

Company No 1893407

BEAZLEY FURLONGE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2007

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# **Beazley Furlonge Limited**

## **Directors and Advisors**

### **Directors**

J G W Agnew - Chairman  
A F Beazley  
G P Blunden  
J D Fishburn  
N H Furlonge  
J G Gray  
D A Horton  
N P Maidment  
A R Manners  
A D Pomfret  
J G B Rowell  
C A Washbourn

### **Secretary**

S A Coope

### **Registered office**

Plantation Place South  
60 Great Tower Street  
London  
EC3R 5AD

### **Registered Number**

1893407

### **Auditors**

KPMG Audit plc  
8 Salisbury Square  
London  
EC4Y 8BB

### **Bankers**

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

# **Beazley Furlonge Limited**

## **Directors' report**

The directors present their report and the audited financial statements for the period ended 31 December 2007

### **Business review and principal activity**

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

The capacity of the managed syndicates, syndicate 623 and syndicate 2623, was £163 million and £697 million respectively for 2007 (£183 million and £647 million for 2006)

### **Principal risks and uncertainties**

The principle risks and uncertainties of the company arise from the management of syndicates 2623 and 623. The principal risks and uncertainties of Beazley Group plc, which include those of the company, are discussed on pages 32 to 35 and 70 to 78 of the group's annual report which does not form part of this report

### **Key performance indicators ("KPIs")**

The company's directors are of the opinion that the KPIs for the company are best represented by the financial statements and related notes set out on pages 7 to 18

### **Profit and appropriations**

The results for the period are shown in the profit and loss account on page 7. No dividend is proposed for the financial year (2006 £15m)

### **Directors**

The directors of the company at 31 December 2007, who served during the year and to the date of this report, were as follows

J G W Agnew  
A F Beazley  
G P Blunden  
J D Fishburn  
N H Furlonge  
J G Gray  
D A Horton  
N P Maidment  
A R Manners  
A D Pomfret  
J G B Rowell  
C A Washbourn

### **Directors' interests**

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

# Beazley Furlonge Limited

## Directors' report (continued)

The following directors of Beazley Furlonge Limited participated in syndicate 623 either directly as a name, through NamesCos or indirectly through Beazley Staff Underwriting Limited as follows

Year of Account	2007 £	2008 £
A F Beazley	1,965,116	437,209
N H Furlonge	232,558	300,000
J G Gray	122,791	300,000
D A Horton	232,558	300,000
A R Manners	558,950	525,827
N P Maidment	122,791	300,000
J G B Rowell	2,398,954	3,016,017
C A Washbourn	120,598	300,000

G Blunden is a non executive director of Beazley Furlonge Limited, and is a director of Alliance Capital Limited. Alliance Capital Limited provides investment management advice to the Beazley Group.

### Charitable donations

During the period the company made no charitable donations (2006 £nil)

### Statement of directors' responsibilities

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

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

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent, and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

# Beazley Furlonge Limited

## Directors' report (continued)

### Disclosure of information to auditors

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

### Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board



A R Manners  
Director  
13 May 2008

Plantation Place South  
60 Great Tower Street  
London  
EC3R 5AD

# **Beazley Furlonge Limited**

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

We have audited the financial statements of Beazley Furlonge Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Statement of total recognised gains and losses, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

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

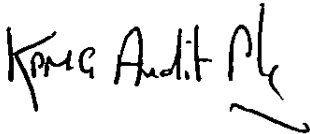
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

## Beazley Furlonge Limited

### Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

A handwritten signature in black ink that reads "KPMG Audit Plc". The signature is written in a cursive, stylized font. Below the signature is a horizontal line.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
8 Salisbury Square  
London  
EC4Y 8BB  
13 May 2008

# Beazley Furlonge Limited

## Profit & loss account

For the year ended 31 December 2007

	Note	2007 £m	2006 £m
Turnover	2	36.2	19.8
Administrative expenses	3	(79.9)	(71.4)
		<hr/>	<hr/>
		(43.7)	(51.6)
Other operating income		67.5	63.3
		<hr/>	<hr/>
Operating profit		23.8	11.7
Other interest receivable and similar income		-	0.1
		<hr/>	<hr/>
Profit on ordinary activities before taxation		23.8	11.8
Income tax expenses	4	(6.2)	(2.3)
		<hr/>	<hr/>
Profit for the financial year		17.6	9.5
		<hr/>	<hr/>

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

The notes on pages 10 to 18 form part of these financial statements

## Beazley Furlonge Limited

### Statement of total recognised gains and losses For the year ended 31 December 2007

	2007 £m	2006 £m
Profit after tax	17.6	9.5
Actuarial loss on retirement benefit obligations	(1.2)	(0.4)
Recoverable from managed syndicates	1.2	0.4
	<hr/>	<hr/>
Total recognised for the year	17.6	9.5
	<hr/>	<hr/>

The notes on pages 10 to 18 form part of these financial statements

# Beazley Furlonge Limited

## Balance sheet

As at 31 December 2007

	Note	2007 £m	2006 £m
Investment in subsidiary	5	-	0.1
Current assets			
Debtors due within one year	6	46.7	33.7
Debtors due after more than one year	7	16.6	4.2
		<hr/>	<hr/>
		63.3	37.9
Creditors amounts falling due within one year	8	(38.5)	(14.6)
		<hr/>	<hr/>
Net current assets		24.8	23.3
Creditors amounts falling due after more than one year	9	-	(0.6)
Retirement benefit obligations	13	(2.0)	(2.6)
		<hr/>	<hr/>
Net assets		22.8	20.2
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	11	0.4	0.4
Profit and loss account	12	22.4	19.8
		<hr/>	<hr/>
Equity shareholders funds	14	22.8	20.2
		<hr/>	<hr/>

The financial statements were approved by the board of directors on 13 May 2008

Signed on behalf of the board of directors



D A Horton

The notes on pages 10 to 18 form part of these financial statements

# Beazley Furlonge Limited

## Notes to the financial statements

### 1 Accounting policies

#### Basis of accounting

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

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

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption

#### Turnover

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

Agency fees represent net retained fees in respect of the 2007 underwriting account

Profit commission is accounted for on an earned 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

#### Investments

Investments are shown at cost in the balance sheet

#### Foreign exchange

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

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# Beazley Furlonge Limited

## Notes to the financial statements (continued)

### Post retirement benefits

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

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

### Dividends

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

### Cash flow statement

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

# Beazley Furlonge Limited

## Notes to the financial statements (continued)

### 2 Turnover and income

	2007 £m	2006 £m
Underwriting agency fees	5 1	5 0
Profit commission	31 1	14 8
	<hr/>	<hr/>
	36 2	19 8
	<hr/>	<hr/>

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

Other operating income £67.5m, (2006 £63.3m) represents charges to other group companies. All charges to the syndicates (623/2623) other than those directly charged by Lloyd's to the syndicates are now paid by Beazley Management Limited and are then charged through Beazley Furlonge Limited to the relevant syndicate

### 3 Administrative expenses

	2007 £m	2006 £m
Staff costs	11 3	5 0
Other costs	0 3	1 8
Recharged from Beazley Management Limited	68 3	64 6
	<hr/>	<hr/>
Administrative expenses	79 9	71 4
	<hr/>	<hr/>

Audit fees of £11,639 were paid by Beazley Management Ltd for current financial year (2006 £12,651)

All staff are employed by Beazley Management Limited

# Beazley Furlonge Limited

## Notes to the financial statements (continued)

### 4. Taxation

	2007 £m	2006 £m
<i>Current tax</i>		
UK corporation tax on profit for the period	4 0	3 2
Adjustment in respect of prior year	0 3	0 6
	<hr/> 4 3	<hr/> 3 8
<i>Deferred tax (note 10)</i>		
Timing difference on bonuses paid	2 2	(0 6)
Adjustment in respect of prior year	(0 3)	(0 9)
	<hr/> 1 9	<hr/> (1 5)
 Tax on profit on ordinary activities	 <hr/> 6 2	 <hr/> 2 3

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

The current tax charge for the year is lower (2006 higher) than the standard rate of corporation tax in the UK, 30% (2006 30%) due to the differences explained below

	2007 £m	2006 £m
Profit on ordinary activities before tax	23 8	11 8
Current tax at 30% (2006 30%)	7 1	3 5
<i>Effect of,</i>		
Permanent and timing differences	(3 1)	(0 3)
Prior year (over)/under provision	0 3	0 6
	<hr/> 4 3	<hr/> 3 8

### 5 Investment in subsidiary

	2007 £m	2006 £m
Beazley Limited (formerly Asia Pacific Underwriting Agency Limited)	-	0 1

As at 31 December 2006 Beazley Furlonge Limited held 100% of the shares in Beazley Limited. Beazley Limited is an underwriting agency established in Hong Kong that underwrites on behalf of Syndicate 623 and 2623. All income and costs that were attributable to the investment are for the benefit of the Names of Syndicate 623/2623. During 2007 these shares were transferred to Beazley Furlonge Holdings Limited.

# Beazley Furlonge Limited

## Notes to the financial statements (continued)

### 6 Debtors amounts falling due within one year

	2007 £m	2006 £m
Amounts owed by group undertakings	23.9	13.3
Amounts owed by associate undertakings	0.1	0.1
Amounts owed by managed syndicates	4.9	4.3
Amounts owed by syndicate 623	1.2	0.8
Profit commission receivable	16.6	15.2
	<hr/>	<hr/>
	46.7	33.7
	<hr/>	<hr/>

### 7 Debtors: amounts falling due after more than one year

	2007 £m	2006 £m
Deferred taxation asset (note 10)	-	2.6
Profit commission receivable	16.6	1.6
	<hr/>	<hr/>
	16.6	4.2
	<hr/>	<hr/>

### 8 Creditors amounts falling due within one year

	2007 £m	2006 £m
Amounts owed to group undertakings	22.8	0.2
Corporation tax	4.3	6.7
Accruals and deferred income	11.4	7.7
	<hr/>	<hr/>
	38.5	14.6
	<hr/>	<hr/>

### 9 Creditors: amounts falling due after more than one year

	2007 £m	2006 £m
Accruals and deferred income	-	0.6
	<hr/>	<hr/>
	-	0.6
	<hr/>	<hr/>

# Beazley Furlonge Limited

## Notes to the financial statements (continued)

### 10 Deferred taxation

The movements in deferred taxation during the year were

	2007 £m	2006 £m
Opening deferred tax asset	2 6	1 1
Timing difference on bonuses paid	(2 2)	0 6
Adjustment in respect of prior year	0 3	0 9
Other timing differences	(0 7)	-
	<hr/>	<hr/>
Closing deferred tax asset	-	2 6
	<hr/>	<hr/>

Deferred taxation assets provided in the accounts are

	2007 £m	2006 £m
Short term timing differences	-	2 6
	<hr/>	<hr/>
	-	2 6
	<hr/>	<hr/>

### 11 Share capital

	2007 £	2006 £
Authorised 400,000 ordinary shares of £1 each	0 4	0 4
	<hr/>	<hr/>
Allotted, issued and fully paid	0 4	0 4
	<hr/>	<hr/>

### 12 Profit and loss account

	2007 £m	2006 £m
Balance brought forward at 1 January	19 8	21 3
Profit for the financial year	17 6	9 5
Dividends paid	(15 0)	(11 0)
	<hr/>	<hr/>
Balance carried forward 31 December	22 4	19 8
	<hr/>	<hr/>

# Beazley Furlonge Limited

## Notes to the financial statements (continued)

### 13 Retirement benefit obligations

Beazley Furlonge Limited operates a funded pension scheme ('the Beazley Furlonge Limited Pension Scheme') providing benefits based on final pensionable pay, with contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified independent actuary using the projected unit method and the most recent valuation was at 31 December 2007.

The major assumptions used in this valuation were

	2007	2006
Rate of increase in salaries	6.2%	4.4%
Rate of increase in pensions in payment and deferred pensions	3.0%	2.7%
Discount rate applied to scheme liabilities	5.5%	5.2%
Inflation assumption	3.4%	3.2%

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

#### 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

	2007 £m	2006 £m
Equities	12.5	10.9
Bonds	3.0	2.4
Total market value of assets	15.5	13.3
Present value of scheme liabilities	(17.5)	(16.0)
Net pension liability	(2.0)	(2.7)

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

	2007	2006
Equities	6.6%	6.6%
Bonds	4.9%	5.0%
Other	2.6%	2.6%

#### Movement in Pension Deficit during the Year

	2007 £m	2006 £m
Deficit in scheme at beginning of year	(2.6)	(4.0)
Current service cost	-	(0.3)
Contributions paid	1.7	2.1
Actuarial loss	(1.1)	(0.4)
Deficit in scheme at the end of year	(2.0)	(2.6)

# Beazley Furlonge Limited

## Notes to the financial statements (continued)

	2007	2006
	£m	£m
Expected return on pension scheme assets	0.9	0.6

	2007	2006
	£m	£m
Interest on pension scheme liabilities	(0.8)	(0.7)

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

	2007	2006
	£m	£m
Actual return less expected return on scheme assets	(0.5)	0.5
Experience gains and losses arising on scheme liabilities	0.1	(1.3)
Changes in assumptions underlying the present value of scheme liabilities	(0.8)	0.4
Actuarial losses recognised in statement of total recognised gains and losses	(1.2)	(0.4)

	2007	2006
	£m	£m
Difference between the expected and actual return on scheme		
- Amount	(0.5)	0.5
- Percentage of year end scheme assets	3%	4%
Experience gains and losses on scheme liabilities		
- Amount	0.1	(1.3)
- Percentage of year end present value of scheme liabilities	1%	8%
Total recognised in statement of total recognised gains and losses		
- Amount	(1.2)	(0.4)
- Percentage of year end present value of scheme liabilities	7%	3%

# Beazley Furlonge Limited

## Notes to the financial statements (continued)

### 14 Reconciliation of movements in shareholders' funds

	2007 £m	2006 £m
Opening shareholders' funds	20.2	21.7
Profit for the financial year	17.6	9.5
Dividends paid	(15.0)	(11.0)
	<hr/>	<hr/>
Closing shareholders' funds	22.8	20.2
	<hr/>	<hr/>

### 15 Ultimate controlling company

The company's ultimate controlling company is Beazley Group plc and the controlling company is Beazley Furlonge Holdings Limited, both of which are incorporated in England and Wales

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

### 16 Financial commitments

The company does not have any annual commitments under non-cancellable operating leases

### 17 Related party transactions

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

#### Beazley cover holders

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

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

All of which are cover holders for syndicates 623 / 2623

The syndicates will be charged commissions at an appropriate and competitive market rates for the type of business underwritten by these companies

#### Beazley USA

Beazley Group plc, established a licensed insurance company in the US (Beazley Insurance Company Inc (BICI)) to write specialty lines business not normally available to the names of the syndicates. The names will participate in the business underwritten in BICI by way of reinsurance of part of the portfolio into the syndicates. The syndicates will be charged commissions at an appropriate and competitive market rate for the type of business underwritten by BICI. As Beazley Group plc owns 100% of the share capital of the insurance company, it could receive profits from this company in the future from the business underwritten by names on Syndicate 623