- operating exceptionals 2003 £'000	Profit before tax 2003 (Restated) £'000
<b>Geographical analysis</b>						
United Kingdom	166,695	14,715	(6,220)	(2,174)	2,433	8,754
North America	112,581	38,351	(8,540)	(963)	530	29,378
Continental Europe	7,379	1,360	(483)	-	3	880
Other	13,813	6,155	-	-	-	6,155
	<u>300,468</u>	<u>60,581</u>	<u>(15,243)</u>	<u>(3,137)</u>	<u>2,966</u>	<u>45,167</u>
Investment income						937
Interest payable and similar charges						(12,268)
						<u>33,836</u>

Analysis by customer location:

Turnover	2004 £'000	2003 £'000
<b>Geographical analysis</b>		
United Kingdom	54,240	69,616
North America	144,129	140,727
Continental Europe	49,605	47,575
Other	48,683	42,550
	<u>296,657</u>	<u>300,468</u>

**BENFIELD HOLDINGS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2004**

**Net assets**

Analysis by originating office location:

	2004 £'000	2003 (Restated) £'000
<b>Geographical analysis</b>		
United Kingdom	41,583	13,160
North America	121,387	115,723
Continental Europe	5,375	3,710
Other	11,749	10,508
	<u>180,094</u>	<u>143,101</u>
Bank and other borrowings (note 20)	<u>(38,612)</u>	<u>(56,236)</u>
	<u>141,482</u>	<u>86,865</u>

**2. INTEREST INCOME**

	2004 £'000	2003 £'000
Interest receivable from:		
Fiduciary funds	5,428	6,335
Corporate funds	2,509	859
	<u>7,937</u>	<u>7,194</u>

The Group earns interest income from its own corporate funds and from fiduciary funds held on behalf of customers.

**3. EXCEPTIONAL ITEMS**

	2004 £'000	2003 £'000
<b>Other operating income</b>		
Gain on sale of current asset investments	29,183	5,950
<b>Operating expenses</b>		
Bonus paid to employees	(3,017)	-
Professional fees	-	(621)
Awards granted to employees	(212)	(20,572)
	<u>(3,229)</u>	<u>(21,193)</u>
<b>Non-operating</b>		
Loss on disposal of subsidiary operations	(3,252)	(1,486)
Gain on disposal of investments	1,098	-
Gain on disposal of fixed assets	26	4,452
	<u>(2,128)</u>	<u>2,966</u>
Exceptional finance charges (note 6)	<u>-</u>	<u>(6,050)</u>

**Gain on sale of current asset investments**

The gain on sale of current asset investments relates predominantly to the sale in February 2004 of the Group's entire holding of Montpelier Re Holdings Limited warrants which resulted in a gain of £29,111,000.

In June 2003 the Group sold 947,479 shares in Montpelier Re Holdings Limited, resulting in a gain of £5,950,000.

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**Bonus paid to employees**

In connection with the gain on disposal of the Group's holding of warrants in Montpelier Re Holdings Limited, a one-off bonus was paid to all employees.

**Awards granted to employees**

In March 2003 share based awards were made under the 2002 Incentive Plan to certain key employees of the Group in respect of services provided prior to the Company's Initial Public Offering. No previous awards had been made under the 2002 Incentive Plan and the plan ceased to be available for the issue of new awards with effect from June 2003. The cost of awards granted at less than the fair value of the underlying common shares has been recognised in full in the profit and loss account at the date of grant as they relate to prior services and no performance criteria (other than continued employment with the Group) are attached to these awards.

On the acquisition of EW Blanch Holdings, Inc. the Group provided share based awards to certain key employees for which the cost was spread over a 17 to 29 month vesting period from the date of the award, resulting in a charge of £212,000 and £3,108,000 for the periods ended 31 December 2004 and 31 December 2003 respectively.

**Loss on disposal of subsidiary operations**

In April 2004 the Group disposed of its interest in Wildnet Group Limited, a wholly owned subsidiary, resulting in a loss of £1,139,000. As a result of the Group's intention to dispose of its interest in Wildnet the carrying value of this interest was written down in 2003 resulting in a charge of £1,486,000.

In November 2004 the Group disposed of its investment in Benfield Premium Finance Limited, resulting in a loss of £2,113,000.

**Gain on disposal of investments**

The gain on disposal of investments relates predominantly to the sale in March 2004 of 200,000 ordinary shares in Equity Partnership Limited and 10,618,850 shares in Uni Alliance Insurance Holdings Limited resulting in a gain of £1,062,000.

**Exceptional finance charges**

In June 2003 the Group's previous credit facilities were cancelled and repaid following completion and delivery of proceeds of the Company's Initial Public Offering. The Group entered into a new credit facilities agreement, with proceeds from the Initial Public Offering and funds available from the new credit facilities being used to repay the outstanding borrowings under the cancelled facilities. On cancellation, charges were incurred in the write off of prepaid facility arrangement fees and termination of swap and collar interest rate derivative contracts which related to the cancelled facilities.

**4. SHARE OF LOSSES OF ASSOCIATED UNDERTAKINGS**

	2004 £'000	2003 £'000
Share of operating losses of associated undertakings	(1,186)	(2,973)
Goodwill amortisation	-	(62)
Loss on disposal of associated undertaking	(209)	(450)
(Increase)/release of provision for impairment	(445)	348
	<u>(1,840)</u>	<u>(3,137)</u>

**5. OTHER INVESTMENT INCOME**

	2004 £'000	2003 £'000
Dividends from investments and other income	<u>2,095</u>	<u>937</u>

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**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Bank loans	2,043	3,880
Other interest payable	79	2,338
	<u>2,122</u>	<u>6,218</u>
Exceptional finance charges (note 3)		
Bank loans	-	2,727
Other interest payable	-	3,323
	<u>-</u>	<u>6,050</u>
	<u>2,122</u>	<u>12,268</u>

The Group incurred interest expenses arising under the credit facilities set out in note 20.

**7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Profit before taxation is stated after charging/(crediting):		
Staff costs (note 25)	138,828	137,278
Depreciation of tangible fixed assets (note 10)	7,643	9,890
Amortisation of goodwill (note 9)	9,027	9,428
Operating lease rentals	10,131	11,455
Exchange differences	(1,220)	(3,396)
Group audit fees and expenses (Company £150,000; 2002: £140,000)	<u>855</u>	<u>845</u>

Fees paid to PricewaterhouseCoopers LLP for non-audit services during the year were £2,322,000 (2003: £3,429,000). The fees paid related to further assurance services, of £1,280,000 (2003: £2,490,000), tax advisory services of £401,000 (2003: £641,000) and other non-audit services of £641,000 (2003: £298,000). Fees paid for non-audit service within the UK during the year totalled £2,134,000 (2003: £3,152,000).

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**8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES**

**Analysis of charge in year**

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
<b>Current tax</b>		
UK corporation tax at 30%	18,248	5,542
Double tax relief	<u>(869)</u>	<u>(1,590)</u>
	17,379	3,952
Foreign tax	16,730	13,248
Adjustment in respect of previous periods	840	(1,429)
Share of taxation in associated companies	<u>-</u>	<u>(545)</u>
<b>Total current tax</b>	<u>34,949</u>	<u>15,226</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences		
United Kingdom	(394)	(741)
Overseas	<u>1,126</u>	<u>1,540</u>
<b>Total deferred tax</b>	<u>732</u>	<u>799</u>
<b>Taxation on profit on ordinary activities</b>	<u>35,681</u>	<u>16,025</u>

The current tax charge for 2004 and 2003 varied from the standard rate of corporation tax in the UK of 30% as explained below:

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>(Restated)</b> <b>£'000</b>
<b>Profit on ordinary activities before tax</b>	<u>94,596</u>	<u>33,836</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	28,379	10,151
Effect of:		
Goodwill amortisation	1,956	1,994
Disposal of subsidiary operations	1,110	446
Other expenses not deductible for tax	903	1,724
Adjustments in respect of prior years	840	(1,429)
Adjustments in respect of foreign tax rates	3,011	2,765
Utilisation of losses	(1,011)	(1,785)
Other timing differences	<u>(239)</u>	<u>1,360</u>
<b>Current tax charge</b>	<u>34,949</u>	<u>15,226</u>

The tax effect of the operating exceptional items and goodwill amortisation was to increase the tax charge by £7,358,000 (2003: decrease £7,581,000).

The tax effect of the non-operating exceptional items was to increase the tax charge by £342,000 (2003: decrease £1,815,000).

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**9. INTANGIBLE FIXED ASSETS**

<b>Group</b>	<b>Goodwill £'000</b>
<b>Cost</b>	
At 1 January 2004	188,424
Exchange adjustments	(6,764)
Additions (note 24)	449
<b>At 31 December 2004</b>	<b>182,109</b>
<b>Amortisation</b>	
At 1 January 2004	29,913
Charge for the year	9,027
<b>At 31 December 2004</b>	<b>38,940</b>
<b>Net book amount</b>	
<b>At 31 December 2004</b>	<b>143,169</b>
At 31 December 2003	158,511

Goodwill balances relate to acquisitions made after 1 January 1998. Any goodwill balances arising on acquisitions prior to 1 January 1998 have been eliminated against reserves (note 23).

**10. TANGIBLE FIXED ASSETS**

<b>Group</b>	<b>Freehold property £000</b>	<b>Long leasehold property £000</b>	<b>Short leasehold property £000</b>	<b>Furniture, fittings and equipment £000</b>	<b>Information technology systems £000</b>	<b>Motor vehicles £000</b>	<b>Total £000</b>
<b>Cost</b>							
At 1 January 2004	351	1,135	1,811	16,904	19,463	854	40,518
Exchange adjustments	(7)	-	(201)	(413)	(923)	(5)	(1,549)
Additions at cost	-	-	105	1,787	5,680	159	7,731
Disposals	-	-	(137)	(544)	(2,969)	(568)	(4,218)
<b>At 31 December 2004</b>	<b>344</b>	<b>1,135</b>	<b>1,578</b>	<b>17,734</b>	<b>21,251</b>	<b>440</b>	<b>42,482</b>
<b>Accumulated depreciation</b>							
At 1 January 2004	14	32	351	12,901	9,069	436	22,803
Exchange adjustments	(1)	-	(108)	(238)	(788)	-	(1,135)
Charge for the year	6	25	263	1,862	5,358	129	7,643
Disposals	-	-	(10)	(426)	(1,664)	(415)	(2,515)
<b>At 31 December 2004</b>	<b>19</b>	<b>57</b>	<b>496</b>	<b>14,099</b>	<b>11,975</b>	<b>150</b>	<b>26,796</b>
<b>Net book amount</b>							
<b>At 31 December 2004</b>	<b>325</b>	<b>1,078</b>	<b>1,082</b>	<b>3,635</b>	<b>9,276</b>	<b>290</b>	<b>15,686</b>
At 31 December 2003	337	1,103	1,460	4,003	10,394	418	17,715

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**11. INVESTMENT IN SUBSIDIARY UNDERTAKINGS**

<b>Company</b>	<b>Subsidiary undertakings £'000</b>
<b>Cost</b>	
At 1 January 2004	186,372
Additions	15,903
Disposals	(1,013)
<b>At 31 December 2004</b>	<b>201,262</b>
<b>Provisions for impairment</b>	
At 1 January 2004	12,884
Provided during the year	-
<b>At 31 December 2004</b>	<b>12,884</b>
<b>Net book amount</b>	
<b>At 31 December 2004</b>	<b>188,378</b>
At 31 December 2003	173,488

A list of principal subsidiary undertakings of Benfield Holdings Limited is given in note 30.

**12. INVESTMENTS IN ASSOCIATED UNDERTAKINGS**

	<b>Equity £'000</b>	<b>Loan £'000</b>	<b>Group Total £'000</b>	<b>Company Total £'000</b>
<b>Cost</b>				
At 1 January 2004	9,556	2,156	11,712	15,185
Additions	-	2,354	2,354	-
Share of results	(1,186)	-	(1,186)	-
Disposals	(1,428)	-	(1,428)	(50)
<b>At 31 December 2004</b>	<b>6,942</b>	<b>4,510</b>	<b>11,452</b>	<b>15,135</b>
<b>Provision for impairment</b>				
At 1 January 2004	9,341	2,156	11,497	15,135
(Released)/provided during the year	(2,748)	3,193	445	-
Disposals	(1,007)	-	(1,007)	-
Transfer from/(to) provisions for liabilities and charges (note 21)	1,324	(839)	485	-
<b>At 31 December 2004</b>	<b>6,910</b>	<b>4,510</b>	<b>11,420</b>	<b>15,135</b>
<b>Net book amount</b>				
<b>At 31 December 2004</b>	<b>32</b>	<b>-</b>	<b>32</b>	<b>-</b>
At 31 December 2003	215	-	215	50

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The associated undertakings held by the Group during the year are set out below:

<b>Company</b>	<b>Nature of business</b>	<b>Country of incorporation</b>	<b>2004</b>	<b>2003</b>
Benfield Sports International Limited	Sports consultant	United Kingdom	-	50%
Commission Freedom Holdings Limited	Investment holding company	United Kingdom	15%	15%
Bluesure Limited	Personal lines insurance broker	United Kingdom	48%	48%
Catastrophe Risk Exchange, Inc.	Internet based risk exchange	United States	50%	50%
Singer and Friedlander Insurance Finance Limited	Insurance premium financing	United Kingdom	25%	-

On 5 July 2004 the Group disposed of its 50% holding in Benfield Sports International Limited resulting in a loss of £209,000.

At 1 January 2004, Bluesure Limited ("Blasures") owed the Group £1,500,000 under a term loan agreement and this amount remained outstanding at 31 December 2004. In addition the Group advanced a further £2,354,000 to Bluesure during the year.

In accordance with the terms of the Bluesure shareholders' agreement the term loan was waived on 7 January 2005. Also on that date, Bluesure entered into a restructuring plan with its shareholders under the terms of which the Group agreed to waive a further £854,000 due from Bluesure. The remaining £1,500,000 outstanding was converted into 1,500,000 Preferred Redeemable Preference shares of £1 each. The Group has fully provided for the balance owed by Bluesure at 31 December 2004.

In addition, as part of the restructuring the Group committed to provide additional funding up to a maximum of £1,200,000 through the subscription for further Preferred Redeemable Preference shares as called by Bluesure.

During the year the Group sold its investment in Benfield Premium Finance Limited ("BPF"), a subsidiary undertaking. BPF was sold for a consideration of 25% of the issued share capital of Singer and Friedlander Insurance Finance ("SFIF"). Consequently SFIF has become an associate of the Group. The Group has representation on the Board of SFIF through a non-executive director. There are no outstanding balances between the Group or SFIF as at 31 December 2004. The carrying value of this investment as 31 December 2004 was nil.

### 13. INVESTMENT IN SHARES OF HOLDING COMPANY

	<b>Group £'000</b>	<b>Company £'000</b>
<b>Common shares of 1p</b>		
At 1 January 2004	10,904	10,467
Shares transferred to employees	(620)	(620)
<b>At 31 December 2004</b>	<b>10,284</b>	<b>9,847</b>

The number of own shares held was as follows:

	<b>Group Number</b>	<b>Company Number</b>
<b>Common shares of 1p</b>		
At 1 January 2004	12,107,095	11,834,380
Shares transferred to employees	(724,236)	(724,236)
<b>At 31 December 2004</b>	<b>11,382,859</b>	<b>11,110,144</b>

The market value of the Group's holding in own shares at 31 December 2004 was £30,339,000 (2003 : £31,478,000) based on the market price at 31 December 2004.

The shares are held by the trusts and employee share ownership plans set out below.

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**Benfield Employee Benefit Trust (1988)**

The Benfield Employee Benefit Trust was established in September 1988. The trustees of the trust make the shares that they hold available when employees exercise share options that have been granted, and have also gifted shares to employees at certain times. The trust receives any dividends that are paid in respect of its shareholding.

**Benfield 1998 Employee Benefit Trust**

The 1998 Employee Benefit Trust was established in December 1998. The shares held in the trust may be used to meet the Company's obligations to the holders of share options granted under the Company's long-term incentive plans. The trustee has also gifted shares to employees at certain times.

Under the provisions of the trust deed, the trustee waives any dividends in respect of shares held by the trust as trust assets.

**Greig Fester Group Employee (Guernsey) Trust (1990) and the Greig Fester Group 1993 Employee (Guernsey) Trust**

Greig Fester Group Limited ("Greig Fester") operated incentive arrangements through the Greig Fester Group Employee (Guernsey) Trust (1990) and the Greig Fester 1993 Employee (Guernsey) Trust. These trusts acquired shares in the Company as a result of the acquisition of Greig Fester in November 1997. The trusts receive any dividends that are paid in respect of their shareholdings.

The cost of funding and administering the trusts and income earned by the trusts are included in the profit and loss account of the group in the year to which they relate and are set out below:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Increase/(decrease) in profit before tax	<u>292</u>	<u>(288)</u>	<u>274</u>	<u>(229)</u>

**14. OTHER INVESTMENTS**

<b>Group</b>	<b>Total</b>
<b>Cost</b>	<b>£'000</b>
At 1 January 2004	3,648
Exchange adjustments	(205)
Additions at cost	16,379
Disposals	<u>(902)</u>
<b>At 31 December 2004</b>	<b><u>18,920</u></b>

All long-term investments are unlisted.

The Group invested an initial £0.5m in shares of Beecher Carlsson Holdings, Inc. in September 2004 with a commitment to invest up to a further £4.7m. In December 2004 the Group acquired ordinary shares in Glacier Re Holdings s.a.r.l. representing 10.0% of the ordinary shares outstanding at that time, together with warrants carrying an entitlement to subscribe for an additional 3.4% on a fully diluted basis at the initial subscription price adjusted for any cumulative increase in retained earnings of Glacier Re Holdings s.a.r.l. from 1 January 2005.

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**15. NET FIDUCIARY ASSETS**

The following fiduciary assets and liabilities held by the Group have been included in net current assets:

<b>Group</b>	<b>2004 £'000</b>	<b>2003 £'000</b>
Insurance broking debtors (note 16)	3,755,370	3,756,026
Fiduciary investments (note 17)	15,615	37,346
Fiduciary cash and deposits	155,793	212,099
Insurance broking creditors (note 18)	(3,905,748)	(3,953,127)
Net fiduciary assets	<u>21,030</u>	<u>52,344</u>

Included within fiduciary cash and deposits are amounts available to the Group for general corporate purposes of £14,203,000 (2003: £48,553,000).

**16. DEBTORS**

	<b>Group</b>		<b>Company</b>	
	<b>2004 £'000</b>	<b>2003 £'000</b>	<b>2004 £'000</b>	<b>2003 £'000</b>
<b>Amounts falling due within one year</b>				
Insurance broking debtors	3,755,370	3,756,026	-	-
Amounts owed by parent undertaking	107,921	39,875	-	-
Amounts owed by group undertakings	-	-	188,279	206,435
Amounts owed by associated undertakings	-	1,295	1,500	-
Taxation recoverable	3,142	3,450	-	3,064
Deferred taxation	3,653	5,223	10,821	4,025
Other debtors	9,798	11,056	956	1,960
Prepayments and accrued income	14,481	12,394	196	847
	<u>3,894,365</u>	<u>3,829,319</u>	<u>201,752</u>	<u>216,331</u>
<b>Amounts falling due after more than one year</b>				
Deferred taxation	4,646	3,778	-	-
Other debtors	4	16	-	-
	<u>4,650</u>	<u>3,794</u>	<u>-</u>	<u>-</u>
	<u>3,899,015</u>	<u>3,833,113</u>	<u>201,752</u>	<u>216,331</u>

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**Deferred taxation**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Asset/(provision) for deferred tax comprises:</b>				
Accelerated capital allowances	2,501	1,986	-	-
Provisions	1,042	4,527	-	-
Other timing differences	4,744	2,488	10,821	4,025
	<u>8,287</u>	<u>9,001</u>	<u>10,821</u>	<u>4,025</u>
 At 1 January	9,001	9,740	4,025	3,000
Amount charged to profit and loss	(732)	(799)	6,796	1,025
Movement arising on (disposals)/acquisitions	(111)	819	-	-
Exchange adjustments	129	(759)	-	-
<b>At 31 December</b>	<u>8,287</u>	<u>9,001</u>	<u>10,821</u>	<u>4,025</u>

At 31 December 2004 there is an unrecognised deferred tax asset of £5,524,000 (2003: £7,926,000). This comprises capital losses within the Group which are unlikely to be utilised in the foreseeable future and other potential timing differences arising on share options which may reverse upon exercise at future dates.

No deferred tax has been recognised in respect of unremitted earnings held in foreign subsidiary undertakings on the basis that these have either been permanently reinvested or, when remitted as dividends, any taxes due will substantially be offset by foreign tax credits.

**17. CURRENT ASSET INVESTMENTS**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Fiduciary investments – unlisted</b>	15,616	37,346	-	-
<b>Non-fiduciary investments</b>				
Listed investments	6,331	8,538	6,331	9,388
Unlisted investments	4,971	860	4,971	2
	<u>26,918</u>	<u>46,744</u>	<u>11,302</u>	<u>9,390</u>

Fiduciary investments held are liquid instruments and are used for cash management purposes. Listed investments represent the equity investment in Montpelier Re Holdings Limited with a carrying value of £6,331,000 (2003: £6,331,000). During the year the Group sold its entire holding of warrants in Montpelier Re Holdings Limited which were carried at nil book value, and its entire holding of shares in BRIT Insurance Holdings PLC, which were carried at book value of £2,207,000. At 31 December 2004 the market value of listed investments was £11,058,000 (2003: £79,208,000).

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**18. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR**

	Group		Company	
	2004 £'000	2003 (Restated) £'000	2004 £'000	2003 £'000
Bank and other borrowings (note 20)	24,987	18,507	24,987	17,846
Loan notes (note 20)	-	134	-	-
Insurance broking creditors	3,905,748	3,953,127	-	-
Amounts due to parent undertaking	178,558	178,421	177,912	177,950
Amounts due to group undertakings	-	-	12,963	12,897
Amounts due to associated undertakings	168	-	-	-
Corporation tax	31,735	18,069	21,001	-
Social security payable	2,427	2,441	-	-
Other creditors and accruals	35,917	43,625	10,056	3,444
	<u>4,179,540</u>	<u>4,214,324</u>	<u>246,919</u>	<u>212,137</u>

**19. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank and other borrowings (note 20)	13,625	37,595	13,625	37,595
Other creditors and accruals	2,877	1,151	-	-
Deferred tax	12	-	-	-
	<u>16,514</u>	<u>38,746</u>	<u>13,625</u>	<u>37,595</u>

**20. BANK AND OTHER BORROWINGS**

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>Due within one year</b>				
Bank loans	24,987	17,846	24,987	17,846
BG Funding No 1 PLC secured facility	-	661	-	-
Loan notes	-	134	-	-
	<u>24,987</u>	<u>18,641</u>	<u>24,987</u>	<u>17,846</u>
<b>Due after more than one year</b>				
Bank loans	<u>13,625</u>	<u>37,595</u>	<u>13,625</u>	<u>37,595</u>

**Bank loans**

The Group's credit facilities comprise a £75m multicurrency term loan facility, which is repayable in instalments between 18 December 2003 and 18 June 2006, and a £50m multicurrency revolving loan facility, which is also available until 18 June 2006. The rate of interest payable on the term loan and the revolving loan fluctuates in line with the current LIBOR rate, plus a margin.

**BG Funding No1 PLC secured facility**

A former Group subsidiary undertaking, Benfield Premium Finance Limited ("BPF"), established a special purpose vehicle company, BG Funding No 1 PLC ("BG Funding"), in connection with the funding of its business of providing instalment finance for the payment of insurance premiums for customers. BPF was disposed of in November 2004 and the Group has never been a party to the BG Funding secured facility.

**Loan notes**

The remaining loan notes issued by the Group were repaid during the year.

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**21. PROVISIONS FOR LIABILITIES AND CHARGES**

Group	Litigation and disputes £'000	Vacant properties £'000	Other £'000	Group Total £'000	Company Total £'000
At 1 January 2004	6,702	3,312	1,485	11,499	3,786
Exchange adjustments	(198)	(101)	-	(299)	-
Transfer to profit and loss account	(3,540)	(1,201)	-	(4,741)	(2,832)
Transfer to investments in associated undertakings	-	-	(485)	(485)	-
Utilised in year	(1,876)	(990)	-	(2,866)	(567)
<b>At 31 December 2004</b>	<b>1,088</b>	<b>1,020</b>	<b>1,000</b>	<b>3,108</b>	<b>387</b>

**Litigation and disputes**

In the ordinary course of the Group's business it can be subject to claims for alleged errors and omissions made in connection with its broking activities. The Group has recognised provisions in respect of claims for errors and omissions and other legal disputes, together with anticipated legal costs to the extent that any liabilities that arise from such exposures are deemed probable. Where appropriate, provisions are recorded gross and a separate asset is established to reflect anticipated recoveries under Group insurance policies.

Due to the differing nature and circumstances of these liabilities it is not possible to make an overall assessment of when such liabilities are likely to result in a payment being made, if at all.

£4,677,000 was released in respect of provisions previously held for alleged errors and omissions claims or circumstances against Group companies. The Group has successfully eliminated or mitigated its liabilities in relation to these matters during the year.

**Vacant properties**

On the acquisition of EW Blanch, the Group inherited certain vacant and partly sub-let leasehold properties, primarily arising from restructuring undertaken by EW Blanch prior to the acquisition. These properties are principally located in the United Kingdom and the United States. In addition, subsequent to its acquisition of EW Blanch, the Group rationalised and consolidated its property space. Provision has been made for the residual lease commitments, together with any related outgoings, after taking into account the economic benefits of these commitments to the Group.

**Other**

Other provisions comprise an amount of £1,000,000 (2002: £1,000,000) in respect of options granted over 20% of the share capital of the Group's benefits consulting business. The exercise of these options is at the discretion of the option holders.

**Fair value adjustments**

Provisions for liabilities and charges includes £1,645,000 (2003: £7,276,000) in respect of fair value provisions made on the acquisition of EW Blanch, with £388,000 utilised in the year. During the year £388,000 of the provision brought forward has been utilised and £5,065,000 has been released to the profit and loss account, with the remaining movement relating to exchange adjustments.

**22. CALLED UP SHARE CAPITAL**

	2004 £'000	2003 £'000
<b>Authorised</b>		
141,173,3000 Ordinary shares of 1p	1,412	1,412
<b>Allotted, called up and fully paid</b>		
110,517,000 ordinary shares 1p	1,105	1,105

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**Share options**

Following the Scheme of Arrangement, share options granted by Benfield Holdings Limited under its 1998 Share Option Scheme were rolled over to options over the shares of Benfield Group Limited.

**Deferred Share Units**

Following the scheme of arrangement, the 2001 Deferred Share unit Retention Plan and the 2001 California Employees Deferred Share Unit Retention Plan ("the Plans") for employees of the group based in the United States of America apply to shares in Benfield Group Limited on a one-for-two basis.

**23. RESERVES**

Group	Share premium £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2004 as previously reported	120,739	10,263	4,500	(49,602)	85,900
Prior year adjustment	-	-	-	(362)	(362)
At 1 January 2004 restated	120,739	10,263	4,500	(49,964)	85,538
Net exchange adjustments	-	-	-	(4,656)	(4,656)
Retained profit for the year	-	-	-	58,784	58,784
<b>At 31 December 2004</b>	<b>120,739</b>	<b>10,263</b>	<b>4,500</b>	<b>4,164</b>	<b>139,666</b>

Group consolidation reserves represent a transfer of retained earnings to non-distributable reserves in Benfield Ellinger Limited in 1997.

Cumulative goodwill relating to acquisitions made prior to 1 January 1998, which has been eliminated against reserves, amounted to £110,725,000 as at 31 December 2004 and 2003.

The prior year adjustment relates to the implementation of UITF 17.

Company	Share premium £'000	Capital redemption reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2004	120,739	10,263	25,631	156,633
Retained loss for the year	-	-	(5,118)	(5,118)
<b>At 31 December 2004</b>	<b>120,739</b>	<b>10,263</b>	<b>20,513</b>	<b>151,515</b>

**24. ACQUISITIONS**

During the year ended 31 December 2004, the Group acquired the entire share capital of Airs Re Pty Limited for a cash consideration of £194,000 resulting in goodwill of £194,000. Up to an additional £128,000 is payable subject to the achievement of certain future performance targets. There was no material difference between the fair value and book value of the assets acquired. In addition, during 2004 the Group increased its investment in Catixl Limited through the acquisition of the warrants not previously held by the Group carrying an entitlement to 1,500,000 shares in Catixl Limited for a total consideration of £255,000 resulting in goodwill of £255,000.

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**25. EMPLOYEES AND DIRECTORS**

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
<b>Staff costs for the Group during the year</b>		
Wages and salaries	114,325	113,198
Social security costs	11,873	11,997
Other pension costs (note 26)	12,630	12,083
	<u>138,828</u>	<u>137,278</u>

	<b>2004</b> <b>Number</b>	<b>2003</b> <b>Number</b>
<b>Average monthly number of people (including Executive Directors) employed</b>		
United Kingdom	763	787
US	631	596
Rest of World	276	253
	<u>1,670</u>	<u>1,636</u>

Included within the above aggregate remuneration are the following costs in respect of the directors' remuneration:

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Total emoluments	2,654	4,571
Contributions to money purchase pension schemes	<u>869</u>	<u>1,347</u>

The remuneration of directors disclosed above includes the following amounts payable to the highest paid director:

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Total emoluments	536	1,331
Contributions to money purchase pension schemes	<u>315</u>	<u>405</u>

Retirement benefits are accruing to 6 (2003: 6) directors under money purchase pension schemes.

**26. PENSION COMMITMENTS**

The Group operates a number of pension schemes around the world. The assets of the money purchase schemes are held separately from those of the Group in independently administered funds. The pension charge for the year ended 31 December 2004 was £12,630,000 (2003: £12,083,000). There are no unpaid contributions outstanding as at 31 December 2004 (2003: £nil).

Benfield Greig Ellinger, Inc. operated a defined benefit arrangement in the United States which was closed to the further accrual of benefits in December 2001. Scheme members are being transferred to the existing Benfield Inc. profit sharing pension scheme.

The above scheme was the only defined benefit scheme operated by the Group during the year ended 31 December 2004. Under the transitional rules of FRS 17 note disclosures on actuarial scheme valuations and the impact that accounting for these valuations would have on the consolidated profit and loss account and consolidated balance sheet are shown below.

However, on winding up the schemes the basis used will be as required by legislation and not the basis required under FRS 17. The Group believes that assets and provisions currently held cover the costs that will arise on winding up the schemes and, consequently, the deficits reflected in the following FRS 17 disclosures will not result in any additional liabilities to the Group.

An estimate of the scheme's funding position was carried out as at 31 December 2004 by a qualified independent actuary. The estimate was developed from the results of the last formal actuarial valuation of the scheme as at 1 January 2004.

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The major assumptions used by the actuary were:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Discount rate	6.00%	6.25%	6.5%
Pension increases	N/A	N/A	N/A
Salary growth	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

The assets of the scheme and the expected rate of return were:

	Long-term rate of return expected 2004	Value 2004 £'000	Long-term rate of return expected 2003	Value 2003 £'000	Long-term rate of return expected 2002	Value 2002 £'000
Equities	9.0%	600	9.5%	545	8.5%	324
Bonds	5.5%	312	6.0%	274	5.5%	11
Cash	<u>N/A</u>	<u>-</u>	<u>N/A</u>	<u>-</u>	<u>3.0%</u>	<u>349</u>
Total market value of assets		912		819		684
Present value of scheme liabilities		<u>(1,277)</u>		<u>(1,248)</u>		<u>(1,238)</u>
Deficit in the scheme		(365)		(429)		(554)
Related deferred tax asset		<u>142</u>		<u>167</u>		<u>216</u>
Net pension liability		<u>(223)</u>		<u>(262)</u>		<u>(338)</u>

FRS 17 requires disclosure of these notional deficits in the financial statements of the Group. If the above amounts had been recognised in the financial statements at 31 December 2004, 2003 and 2002 the Group's net assets would have been £184,700,000, £197,299,000 and £57,435,000 respectively, and the profit and loss reserves would have been £(89,507,000), £(72,815,000) and £(65,443,000) respectively. In addition for the year ended 31 December 2004, £67,000 would be recognised as expected return on pension scheme assets, the Group would record a net interest cost of £77,000 and the consolidated statement of total recognised gains and losses would have a further loss of £55,000.

**Movement in surplus during the year**

	<u>2004 £000</u>	<u>2003 £000</u>
Surplus in the Plan at the beginning of the year	(429)	(555)
Movement in year:		
Contributions	100	90
Other finance income	(10)	(43)
Exchange rate movements	29	47
Actuarial gain recognised in statement of total recognised gains and losses	<u>(55)</u>	<u>32</u>
	<u>(365)</u>	<u>(429)</u>

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**Details of experience gains and losses**

	<b>2004</b> <b>£000</b>	<b>2003</b> <b>£000</b>
Difference between the expected and actual return on Plan Assets:		
Amount (£000)	24	116
Percentage of Plan assets at period end	2.6%	14.2%
Experience gains and losses of Plan liability:		
Amount (£000)	(25)	(56)
Percentage of the present value of the Plan liabilities at period end	(2.0)%	(4.5)%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£000)	(55)	32
Percentage of the present value of the Plan liabilities at period end	<u>(4.3)%</u>	<u>2.6%</u>

**27. OPERATING LEASE COMMITMENTS**

The Group had annual commitments under non-cancellable operating lease agreements in respect of properties, plant and equipment, for which the payments extend over a number of years, as follows:

	<b>2004</b>	<b>Plant and equipment</b>	<b>2003</b>	<b>Plant and equipment</b>
	<b>Property £'000</b>	<b>£'000</b>	<b>Property £'000</b>	<b>£'000</b>
<b>Lease expiry:</b>				
Within one year	634	7	887	49
Within two to five years	6,201	159	5,618	75
After five years	5,223	-	5,066	-
	<u>12,058</u>	<u>166</u>	<u>11,571</u>	<u>124</u>

The Group has assigned a number of leasehold properties to third parties. Should the assignees fail to fulfil any obligation in respect of these leases, the Group may be liable for these defaults. These leases expire between 1 and 5 years. The potential annual operating lease liability in respect of these leases should the assignees default at 31 December 2004 is £892,000 (2003: £892,000).

**28. CONTINGENT LIABILITIES**

**Syndicated Facilities Agreement**

Benfield Holdings Limited is a Guarantor to a £125m syndicated facilities agreement, ("the Facilities Agreement") entered into by Benfield Group Limited on 18 June 2003. The facility provides for a £75m multicurrency amortising term loan and £50m multicurrency revolving loan and bank guarantee facility. The Facilities Agreement expires on 18 June 2006. The amount outstanding at 31 December 2004 on the amortising term loan is £39m and the revolving loan £nil.

**Lloyd's New Central Fund Arbitration**

In April 2003, the Society of Lloyd's ("Lloyd's") commenced arbitration proceedings against six insurers for recovery of claims made under an insurance contract to support the New Central Fund ("the NCF Insurance"). Those claims amounted to almost £500 million. The NCF Insurance was placed by the Company's UK subsidiary, Benfield Limited, together with another broker. The first part of the arbitration hearing took place in August and September 2004 and heard evidence given on behalf of Lloyd's and one of the insurers, SR Business Insurance Company Limited ("Swiss Re"), which wrote 32.5% of the cover.

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On 25 January 2005, Lloyd's announced that the arbitration tribunal had made a partial award in respect of the dispute between it and Swiss Re. The announcement stated that the arbitration panel had found in favour of Lloyd's on the issue of the proper interpretation of the wording of the policy. However, subject to the question of the affirmation of the policy, it also found that with respect to the presentation of the risk, Swiss Re was prima facie entitled to avoid the policy. The tribunal deferred reaching a conclusion on the affirmation issue until after it had heard the evidence on the issues as between Lloyd's and the five insurers, other than Swiss Re. The second part of the hearing took place in February and March 2005.

Before a final decision of the panel was delivered, Lloyd's announced on 14 March 2005 that it had concluded a settlement with all the insurers. Their announcement stated that the settlement amount was £152m. We are not aware of any other terms of this settlement. Lloyd's could choose to pursue the Company for some or all of the difference between the settlement amount and the total claim amount, which remains in excess of £300m. However, no formal claim has been made by Lloyd's against the Company to date. Benfield has entered into a standstill agreement with Lloyd's to address limitation issues.

**Other**

In addition, in the ordinary course of the company's business it can be subject to claims for alleged errors and omissions made in connection with its broking activities. Such liabilities are provided for when it is probable that the liability has been incurred and the amount of the liability can be reasonably estimated.

Although the outcome of current claims and litigation cannot be known with any certainty, on the basis of current information, management consider that the ultimate determination of such claims and litigation will not have a material adverse effect on the financial position of the company. However, it is possible that future results and cashflows could be materially affected by an adverse outcome arising from claims and litigation.

**29. RELATED PARTY TRANSACTIONS**

**Transactions relating to International Catastrophe Managers, LLC**

Rodman Fox, a Director of the Company, is also a director of International Catastrophe Managers, LLC ("ICM"), a managing general agency. ICM owes the Group approximately £0.6m at 31 December 2004 (2003: £0.9m), including accrued and unpaid interest, under a subordinated secured promissory note, dated 12 May 1999, which matures on 30 June 2006.

**Transactions relating to Commission Freedom Holdings Limited**

The Group owns 15% of the ordinary shares in Commission Freedom Holdings Limited ("CFHL"), an associated undertaking. During the year the Group provided an additional funding of £0.1m (2003: £0.2m) to CFHL. At 31 December 2004 CFHL owed £0.6m to the Group (2003: £0.5m), with a provision having been made for the full amount outstanding by CFHL.

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**30. COMPANIES IN THE CONSOLIDATED FINANCIAL STATEMENTS**

The following are the principal subsidiary undertakings that have been included in the consolidated financial statements.

Company	Nature of business	Country of incorporation	Effective interest at 31 December	
			2004	2003
Benfield Limited	Reinsurance intermediary	United Kingdom	100%	100%
Benfield, Inc.	Reinsurance intermediary	USA	100%	100%
Benfield Argentina SA	Reinsurance intermediary	Argentina	100%	100%
Benfield Asia Pte. Limited	Reinsurance intermediary	Singapore	100%	100%
Benfield (Australia) Pty Limited	Reinsurance intermediary	Australia	100%	100%
Benfield Bratislava s.r.o.	Reinsurance intermediary	Slovak Republic	100%	100%
Benfield do Brasil Ltda	Reinsurance intermediary	Brazil	100%	100%
Benfield Canada Limited	Reinsurance intermediary	Canada	100%	100%
Benfield Iberica SA	Reinsurance intermediary	Spain	100%	100%
Benfield México Intermediario de Reaseguro, S.A. de C.V.	Reinsurance intermediary	Mexico	100%	100%
Benfield Munchen GmbH	Reinsurance intermediary	Germany	100%	100%
Benfield (New Zealand) Limited	Reinsurance intermediary	New Zealand	100%	100%
Benfield Paris SA	Reinsurance intermediary	France	100%	100%
Benfield Praha a.s.	Reinsurance intermediary	Czech Republic	100%	100%
Benfield (South Africa) (Pty) Limited	Reinsurance intermediary	South Africa	100%	100%
Benfield (Bermuda) Limited	Reinsurance intermediary	Bermuda	100%	100%
MSTC Benfield Corredores de Seguros Ltda.	Insurance intermediary	Chile	90%	90%
Benfield Corredores de Reaseguros Ltda.	Reinsurance intermediary	Chile	90%	90%
International Space Brokers, Inc.	Insurance intermediary	USA	86%	86%
Benfield Advisory Limited	Corporate finance and investment advisers	United Kingdom	100%	100%
Benfield Advisory, Inc.	Corporate financial investment advisers	USA	100%	100%
Orbit Benefits Limited	Provision of financial services	United Kingdom	100%	100%
Orbit Protection Limited	Benefits consultancy	United Kingdom	100%	100%
Paragon Strategic Solutions, Inc.	Provision of run-off services	USA	100%	100%
Greig Fester Group Limited*	Intermediate Holding Company	United Kingdom	100%	100%

\*Held directly by Benfield Holdings Limited. All other subsidiary undertakings are held indirectly. All shareholdings are of ordinary common shares or stock.

**31. ULTIMATE PARENT COMPANY**

The ultimate parent company is Benfield Group Limited, a company incorporated in Bermuda and is the smallest and largest group to consolidate these financial statements. Copies of the financial statements of both companies can be obtained from the Company Secretary at 55 Bishopsgate, London, EC2N 3BD.