

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.

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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.

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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