

**BEAZLEY**

Beazley Group plc  
Syndicate 2623/623  
at Lloyd's

4082477

# Beazley Group plc annual report 2002



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## Beazley Group

We have been establishing a reputation in the specialty lines, property, reinsurance and marine sectors since 1986.

We want to carry on applying a specialist approach to underwriting and plan for continued growth. We believe that our skilled underwriting and high standards of service make us a market leader.

## Beazley at a glance

### Beazley Group highlights – 31 December 2002

£0.8m

Profit for the six months to 31 December 2002  
before tax and exceptional items

£144.9m

Net assets

63p

Net assets per share

The Beazley Group acted as a Lloyd's managing agent in the period and the format of the financial statements reflects this. The Group participates in the underwriting of syndicate 2623 from 1 January 2003, so for future periods will prepare financial statements appropriate for insurance groups. In light of its importance to shareholders going forward a review of syndicate results and prospects is included in this report.

## Syndicate highlights

	<b>2002*</b>	<b>2001*</b>
Gross premiums written (£m)	438	355
Net premiums written (£m)	289	269
Net premiums earned (£m)	292	179
Profit/(loss) for the period (£m)	22	(17)
Claims ratio	60%	75%
Expense ratio	34%	33%
Combined ratio	94%	108%

\*For syndicates managed by the Beazley Group (syndicate 623 only for 2001 and combined syndicates 623 and 2623 for 2002)

	<b>2003</b>	<b>2002</b>	<b>2001</b>
Managed capacity (£m)	660	403	215
Beazley Group participation	50%	4%	2%

## Ratings

Both syndicates 623 and 2623 hold an AM Best rating of 'A' excellent

Our strategies are to  
continue to expand and  
offer long-term returns  
to our investors.

consistency & growth

## Chairman's statement

Joseph Sargent  
Chairman

We have weathered some of the toughest times that Lloyd's has ever seen – and our underwriting operations continue to remain profitable. We believe this is due to our specialist underwriting approach, timing of growth and discipline.

Recent market conditions have contributed to the Group increasing its capacity from £125m in 2000 to £660m in 2003. This increase has been driven by our need to service our existing client base and meet demand for new business.

### 2002 – an exciting year

It is with great pleasure and enthusiasm that I enclose the first Beazley Group plc financial report. Since we began trading in 1986, we have grown to become an established lead underwriter in the main lines of business within our four divisions: Property Group, Specialty Lines, Reinsurance and Marine. But one of the highlights in our history must surely be our successful Initial Public Offering (IPO) on 12 November 2002 – despite a challenging stock market backdrop.

Our company has been built on a solid business strategy and we are very proud of what we have achieved to date. With a management that has remained largely unchanged for the greater proportion of these past 16 years, our strategy is to continue to expand whilst offering good long-term returns to our investors. Our stable and experienced foundation has meant we've been able to build strong business relationships; our clients appreciate the fact that we are independent and offer speedy and firm responses to the pricing of risk.

For each year throughout our history, we have returned a profit to our syndicate capital providers. In a somewhat turbulent environment, the current excellent underwriting conditions assisted Beazley to expand its capacity to £660m in 2003. Strong rate increases in all four of our specialist underwriting departments, coupled with a low level of losses, indicate healthy financial performance.

The Beazley Group achieved a small profit of £770,133 before tax and exceptional items. The exceptional expenses of £1,932,816 relate to one-off professional fees and debt redemption costs incurred in the lead up to the IPO (these were charged to the profit and loss during this period). During the same period, the proceeds from the IPO have significantly increased the net asset position of the Group. The net assets per share at 31 December 2002 were 63p. The reporting period is for the six months ended 31 December 2002, and only reflects the six-month period as the accounting reference date was changed to 31 December.

No underwriting activities for Beazley Underwriting Ltd are included in the result for the six month period as participation on syndicate 2623 only commenced on 1 January 2003. Therefore only the results of the agency business have been shown in the financial statements.

Our syndicate results for the 12 months to 31 December 2002 are also noteworthy. While the syndicate's results are not included in the Group result to 31 December 2002, these results are, nevertheless, a useful reference point

going forward. Gross written premium increased by 23% to £438m for the 12 months ended 31 December 2002. Net written premium increased by 7% to £289m during the same period. The claims ratio improved from 75% in 2001 to 60% in 2002; this was brought about by a lower loss frequency, rate increases and continued conservative reserving. The improvement in claims ratio was also driven by World Trade Centre (WTC) events, with this event contributing 9% to the claims ratio in 2001. The impact of the WTC loss was material but net and gross exposures remain within our original expectations.

As stated in the prospectus dated 7 November it is anticipated that the company will commence paying dividends with effect from the interim results for the six months to June 2003, which are expected to be announced in September 2003.

### What does the future hold?

Our strategy is to capitalise on the current market conditions to position ourselves with a high quality portfolio in a financially efficient environment. We will achieve this by continuing to focus on risk taking and access. We believe that this will result in good long-term returns for our shareholders.

We strongly feel that prospects for the foreseeable future are good. Rates continue to increase in certain areas. This rating environment offers the potential for healthy underwriting returns. Recent trading conditions have been very favourable for premium rates during a period where there has been a particularly low loss climate.

We believe there is a significant opportunity to grow the business within our existing areas of expertise. In addition, as the market dislocation continues, there will be opportunities to attract underwriting talent in specific areas that are complementary to the existing portfolio.

### The board

The board welcomes Dudley Fishburn currently Chairman of HFC Bank and non-executive director of Philip Morris Inc. who, in his capacity as non-executive director, brings international public company and corporate governance experience.

As I am 73 years old, I will be resigning from the position as Chairman of the Group at the annual general meeting in June 2003. I have had a delightful association with the Group since 1993 during a period of consistency in earnings and growth in business. I am looking forward to remaining a non-executive director of the Group, and it is with pleasure that I welcome Jonathan Agnew, also chairman of Nationwide Building Society, in taking the reins going forward.

I would like to take this opportunity to thank all of those at Beazley for their continued hard work and passion. Beazley's reputation and skills look certain to flourish and I look forward to the Group's continued success.

Joseph Sargent  
Chairman  
23 April 2003

With an exciting  
evolution to date, our  
future looks set to be  
even more dynamic.

specialist & established



## Chief executive's review

Andrew Beazley  
Chief executive

We can't afford to sit still against the changing world; we have to move with it. At Beazley, we focus on what we do so that we do it well. We anticipate and respond to what our clients want and we react to the constantly evolving market and climate.

Managed syndicate results			
	2002 £m	2001 £m	2000 £m
Gross premiums written	438	355	187
Net premiums written	289	269	129
Net premiums earned	292	179	115
Net claims incurred	(174)	(134)	(67)
Net operating expenses	(102)	(71)	(47)
Balance on technical account	22	(16)	10
Profit/(loss) for the period	22	(17)	10
Claims ratio	60%	75%	58%
Expense ratio	34%	33%	39%
Combined ratio	94%	108%	97%

This is my first opportunity to present you with a detailed account of our key operating activities. We have certainly experienced an exciting evolution to date.

Beazley has an excellent market profile as a specialist underwriter. This is due to a number of unique qualities and strengths. I would like to start first by presenting the syndicate's financial results, and then explaining the reasons for our success.

### Underwriting results

As can be seen in the table, 2002 has been a strong year in terms of premium growth and underwriting results. During a hard market, all divisions have achieved, on average, a rate increase of 33% on renewal business compared with the prior year. In addition we have seen a particularly low loss climate. Quota share reinsurance was purchased during 2002 for capacity management purposes, which has reduced the net premium written.

Analysis of the underwriting results of each of the four underwriting departments is shown on pages 14 to 17.

### What makes Beazley different?

Through our specialist approach to underwriting, we aim to leverage our expertise in the existing lines through vertical growth and continued sound risk management. We believe that our skilled underwriting and high standards of service make us a market of choice.

To facilitate and complement our approach to risk taking, we have built a robust distribution network.

The sophisticated network enables us to take full advantage of the broad skill-base and licenses us to trade both domestically and internationally. This has also been helped by fostering strong relationships with brokers and using cutting-edge technology.

### Our key strengths

There are several unique factors that have contributed to the success of the Beazley Group.

### Our specialist approach to underwriting

We are not generalists. We focus on writing specialty-risk insurance and reinsurance business in selected markets. We are an established lead underwriter in the main lines of business within our four divisions: Property Group, Specialty Lines, Reinsurance, and Marine. There is a dedicated skill base within each of these departments – our underwriters are leaders in their own discipline.

Beazley IQ is our unique electronic, interactive queuing system for the box at Lloyd's.

#### An established flow of business

The proceeds from the IPO fund an existing business which has grown since 1986 with the syndicate operations being consistently profitable. This is primarily due to the strong underwriting culture and due to the distribution network established with brokers. We have used approximately 150 broking firms to access the market. As a provider of insurance, we need to reach thousands of clients across many countries using the distribution networks.

Our underwriters spend a good deal of time each year travelling to meet brokers and their clients around the world. It's the best way to understand their businesses, service issues and the ever-changing risks concerning them.

#### Technologically innovating

We are constantly looking for ways to improve the way we do business. For example, Beazley IQ is a unique and exclusive electronic, interactive queuing system for the box at Lloyd's, which drastically cuts broker waiting times. We are also the only syndicate to use webcams to put our trading box on public view at [www.beazley.com](http://www.beazley.com) so that brokers can easily check the availability of an underwriter. Our website also enables clients to access the latest news and product information.

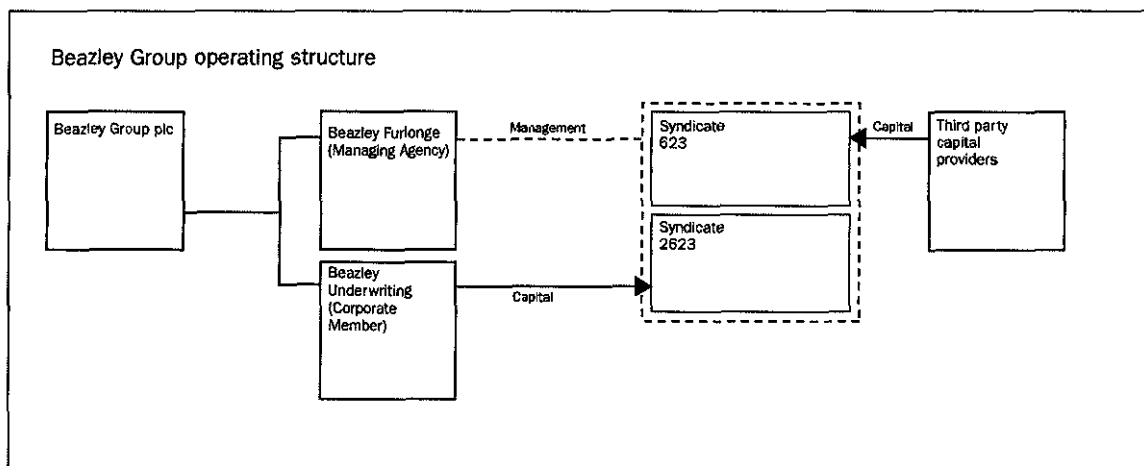
The Beazley Information Centre (BIC) is an innovative management information system, which we have used over the last five years. BIC is based on OLAP technology and brings data to the desktop. It lets underwriters easily access data and reports online so that they can make more timely and more informed decisions.

A further example of our focus on technology is our early endorsement of the Project Blue Mountain initiative to help streamline data.

#### The benefit of our Lloyd's association

Being a member of Lloyd's gives us many advantages and we have certainly made the most of the association through the distribution and branding. Lloyd's offers a broad product line which is attractive to clients throughout the world. As a member, we have the ability to write business in over 140 countries. We are also able to focus on what we are good at – risk taking. This has enabled us to write gross written premium of £438m with just 80 employees.

A further benefit is that we can change our mix of business immediately according to market conditions. The flexibility within our underwriting teams allows us to respond quickly to changes in the market environment.



**An experienced management and underwriting team**  
We began trading in 1986 and our management team has been in place since 1993. This has allowed us to build strong business relationships.

Our underwriting teams have many years of experience in their specialist fields. They are empowered and encouraged to build and run their business.

The skills of the non-executive directors also complement our business.

#### **We focus on risk-taking**

The structure of our business means we are not hindered by excessive bureaucracy as we outsource many of our non-core main activities, so that we can focus on risk-taking and settling claims. These outsourced functions include data input, asset management, human resources and IT maintenance. Using external suppliers has other advantages: we stand to benefit from their fresh thinking, specialist knowledge and excellent quality of service.

#### **A positive market environment**

We are in a strong position because we have been able to raise capital to develop new business. Even though the world has seen uncertainty since the tragic events of September 11, we have been able to take advantage of market opportunities.

Our underwriting has seen significant rate increases in a period where contract terms and conditions have also tightened. Both these factors have been favourable to our operations.

#### **Operating structure**

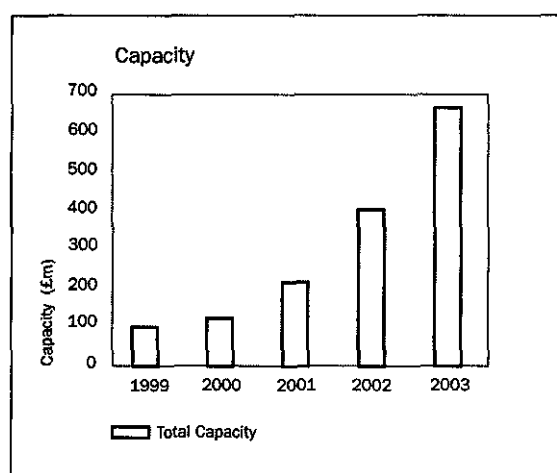
The operating structure of the Beazley Group is set out above.

Beazley Furlonge is the principal operating subsidiary that manages the underwriting operations. As a Lloyd's managing agent, Beazley Furlonge derives its operating revenue from agency fees charged to the underwriting members participating on the syndicate, and from profit commission which is based on the underwriting results of the syndicate. Agency fees currently amount to 0.6% of capacity and profit commission 17.5% of the net profit of the syndicate.

Beazley Underwriting participates as the sole underwriting member of syndicate 2623. This syndicate has underwritten in parallel with syndicate 623 from 1 January 2003. Under the parallel syndicate arrangement, Beazley Furlonge manages both syndicates as a single underwriting unit. All premiums, claims and any reinsurance to close of a prior year of account will be split between the syndicates pro rata to each syndicate's underwriting capacity for the relevant year of account, resulting in identical risk profiles and underwriting profitability levels. For the 2003 year, the split of business between the two syndicates is 50%/50%.

The Beazley Group has limited exposure to prior year losses because of the limited participation on 2002 and prior years.

## Chief executive's review continued



### Capacity structure

The syndicate experienced little capacity growth during a disciplined period before 2000. From that date, prospects for underwriting improved and the market began to grow. Since then, the market has dislocated and grown which therefore required increases in capacity. Consequently, the underwriting capacity managed by the Beazley Group increased to £660m for the 2003 year of account.

The table above shows the growth in underwriting capacity managed by the Beazley Group for the 1999 to 2003 years of account.

The different sources of capital up until the end of 2002 comprise individual names, controlled corporate members and third party corporate members. The Beazley Group had a limited participation up to 31 December 2002 in syndicate 623. In view of the current underwriting opportunities, the Beazley Group now has participation of £330m in 2003. The capital for the additional capacity was provided through the proceeds from the share issue in November 2002.

The group has available a letter of credit facility, to enable it to increase its Funds at Lloyd's (FAL) by up to £30m. Based on our existing risk based capital ratio of 40%, this facility allows syndicate 2623 to write up to £405m of capacity in future years of account.

### Risk management & Reinsurance

Two of the key methods for managing risk for the Group are to manage and monitor business processes, risk aggregation and to purchase reinsurance.

### Risk management

Risk management remains an underlying focus of the Group. We employ a dedicated function to add value to the control processes and corporate governance. The risk management process is also integrated with the internal audit function through prioritising and scoping internal audit projects.

An established structure of committees, with a cross section of specialist personnel, has responsibility for managing particular risks, including syndicate risk, internal audit, finance, operations, internal review, investment and counterparty security. Each of these committees reports to the board of directors, who set tolerance limits within different business processes.

One of our key tools in managing risk aggregation to the Group is through the use of realistic disaster scenario modelling. This involves deriving a suite of scenarios and

The flow of business continues to be good and we remain focused on our core competencies.

testing the resilience of cash facilities, reinsurance programmes and profit impact. The Group manages aggregate exposures on an ongoing basis such that, in an estimated 'natural catastrophe' scenario with a probability of 1 in 250 years in the US, it is unlikely that the syndicate will sustain an impact of greater than 15% of its allocated underwriting capacity, after the application of relevant reinsurance.

Risk management reviews and monitors operational, strategic and business risks on a continuous basis.

#### Reinsurance

To complement the four underwriting divisions, reinsurance is purchased to protect against catastrophes and help reduce volatility. In addition, reinsurance is used with respect to larger gross lines to enhance its ability to act as lead underwriter while keeping its net exposure in balance with the overall portfolio. This is achieved through a strategy of developing long-term relationships with selected reinsurance partners.

Strict security tests are carried out for reinsurers. At present, separate reinsurance programmes are purchased, with the property and specialty lines coverages being purchased predominantly on a 'risk attaching' basis and the reinsurance and marine coverages being purchased on a 'losses occurring' basis.

#### Investments

Of the net proceeds from the share issue of £138m, £132m has been used as FAL for syndicate 2623, with the balance being used to fund working capital of the new syndicate. FAL is invested in short dated government bonds and commercial paper with an average duration of six months.

The overall investment strategy is to maximise investment returns while stressing diversification of risk, preservation of capital and market liquidity with reference to the overall underwriting profitability of the Group. The Group has used a conservative approach to its investments in the past.

#### Dividend policy

The Directors do not recommend the payment of a dividend.

As stated in the company's prospectus dated 7 November 2002, it is anticipated that the company will commence paying dividends with effect from the interim results for the six months to 30 June 2003, which are expected to be announced in September 2003.

We identify profitable classes of business to underwrite and seek opportunities being offered by the insurance market.

experienced & creative

### Specialist underwriting

Since 1986, our syndicate operations have focused on writing specialty-risk insurance and reinsurance business in selected markets. This is why, today, Beazley is an established lead underwriter in the main lines of business within its four divisions: Property Group, Specialty Lines, Reinsurance and Marine.

## Property Group

An excellent knowledge of the property industry, together with a lead capability, enables the Property Group to provide insurance products to a worldwide market ranging from large corporate accounts to homeowners.

Underwriting results	12 months ending 31 December 2002 £m	12 months ending 31 December 2001 £m
Gross premiums written	145	123
Net premiums written	115	108
Net premiums earned	114	66
Claims ratio	41%	72%
Rate increase achieved	27%	20%
Percentage of lead business*	51%	51%
*based on gross premiums written		

### Profile

Established in 1992, the Property Group is led by Jonathan Gray, and it represents 33% of the syndicate's 2002 gross premium written. It maintains a strong lead market profile in risk managed property business, with considerable experience in various specialty risk sectors and territories.

The majority of income is from North America and the Caribbean, with plans to grow the book of business in the UK, Europe and Australasia during 2003.

### High levels of service

The group has the expertise and experience to provide consistent management of both price and capacity, and clients have access to the decision makers at all stages of the underwriting process.

The team emphasises service as a means to product enhancement and achieves this through high underwriting skill levels accompanied by in-house technical support. This is provided by a specialist claims and policy wordings team and underwriting administration.

During 2002, the Lloyd's market was a market of choice for US brokers. This enabled us to increase the volume of risks underwritten and premium per risk.

The claims ratio has improved due to the low frequency of losses in 2002 and the effect from the improvement in the terms and conditions, while the 2001 result was impacted by an involvement in WTC.

Current market conditions continue to be favourable. Rate increases are still being achieved although competition is increasing from international markets, particularly in the US. For 2003, the Property Group will expand in the UK following the recruitment of a dedicated underwriting team.



## Specialty Lines

The division is a recognised market leader in many Specialty Lines sectors including errors and omissions insurance. As well as including a range of specialty insurance lines, they underwrite business from a diverse base of regions around the world.

Underwriting results	12 months ending 31 December 2002 £m	12 months ending 31 December 2001 £m
Gross premiums written	166	152
Net premiums written	79	111
Net premiums earned	93	77
Claims ratio	80%	72%
Rate increase achieved	38%	13%
Percentage of lead business*	77%	68%
*based on gross premiums written		

### Profile

The Specialty Lines account is led by Johnny Rowell and is the largest division in Beazley in terms of premium income, underwriting 38% of the syndicate's total gross premium written. The team has a proven track record in many challenging areas of insurance, including professional indemnity, product recall, directors and officers, political risks, crime, extortion, terrorism, healthcare and employment practice liability.

Harnessing the opportunities presented by the interaction between specialist brokers and underwriters is a key feature of the Lloyd's trading environment, and enables the Specialty Lines team to provide effective coverage, very often as a lead market, within a diverse range of clients and regions.

### An established lead underwriter

Specialty Lines has focused on writing specialty-risk insurance in selected markets and is an established lead underwriter in many of its areas of expertise. A significant proportion of this business is written in the US excess and surplus lines market and is predominately structured on a claims-made, rather than losses occurring, basis.

The aim is to provide very high service levels – having the necessary skills and experience to write the business, produce the policy and settle the claims.

Rate increases achieved accelerated throughout 2002 as the number of competitors reduced. As part of the overall syndicate capacity management, quota share reinsurance was purchased on this account which reduced the net premiums written in 2002. It is not anticipated that we purchase similar levels of quota share reinsurance in 2003.

The account maintains its conservative reserving strategy in line with recent years.

During 2003, we will continue to recruit additional specialist underwriters to build existing lines of business within the team. We expect the rating environment to continue to improve.

## Reinsurance

The Reinsurance division specialises in writing property catastrophe, per risk and aggregate excess of loss and pro rata business and casualty clash.

Underwriting results	12 months ending 31 December 2002 £m	12 months ending 31 December 2001 £m
Gross premiums written	67	42
Net premiums written	49	18
Net premiums earned	46	18
Claims ratio	68%	105%
Rate increase achieved	44%	14%
Percentage of lead business*	20%	21%
*based on gross premiums written		

### Profile

Established in 1986, the Reinsurance division is led by Neil Maidment and represents 15% of the syndicate's 2002 gross premiums written. It maintains an established lead position in the market.

Although market capacity has fluctuated dramatically during the last 16 years in response to catastrophes and large risk losses, they have remained committed to the reinsurance marketplace and have increased their support to many long-standing clients.

### Highly accessible

Our Reinsurance underwriters employ the most up-to-date software programmes and analytical tools to assist risk assessment and help utilise available capacity more effectively.

The growth in the Reinsurance account comes from taking larger participation on core accounts in addition to rate increases.

The 2001 result was affected by the WTC loss. The underlying impact of the WTC loss for the syndicate was £20m. The estimates for the ultimate gross and net WTC loss have not been changed.

During 2003, the rating depends upon the client's loss record and exposure but, on average, rate levels are expected to be maintained in 2003.

## Marine

A highly developed knowledge of the marine sector, together with a lead capability, enables the Marine division to provide clients with comprehensive and competitive risk solutions.

Underwriting results	12 months ending 31 December 2002 £m	12 months ending 31 December 2001 £m
Gross premiums written	60	38
Net premiums written	46	31
Net premiums earned	39	17
Claims ratio	55%	63%
Rate increase achieved	16%	11%
Percentage of lead business*	51%	57%
*based on gross premiums written		

### Profile

Established in 1998, the Marine division is led by Clive Washbourn and represents 14% of the syndicate's 2002 gross premiums written. The underwriting team, which has been working together since 1990, offers extensive market knowledge of the clients' needs and provides a flexible and proactive claims service.

Beazley is known in the Lloyd's market for being selective in the quality of the business it accepts and its drive to enhance profit potential from this selectivity.

### A strong position

The Marine team is an acknowledged leader of traditionally difficult areas such as Greek trampship operators, demolition and towage business and the insurance of older vessels.

The Marine account has shown positive premium growth this year and was not materially affected by the significant marine losses of late 2002.

We expect significant growth in the energy account following the recruitment of a specialist underwriter, an area that has seen dramatic rate rises over the last 18 months.

Although rate rises in the portfolio were lower than other markets, further rises of a similar level are expected during 2003. There continues to be good prospects for underwriting returns in the short and medium-term.

# Statement of corporate governance

## Application of principles of good corporate governance

There is, and historically there has been throughout the company and the group, a commitment to high standards of corporate governance. It is the intention of the directors that the Beazley Group comply with the Combined Code.

## Compliance with code provisions

The board confirms that the company and the group have complied with the provisions set out in section 1 of the Combined Code for the period since 12 November 2002, when the company's shares were listed on the London Stock Exchange, until 31 December 2002. The 'Schedule of Matters Reserved for the Board' was adopted on 23 April 2003 but the board does not intend to consider the appointment of a senior non-executive director until Mr. Agnew has been appointed chairman at the conclusion of the 2003 annual general meeting.

The board is accountable to the company's shareholders for good governance and the statements set out below describe how the principles identified in the Combined Code referred to above are applied by the group.

## The board

The board consists of a non-executive chairman, Joseph Sargent, together with three independent non-executive directors and six executive directors, of which Andrew Beazley is chief executive. All four of the non-executive directors, who have been appointed for specified terms, are considered by the board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

Biographies of board members appear on page 34 of this report. These indicate the high levels and range of business experience which are essential to manage effectively a business of the size and complexity of the group. A well defined operational and management structure is in place, and terms of reference exist for all board committees. The roles and responsibilities of senior executives and key members of staff are clearly defined.

The full board meets at least five times each year, and more frequently where business needs require. The board has a schedule of matters reserved for its consideration, including approval and review of group performance against budgets and other operational risk matters.

There is an agreed principle that directors may take independent professional advice if necessary and at the company's expense, on the basis that the expense is reasonable. This is in addition to the access which every director has to the company secretary. The secretary is

charged by the board with ensuring that board procedures are followed.

When new members are appointed to the board, they are provided with advice from the company's solicitors in respect of their role and duties as a public company director.

To enable the board to function effectively and directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters.

Appointments to the board of both executive and non-executive directors are considered by the nominations committee. The recommendations of the nominations committee are ultimately made to the full board, which considers them before any appointment is made. The remuneration committee considers any remuneration package of executive directors and senior management before it is offered to a potential appointee. The members of the audit, nominations, investment and remuneration committees are set out below.

Any director appointed during the period is required, under the provisions of the company's articles of association, to retire and seek election by shareholders at the next annual general meeting. The articles also require that one third of the directors retire by rotation each year and seek re-election at the annual general meeting, and the directors required to retire are those in office longest since their previous re-election. In addition, each director is required to retire at least once in any three year period.

Full details of directors' remuneration and a statement of the company's remuneration policy are set out in the directors remuneration report on pages 20 to 27. The members of the remuneration committee and the principal terms of reference of the committee appear on page 20.

## Board committees

The company has established properly constituted audit, nomination, investment and remuneration committees of the board.

The audit committee comprises Joseph Sargent as chairman, together with Jonathan Agnew, Thomas Sullivan, Dudley Fishburn and George Blunden. The committee considers matters relating to the operational and financial internal controls and financial reporting of the company. It reviews the interim and annual results and the annual report and financial statements prior to their submission to the board. The committee also reviews any matters

raised by the auditors and the internal auditor. The chief executive and the finance director are invited to attend part of each meeting of this committee, as are the auditors. The auditors have unrestricted access to the members of the audit committee.

The nomination committee consists of Joseph Sargent as chairman, together with Jonathan Agnew, Andrew Beazley, Thomas Sullivan and Dudley Fishburn. It will meet as required and will make recommendations to the board on all board appointments, including the selection of non-executive directors.

The investment committee consists of Joseph Sargent as chairman, together with Andrew Beazley, Neil Maidment, Arthur Manners, Jonathan Agnew and George Blunden. The committee makes recommendations to the board regarding the investment policy of the Beazley Group and syndicate operations, including the establishment of investment guidelines and monitoring of performance and compliance with those guidelines.

The remuneration committee comprises Joseph Sargent as chairman, together with Jonathan Agnew, Thomas Sullivan and Dudley Fishburn. Details of the terms of reference of the remuneration committee are discussed further in the directors' remuneration report.

George Blunden was appointed a member of the audit and investment committees on 23 April 2003 as he is a non-executive director of Beazley Furlong Limited, the managing agent for syndicates 623 and 2623.

#### Shareholder communication

The company places a great deal of importance on communication with shareholders. The full report and accounts and the interim report will be mailed to all shareholders and, on request, to other parties who have an interest in the group's performance. The company responds to individual letters from shareholders and maintains a separate investor relations centre within the existing [www.beazley.com](http://www.beazley.com) website as a repository for all investor relation matters.

There will be regular dialogue with institutional shareholders as well as general presentations after the preliminary and interim results. All shareholders will have the opportunity to put questions at the company's annual general meeting.

#### Audit and internal control

The respective responsibilities of the directors and the auditors in connection with the accounts are explained on pages 32 and 33, and the statement of the directors on going concern on page 30.

Following the publication of guidance for directors, Internal Control: Guidance for Directors on the Combined Code, (the Turnbull Guidance), the board confirms that there is an ongoing process for identifying, evaluating and managing any compliance issues and significant risks faced by the group. As risk management is integral to the day to day group and syndicate operations, one of the key risk management controls to note is the preparation and review of realistic disaster scenario calculations. The process has been in place since January 2002 and is regularly reviewed by the board.

The directors are responsible for the group's system of internal control and for reviewing its effectiveness. However, such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives within parameters set by the board.

The key procedures that the directors have established to ensure that internal controls are effective and commensurate with a group of this size include the day to day supervision of the business by the executive directors. Other internal control procedures and reviews for effectiveness by the board include the:

- preparation of standard monthly, quarterly and periodic reporting as prescribed by the board for review by the various group committees;
- review of financial, operational and compliance reports from management; and
- review of any significant issues arising from the external audits.

The audit committee, on behalf of the board, has approved the establishment of an internal audit function and the internal audit plan for 2003. The internal auditor reports directly to the audit committee. The terms of reference for this committee include reviewing all internal audit reports.

The audit committee keeps the scope and cost effectiveness of the external audit under review. The independence and objectivity of the external auditors is also considered on a regular basis, with particular regard to the level of non-audit fees. The split between audit and non-audit fees for the period under review is disclosed on page 42. The non-audit fees were paid in respect of the group capital raising and are considered by the audit committee not to affect the auditors' independence or objectivity.

## Directors' remuneration report

### Consideration of matters relating to directors' remuneration

The remuneration policy is set by the board and is described below. Individual remuneration packages are determined by the remuneration committee within the framework of this policy. Directors who were members of the remuneration committee during the six months ended 31 December 2002 were Joseph Sargent, Jonathan Agnew, Thomas Sullivan, whose appointments were confirmed to the committee when it was reconstituted on 6 November, and Dudley Fishburn, who was appointed to the committee on 9 December 2002.

The remuneration committee has access to independent advice where it considers it appropriate. Prior to the initial public offering, a detailed review of all incentive arrangements was carried out by KPMG LLP at the request of the board. This included a review of incentive arrangements in place prior to the IPO, and following the IPO. A representative of KPMG LLP has now been appointed by the remuneration committee as consultant to advise the committee of any ongoing remuneration issues.

### Remuneration policy statement

The directors believe that performance related remuneration is an essential motivation to management and staff, and this policy will also form the basis for determining executive directors' remuneration for the forthcoming years.

The company's policy is to remunerate the executive directors and management fairly in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel. The measurement of their performance and the determination of the annual remuneration package of the executive directors is undertaken by the remuneration committee. The main elements of the remuneration package are basic salary, short-term incentive payments, benefits, pension contributions and share option incentives.

The service agreement for each executive director comprises basic remuneration and participation in the pension scheme, together with a component for incentive payments. The incentive payments comprise short-term incentive payments and share options. Incentive payments are awarded on a discretionary basis, and are determined by the remuneration committee in respect of performance. The policy is to ensure that a material proportion of each executive directors' overall remuneration is performance based.

The remuneration of the non-executive directors is determined by the board on an annual basis with details set out below. No director plays a part in any discussion about his own remuneration.

In respect of share options the directors believe that a key element of remuneration strategy should be the grant of share options through share incentive plans, to align further the interests of shareholders and participants in the plans. Entitlements under such plans are subject to the achievement of performance conditions as described below under "shareholdings and share options".

Section headings marked ■ indicates the information in that section that has been audited.

#### ■ Service contracts

The company has service contracts with its executive directors. It is company policy that such contracts contain notice periods of not more than twelve months.

The service agreements also provide that the directors are entitled to participate in the short term incentive plan and the share incentive arrangements operated by the company, and entitled to participate in the Beazley Furlonge Limited Pension Scheme which is a final salary pension scheme.

Other benefits include private medical insurance for the director and his immediate family, permanent health insurance, death in service benefit at four times' annual salary, accident and travel insurance, healthcare membership, season ticket, car parking and the provision of either a company car or a monthly car allowance.

Details of the contracts currently in place for executive directors who have served during the period are as follows:

	Annual salary	Annual benefits	Date of contract	Unexpired term*	Notice period	Provision for compensation
A F Beazley	310,000	15,879	6 Nov 2002	N/a	12 months	Nil
N H Furlonge	220,000	13,197	6 Nov 2002	N/a	12 months	Nil
J G Gray	225,000	10,797	6 Nov 2002	N/a	12 months	Nil
N P Maidment	220,000	14,524	6 Nov 2002	N/a	12 months	Nil
A R Manners	165,000	13,071	6 Nov 2002	N/a	12 months	Nil
J G B Rowell	230,000	11,428	6 Nov 2002	N/a	12 months	Nil

\* the Unexpired Term is not applicable as each of the executive directors' contracts are on a rolling annual basis.

Subject to the notice requirements described above, there is no provision in the service agreements for compensation to be payable on early termination of the contract.

Non-executive directors are appointed for fixed terms, normally for three years. The terms of appointment of the non-executive directors are typically through a selection process based upon the candidate that can bring to the group the desired competence and skills.

The board has identified several key competencies to complement the existing skill-set of the executive directors. These competencies are as follows:

- Insurance sector expertise;
- Asset management skills;
- Public company and corporate governance experience; and
- Risk management skills.

The company's policy is to ensure that sufficient non-executive directors are appointed to the board who are able to provide all these key competencies.

	Annual Fee £ p.a.	Term of appointment	Expires	Other Income* £ p.a.
J D Sargent	30,000	3 years	6 Nov 2005	20,000
J G W Agnew	20,000	3 years	6 Nov 2005	20,000
T F Sullivan	20,000	3 years	6 Nov 2005	15,000
J D Fishburn	20,000	3 years	6 Nov 2005	15,000

\* Other income relates to membership of each non-executive director on board committees (investment, audit, remuneration and nomination committees). Non-executive directors are entitled to £5,000 per annum in respect of their membership of each committee.

## Directors' remuneration report continued

### Individual aspects of remuneration

#### ■ Details of individual emoluments and compensation

The emoluments in respect of qualifying services and compensation of each person who served as a director during the six-month period were as follows:

	Salary and fees £	Bonus £	STIP £	Benefits £	2002 Shareholders' Pool £	Total for the six months to 31 December 2002 £	Total for the 12 months to 30 June 2002 £
J D Sargent	12,035	-	1,323	-	9,567	22,925	28,000
A F Beazley	158,334	-	58,610	8,223	263,868	489,035	315,317
A R Manners	81,667	50,000	16,367	6,619	38,381	193,034	165,200
N H Furlonge	108,334	-	24,329	6,482	95,951	235,096	219,520
J G Gray	104,167	-	32,987	5,482	131,906	274,542	192,200
N P Maidment	103,333	-	30,669	7,345	115,142	256,489	203,200
J G B Rowell	111,250	-	37,304	5,798	163,117	317,469	219,200
J G W Agnew	7,500	-	398	-	2,879	10,777	-
J D Fishburn	3,000	-	-	-	-	3,000	-
T F Sullivan	5,000	-	-	-	-	5,000	11,000
G Blunden (resigned 18.10.02)	8,750	-	398	-	2,879	12,027	18,000
	703,370	50,000	202,385	39,949	823,690	1,819,394	1,371,637

The benefits comprise those detailed in the service contracts of the executive directors.

The bonus paid to Mr Manners was in recognition of his efforts to secure a successful IPO.

#### ■ Short-term incentive plan (STIP)

The total pool available for distribution to short-term incentive pool participants equals 5.83% of the profits of the syndicates as reported on an annual accounting basis. A proportion of this pool has been allocated among executive directors at the discretion of the remuneration committee.

Based on an agreement with institutional shareholders made prior to the IPO in relation to the overall valuation of the Beazley Group, 11.67% of the 2002 profits of syndicate 623 will be allocated among Beazley employees and directors based on individual shareholdings. This is referred to as the "2002 shareholders' pool". This proportion of 2002 profits will be distributed as bonuses and the profits will be recognised on an annual accounting basis and will be payable over the next three years.

Going forward, the STIP for executive directors and other key executives will continue to be 5.83% of profits of the syndicates for that year of account.

#### ■ Pensions

The company provides pension entitlements to directors that are defined benefit in nature. Details of the entitlements of those who served as directors during the period are as follows:

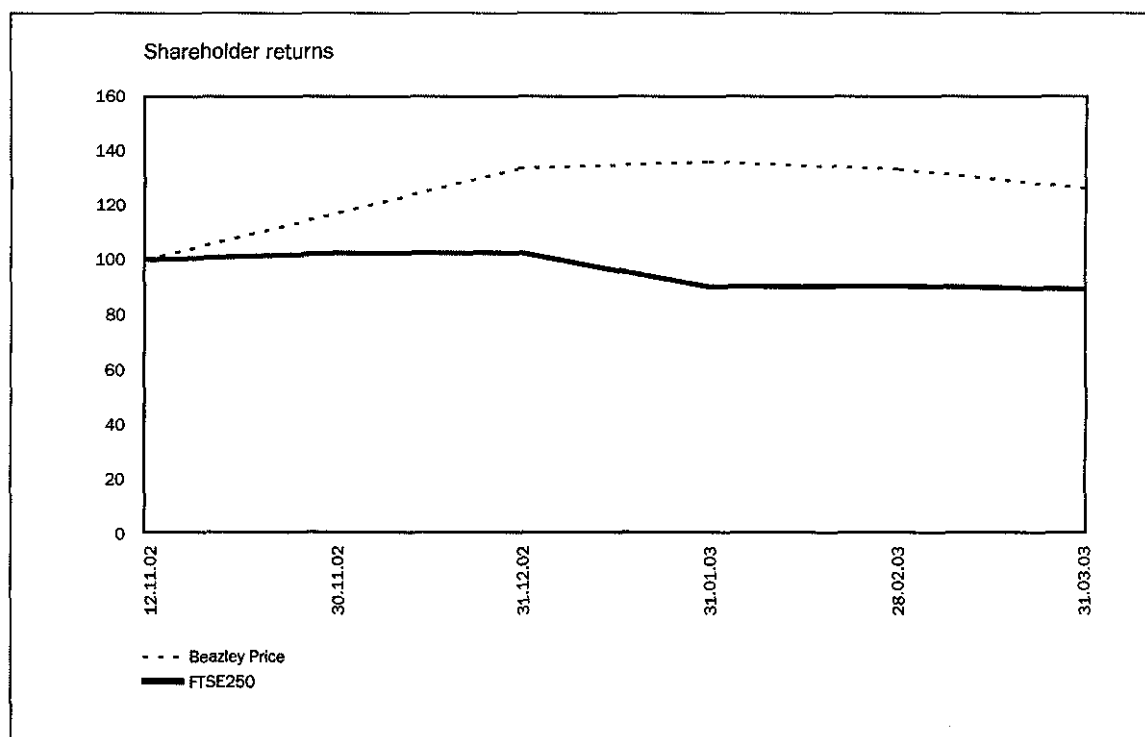
Director	Accrued benefit at 31 Dec 2002 £	Increase in accrued benefits excluding inflation (A) £	Increase in accrued benefits including inflation £	Transfer value of (A) less directors' contributions £	Transfer value of accrued benefit at 1 July 2002 £	Transfer value of accrued benefits at 31 Dec 2002 £	Increase in transfer value less directors' contributions £
A F Beazley	129,167	3,095	23,929	27,586	938,853	1,151,275	212,421
N H Furlonge	101,316	2,236	25,263	23,721	803,888	1,074,824	270,936
J G Gray	16,430	795	795	7,289	138,500	150,638	7,289
N P Maidment	19,742	795	795	4,661	111,074	115,737	4,661
A R Manners	15,105	795	795	5,455	98,298	103,652	5,455
J G B Rowell	16,960	795	795	4,855	98,692	103,564	4,855



All directors participate in the Beazley Furlonge Limited Pension Scheme which is a non-contributory final salary scheme subject to applicable Inland Revenue restrictions. No other pension provisions are made. The normal retirement age for pension calculation purposes is 60 years. A spouse's pension is the equivalent of two thirds of the member's pension (before any commutation) payable on the member's death after retirement.

#### Total shareholder returns

The performance of the Group's share price since listing on to the London Stock Exchange on 12 November 2002 is shown below. The company has shown the share price performance against the FTSE250 small cap index as this is considered the only appropriate index. The index has been rebased to 100 on 12 November 2002. The chart below is over a short period, and may not be representative of the performance of the company over a longer term. The listing price of 73p on 12 November 2002, compared with a share price of 98p at the period-end. The highest and lowest market prices during the period were 100p and 73p respectively.



# Directors' remuneration report continued

## ■ Share options and shareholdings

Details of share options of those directors who served during the period are as follows:

Scheme		At 1 July 2002	Awarded	Exercised	Lapsed	At 31 Dec 2002	Exercise Price	Earliest date of exercise	Expiry date
A F Beazley	Pre-IPO Plan	–	975,288	–	–	975,288	73p	6 Nov 2005	6 Nov 2012
	Unapproved Plan	–	238,870	–	–	238,870	73p	6 Nov 2005	6 Nov 2012
	Long Term Incentive Plan	–	79,623	–	–	79,623	Nil	6 Nov 2005	6 Nov 2012
N H Furlonge	Pre-IPO Plan	–	401,589	–	–	401,589	73p	6 Nov 2005	6 Nov 2012
	Unapproved Plan	–	90,411	–	–	90,411	73p	6 Nov 2005	6 Nov 2012
	Long Term Incentive Plan	–	30,137	–	–	30,137	Nil	6 Nov 2005	6 Nov 2012
J G Gray	Pre-IPO Plan	–	803,178	–	–	803,178	73p	6 Nov 2005	6 Nov 2012
	Unapproved Plan	–	115,582	–	–	115,582	73p	6 Nov 2005	6 Nov 2012
	Long Term Incentive Plan	–	38,527	–	–	38,527	Nil	6 Nov 2005	6 Nov 2012
N P Maidment	Pre-IPO Plan	–	860,548	–	–	860,548	73p	6 Nov 2005	6 Nov 2012
	Unapproved Plan	–	113,014	–	–	113,014	73p	6 Nov 2005	6 Nov 2012
	Long Term Incentive Plan	–	37,671	–	–	37,671	Nil	6 Nov 2005	6 Nov 2012
A R Manners	Pre-IPO Plan	–	172,110	–	–	172,110	73p	6 Nov 2005	6 Nov 2012
	Unapproved Plan	–	67,808	–	–	67,808	73p	6 Nov 2005	6 Nov 2012
	Long Term Incentive Plan	–	22,603	–	–	22,603	Nil	6 Nov 2005	6 Nov 2012
J G B Rowell	Pre-IPO Plan	–	573,699	–	–	573,699	73p	6 Nov 2005	6 Nov 2012
	Unapproved Plan	–	118,151	–	–	118,151	73p	6 Nov 2005	6 Nov 2012
	Long Term Incentive Plan	–	39,384	–	–	39,384	Nil	6 Nov 2005	6 Nov 2012

Details of the ordinary shareholdings of the directors during the period are as follows:

	Number of 'D' class ordinary shares held at 1 July 2002	Number of ordinary shares immediately following the placing*	Number of ordinary shares held as at 31 December 2002	Shareholding as a percentage of the total issued ordinary share capital as at 31 December 2002
J G W Agnew	3,055	72,713	72,713	0.03%
A F Beazley	280,060	6,734,310	6,734,310	2.93%
N H Furlonge	101,839	2,451,307	2,451,307	1.07%
J G Gray	140,000	3,339,043	3,339,043	1.46%
N P Maidment	122,207	2,915,545	2,915,545	1.27%
A R Manners	40,736	969,572	969,572	0.42%
J G B Rowell	173,127	4,120,663	4,120,663	1.80%
J D Sargent	10,154	1,112,760	1,112,760	0.48%
	871,178	21,715,913	21,715,913	9.46%

\* there was a redesignation of shareholdings immediately prior to the placing. Details of the redesignation are detailed at Note 17 to the financial statements.

With a total of 229,479,452 issued shares at 31 December 2002, the directors hold 9.46%. It should be noted that a total of 3,128,535 shares are owned by employees (representing a further 1.36% of the issued ordinary shares). The combined director and employee shareholding represents 10.82% of the total shareholding.

■ The pre-IPO plan

Participation in the pre-IPO plan is restricted to employees and full-time executive directors of the Beazley Group. Participants are selected on a discretionary basis. There is no individual limit. No payment is required for the grant of an option.

All options have been granted under this scheme, and no further grants are anticipated. All options under the pre-IPO plan were granted on 6 November 2002. The exercise price per ordinary share is 73p, and options will normally be exercisable (subject to meeting the performance condition set out below) between the third and the tenth anniversaries of grant.

No option may be exercised unless the option has vested. The option will vest if a total shareholder return ("TSR") (being the increase in price of an ordinary share plus the value of ordinary shares which could be acquired using dividends paid by the company) performance target is achieved. This requires the company's TSR to be at least 100% measured using an average share price over at least 30 successive trading days during the period from admission to 30 trading days after the announcement of the company's results for the financial year ending 31 December 2005.

If the performance target is not achieved within this period, the TSR target will be increased by 10% per annum for a further two years. However, only 75% of the ordinary shares under option may be received if the target is achieved within the first year of the additional period and only 50% of the ordinary shares under option may be received if the target is achieved in the second year. If the target is still not achieved after the two additional years, all the options under the plan will lapse.

The above performance conditions were set when the scheme was established by board resolution on 6 November 2002. These conditions were considered appropriate because a target TSR of 100%, while imposing a demanding requirement on the participants, would, if achieved, ensure that shareholders also receive attractive returns.

■ The approved plan

Participation in the approved plan is restricted to employees and full-time executive directors of the Beazley Group. No approved options have been granted to directors although it is likely that such options will be granted in the future. The terms and conditions are consistent with the unapproved plan, except that the plan has been approved by the Inland Revenue.

■ The unapproved plan

Participation in the unapproved plan is restricted to employees and full-time executive directors of the Beazley Group. Participants are selected on a discretionary basis. No payment is required for the grant of an option.

All options under the unapproved plan were granted to directors on 6 November 2002. The exercise price per ordinary share is 73p, and options will normally be exercisable (subject to meeting the performance condition set out below) between the third and the tenth anniversaries of grant.

Performance conditions must normally be met before options can be exercised. The performance conditions for options granted on admission require the company's net asset value ("NAV") plus dividends per share to increase as follows over a three year period from 1 July 2002, using the pro forma NAV as at 30 June 2002 as the starting point:

- a) an option may be exercised over all ordinary shares under option if the cumulative growth in NAV plus dividends per share is equal to or exceeds the average yield of UK gilts with maturity dates within the next five years (commonly known as "shorts") in the relevant period (the "risk free rate of return") plus 10% per annum;
- b) an option may be exercised over half the ordinary shares under option if the cumulative growth in NAV plus dividends per share is equal to the risk free rate of return plus 5% per annum;
- c) for NAV plus dividends per share performance between the above targets, the number of ordinary shares over which an option can be exercised will be calculated on a straight line basis;
- d) if the option is not fully exercisable at the end of the three year period, it will be re-tested over the 4½ year period. The option is exercisable over whichever is the higher number of ordinary shares produced by performance in the 3½ or 4½ year period.

## Directors' remuneration report continued

The option will lapse if NAV plus dividends per share performance is below the risk free rate of return plus 5 per cent. per annum in both periods.

For all options granted other than those set out above, which were granted on admission, a three year period (with re-testing after four years) will be used to measure performance, commencing with the start of the financial year in which the option is granted.

The performance conditions above were set when the Scheme was established by board resolution on 6 November 2002, and are consistent with those incorporated in the Inland Revenue Approved Plan. These performance conditions were considered to be appropriate as, while imposing a demanding requirement on the participants, they would, if achieved, ensure that shareholders also receive attractive returns over the exercise period.

### ■ The long term incentive plan

All options under the long term incentive plan, which is not approved by the Inland Revenue, were granted to directors on 6 November 2002. Participation in the long term incentive plan is restricted to employees and full-time directors of the Beazley Group. Participants are selected on a discretionary basis. No exercise price is payable. The options will normally be exercisable (subject to meeting the performance condition set out below) between the third and tenth anniversaries of grant.

The extent to which ordinary shares can be received under the long term incentive plan primarily depends upon the company's relative TSR.

The company's TSR will be compared with the TSR of members of a comparator group comprising other companies from the insurance sector (the "comparator group") over a three year period starting with the year in which the award is made. The comparator group is defined as the Lloyd's vehicles listed on the London Stock Exchange. No re-testing is possible.

- a) If the company's performance is below the median position in the comparator group, no ordinary shares will be received and the options shall lapse immediately;
- b) If performance is equal to the median position, 50% of the ordinary shares can be received;
- c) If upper quartile performance is achieved, the full number of ordinary shares can be received; and
- d) If performance is between the median and upper quartile positions, the number of ordinary shares receivable is calculated on a straight-line basis.

However, ordinary shares can only be received if the remuneration committee is also satisfied that the company has shown sustained financial performance during the measurement period. The remuneration committee will set the appropriate target with reference to the underwriting conditions at the time of grant. In the case of the awards which have been made at Admission, this target is that the cumulative growth in the company's net asset value per ordinary shares plus dividends over a three year period must be at least equal to the risk free rate of return (calculated on the same basis as for the approved plan) plus 5% per annum.

The long term incentive plan performance conditions were set when the scheme was established by board resolution on 6 November 2002, and are based upon comparing the group's performance with a specific industry sector. These conditions were considered appropriate because they reward specific over-performance on a sector basis.

Details of entitlements (which are currently all provisional) under the long term incentive plan of directors who served during the period are set out below. All provisional awards during the period were made when the share price was 73p. In order for the awards to vest it will be necessary for the performance conditions set out above to be met. Further details of directors' interests in share capital can be found in the table on page 24.

Interests are granted provisionally and remain subject to performance conditions over the life of the plan before vesting unconditionally, as described above. No provisional awards were exercised during the period as none vested unconditionally during the period.

	Interest at 1 July 2002	Number of ordinary shares under option	Vested	Interest at 31 Dec 2002	Period of qualifying conditions
A F Beazley	–	79,623	Nil	79,623	3 years prior to being exercised for the period up until 6 November 2012
N H Furlonge	–	30,137	Nil	30,137	3 years prior to being exercised for the period up until 6 November 2012
J G Gray	–	38,527	Nil	38,527	3 years prior to being exercised for the period up until 6 November 2012
N P Maidment	–	37,671	Nil	37,671	3 years prior to being exercised for the period up until 6 November 2012
A R Manners	–	22,603	Nil	22,603	3 years prior to being exercised for the period up until 6 November 2012
J G B Rowell	–	39,384	Nil	39,384	3 years prior to being exercised for the period up until 6 November 2012

Shareholder approval has been given for the introduction of a SAYE scheme. It is expected to be initiated in May 2003.

#### Related party transactions

The following directors participated on syndicate 623 through NameCos for the 2002 year of account:

	2001 year of account £	2002 year of account £
A F Beazley	1,000,000	1,100,000
A R Manners	375,000	375,000
J G B Rowell	1,000,000	1,000,000
J D Sargent	600,000	848,000

Mr Furlonge has a shareholding of approximately 5% in D3 Human Resources Limited which provides Beazley Group plc with consultancy advice on training. D3 Human Resources Limited receives fees, on normal commercial terms, for the services it provides to the Beazley Group.

Mr Sullivan is a director of SP004, which was incorporated as a subsidiary of Aon Corporation, Inc ("Aon") for the purpose of Aon's investment in Beazley Group plc. He is no longer a director of any Aon operating subsidiaries. Mr Sullivan did not take part in the resolution to approve, or any discussions concerning, the subscription by SP004 of ordinary shares.

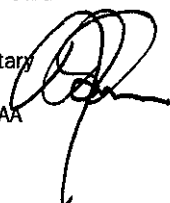
Mr George Blunden is a non-executive director of Beazley Furlonge Limited, and is a director of Alliance Capital Limited. Alliance Capital Limited provide investment management advice to the Beazley Group.

#### Annual general meeting

A resolution will be proposed at the forthcoming annual general meeting to be held on 12 June 2003 to approve this directors' remuneration report.

By order of the Board

JP Gorman FCA  
Company Secretary  
One Aldgate  
London EC3N 1AA



23 April 2003

## Directors' report

### For the six months ended 31 December 2002

The directors have pleasure in presenting their report and the audited financial statements of the group for the six months ended 31 December 2002.

#### Principal activity

The company is the ultimate holding company for the Beazley Group which includes Beazley Furlonge Limited, a Lloyd's managing agent that manages the underwriting of syndicate 623 and syndicate 2623 with a combined capacity of £660m, and Beazley Underwriting Limited, a corporate member of Lloyd's, the sole capital provider of syndicate 2623 with an underwriting capacity of £330m, together with a number of subsidiary corporate members.

On 1 November 2002, the company was re-registered as a public limited company and changed its name to Beazley Group plc (formerly Beazley Furlonge Group Limited).

#### Review of business

A more detailed review of the business for the period and a summary of future developments are included in the chairman's statement on page 5 and the chief executive's review on pages 7 to 11.

#### Admission to listing and placing of new ordinary shares

On 12 November 2002 the company placed 205,479,452 new ordinary shares of 5p each at 73p per ordinary share. The net proceeds of the placing, amounting to approximately £138,000,000, have been used predominantly to enable Beazley Underwriting Limited to participate in the business of syndicate 623 by becoming the sole underwriting member of syndicate 2623, which has underwritten in parallel with syndicate 623 with effect from 1 January 2003. All business between the two syndicates is shared on a pro rata basis.

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

Further details of the company's authorised and issued share capital and details of outstanding share options are set out in notes 17 and 18 to the financial statements.

#### Change of accounting reference date

Beazley Group plc became the parent undertaking of Beazley Furlonge Holdings Limited and its subsidiary undertakings on 26 March 2001 as part of a group reorganisation, and formerly made up its accounts to 30 June in each year.

As referred to in the company's prospectus dated 7 November 2002, the accounting reference date has been changed from 30 June (the date of the last statutory accounts of the company) to 31 December so as to coincide with the accounting reference date of syndicate 2623. As a result this report and the attached financial statements, which are the first results published by the company following admission, cover the six month period ended 31 December 2002. This is referred to within the report as the 'period' ended 31 December 2002. The prior 'period' refers to the previous 12 month period ending 30 June 2002.

The subsidiary and associated undertakings included in the results and net assets of the group in the period are listed in note 10 to the financial statements.

#### Results and dividend

The consolidated losses after taxation for the six month period ended 31 December 2002 amounted to £1,074,411 (12 months to 30 June 2002: profit of £457,102).

The directors do not recommend the payment of a dividend.

As stated in the company's prospectus dated 7 November 2002, it is anticipated that the company will commence paying dividends with effect from the interim results for the six months to 30 June 2003, which are expected to be announced in September 2003.

#### Directors

The directors of the company at 31 December 2002, who served throughout the period from 1 July to 31 December, and to the date of this report except where otherwise shown, were as follows:

Joseph Denny Sargent	(Non-Executive Chairman)	
Andrew Frederick Beazley	(Chief Executive)	
Arthur Roger Manners	(Finance Director)	
Nicholas Hill Furlonge	(Executive Director)	
Jonathan George Gray	(Executive Director)	
Neil Patrick Maidment	(Executive Director)	
Jonathan George Benton Rowell	(Executive Director)	
Jonathan Geoffrey William Agnew	(Non-Executive Director)	
John Dudley Fishburn	(Non-Executive Director)	Appointed 5 November 2002
Thomas Francis Sullivan	(Non-Executive Director)	
George Patrick Blunden	(Non-Executive Director)	Resigned 18 October 2002

In accordance with the articles of association, all directors retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr Sargent is aged 73 and, in accordance with the requirements of sections 293 and 379 of the Companies Act 1985, special notice has been given in respect of Ordinary Resolution no. 3, which proposes his re-appointment as a non-executive director. The board believes that by virtue of his considerable insurance industry and management and public company experience, Mr Sargent makes an important contribution to the board.

Details of directors' service contracts and beneficial interests in the company's share capital are given in the directors' remuneration report on pages 20 to 27. Biographies of directors seeking re-election are set out on page 34.

#### Corporate governance

The company's compliance with corporate governance is disclosed in the corporate governance statement on pages 18 and 19.

#### Board committees

The company has established properly constituted audit, nomination, investment and remuneration committees of the board.

## Directors' report

### For the six months ended 31 December 2002

#### continued

The audit committee comprises Joseph Sargent as chairman, together with Jonathan Agnew, Thomas Sullivan, Dudley Fishburn and George Blunden. Details of the terms of reference and reporting structure of the audit committee are discussed further in the corporate governance statement on pages 18 and 19.

The nomination committee comprises Joseph Sargent as chairman, together with Jonathan Agnew, Andrew Beazley, Thomas Sullivan and Dudley Fishburn. Details of the terms of reference and reporting structure of the nomination committee are discussed further in the corporate governance statement on page 19.

The investment committee comprises Joseph Sargent as chairman, together with Andrew Beazley, Neil Maidment, Arthur Manners, Jonathan Agnew and George Blunden. Details of the terms of reference and reporting structure of the investment committee are discussed further in the corporate governance statement on page 19.

The remuneration committee comprises Joseph Sargent as chairman, together with Jonathan Agnew, Thomas Sullivan and Dudley Fishburn. Details of the terms of reference and reporting structure of the remuneration committee are discussed further in the corporate governance statement on page 19 and directors' remuneration report on page 20.

#### Going concern

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

After reviewing the group's budgets and medium term plans, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

#### Supplier payment policy

The group's policy for the year ending 31 December 2003, for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment. The group had an average 45 days purchases included in trade creditors at 31 December 2002. The company had an average 28 days purchases included in trade creditors at 31 December 2002.

#### Environmental and social responsibility

Beazley is committed to developing its corporate and social responsibilities through its actions internally and in its ability to influence others externally, particularly through the promotion of good risk management.

The group is actively involved in the Lloyd's Community Programme, it is also a supporter of the local church, St Bartholomew's, and participates in the Tower Hamlets primary school development programme. Other demonstrations of environmental awareness are encouragement to maximise the use of electronic communications to minimise the use of paper; recycling – the company recycles over 1.5 tonnes of paper each year; the use of piped water rather than bottled and the purchase of environmentally friendly goods where possible.

The company has a strong sense of responsibility towards its staff and to this end there is an actively promoted health and safety policy which is audited externally twice a year by specialist consultants, staff training and development is given a high profile, discrimination of any kind is unacceptable and is actively monitored and the whistleblowing and money laundering guidelines are readily available on the intranet.

Corporate policies are reviewed regularly to ensure that guidelines are appropriate and to identify other areas where positive action can or should be taken.



#### Financial instruments and risk management

The board agrees and reviews policies and financial instruments for risk management.

Reinsurance is purchased to manage the syndicate exposures (on a series of catastrophe events) to within limits prescribed by the board. The group has negotiated specific facilities with financial institutions to finance catastrophe events and for working capital purposes as and when required. The group manages its foreign exchange exposure to ensure the material assets and liabilities exposed in foreign currencies is matched at all times.

Further information on borrowings and financial instruments is contained in notes 10 and 15 to the financial statements.

#### Substantial shareholdings

As at 16 April 2003, the board had been notified of, or were otherwise aware of, the following shareholdings of 3% or more of the company's issued ordinary share capital:

	Number of ordinary shares	%
Amvescap plc and subsidiaries	39,298,756	17.13
FMR Corporation and subsidiaries (Fidelity)	22,675,342	9.88
Nortrust Nominees Limited	19,417,295	8.46
Stanlife Nominees Limited	16,658,510	7.26
BNY OCS Nominees Limited	15,242,251	6.64
*Invesco Perpetual High Income Fund	13,302,098	5.80
Lehman Brothers International Europe PRNCIPA A/c	9,848,630	4.29
Morley Fund Management	6,957,634	3.03

\*Included within shareholding of Amvescap plc and subsidiaries

#### Charitable and political donations

The group made charitable donations during the period ended 31 December 2002 of £11,000 (2001: £nil). The group's charity budget is managed by a charity committee, and consideration is given to a wide range of activities.

No political donations were made in either the current or prior reporting period.

#### Annual general meeting

Resolutions will be proposed at the forthcoming Annual General Meeting, *inter alia*, to:

- renew the Directors' general authority to allot the Company's ordinary shares up to an aggregate nominal amount of £3,526,027. This authority shall expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2004 or the date falling fifteen months from the passing of this Resolution. The directors have no present intention of exercising this authority, which represents 30.73% of the present issued share capital;
- approve a limited disapplication of pre-emption rights on allotments for cash up to an aggregate nominal amount of £570,000, representing 4.97% of the present issued share capital;
- authorise the Directors to make purchases of the Company's ordinary shares in the market for cancellation when the Directors consider that it would be in the best interests of the Company to do so, up to an aggregate nominal amount of £570,000, representing 4.97% of the present issued share capital.

The notice of annual general meeting is set out on pages 55 and 56.

#### Auditors

A resolution to re-appoint the auditors, KPMG Audit plc, will be proposed at the forthcoming annual general meeting.

Directors' report  
For the six months ended 31 December 2002  
continued

Statement of directors' responsibilities

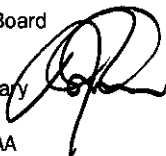
Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those financial statements,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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statement complies 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.

By order of the Board

J P Gorman FCA  
Company Secretary  
One Aldgate  
London EC3N 1AA



23 April 2003

# Independent auditors' report to the members of Beazley Group plc

We have audited the financial statements on pages 36 to 54.

We have also audited the information in the directors' remuneration report that is described as having been audited.

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

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 32, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on pages 18 and 19 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## 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 and the part of the directors' remuneration report to be audited. 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 group'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 and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2002 and of the loss of the group for the six month period then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

London  
23 April 2003

## Board of directors

### Executive directors

Nick Furlonge  
Andrew Beazley  
Jonathan Gray

Arthur Manners  
Neil Maidment  
Johnny Rowell

### Non-executive directors

Joseph Sargent  
Jonathan Agnew  
Dudley Fishburn  
Thomas Sullivan

### Executive directors

Andrew Beazley (aged 49) is the chief executive of the company. Mr Beazley is a co-founder of Beazley Furlonge and the Active Underwriter for the management of syndicate 623 and syndicate 2623. He has 27 years of Lloyd's experience. He is chairman of Lloyd's of Japan and served on the Lloyd's Chairman's Strategy Group.

Nicholas Furlonge (aged 52) is responsible for the risk management of the Beazley Group. Mr Furlonge is a co-founder of Beazley Furlonge and has 31 years of Lloyd's experience. He is also responsible for marketing and the purchasing of the group operations reinsurance programmes.

Jonathan Gray (aged 49) is head of the group's Property Division. Mr Gray has 29 years of Lloyd's experience and joined Beazley Furlonge in 1992. He specialises in writing open market commercial property risks.

Neil Maidment, ACII, (aged 40) is head of the group's Reinsurance Division. Mr Maidment has 18 years of Lloyd's experience and joined Beazley Furlonge in 1990 to take responsibility for the Reinsurance account.

Arthur Manners, ACA, (aged 43) is the finance director of the group. Mr Manners has been with Beazley Furlonge for nine years.

Jonathan Rowell (aged 41) is head of the group's Specialty Lines Division. Mr Rowell has 18 years of Lloyd's experience and focuses on writing professional liability insurance.

### Non-executive directors

Joseph Sargent (aged 73) is the chairman of the company. Mr Sargent is chairman and portfolio manager at Bradley, Foster & Sargent, Inc., a money manager in Connecticut, USA. Prior to his current position, he was the CEO of Conning and Company, a firm specialising in the analysis of insurance companies, for over 25 years.

Jonathan Agnew (aged 61) is a non-executive director of the company. Mr Agnew is chairman of Nationwide Building Society, and is a director of several private companies.

Dudley Fishburn (aged 56) is a non-executive director of the company. Mr Fishburn is the chairman of HFC Bank plc. Since 1995, he has served as a non-executive director of Cordiant Communications Group plc, and of Household International Inc and Philip Morris Inc.

Thomas Sullivan (aged 63) is a non-executive director of the company. Mr Sullivan was a senior vice president of Aon, with responsibilities including insurance broking, consulting and underwriting. He was appointed a director of SVB Holdings plc in November 1996. He is also a non-executive director of Jago Managing Agency Limited.

Consolidated profit and loss account  
6 months ended 31 December 2002

	Note	6 months ended 31 December 2002 Group £	Year ended 30 June 2002 Group £
Turnover	2	2,199,484	2,968,568
Administrative expenses:			
– ordinary items	5	(2,713,414)	(1,071,397)
– exceptional items	5	<u>(1,189,816)</u>	<u>(710,800)</u>
		<u>(3,903,230)</u>	<u>(1,782,197)</u>
Operating profit/(loss)		(1,703,746)	1,186,371
Share of operating income in associate undertakings		471,668	137,561
Profit on sale of investments	3	<u>516,458</u>	<u>–</u>
		<u>(715,620)</u>	<u>1,323,932</u>
Interest and dividends receivable		724,504	23,862
Interest payable and similar charges:			
– ordinary items	4	(428,567)	(487,259)
– exceptional items	4	<u>(743,000)</u>	<u>–</u>
		<u>(1,171,567)</u>	<u>(487,259)</u>
Profit/(loss) on ordinary activities before taxation	5	(1,162,683)	860,535
Taxation on ordinary activities	7	(91,633)	(616,673)
Taxation on exceptional items	7	<u>179,905</u>	<u>213,240</u>
Profit/(loss) on ordinary activities after taxation		(1,074,411)	457,102
Dividends received		<u>–</u>	<u>–</u>
Retained profit/(loss) for the period		<u>(1,074,411)</u>	<u>457,102</u>
Earnings per share			
– Basic	8	(1.7)p	N/A
– Diluted	8	(1.7)p	N/A

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

The notes on pages 40 to 54 form part of these financial statements.

Balance sheet  
As at 31 December 2002

	Note	31 December 2002		30 June 2002	
		Group	Company	Group	Company
		£	£	£	£
<b>Fixed assets:</b>					
Intangible assets	9	6,268,071	-	6,440,107	-
Investments	10	132,418,235	137,480,898	19,923	5,082,585
Investments in associated undertakings	10	5,241,573	-	4,911,405	-
		<u>143,927,879</u>	<u>137,480,898</u>	<u>11,371,435</u>	<u>5,082,585</u>
<b>Current assets:</b>					
Debtors	11	3,577,629	2,135,378	1,794,264	1,041,141
Investments	12	-	-	83,807	-
Cash at bank		<u>4,990,202</u>	<u>4,558,169</u>	<u>780,668</u>	<u>7,412</u>
		8,567,831	6,693,547	2,658,739	1,048,553
<b>Creditors:</b>					
Amounts falling due within one year	13	<u>(7,557,622)</u>	<u>(1,380,480)</u>	<u>(7,061,599)</u>	<u>(1,425,829)</u>
Net current assets/(liabilities)		<u>1,010,209</u>	<u>5,313,067</u>	<u>(4,402,860)</u>	<u>(377,276)</u>
<b>Creditors:</b>					
Amounts falling due after one year	14	-	-	(4,057,000)	(4,057,000)
Provisions for liabilities and charges	16	<u>(30,244)</u>	<u>-</u>	<u>(276,387)</u>	<u>-</u>
Total net assets		<u>144,907,844</u>	<u>142,793,965</u>	<u>2,635,188</u>	<u>648,309</u>
<b>Capital and reserves:</b>					
Called up share capital	17	11,473,973	11,473,973	504,172	504,172
Share premium	19	132,377,266	132,377,266	-	-
Merger reserve	19	1,675,328	-	1,675,328	-
Profit and loss account	19	<u>(618,723)</u>	<u>(1,057,274)</u>	<u>455,688</u>	<u>144,137</u>
		<u>144,907,844</u>	<u>142,793,965</u>	<u>2,635,188</u>	<u>648,309</u>
Net tangible asset value per share		60p		N/A	
Net asset value per share		63p		N/A	

Signed on behalf of the board of directors by  
A R Manners, Director



The financial statements were approved by the board of directors on 23 April 2003.

The notes on pages 40 to 54 form part of these financial statements.

# Consolidated statement of total recognised gains and losses

	6 months ended 31 December 2002 £	Year ended 30 June 2002 £
Profit/(loss) on ordinary activities after taxation	(1,074,411)	457,102
Prior year adjustment	—	(410,027)
Shareholders' consolidated gains and losses recognised during the period	<u>(1,074,411)</u>	<u>47,075</u>
<b>Reconciliation of movement in shareholders' funds</b>		
Shareholders' funds at beginning of period (as reported)	2,635,188	2,476,613
Prior year adjustment	—	(410,027)
Shareholders' funds at beginning of period (as restated)	2,635,188	2,066,586
Profit/(loss) for the financial year	(1,074,411)	457,102
Issue of shares net of issue costs	<u>143,347,067</u>	<u>111,500</u>
Shareholders' funds at period end	<u>144,907,844</u>	<u>2,635,188</u>

# Consolidated cash flow statement

		6 months ended 31 December 2002 £	Year ended 30 June 2002 £
	Note		
Net cash flow from operating activities	20	(1,603,981)	1,415,475
<b>Return on Investments and servicing of finance</b>			
Interest received		694,504	23,862
Interest paid		(1,171,567)	(487,259)
<b>Taxation</b>			
Corporation tax paid		(1,176)	(144,803)
<b>Capital expenditure and financial investments</b>			
Sale of current asset investments		–	6,212
Fixed asset investments		(132,398,313)	–
		(134,480,533)	813,487
<b>Financing</b>			
(Decrease) in debt	21	(4,657,000)	(818,001)
Issue of ordinary share capital		143,347,067	111,500
Increase in cash	21	4,209,534	106,986
<b>Reconciliation of net cash flow to movement in net funds/(debt)</b>			
Increase in cash during the period		4,209,534	106,986
Decrease in debt	21	4,657,000	818,001
		8,866,534	924,987
Opening net (debt)	21	(3,876,332)	(4,801,319)
Closing net funds	21	4,990,202	(3,876,332)



# Notes to the financial statements

## 1. Accounting policies

### Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The full disclosure under FRS 13 'Derivatives and other Financial Instruments' has not been given as from 1 January 2003 the Group will be classified as an insurance group.

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

The financial statements of the company have been prepared in accordance with the provisions of Section 226 of, and Schedule 4 to the Companies Act 1985. No individual profit and loss account is presented for Beazley Group plc as permitted by Section 230 of the Act.

### Basis of consolidation

The group financial statements consolidate those of the company and its subsidiaries following acquisition accounting principles. The investment in the associate is accounted for on the equity basis.

### Investments

Investments in group undertakings and associates are stated at cost less permanent diminution in value. The investment in Asia Pacific Underwriting Agency Limited is shown at the lower of cost and the directors' valuation. Other fixed asset investments are shown at cost.

### Turnover

Turnover represents agency salaries and profit commission derived from underwriting Names at Lloyd's. Agency salaries represent net retained salaries and have been accounted for on an accruals basis. Profit commission is accounted for on an accruals basis.

### Results from associated companies

The group's interest in the results of the underwriting activities of an associated company, which is a corporate member of Syndicate 623 is accounted for on an annual basis.

### Operating leases

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

### Deferred taxation

Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

### Pension costs

The expected cost of providing pensions is recognised in accordance with Statement of Standard Accounting Practice 24 on a systematic and rational basis over the period from which the benefit from the employee's service is derived. Contributions are assessed in accordance with advice of a qualified actuary, using the projected unit method of funding.

### Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over the directors' estimate of its useful life, 20 years.

1. Accounting policies (continued)

On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

In the company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off.

2. Turnover

	6 months ended 31 December 2002 Group £	Year ended 30 June 2002 Group £
Profit commission	759,484	1,354,239
Agency fees	1,440,000	1,614,329
	<u>2,199,484</u>	<u>2,968,568</u>

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

3. Profit on sale of investments

Profit arises from a subsidiary's disposal of its entire holding of 819,672 shares of 5p each in Beazley Group plc. The shares were sold at a price of 73p each for a gross receipt of £598,361 on a holding with an original cost of £81,903, resulting in a profit of £516,458 (year to 30 June 2002: £Nil).

4. Interest payable and similar charges

	6 months ended 31 December 2002 Group £	Year ended 30 June 2002 Group £
Bank loans	332,046	101,843
9.5% convertible loan notes	96,521	385,416
	<u>428,567</u>	<u>487,259</u>
Redemption premium on 9.5% convertible loan notes	743,000	-
	<u>1,171,567</u>	<u>487,259</u>

# Notes to the financial statements

## continued

### 5. Profit on ordinary activities before taxation

	6 months ended 31 December 2002 Group £	Year ended 30 June 2002 Group £
Profit on ordinary activities before taxation is stated after charging and crediting the following:		
Depreciation – tangible fixed assets	–	36,481
Amortisation of goodwill	172,036	344,072
Auditors' remuneration – audit	88,151	33,091
– other	36,300	19,750
Staff costs	4,768,414	6,093,625
Short term incentive payments	1,509,848	61,037
Rental payments under operating leases		
– buildings	130,154	124,936
– motor vehicles	63,156	143,483
	6,768,059	6,856,475
Other costs	1,933,151	1,127,261
Recharged to managed syndicate	(5,987,796)	(6,912,339)
Administrative expenses	2,713,414	1,071,397
Exceptional items: professional fees in respect of capital raising	1,189,816	710,800
Exceptional items: redemption premium 9.5% convertible loan notes	743,000	–
Interest payable – bank loans	332,046	101,843
– other loans	96,521	385,416
	5,074,797	2,269,456

In addition to the amounts shown above as auditor's remuneration for non audit services, £763,962 (year to 30 June 2002: £258,000) was paid to KPMG Audit Plc in respect of services provided in connection with capital raising. £149,357 (year to 30 June 2002: £258,000) of this is included in the exceptional item, the remaining £614,605 (year to 30 June 2002: £nil) has been charged against the share premium created as part of the capital raised.

	6 months ended 31 December 2002 Group £	Year ended 30 June 2002 Group £
Reconciliation of profit/(loss) before tax to profit/(loss) before tax and exceptional items:		
Profit/(loss) before tax as presented in the profit and loss account	(1,162,683)	860,535
Add back exceptional items	1,932,816	710,800
Profit/(loss) before tax and exceptional items	770,133	1,571,335

6. Directors and employees

	6 months ended 31 December 2002 £	Year ended 30 June 2002 £
Staff costs including director's emoluments		
Salaries	3,507,423	4,966,158
Short term incentive payments	1,509,848	61,037
Social security	339,324	503,067
Pension costs	921,667	624,400
	<u>6,278,262</u>	<u>6,154,662</u>
Average number employed including executive directors	<u>70</u>	<u>58</u>

Directors' emoluments

	Salary £	Bonus £	STIP £	Pension £	Benefits £	Other £	2002 Shareholders' Pool £	Total ' £
For the six months ended 31 December 2002	612,917	50,000	202,385	79,842	39,949	90,453	823,690	1,899,236
For the year ended 30 June 2002	1,064,207	24,760	–	134,363	115,458	166,769	–	1,505,557
							6 months ended 31 December 2002 £	Year ended 30 June 2002 £

Emoluments, excluding pension contributions, of the highest paid director	<u>489,035</u>	<u>315,317</u>
Accrued retirement benefit of highest paid director	<u>39,388</u>	<u>98,165</u>
Retirement benefits are accruing to the following number of directors under defined benefit schemes	<u>6</u>	<u>6</u>

The group has two employee trusts and a number of employee share plans offering options of shares to employees and directors on a discretionary basis.

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

# Notes to the financial statements continued

## 7. Taxation

	6 months ended 31 December Group 2002 £	Year ended 30 June Group 2002 £
<i>UK corporation tax on:</i>		
Profit on ordinary activities at 30%	-	136,142
Prior period adjustments	14,320	(5,381)
	<u>14,320</u>	<u>130,761</u>
<i>Deferred tax</i>		
Timing differences in respect of capital allowances	2,050	(4,065)
Timing differences in respect of profit recognition	(246,143)	227,737
Share of associate tax	141,501	49,000
	<u>(88,272)</u>	<u>403,433</u>

### Factors affecting the tax charge for the current period

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

	6 months ended 31 December 2002 £	Year ended 30 June 2002 £
Profit on ordinary activities before tax	(1,162,683)	860,535
Current tax at 30% (year to 30 June 2002 30%)	(348,805)	258,160
<i>Effect of;</i>		
Expenses not deductible for tax	194,602	55,562
Capital allowances for the period lower than depreciation	(2,050)	(4,065)
Amortisation	51,611	103,222
Timing differences in respect of profit recognition	104,642	(276,737)
Tax on profit on ordinary activities	<u>-</u>	<u>136,142</u>

## 8. Earnings per share

The calculation of basic earnings per share is based on earnings of £(1,074,411), being the loss for the year and on 63,092,885 shares, being the weighted average number of shares in issue during the period.

The earnings and number of shares used for the purposes of calculating diluted earnings per share are identical to those used for basic earnings per share. This is because the exercise of share options would have the effect of reducing the loss per share and is therefore not diluting under the terms of FRS 14.

9. Intangible fixed assets

	31 December 2002 Goodwill £	30 June 2002 Goodwill £
<b>Group</b>		
<b>Cost:</b>		
Opening balance	6,881,450	6,881,450
Additions	-	-
At 31 December 2002	6,881,450	6,881,450
<b>Amortisation:</b>		
Opening balance	441,343	97,271
Charge for period/year	172,036	344,072
At 31 December 2002	613,379	441,343
<b>Net book amount:</b>		
At 1 July 2002	6,440,107	6,784,179
At 31 December 2002	6,268,071	6,440,107

10. Investments

	31 December 2002		30 June 2002	
	Group £	Company £	Group £	Company £
Associated undertakings (a)	5,241,573	-	4,911,405	-
Subsidiary undertakings (b)	-	5,082,585	-	5,082,585
Other fixed asset investment (c)	132,418,235	132,398,313	19,923	-
Fixed asset investments at 31 December	137,659,808	137,480,898	4,931,328	5,082,585
(a) Associated undertakings				
Balance brought forward	4,911,405	-	4,822,844	-
Share of profit retained by associated undertakings	471,669	-	137,561	-
Tax on share of profits retained by associated undertakings	(141,501)	-	(49,000)	-
	5,241,573	-	4,911,405	-

Beazley Finance Limited has been treated as an associated company as the directors of Beazley Group plc are represented on the board of Beazley Finance Limited and take a role in the day to day running of the company. They are therefore in a position to exert significant influence.

Beazley Furlonge Holdings Limited owns 5,000,000 ordinary shares in Beazley Finance Limited, the holding company of Beazley Dedicated Limited, a dedicated corporate member of syndicate 623. This shareholding represents 22.7% of the entire share capital of Beazley Finance Limited. Beazley Furlonge Holdings Limited has guaranteed a letter of credit of £2.0 million to Beazley Dedicated Limited to support underwriting on syndicate 623. The proportion of profits receivable by the group will be determined by agreement between Aon and the group on a year by year basis.

Beazley Dedicated Limited participates in syndicate 623 for all years of account from 2000 to 2002. Reflected in these accounts are the forecasts for the years of account 2000, 2001 and 2002, together with the results of Beazley Finance Limited to 31 December 2002.

## Notes to the financial statements continued

### 10. Investments (continued) (b) Subsidiary undertakings – unlisted

	Country of incorporation and operation	Class of share	Proportion held	Nature of business
Beazley Furlonge Holdings Limited				Intermediate Holding Company
	England	Ordinary	100%	
Beazley Furlonge Limited				Lloyd's underwriting agents
	England	Ordinary	100%	
BFHH Limited				Dormant from 30 June 1994
	England	Ordinary	100%	
Beazley Investments Ltd				Investment Company
	England	Ordinary	100%	
Beazley Corporate Member Limited				Underwriting at Lloyd's
	England	Ordinary	100%	
Beazley Dedicated No. 2 Limited				Underwriting at Lloyd's
	England	Ordinary	100%	
Global Two Limited				Underwriting at Lloyd's
	England	Ordinary	100%	
Beazley Underwriting Limited				Underwriting at Lloyd's
	England	Ordinary	100%	

During 2001, the group incorporated two corporate member companies, allocating to them capacity for participation in syndicate 623 for the 2002 year of account, as follows:

	Capacity held £	% of total capacity
Global Two Limited	12,000,000	3.7%
Santam Corporate Limited	17,500,000	5.4%

Funds at Lloyd's to support these companies' underwriting are provided by investing companies who have option agreements in place with the group. These agreements give the investors the opportunity to purchase the entire share capital of the corporate member and the group the option to require the purchase of the entire share capital.

10. Investments (continued)

(b) Subsidiary undertakings – unlisted (continued)

Santam Limited exercised its option to purchase the share capital of Santam Corporate Limited on 3 September 2002 and has received Lloyd's approval for this transaction.

The group's investments in Global Two Limited and Santam Corporate Limited have been included in the consolidated balance sheet at the lower of cost and net realisable value.

The assets, liabilities and results of Global Two Limited have not been consolidated:

- due to the existence of the group's option and quota share agreement with Gerling Global General and Reinsurance Limited.
- because the subsidiary has not previously been consolidated in the group accounts.

The assets, liabilities and results of Santam Corporate Limited have not been consolidated:

- because Santam Limited exercised their option to purchase the share capital of Santam Limited on 3 September 2002.
- because the subsidiary has not previously been consolidated in the group accounts.

(c) Other fixed asset investments

Funds at Lloyd's

Funds of £131,898,312 (30 June 2002: £Nil) have been lodged with Lloyd's of London to support syndicate 2623 via its corporate member Beazley Underwriting Limited. £565,310 (30 June 2002: £Nil) of this relates to income gains and £17,248 (30 June 2002: £Nil) to capital gains.

Asia Pacific Underwriting Agency Ltd (APUA)

The investment in APUA of £19,923 represents 20% of its issued share capital. APUA is an underwriting agency established in Hong Kong that underwrites on behalf of syndicate 623 and others. All income and costs that were attributable to the investment are for the benefit of the names of syndicate 623.

Collateralised Lloyds TSB plc Guarantee

An amount of £500,000 (30 June 2002: £Nil) has been deposited with Lloyds TSB bank as collateral for that bank's guarantee of a subsidiary's solvency position with Lloyd's of London.

ENAM Management Company Inc.

Beazley Furlonge Holdings owns one share in a non-profit making company incorporated in the USA known as ENAM Management Company Inc. The company is owned 75% by Lloyd's Managing Agents and 25% by R K Carvill (International Holdings) Ltd. ENAM Management Company Inc. is not involved in any form of risk carrying and is a vehicle designed to bring together markets which may be interested in Specialty Programmes. It has the object of bringing additional business into Lloyd's by reducing the acquisition costs.

11. Debtors

	31 December 2002		30 June 2002	
	Group £	Company £	Group £	Company £
Amounts due from group companies	–	1,289,481	–	1,036,465
Amounts due from associated Undertakings	390,613	1,148	361,931	1,148
Other debtors	848,440	348,557	369,416	3,528
Prepayments and accrued income	2,338,576	496,192	1,062,917	–
	<u>3,577,629</u>	<u>2,135,378</u>	<u>1,794,264</u>	<u>1,041,141</u>

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



# Notes to the financial statements continued

## 12. Current asset investments

	31 December 2002		30 June 2002	
	Group	Company	Group	Company
	£	£	£	£
Current asset investments				
- balance brought forward	83,807	-	90,019	-
- additions	4,206	-	-	-
- sold to staff	(88,013)	-	(6,212)	-
- at period end	-	-	83,807	-

At 30 June 2002 Beazley Investments Limited held 35,390 "D" Shares of the company in trust for employees on a temporary basis pending reallocation to employees of Beazley Furlonge Limited. These holdings were sold to staff in October 2002

## 13. Creditors: amounts falling due within one year

	31 December 2002		30 June 2002	
	Group	Company	Group	Company
	£	£	£	£
Called up share capital not paid	5,000,000	-	5,000,000	-
Unsecured bank loan	-	-	600,000	600,000
Bank overdraft	-	-	-	-
Amount due to associated undertakings	-	991,923	-	239,556
Corporation tax payable	144,969	-	131,825	1,762
Other creditors and social security	376,795	210,901	654,011	5,828
Accruals and deferred income	2,035,858	177,656	675,763	578,683
	<u>7,557,622</u>	<u>1,380,480</u>	<u>7,061,599</u>	<u>1,425,829</u>

## 14. Creditors: amounts falling due after one year

	31 December 2002		30 June 2002	
	Group	Company	Group	Company
	£	£	£	£
9.5% unsecured convertible loan Stock - 2007	-	-	4,057,000	4,057,000
	<u>-</u>	<u>-</u>	<u>4,057,000</u>	<u>4,057,000</u>

The 9.5% unsecured convertible loan notes were redeemed on 12 November 2002 at their principal amounts plus interest and fees and the holder subscribed the total amount of £5,050,000 for shares in Beazley Group plc.

15. Loans

	31 December 2002		30 June 2002	
	Group	Company	Group	Company
	£	£	£	£
Amounts falling due:-				
In one year or less on demand	-	-	600,000	600,000
Between one and two years	-	-	-	-
Between two and five years	-	-	1,395,000	1,395,000
In five years or more	-	-	2,662,000	2,662,000
	-	-	4,657,000	4,657,000
Less: included in creditors falling due within one year	-	-	(600,000)	(600,000)
	-	-	4,057,000	4,057,000

16. Provisions for liabilities and charges

	31 December 2002 Group £	30 June 2002 Group £
Opening liability for deferred taxation	276,387	48,649
Change in year	(246,143)	227,738
Closing liability for deferred taxation	30,244	276,387

# Notes to the financial statements continued

## 17. Share capital

	Authorised 31 December 2002 £	Allotted and called-up 31 December 2002 £	Authorised 30 June 2002 £	Allotted and called-up 30 June 2002 £
<b>Equity Interests:</b>				
500,000 'B' shares of 50p each	–	–	250,000	–
1,015,358/1,008,344 'D' shares of 50p each	–	–	507,679	504,172
300,000,000/229,479,452 ordinary shares of 5p each	15,000,000	11,473,973	–	–
<b>Non Equity Interests:</b>				
6,600 'A' shares of 50p each	–	–	3,300	–
3,400 'C' shares of 50p each	–	–	1,700	–
	<u>15,000,000</u>	<u>11,473,973</u>	<u>762,679</u>	<u>504,172</u>

On 12 November 2002 the existing authorised share capital in Beazley Group plc was redesignated as 1,525,358 ordinary shares and a ten for one split performed to revalue the shares at 5p each.

The authorised share capital was increased to 300,000,000 shares of 5p each and a bonus issue amounting to 13,801,392.5 new shares for each original "D" share held resulted in the issued number of shares rising to 24,000,000.

205,479,452 ordinary shares of 5p each were issued at the IPO at 73p per share for a total consideration of £150,000,000, resulting in a total number of shares in issue of 229,479,452.

The ordinary shares of 5p each have the right to receive notice of and to attend and vote at general meetings. They are entitled to the reserves, both in relation to income distribution and to the distribution of capital.

## 18. Share options

	Pre-IPO plan	Long-term incentive plan	Inland revenue approved plan	Unapproved plan
<b>Options granted during period:</b>				
Date	6 November	6 November	13 November	6 November
Number of shares	5,736,989	615,235	1,138,852	836,946
 Date		13 November		13 November
Number of shares		26,413		23,678

(i) No options were exercised nor shares allotted during the period.

(ii) At 31 December 2002 there were options outstanding as follows:

Pre-IPO plan: 5,736,989 shares at a price of 73p;

Long-term incentive plan: 641,648 shares at no cost;

Inland Revenue approved plan: 1,138,852 shares at a price of 78p;

Unapproved plan: 836,946 shares at a price of 73p and 23,678 shares at a price of 78p.

(iii) Options can be exercised between three and ten years (from 6 November 2002) after the date on which options were granted subject to performance criteria being met.

(iv) Not more than 10% of the company's issued share capital from time to time may be used for the purposes of employee share schemes in any ten year period. Awards under the share purchase scheme and options granted under the pre-IPO plan on or prior to admission are excluded from this limit, as are options which have lapsed and options satisfied, or to be satisfied using existing ordinary shares. No options may be granted more than ten years after admission under the share incentive plans.

## 19. Reserves

### Group

	<b>Total reserves £</b>	<b>Merger reserve £</b>	<b>Share premium account £</b>	<b>Profit &amp; loss account £</b>
Balance brought forward	2,131,016	1,675,328	–	455,688
Retained profit/(loss) for the period	(1,074,411)	–	–	(1,074,411)
Share premium on issue of shares	139,030,199	–	139,030,199	–
Capitalised listing costs	(6,652,933)	–	(6,652,933)	–
At 31 December 2002	<u>133,433,871</u>	<u>1,675,328</u>	<u>132,377,266</u>	<u>(618,723)</u>

### Company

	<b>Total reserves £</b>	<b>Merger reserve £</b>	<b>Share premium account £</b>	<b>Profit &amp; loss account £</b>
Balance brought forward	144,137	–	–	144,137
Retained profit/(loss) for the year	(1,201,411)	–	–	(1,201,411)
Share premium on issue of shares	139,030,199	–	139,030,199	–
Capitalised listing costs	(6,652,933)	–	(6,652,933)	–
At 31 December 2002	<u>131,319,992</u>	<u>–</u>	<u>132,377,266</u>	<u>(1,057,274)</u>

## 20. Reconciliation of operating profit to net cash inflow from operating activities

	<b>31 December 2002 £</b>	<b>30 June 2002 £</b>
Operating profit	(1,703,746)	1,186,371
Amortisation of goodwill	172,036	344,072
Depreciation charge	–	36,481
Decrease/(increase) in debtors	(1,155,150)	(1,190,324)
(Decrease)/increase in creditors	<u>1,082,879</u>	<u>1,038,875</u>
	<u>(1,603,981)</u>	<u>1,415,475</u>

## Notes to the financial Statements continued

### 21. Analysis of net funds/(debt)

	1 July 2002 £	Cash flow £	31 December 2002 £
Cash at bank and in hand	780,668	4,209,534	4,990,202
Bank overdraft	-	-	-
	<u>780,668</u>	<u>4,209,534</u>	<u>4,990,202</u>
Debt due within one year	(600,000)	600,000	-
Debt due after one year	(4,057,000)	4,057,000	-
	<u>(4,657,000)</u>	<u>4,657,000</u>	<u>-</u>
Total	<u>(3,876,332)</u>	<u>8,866,534</u>	<u>4,990,202</u>

### 22. Pension commitments

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

The most recent ongoing actuarial valuation showed that the market value of the scheme assets was £3,152,000 at August 2002 including a single contribution of £250,000 paid in November 2002 (£3,558,000 at 1 April 2002) and that the actuarial value of those assets represented 78% (92% at 1 April 2002) of the benefits that had accrued to members on an ongoing basis, after allowing for expected future increases in earnings. The ongoing valuation contributions of the company have been estimated at 21% of earnings (21% at 1 April 2002). The pension charge for the period was £921,667 (Year to 30 June 2002: £565,000). Each year substantially all of the pension costs are recharged to syndicate 623.

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under Financial Reporting Standard 17 'Retirement benefits' the following transitional disclosures are required.

The valuation of the schemes was calculated by the actuary on an Financial Reporting Standard 17 "Retirement benefits", basis as at 31 December 2002 and 30 June 2002.

The major assumptions used in these valuations were:

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

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

## 22. Pension commitments (continued)

### Scheme assets

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

	Long term rate of return 31 December 2002	Value at 31 December 2002 £000	Long term rate of return 30 June 2002	Value at 30 June 2002 £000
Equities	6.5%	2,572	7.3%	3,133
Bonds	4.5%	705	5.3%	563
Cash	2.5%	552	0.0%	-
Fair value of assets		3,829		3,696
Present value of scheme's liabilities		(6,240)		(5,309)
Gross pension liability		(2,411)		(1,613)
Deferred tax asset arising on pension liability		-		484
Net pension liability		(2,411)		(1,129)

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

### Movement in deficit during the year

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

### Analysis of amounts included in other finance income/costs

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

## Notes to the financial statements

### continued

#### 22. Pension commitments (continued)

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

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

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

#### 23. Contingent liabilities and financial commitments

At 31 December 2002 Beazley Group plc has given a fixed and floating charge over its assets to Lloyds TSB plc in respect of the loans taken out to finance the purchase of the shares of Beazley Furlonge Holdings Ltd and has agreed to guarantee the obligations of Beazley Furlonge Ltd in respect of its obligations to Lloyds TSB plc.

The Group has guaranteed the £2m letter of credit issued to Beazley Dedicated Limited which is used as Funds at Lloyd's for underwriting. A notice of cancellation was issued in the six month period to 31 December 2002, but the guarantee will remain in force for the next four years.

A subsidiary company entered into a leasehold tenancy agreement on 11 January 2002 in respect of 1 Aldgate, replacing an old lease on the premises which expired in March 2002. The company was committed to make rental payments amounting in the aggregate to £2,632,647 in respect of the remaining five year period of the tenancy to the first break clause. (30 June 2002: £7,733,288 in respect of the remaining 12 years).

Annual commitments under operating leases:

	31 December 2002		30 June 2002	
	Land and Buildings £	Other £	Land and Buildings £	Other £
Expiring within one year:	–	72,855	–	86,089
Expiring between two and five years:	653,240	49,632	653,240	57,394
Expiring after more than five years:	–	–	–	–

## Notice of annual general meeting

Notice is hereby given that the third Annual General Meeting of Beazley Group plc will be held on Thursday 12 June 2003 at 4.00 p.m. at the offices of Beazley Group plc, One Aldgate, London EC3N 1AA:

### Ordinary Business

1. To approve the Directors' Remuneration Report for the six months ended 31 December 2002.
2. To receive and, if approved, adopt the Financial Statements of the Company for the six months ended 31 December 2002 and the Reports of the Directors and Auditors thereon.
3. To re-elect J D Sargent (Aged 73, Non-Executive Director and a member of the Investment, Audit, Remuneration and Nomination Committees) as a Director of the Company. By virtue of Mr Sargent's age, special notice has been given pursuant to sections 379 and 293(5) of the Companies Act 1985 of the intention to propose his re-election as a director of the Company.
4. To re-elect A F Beazley (Chief Executive and a member of the Investment and Nomination Committees) as a Director of the Company.
5. To re-elect A R Manners (Finance Director and a member of the Investment Committee) as a Director of the Company.
6. To re-elect N H Furlonge (Executive Director) as a Director of the Company.
7. To re-elect J G Gray (Executive Director) as a Director of the Company.
8. To re-elect N P Maidment (Executive Director and a member of the Investment Committee) as a Director of the Company.
9. To re-elect J G B Rowell (Executive Director) as a Director of the Company.
10. To re-elect J G W Agnew (Non-Executive Director and a member of the Investment, Audit, Remuneration and Nomination Committees) as a Director of the Company.
11. To re-elect J D Fishburn (Non-Executive Director and a member of the Audit, Remuneration and Nomination Committees) as a Director of the Company.
12. To re-elect T F Sullivan (Non-Executive Director and a member of the Audit, Remuneration and Nomination Committees) as a Director of the Company.
13. To re-appoint KPMG Audit plc as the Auditors of the Company.
14. To authorise the Directors to determine the Auditors' remuneration.

### Special Business

To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:

15. That the Directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (the "Act") to exercise all of the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £3,526,027 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of this resolution, or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the date of the passing of this resolution, save that the Company may before expiry of this authority make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

To consider and, if thought fit, to pass the following resolutions which will be proposed as Special Resolutions:

16. That, subject to the passing of resolution 15, the Directors be generally empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by resolution 15 as if sub-section (1) of Section 89 of the Act did not apply to any such allotment, provided that the power conferred by this resolution:
  - (a) shall (unless previously renewed, varied or revoked by the Company in general meeting) expire 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the date of the passing of this resolution, save that the Company may before expiry of this power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot securities in pursuance of such an offer or agreement as if the power hereby had not expired; and



## Notice of annual general meeting continued

- (b) is limited to:
- (i) allotments of equity securities in connection with a rights issue or otherwise in favour of holders of ordinary shares and in favour of all holders of any other class of equity security in accordance with the rights attached to such class where the equity securities offered to such persons are proportionate (as nearly as may be) to the respective existing holdings of equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities provided that the Directors may make such arrangements as they consider necessary or expedient to deal with equity securities representing fractional entitlements or legal, practical or regulatory problems in any territory; and
  - (ii) allotment (otherwise than pursuant to sub paragraph (i) above) of equity securities for cash up to an aggregate nominal amount of £570,000 (representing 4.97 per cent of the issued ordinary share capital);
17. That the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) on the London Stock Exchange of ordinary shares of 5p in the capital of the Company ("ordinary shares") provided that:
- (a) the maximum aggregate number of ordinary shares authorised to be purchased is 11,400,000 (representing 4.97 per cent of the issued ordinary share capital);
  - (b) the minimum price which may be paid for an ordinary share is 5p;
  - (c) the maximum price which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share as derived from The London Stock exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased, exclusive of expenses;
  - (d) the authority conferred by this resolution shall, unless renewed, expire on the date falling 15 months after the date of the passing of this resolution, or, if earlier, at the conclusion of the next Annual General Meeting of the Company; and
  - (e) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board  
J P Gorman FCA  
Company Secretary  
23 April 2003

Registered Office:  
One Aldgate  
London  
EC3N 1AA

### Notes

1. Shareholders entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote in their place. A proxy need not be a shareholder of the Company. A form of proxy is enclosed with this document, and members who wish to use it should see that it is deposited, duly completed, with the Company's Registrars not less than 48 hours before the time fixed for the meeting. Completing and posting of the form of proxy will not preclude shareholders from attending and voting in person at the Annual General Meeting should they wish to do so.
2. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the Register of Members of the Company as at 6.00 pm on 10 June 2003 shall be entitled to attend or vote at the aforesaid meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of members after 6.00 pm on 10 June 2003 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
3. Copies of the Executive Directors' service contracts, and the Register of Directors' interests in the share capital of the Company, are available for inspection at the registered office of the Company during usual business hours and will be available on the day of the Annual General Meeting.

## Financial calendar

Annual general meeting	12 June 2003
Interim announcement	September 2003
Interim dividend announcement	September 2003

## Contacts

### Registered office

One Aldgate  
London EC3N 1AA

### Auditors

KPMG Audit Plc  
8 Salisbury Square  
London EC4Y 8BB

### Financial advisors

Lexicon Partners Limited  
One Cornhill  
London EC3V 3ND

### Legal advisors

Norton Rose  
Kempson House  
Camomile Street  
London EC3A 7AN

### Principal bankers

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

### Stockbrokers

Numis Securities Limited  
Cheapside House  
138 Cheapside  
London EC2V 6LH

### Registrars

Lloyds TSB Registrars  
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