Brit Insurance

Brit Insurance Holdings PLC Annual Report 2004

- Record pre-tax profit of £102.5m (2003: £77.6m), an increase of 32.1%.
- Combined ratio 92.5% (2003: 88.5%) despite worst natural catastrophe year on record.
- Strong investment performance of £77.3m (2003: £50.9m).
- Gross written premium £1,086.7m (2003: £1,015.7m).
- Recommended final dividend of 2p per share, bringing the total for year to 6p per share representing 80.6% of profits after tax, to be paid on 22 April 2005 to shareholders on the register on 11 March 2005.
- Dane Douetil to become Chief Executive Officer at the AGM on 19 April 2005. Neil Eckert remains an Executive Director until the year end and has agreed to stay as a Non-Executive Director thereafter.

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In 2003 Brit emerged as a substantial and profitable participant in the UK insurance sector. In 2004 the Group further built on and consolidated the solid platform it has created in recent years and is again reporting record profits.

Brit's pre-tax profits have increased to £102.5m from £77.6m and we are continuing to demonstrate the robustness of the Group's reserves.

This strong result is all the more satisfactory for having been achieved in a year notable for the industry in terms of the severity and frequency of natural catastrophe losses.

Over the year Brit returned to the dividend register with two interim payments of 2p per share and I am delighted to announce a recommended final dividend of 2p per share. While our stated dividend strategy is to pay a minimum of 70% of post-tax profits, in fact we are recommending approximately 81% of post-tax profits for the year. We feel that it is appropriate to exceed the minimum threshold in a period where there were exceptional levels of catastrophe losses, but Brit was still able to achieve a record result. These actions demonstrate the Group's desire both to distribute profits to shareholders and maintain tight internal discipline on capital.

Our capital strategy and forward planning have placed Brit in a strong position as regulators implement their new rules. During 2004 the Group's insurance company, Brit Insurance Limited ("BIL") participated in the FSA's pilot on Individual Capital Adequacy Standards ("ICAS") and, Brit believes, became one of the first in the UK to have successfully completed the study.

The Board was further strengthened during the period by the appointment of two new Non-Executive Directors, Peter Hazell and Michael Smith. We have carried out a major review of Board's performance in accordance with the new Combined Code, approved a revised Group Strategy Plan and further developed a detailed succession plan. In this regard, I would like to announce the following changes.

With effect from the AGM on 19 April 2005, Dane Douetil will succeed Neil Eckert as CEO of Brit. This follows Dane's appointment as Deputy CEO 12 months ago, since when he has been working closely with Neil in anticipation of this planned succession.

Neil was one of the two key founders of the Company in 1995 and has led it successfully over a 10 year period to become one of the leading companies in the UK insurance market. He will continue to work in an executive capacity supporting Dane until the end of the year, at which time he has agreed to remain on the Board in a non-executive capacity. Our succession planning preserves an experienced and successful executive team whilst embracing orderly management change that we believe is in shareholders' best interests.

Glyn MacAulay will retire from the main Board with effect from the AGM and Peter Hazell, who was formerly UK Managing Partner at PricewaterhouseCoopers, will succeed him as Chairman of the Audit Committee. Glyn has served on the main Board since 1996. He has been involved with the Group during a period of enormous change culminating in today's substantial and profitable insurance business. His experience, judgement and hard work are appreciated by all his colleagues and I wish to record my personal thanks for his outstanding contribution to Brit. We are in the process of recruiting a new Non-Executive Director and details will be announced in due course.

Clive Coates,
Chairman.

The Reinsurance and London Market operations continue to develop well producing healthy results. Separately, the growth of our UK business, a core element in the Group's strategy, has continued apace. Three regional offices have been established over the last twelve months and a new IT platform currently in testing will shortly be rolled out across the regions. This UK regional push was an area where Brit was exposed to operational risk and I am delighted that targets are being achieved.

Brit has acquired both teams of people and portfolios of business to join its underwriting operations during 2004 and expects further such opportunities in 2005.

This increasing scale and breadth of Brit's activities, especially in the UK regional market, and its role as a medium sized, publicly quoted company, have made it vital for Brit to raise brand awareness. This has been achieved through an integrated strategy encompassing public relations, advertising and general promotional activity as well as our portfolio of sports sponsorships. Care has been taken to measure and evaluate our activities and we are delighted to be running such a successful campaign. In particular, the Brit Insurance Oval has achieved a high profile and we look forward to the 2005 Ashes cricket series with great anticipation.

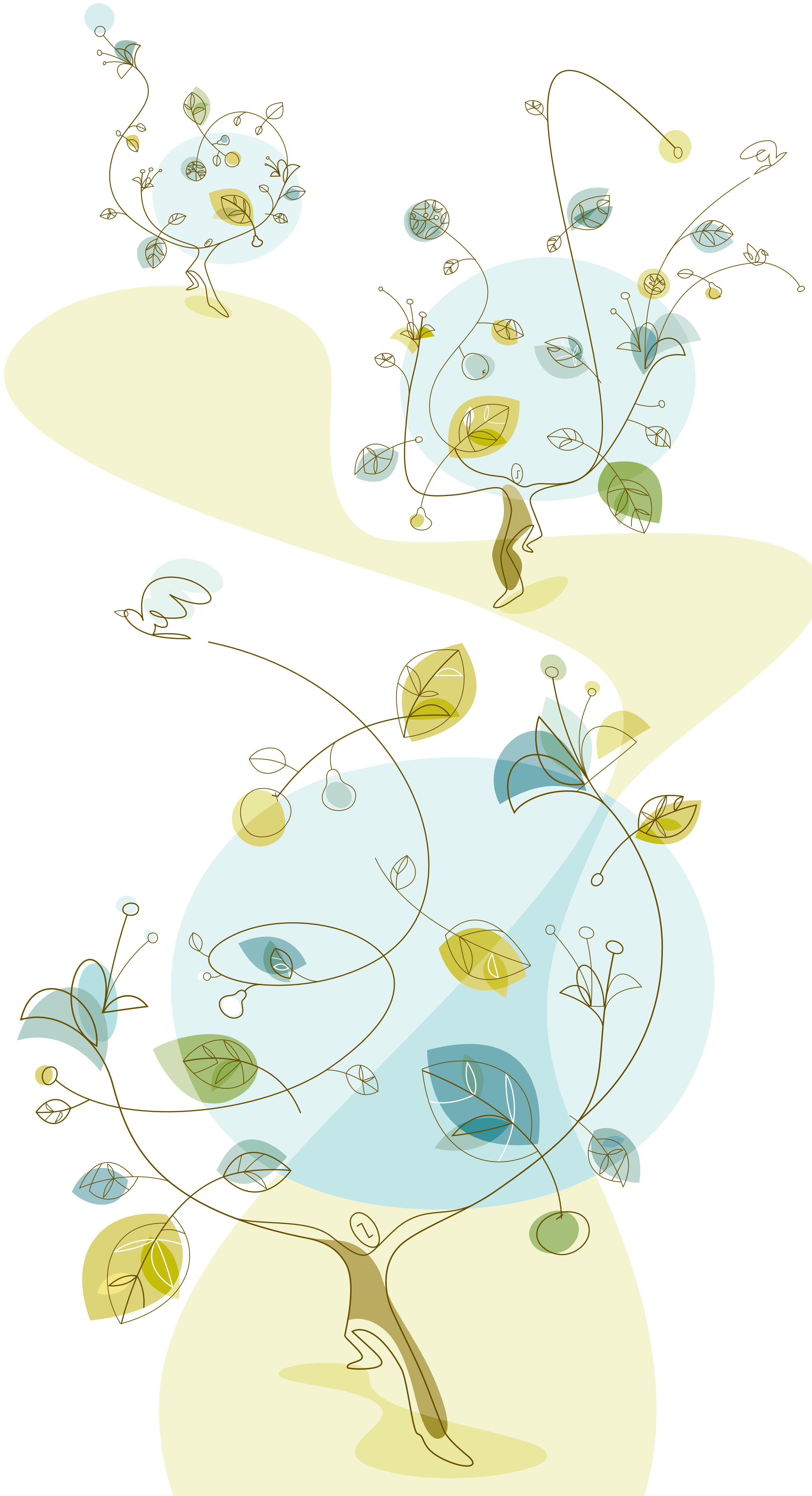
As expected, 2004 saw further reserve deterioration hit several participants in the insurance market, a trend we expect to continue during 2005. This combined with low investment returns has led to continued pricing discipline. The year end renewal season was late and was completed against a backdrop of the devastating tsunami that hit South East Asia. This is no doubt one of the most terrible human tragedies in recent memory. Our response has been to make a meaningful charitable donation.

Our investment return of £77.3m (2003 £50.9m) has exceeded our expectations. More than 86% of our invested assets are managed by our associated company, The Equity Partnership Limited, which has performed well and the relationship has proved to be successful.

Finally, I am proud of the Group culture that has been created. We have strength and depth in terms of management. We have a strong emphasis on training, career development, discipline and professionalism. Staff retention is high and Brit offers a happy and vigorous environment in which to work. I would like to thank all the staff and my fellow Directors for their contribution to another record year for the Group and I look forward to a successful 2005.

Clive Coates
Chairman
28 February 2005

Overleaf: Evelina Frescura's interpretation of "The Stronger Option".



Operating Review

Introduction
Brit has delivered another record year during 2004 despite the industry experiencing one of the most active hurricane seasons in living memory. Full year profit before tax was £102.5m (2003: £77.6m).

We are continuing to build on our operational strengths which extend way beyond our underwriting and risk management expertise into disciplines such as investment, brand, business process and IT and HR.

Both the Group's business model and its management are now established and over the last three years have delivered strong, growing profits, laying the foundations of a solid track record.

Financial Performance
Brit's financial performance in 2004 was helped by the combination of good underwriting conditions and strong investment management performance. Operating profit rose to £101.9m from £75.4m in 2003. Our underwriting performance was notable for record levels of earned premium income and an excellent combined ratio of 92.5%, despite an abnormally high level of catastrophe claims contributing 10.5 percentage points to this ratio. Total invested funds and cash increased by 34.8% while the Group's post-tax return (excluding amortisation of intangibles) on weighted average net tangible assets for the year was 13.0%, up from 12.8% for 2003.

Dividends
We are delighted to recommend a final dividend of 2p per share taking the overall total for the year to 6p per share. This represents a distribution of 80.6% of profits after tax and minority interests. While our dividend strategy is to pay a minimum of 70.0% of post-tax profits, during this period we have chosen to exceed this amount in the light of the robust financial performance in spite of an unusually active hurricane season. Our strategy on dividends is designed to reward investors while at the same time applying a self imposed capital discipline.

Capital Allocation
Another achievement during 2004 was the Group's involvement in the FSA pilot study on Individual Capital Adequacy Standards ("ICAS"), a development which underlined the fact that capital allocation has been at the heart of Brit's underwriting business model for the last three years.

Following the FSA's review in August of the Individual Capital Adequacy submission for the Group's insurance company, Brit Insurance Limited ("BIL"), and Brit's receipt of the FSA's indicative Individual Capital Guidance for the company, Brit believes BIL became one of the first insurance companies in the UK to have successfully completed the ICAS study.

While one immediate direct benefit has been Brit's improved ability to manage its reinsurance spend, the use of the ICAS model is more widely embedded in our business as it not only looks at underwriting risk, but also at the Group's investment, liquidity, counterparty and operational risks. This has given us a greater understanding of the extent to which risks correlate under different circumstances and of what that means in terms of the potential financial impact on the Group as a whole. Accordingly, the model has enabled Brit to take a more informed view of its capital requirements both now and in the future.

As set out more fully in the Financial Review, we have sufficient, but not excessive, capital to cover our projected regulatory requirements and to maintain the strong insurer financial strength rating necessary to attract high quality business, both now and in the foreseeable future.

Brit continues to invest heavily in the ICAS model and in its understanding of different capital structures.

Underwriting Strategy

In 2004 Brit completed the restructuring of its underwriting operations into three customer facing units – the London Market, Reinsurance, and UK Underwriting Centres. All three have access to the two regulatory vehicles through which Brit underwrites: BIL and Lloyd's Syndicate 2987 which is managed by Brit Syndicates Ltd ("BSL").

Brit manages its underwriting activities as one operation regardless of regulatory vehicle or Underwriting Centre. This ensures effective portfolio management from both a risk and return on capital perspective, while leading to efficient reinsurance buying and common procedures, protocols and controls.

The decision on where to place the business is complex and is driven by a combination of factors including frictional costs, levies, licensing requirements, use of capital, the financial strength ratings required by clients and client preference. This has led to the majority of the London Market business being written by the Lloyd's operation while most of the UK and European business is written by BIL. Reinsurance business is split 54.0% BIL/46.0% Syndicate 2987. Brit intends to continue to grow BIL while maintaining Syndicate 2987's current level of capacity.

Capital is set at class level and again at sub-class level, and is traded weekly at Brit's Underwriting Committee where underwriters ask for, or give up, capital as business conditions dictate. This process enables capital to be directed to where the best returns are likely to be achieved. During the course of 2004 115 internal trades were made in respect of £132.4m of capacity.

The drive to implement common standards and management across the Group's underwriting operations was further enhanced during 2004 when, following regulatory consent, we mirrored the BIL and BSL Boards to achieve common Executive and Non-Executive Directors across the two regulatory vehicles.

The Brit Brand

Over the course of 2004 Brit also built its brand both nationally and internationally, so supporting the growth plans of its Underwriting Centres. An integrated strategy embraced activity such as public relations, advertising and sponsorships, as well as customer and distributor development, marketing services, the production of high quality documentation and adoption of one distinct corporate identity. This strategy will continue into 2005.

Brit has used a number of sports sponsorships, each chosen to match the Group's values, stature and dynamism, to leverage mainstream press and broadcast media coverage. This approach has resulted in a significant increase in spontaneous brand awareness. In addition, the Brit Super Series Squash Finals was nominated as a finalist in the British Sports Industry Awards for "Best Sponsorship of an Event or Programme" while the decision to aggregate Brit Insurance Oval and Surrey County Cricket Club into a single title sponsorship produced results that far surpassed those of previous individual sponsors. Activation programmes involving the community won further hearts and minds. In the UK regional market the Brit Novice Hurdles series of horse races, which culminates in the prestigious Cheltenham Festival, has been selected to reflect Brit branch locations and develop Brit's local presence.

The Underwriting Centres

London Market Underwriting Centre

The London Market Underwriting Centre is the largest of Brit's three Underwriting Centres accounting for £431.6m of gross written premium in 2004 split £107.8m in BIL and £323.8m in Syndicate 2987.

Mike Sibthorpe, who has been with Brit since 1998 and is also Active Underwriter of Syndicate 2987, heads up the London Market Underwriting Centre. We have over seventy underwriters within the Centre writing business in the international market for larger corporates and coverholders.

Neil Eckert,
Chief Executive.

The London Market underwriting performance in 2004 shows a combined ratio of 92.1% although much of the business is longer tail so in line with Brit's conservative reserving policy, claims are projected at the ultimate actuarial estimates. Actual paid and outstanding loss ratios remain at historically low levels supporting our view that the underwriting conditions remain favourable. The unprecedented catastrophe activity in 2004 impacted the US Property and Marine accounts to a degree but the quality and diversity of our underwriting meant that the overall result was first class.

Brit's London Market operation is increasingly leading the business it writes and obtaining larger lines on business it believes is better priced. This is due to a number of factors including Brit's increased brand profile in the market, strong balance sheet and ability to offer reliable capacity and the level of service it provides to brokers. Additionally many of the underwriting teams that have joined Brit in the past few years are beginning to recognise the benefits of Brit's structure and market presence and this has given them the confidence and opportunity to develop their business with encouraging results.

Reinsurance Underwriting Centre

Under the leadership of Richard Finn, the Reinsurance Underwriting Centre has continued to grow with particular progress being made over the year in developing the Property division outside of the US. The Property division will be further boosted in 2005 by the acquisition of a new team which is well respected for leading US and Canadian business.

Despite the unusual frequency of major loss events the Centre has achieved a creditable overall result in the circumstances, with a combined ratio of 95.1% (2003: 65.7%).

Modest growth should be achievable during 2005 as a result of the widening of the Centre's geographic reach. In addition the recent high claims activity should create more stability for renewal rates than was previously anticipated.

Separately, another feature of 2004 was Brit's growing relationship with Augsburg Re for Aviation Excess of Loss business. Due to the sector's continuing shortage of lead under-writers and capacity, the Centre is anticipating strong growth in aviation reinsurance and retrocessional business generally during 2005.

UK Underwriting Centre

The delivery mechanisms and profile of the UK operation are distinctly different from those of Brit's other two Underwriting Centres as most of the business is written on a non-subscription basis and comes through regional retail brokers. Accordingly it is crucial to build the right infrastructure which draws on modern processes while delivering first class service.

Over 2004, the Centre continued to establish its brand across the UK regions, securing a strong foothold in small to medium sized commercial business. New branch offices opened in Leeds, Birmingham and Manchester. Gross written premium rose from £309.4m to £345.4m and its combined ratio improved from 95.3% to 91.9%. The number of staff in the regional offices rose as follows:

Figure 1 – Regional Office Staff

	31 December 2004	31 December 2003
Birmingham	**7**	–
Bristol	**9**	8
Glasgow	**7**	4
Leeds	**7**	–
Darlington	**30**	31
Manchester	**2**	–
Ilford	**120**	118
London	**52**	39
Total	**234**	200

A slowing in rate increases or in some classes decreases against 2002 and 2003, particularly in the Casualty divisions, made it difficult to achieve the same rate of growth as in 2003. Motor business, the cycle for which probably peaked several years ago, came under some rating pressure and Brit has cut back its presence generally, and particularly in the area of Private Motor.

Business Written

The key January 2005 renewals season has been encouraging. From the Group's management accounts, gross written premium in January 2005 was £187.9m (January 2004: £152.1m), an increase of 23.5%. For various reasons, we would not expect this high rate of increase to continue through the remainder of the year.

Figure 2 – Business Written

	Gross written premium 2004		Gross written premium 2003	
Underwriting Centre	**£m**	**%**	£m	%
London Market				
Accident and Financial	**123.3**	**11.3**	114.0	11.2
Aerospace	**28.6**	**2.6**	61.5	6.1
Casualty	**112.1**	**10.3**	114.5	11.3
Marine	**80.0**	**7.4**	81.3	8.0
Property	**87.6**	**8.1**	97.0	9.5
	431.6	**39.7**	468.3	46.1
Reinsurance				
Property	**133.5**	**12.3**	102.9	10.1
Marine	**7.1**	**0.7**	2.0	0.2
Casualty	**60.7**	**5.6**	55.0	5.4
Aviation	**36.0**	**3.3**	19.9	2.0
Cat Retro and Other	**42.7**	**3.9**	42.0	4.1
	280.0	**25.8**	221.8	21.8
UK				
Property	**61.7**	**5.7**	69.0	6.8
Casualty – EL/PL	**129.2**	**11.9**	86.0	8.5
Casualty – Liability	**37.3**	**3.4**	41.4	4.1
Motor	**105.6**	**9.7**	113.0	11.1
Package and Other	**11.6**	**1.1**	–	–
	345.4	**31.8**	309.4	30.5
Other	**29.7**	**2.7**	16.2	1.6
Group Totals	**1,086.7**	**100.0**	1,015.7	100.0

Underwriting Rating Levels

Brit's Premium Index uses 2000 as its base year and reflects the broad trend for each Underwriting Centre in respect of rates, terms and conditions. The analysis is based on a set coding structure with the data being input by Brit's underwriters. It is compulsory for all open market business to be included and the data is independently audited by the compliance team on a regular basis.

The index mainly tracks renewal business as it is often hard to judge differences in rates for new business. Some caution needs to be exercised when using this table as the varying levels of claims inflation in different classes require different rating increases simply to retain the status quo. Inevitably there is also an element of subjectivity in respect of any assessment of the impact of changes in terms and conditions.

Overall, however, Brit believes that rating levels, while off the highs of recent years, are currently strong and that the market as a whole is generally maintaining discipline, particularly in the area of terms and conditions.

Figure 3 – Premium Index (year 2000 as base year)

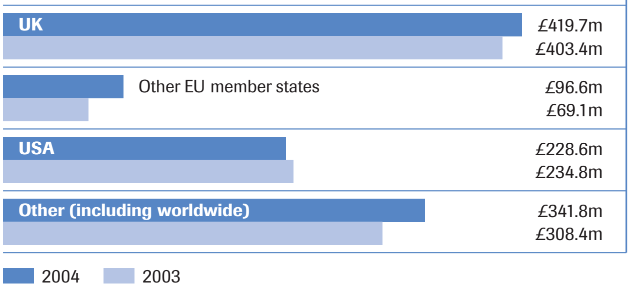
Underwriting Centre	2000	2001	2002	2003	**2004**	Jan 2005
London Market						
Accident and Financial	n/a	100	131	142	**147**	152
Aerospace	100	158	202	237	**260**	271
Casualty	100	122	207	288	**303**	306
Marine	100	112	144	156	**159**	161
Property	100	112	150	155	**152**	150
Reinsurance						
Property – USA and Canada	100	110	149	154	**155**	159
Property – International					**151**	149
Property – Retrocessional	100	110	132	120	**117**	117
Marine	100	115	171	179	**183**	188
Casualty	100	115	182	215	**230**	231
Aviation	100	100	167	159	**139**	128
UK						
Property	100	104	123	132	**131**	131
Casualty	n/a	n/a	100	130	**129**	128
Motor	100	108	115	120	**122**	121
Liability	n/a	100	200	286	**284**	261

The indices are based on the underwriters' estimates of the rate movements experienced by their business. They are subjective as they are calculated using judgement to estimate the effect of changes in terms and conditions as well as changes in premium.

Split of Premium Income by Geographical Area

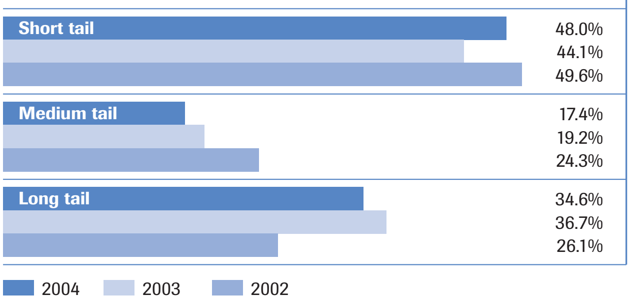
An analysis of gross written premium by geographical area is as follows:

Figure 4 – Split of Premium Income by Geographical Area



Split of Premium Income by Tail

Figure 5 – Split of Premium Income by Tail



Realistic Disaster Scenario ("RDS")

We continue to monitor over twenty types of RDS across the Group and conduct a formal review quarterly. Both the return periods used and the type of RDS events that are tested are continually assessed and have been slightly modified in 2004. The Group currently works to a return period of one in one hundred years for windstorm and one in two hundred years for earthquake. Figure 6 shows exposures prevailing in the fourth quarter of 2004.

We have managed the net loss percentages to approximately the same levels as earlier years. The increasing scale and diversity of our business written has enabled us to achieve this on a reduced percentage reinsurance spend. In summary, the Group's risk appetite in respect of exposure to a single event remains capped at the following levels:

- gross loss not to exceed 30.0% of gross premium net of brokerage.
- net loss after reinsurance recoveries and reinstatement premiums not to exceed the lower of 10.0% of gross premium net of brokerage or 20.0% of capital.

Figure 6 – Realistic Disaster Scenario Exposure (as percentage of gross premium net of brokerage)

	Gross Loss		Net Loss	
	£m	%	£m	%
US windstorm	207.0	23.5	55.9	6.3
California earthquake	255.2	29.0	55.5	6.3
European windstorm	229.6	26.0	61.7	7.0
Japanese earthquake	240.3	27.3	56.9	6.5

Catastrophe Losses

The overall level of catastrophe claims is more than twice our expectation for a normal year, and the total effect is the equivalent of approximately 10.5 percentage points on our combined ratio.

Figure 7 – Catastrophe Losses

	Gross Loss US$m	Reinsurance Recoveries US$m	Net Reinstatements US$m	Net Loss US$m
Hurricane Charley	(43.0)	7.2	2.1	(33.7)
Hurricane Frances	(42.5)	10.0	(0.2)	(32.7)
Hurricane Ivan	(130.2)	93.1	(12.3)	(49.4)
Hurricane Jeanne	(27.4)	15.9	0.7	(10.8)
Total Hurricane Losses	(243.1)	126.2	(9.7)	(126.6)
Typhoon Songda	(20.8)	6.6	0.6	(13.6)
Asian Tsunami	(42.3)	9.1	1.7	(31.5)
	(306.2)	141.9	(7.4)	(171.7)
£m equivalent	(159.5)	73.9	(3.8)	(89.4)

Reinsurance

One of the major benefits of the development of Brit's ICAS model has been our ability to manage better the Group's outward reinsurance buying and we have cut our reinsurance spend as a percentage from 21.2% of gross written premium income in 2002 to 16.2% in both 2003 and 2004. The figure for 2004 would have been 1.1 percentage points lower but for reinstatement premiums, which totalled £11.9m.

We constantly monitor our exposure to our counterparty reinsurance risk, not just on the basis of current exposure but also taking into account all the Group's outstandings and claims incurred but not reported ("IBNR") by legal entity.

We also run a matrix which sets a cap on our exposure to any one reinsurer and is based on the entity's financial net worth and Brit's internal rating of that entity. This enables the Group to manage its relationship with a particular reinsurer from overweight to underweight as circumstances dictate. We seek to have the same open and transparent dialogue with our reinsurers as we do with all stakeholders in our business and view our relationships as long term, a strategy we expect to serve us well over time.

Claims

Our decision just over a year ago to separate underwriting and claims from the same reporting line continues to prove its worth. The focus that Bob Foster, who heads our Claims division, has been able to achieve has enabled proactive management of our claims handling and the Group was delighted to receive external validation of its strategy in the form of the 2004 Claims Team of the Year Award from key industry publication, Insurance Day.

Immediate benefits of the restructuring include more efficient service due to a greater focus on fewer third party suppliers of claim services and, in many cases, further mitigation of claims through active management.

Brit puts claims service at the centre of its brand and strives to achieve prompt settlement. We believe this strategy benefits both our clients and Brit as it enables the Group to assess more accurately its actual cost of sales. This in turn means we are better placed to get our pricing right. Where we do not have full knowledge of a definite claim amount we actuarially assess the reserve to ultimate including claims inflation.

We are represented on the Lloyd's Claims Steering Group. The Steering Group has proposed major changes to the Lloyd's market which Brit believes will radically reform the way claims are managed in terms of the efficiency of delivery of information and quality of the data received. Accordingly, Brit has been an early adopter of the main recommendations.

Claims Triangulation

The table shows a claims triangulation for the 2002, 2003 and 2004 underwriting years. The triangulation shows the position (paid and outstanding) for these years at different stages of development. Actual claim amounts are expressed as a percentage of the estimated ultimate gross premiums net of brokerage ("GNP") for each year.

Reserving strength is crucial for any insurer; Brit's policy of reserving fully on first notification is supported by a number of internal and external reviews and benchmarking exercises. Adjusted for the abnormal catastrophes of 2004, both 2004 and 2003 are developing more favourably at their respective stages than 2002.

Figure 8 – Claims Triangulation

		12 months	24 months	36 months	Ultimate GNP £m
2002	Gross claims paid	4.4%	21.4%	30.0%	476.0
	Gross outstanding	10.1%	14.5%	13.8%	
	Gross incurred	14.5%	35.9%	43.8%	
2003	Gross claims paid	3.7%	16.1%		754.4
	Gross outstanding	6.4%	15.8%		
	Gross incurred	10.1%	31.9%		
2004	Gross claims paid	6.0%			965.0
	Gross outstanding	12.5%			
	Gross incurred	18.5%			

Business Process

Brit continues to invest in better business process and its information technology capability.

The Group's commitment to reform of business process includes involvement in relevant market committees. In particular, Dane Douetil is a member of the Market Reform Group which consists of the major London brokers and insurance companies and representatives of Lloyd's. He also chairs the Lloyd's Market Association Market Processes Committee.

Real progress was made during 2004 and Brit is hopeful that further progress through Accounting and Settlement, Claims Loss Advice and Settlement System ("CLASS"), the contract certainty at inception programme and the London Market Principles ("LMP") slip will bear fruit during 2005. However, first it will be necessary for significant market standardisation to be achieved if the new electronic world is to be effectively utilised.

Further impetus for change is also likely to flow from the Spitzer enquiry in the US as this will create increased pressure for brokers to become more efficient in their processes. Those underwriting units that are able to take over some of the processing from brokers and to provide them with a better service are likely to be the medium term winners.

We believe Brit is ideally equipped to take advantage of this market repositioning and the Group will continue to place itself generally at the forefront of market process changes.

Strategic Investments

The Group owns 40.9% of The Equity Partnership Limited ("EPL"), an investment management group. The Group's share of EPL's pre-tax profit is £0.6m (2003: £0.2m) and it made a further significant contribution in the form of a very good investment return. Of the Group's total invested assets of £1,833.1m (including 100% of syndicate assets), EPL manages some £1,583.9m, plus some £603.0m of external client monies.

The Group owns 32.0% of Ebix, a Nasdaq listed US software supplier, which has recorded its best ever results in 2004. Its share price performed well rising from US$12.26 to US$15.00 during the year.

The Group owns 77.2% of Ri3K, an electronic reinsurance trading platform supplier which made a loss for the year but has been winning significant new customers. It now has the opportunity to position itself as the global reinsurance industry's preferred solution to the increasingly critical issues of contractual certainty and transparency.

Our People

Brit believes passionately that the quality of the Group's people and their associated business skills can be a true business differentiator; accordingly, it is committed to being an industry leader in terms of people development and has an ongoing programme of training and appraisal of all staff. In particular, our graduate recruitment and training drive has been an outstanding success, enabling us to secure a range of high calibre people. These programmes, together with personal development initiatives, an active social programme and an enhanced internal communications focus give Brit a unique and enjoyable, but hard working, culture.

Investor Relations

Regular communication with major investors and stakeholders is the bedrock of Brit's investor relations strategy. Shareholders are encouraged to contact the Group directly with questions or concerns which Brit seeks to deal with as swiftly as possible, subject to such obvious restraints as price sensitivity.

The investor relations section of the Group's website, www.britinsurance.com is a key element in this process. Brit was delighted when the 2004 "the driver is" corporate website survey, which reviews the UK's top 350 quoted companies, placed Brit's site at the top of the insurance sector and equal eighth overall.

As well as the dissemination of information through various media, a programme of meetings is conducted after the release of final and interim results or any other significant announcement.

Current and Future Strategy

In the 2003 Annual Report, Brit set out its intention, having evolved from a diverse portfolio of insurance investments, to become a significant UK and international insurance Group.

The last twelve months have seen great strides towards the delivery of this strategic goal and our key area of growth has been, and will continue to be, commercial insurance business both in UK and international markets.

The UK and international commercial accounts are developing well and we have established a strong regional presence in the UK market which has grown as expected to represent an increasing share of our overall account.

The insurance market continues to experience low investment returns which together with pressure on back year reserves among a number of our competitors give us real confidence that the necessary market conditions will remain in force for good returns to be generated on our account.

Similarly, the Group's reinsurance account is prospering despite a year that saw some of the most intense and costly hurricane activity for many years. The Group's underwriting discipline is being maintained and the reinsurance account is expected to represent approximately 20% of our overall portfolio for the 2005 underwriting year.

Brit has maintained a niche presence in selected areas of personal lines business where it perceives itself to offer a competitive advantage to its customers, although it does not expect major growth in this area.

Brit sets out its stall as a strongly capitalised, well reserved and conservatively managed group. We have concentrated hard on customer service, business process, risk management and the calibre and training of our people. Our strong balance sheet is attractive to major customers and brokers and we have an outstanding and growing underwriting team.

We have continued to concentrate on the development of our fund management and investment operations, an area that will always represent a key part of any successful insurance group's activities.

Acquisitions that involve reserve risk have been avoided and we have stayed true to our word on paying a full dividend. We believe this encourages internal capital discipline and rewards those investors that hold our shares. Our financial performance has continued to improve despite 2004 being notable for its claims activity.

In short we are delivering on our strategy that was first set out in 2001. We look forward to building on this platform and delivering a strong and profitable 2005.

Neil Eckert
Chief Executive Officer
28 February 2005

Matthew Scales,
Finance Director.

Financial Review

Highlights 2004

- Profit before tax of £102.5m (2003: £77.6m)
- 28.0% expense ratio (2003: 28.8%)
- 64.5% claims ratio (2003: 59.7%)
- 92.5% combined ratio (2003: 88.5%)
- 7.0% increase in gross written premium
- 27.3% increase in net earned premium
- Dividend payments resumed
- Capital reorganisation

Summary of Results

Total operating profit was £101.9m (2003: £75.4m). Operating profit at the long-term rate of investment return was £97.6m (2003: £91.1m).

The assumed long term rates of return remain unchanged and are as below:

Equities	7.0%
Cash and bonds	5.0%
Syndicate funds	5.0%

Figure 9 – Total Operating Profit by Company

	Lloyd's 2004 £m	Insurance companies 2004 £m	Other 2004 £m	**Total 2004 £m**	Total 2003 £m
Technical result	56.3	65.7	–	**122.0**	100.3
Investment return	31.4	35.1	3.7	**70.2**	63.1
Investment income transferred to technical account	(33.0)	(28.4)	–	**(61.4)**	(44.0)
Interest payable	–	–	(4.9)	**(4.9)**	(4.6)
Fees and commissions	0.9	–	1.6	**2.5**	8.6
Other income	–	–	0.3	**0.3**	1.5
Other expenses	0.2	(1.2)	(20.3)	**(21.3)**	(25.4)
Amortisation	(1.7)	–	(8.1)	**(9.8)**	(8.4)
Operating profit at long-term rate of return	54.1	71.2	(27.7)	**97.6**	91.1
Short-term fluctuations in investment return	0.9	3.4	–	**4.3**	(15.7)
Operating profit	55.0	74.6	(27.7)	**101.9**	75.4

Underwriting Operations

As previously stated, Brit underwrites through two regulatory vehicles: UK authorised insurer, BIL, and Lloyd's Syndicate 2987 which is managed by BSL. The net assets of BIL totalled £334.2m at 1 January 2004 and increased to £369.2m at 31 December 2004.

Underwriting at Lloyd's is supported by Funds at Lloyd's ("FAL") which totalled £288.2m at 31 December 2004 (2003: £308.0m). Capacity at Lloyd's for the 2004 underwriting year was £500.0m (2003: £513.8m). All Lloyd's business written by the Group for 2004 underwriting year was through Syndicate 2987 of which Brit owns 100%. For 2005, the FAL supports £500.0m (2004: £500.0m) of capacity on Syndicate 2987 and the run-off requirements of Syndicate 389 and remaining non-managed syndicates. Due to Lloyd's market capacity management initiatives the Qualifying Quota Shares ("QQSs") utilised to increase Syndicate 2987's capacity in 2004 are not available for use in 2005.

Figure 10 – Overall Lloyd's capacity by underwriting year:

	2005		**2004**		2003		2002	
Syndicate	100% share £m	Brit share £m	**100% share £m**	**Brit share £m**	100% share £m	Brit share £m	100% share £m	Brit share £m
389	–	–	**–**	**–**	15.0	13.8	14.0	12.7
2040	–	–	**–**	**–**	14.0	–	14.0	–
2400	–	–	**–**	**–**	–	–	30.0	1.5
2987	500.0	500.0	**500.0**	**500.0**	500.0	500.0	450.0	440.0
Total	500.0	500.0	**500.0**	**500.0**	529.0	513.8	508.0	454.2
Group QQSs	–	–	**50.0**	**50.0**	100.0	100.0	75.0	73.3
3rd party QQSs	–	–	**–**	**–**	22.0	22.0	53.3	52.1
Total after QQSs	500.0	500.0	**550.0**	**550.0**	651.0	635.8	636.3	579.6

Gross written premium for 2004 was £1,086.7m (2003: £1,015.7m). Net written premium income for 2004 was £910.4m (2003: £850.8m). Net earned premium income was £854.5m (2003: £671.4m). The rates of premium growth have been slowed by a number of factors including exchange differences, a downwards revision in estimated pipeline premiums relating to binding authorities and lineslips, and underwriting discipline in areas of unattractive market pricing.

Investment

The Investment Committee has responsibility for the overall investment policy of the Group, including cash and liquidity management. Investment policy at the date of this report is to continue holding the majority of funds in short dated, liquid investments with high credit quality.

Group invested assets totalled £1,833.1m (including 100% of syndicate assets) at 31 December 2004 (2003: £1,434.9m). Since 1 March 2004 Group asset allocation and overall investment management has been delegated to EPIC Asset Management Limited ("EPAM"), a 70.0% subsidiary of The Equity Partnership Limited ("EPL"), an associated company of the Group.

Overall asset mix varies from time to time. It is not anticipated that the total invested in equities will exceed 10.0% of total invested assets.

Total invested assets at 31 December 2004 were allocated as in Figure 11 below:

Figure 11 – Allocation of Assets (including 100% of syndicate assets)

	31 December 2004 £m	31 December 2003 £m
Equities	**175.7**	154.0
Bonds	**711.5**	793.7
Cash and deposits	**945.9**	487.2
Total	**1,833.1**	1,434.9

The return from the main asset classes is shown below alongside various market indices.

Figure 12 – Sterling Fixed Income Investment Performance 2004

The Group's bonds and cash	4.56%
1 month Sterling LIBID	4.40%
1-3 year gilts	4.64%

Figure 13 – US$ Fixed Income Investment Performance 2004

The Group's bonds and cash	1.19%
Cash	1.30%
1 year US treasury	0.82%

Figure 14 – Equity Returns 2004

The Group's equities and balanced funds	18.99%
FT All Share Index	9.21%
FTSE 100	7.54%
NASDAQ (in £ Sterling)	1.33%

The currency mix of the investment portfolio was:

Figure 15 – Investment Portfolio Currency Mix

	31 December 2004 %	31 December 2003 %
Sterling	**64.6**	61.8
US$	**26.4**	30.9
Euros	**7.1**	5.7
Other	**1.9**	1.6
Total	**100.0**	100.0

Equity investments include managed equity portfolios, which form part of the Group's FAL, investments in Lloyd's entities and a number of strategic investments. A breakdown is given in Figure 16 below:

Figure 16 – Breakdown of Equity Investments

Equity Investments	**31 December 2004 £m**	**Return for year 2004 £m**	31 December 2003 £m	Return for year 2003 £m
Lloyd's listed investments	**13.9**	**0.8**	13.7	2.8
Other listed investments	**1.0**	**0.2**	0.9	0.7
Non listed investments	**1.1**	**0.1**	1.1	(0.2)
Managed portfolios	**133.8**	**20.3**	116.0	13.5
Protected funds	**1.4**	**–**	1.4	–
Ebix Inc	**7.2**	**0.9**	6.3	4.9
EPIC PLC – Capital shares	**12.0**	**2.0**	9.9	(5.1)
EPIC PLC – Income shares	**5.3**	**0.9**	4.7	0.8
Total	**175.7**	**25.2**	154.0	17.4

The duration of the total bond portfolio was 1.65 years at 31 December 2004 (2003: 1.27 years). The bond portfolios were invested as per Figure 17 below:

Figure 17 – Investment Rating of Bond Portfolios

Rating	**2004 £m**	2003 £m
Government	**352.4**	425.5
AAA	**162.4**	164.2
AA	**138.9**	133.9
A	**55.5**	64.4
BBB	**1.0**	4.4
Other	**1.3**	1.3
Total	**711.5**	793.7

Ri3K Limited

The Group has continued to invest in Ri3K during the year. Ri3K placed over 1,000 contracts through its platform during the year and now has 142 customers, generating a turnover of £2.6m (2003: £0.2m). In addition the company provided consultancy services to several customers. The Group results for the year include a loss before tax of £2.5m in respect of Ri3K (2003: loss £3.9m).

Expenses

Figure 18 – Expenses

	2004 £m	2003 £m
Commissions	**173.9**	132.1
Other acquisition costs	**38.0**	33.5
Operating expenses	**32.9**	45.2
Total technical account expenses	**244.8**	210.8
Non-technical account net operating expenses	**31.1**	33.8
Total expenses	**275.9**	244.6

Figure 19 – Operating Expenses and Other Acquisition Costs

			31 December 2004	31 December 2003
	Technical £m	Non-Technical £m	Total £m	Total £m
Payroll costs before profit related pay	**25.2**	**6.8**	**32.0**	28.9
Profit related pay	**5.8**	**1.9**	**7.7**	6.7
Accommodation costs	**2.9**	**0.6**	**3.5**	4.3
Legal and professional charges	**2.9**	**1.1**	**4.0**	4.1
IT costs	**4.7**	**–**	**4.7**	5.6
Marketing and communications	**–**	**2.6**	**2.6**	1.0
Amortisation	**–**	**10.0**	**10.0**	8.5
Exchange movements	**–**	**1.4**	**1.4**	7.9
VAT irrecoverable	**1.9**	**0.6**	**2.5**	1.8
Lloyd's charges	**12.2**	**–**	**12.2**	16.9
Depreciation	**2.4**	**2.8**	**5.2**	2.6
Other syndicate expenses	**5.7**	**–**	**5.7**	6.1
Other	**7.2**	**(1.1)**	**6.1**	3.5
	70.9	**26.7**	**97.6**	97.9
Peoples Choice	**–**	**–**	**–**	10.6
Ri3K	**–**	**4.4**	**4.4**	4.0
Total	**70.9**	**31.1**	**102.0**	112.5

Profit after Tax

The profit after tax and minority interests was £72.0m (2003: £57.5m). The effective tax rate was 29.4% (2003: 26.3%), and is likely over time to trend upwards slightly given our predominance of US and UK business. From 2005, the Group is likely to be in a cash tax paying position, following the utilisation of almost all loss carry forwards and elimination of associated deferred tax assets.

Earnings per Share

Basic earnings per share were 7.45p (2003: 6.58p). Details of the calculation are given in Note 11 to the financial statements.

Key Ratios

Figure 20 – Key Ratios

	2004	2003 (Restated)
Net written premium/Gross written premium	**83.8%**	83.8%
Net written premium growth	**7.0%**	62.9%
Net written premium/Weighted average shareholders' funds	**130.5%**	146.9%
Technical result/Net earned premium	**14.3%**	14.9%
Claims ratio	**64.5%**	59.7%
Expense ratio	**28.0%**	28.8%
Combined ratio	**92.5%**	88.5%
Gross technical provisions/Gross written premium	**170.7%**	140.0%
Net technical provisions/Net written premium	**168.0%**	128.9%
Shareholders' funds/Net technical provisions	**46.4%**	63.6%
Insurance debtors/Shareholders' funds	**63.4%**	57.8%
Insurance debtors/Total assets	**15.8%**	17.3%
Group borrowings/Shareholders' funds	**9.8%**	8.4%

Dividend per Share

A final dividend for the year of 2p per share is proposed. A first interim dividend of 2p per share was paid on 28 May 2004 and a second interim dividend of 2p per share was paid on 15 October 2004. Total dividend for the year is 6p per share.

Capital Reorganisation

On 23 April 2004, the Company reorganised its share capital in order to recommence the payment of dividends. A transfer of £170.0m was made from the share premium account to the profit and loss account to effect the reorganisation. At 31 December 2004, the Company had distributable reserves of £49.1m (2003: deficit of £65.6m).

Technical Provisions

Net technical provisions as at 31 December totalled £1,529.4m (2003: £1,096.6m) and are analysed below:

Figure 21 – Net Technical Provisions

	2004 £m	2003 £m
Provisions for unearned premium	**507.2**	466.7
Notified claims outstanding	**394.7**	305.7
IBNR	**623.6**	323.8
Equalisation provision	**3.9**	5.7
Other technical provisions	**–**	(5.3)
	1,529.4	1,096.6

Reinsurance Recoverable

Our current exposure to our reinsurers as ranked by external ratings is detailed below. Most of those reinsurers that are not rated have previously been rated but have dropped their rating on moving into solvent run-off.

Figure 22 – Rating of Reinsurance Recoverable

	2004 £m	2003 £m
Amounts due at 31 December	**54.3**	37.8
Recoveries in respect of outstanding claims	**266.4**	222.9
Total	**320.7**	260.7
Credit Quality	**2004 %**	2003 %
AAA	**1.2**	1.5
AA	**21.3**	19.9
A	**69.1**	66.5
BBB and below	**0.4**	5.1
Not rated	**8.0**	7.0
Total	**100.0**	100.0

Group Borrowings

Some changes have been made to the Group's gearing and liquidity facilities during the year. Remaining borrowings under the £80.0m variable rate facility taken out in February 2000 were repaid in November and a £40.0m overdraft facility was set up with Barclays Bank PLC to cover working capital requirements. Additionally a new facility of US$15.0m was established through a pool in June 2004. This debt is designed to qualify as lower tier two capital under the new capital adequacy rules. This facility is subordinated debt priced at 3.5% over US dollar three month LIBOR and has a 30 year term with an option to repay after five years.

Total Group debt at 31 December 2004 was £69.9m (2003: £58.9m). This comprised £18.2m under the overdraft facility (2003: loan facility £15.0m), US$14.5m (2003: nil) under the pooled debt facility and £44.1m (2003: £43.9m) of 8.5% Convertible Unsecured Subordinated Loan Stock ("CULS") 2008. The final date for conversion of the CULS is 31 October 2005. Following the capital reorganisation in April the conversion price of the CULS was adjusted to one share per 81p nominal value of stock.

The Group will readdress its overall level of gearing when the CULS have converted. When the last date for potential conversion has passed, to the extent that any CULS do convert, the Group may consider some form of share repurchase or special dividend.

Foreign Exchange

Approximately 52% (2003: 53%) of the Group's Gross Written Premium ("GWP") arise in foreign currencies. An analysis of gross written premium by currency is shown below. In recent times the main concerns have been focused on US dollar weakness. Current policy is to estimate earned profits arising in US dollars and to sell these profits for sterling as they arise. Earnings in Euros and Canadian dollars are sold on a less frequent basis.

Liabilities in the principal trading currencies of sterling, US dollars and Euros are substantially matched with assets held in those currencies. Other currencies are converted into sterling.

Figure 23 – Gross Written Premium by Currency

	Gross Written Premium 2004		Gross Written Premium 2003	
	£m	**%**	£m	%
£ Sterling*	**521.7**	**48.0**	477.8	47.0
US dollars	**417.6**	**38.4**	450.9	44.4
Can dollars	**31.7**	**2.9**	19.1	1.9
Euros	**115.7**	**10.7**	67.9	6.7
	1,086.7	**100.0**	1,015.7	100.0

*Sterling includes other miscellaneous currencies.

Capital Management and Financial Strength

BIL has a financial strength rating of A (Excellent) with a stable outlook from AM Best and A+ (Strong) with stable outlook from Fitch Ratings.

Group net tangible assets at 31 December 2004 totalled £649.8m (2003: restated £627.6m).

In 2004, the Group wrote gross premium of £1,086.7m, representing a premium to net tangible asset ratio of 167.2%.

Regulatory requirements are continuing to tighten. FSA Policy Statement 04/24 has confirmed the implementation date for the hard requirement Parent Undertaking Solvency Calculation as 31 December 2006. From that date, insurance groups that own a UK regulated insurance company will have to hold sufficient capital at holding company level to cover the solo capital requirements of all their individual underwriting entities.

The Enhanced Capital Requirement ("ECR") is now effective as a soft test. The methodology for assessing the ECR applies capital charges to various assets and liabilities in addition to premium income. In order to assess capital adequacy and the amount of capital needed to support a given level of underwriting it is important also to assess the projected capital requirement for the fully developed book of business. In a period of growth the immediate capital requirement lags the ultimate requirement as the technical reserves take time to reach an equilibrium level.

The following table summarises an illustrative proforma ECR calculation based on the current business mix, an assumed level of gross written premium of £1.3bn and a fully developed 'tail' of reserves appropriate to each of the Group's respective classes of business. It must be emphasised that this proforma table is for illustrative purposes only, and does not represent a forecast for any specific financial period. Our current ECR has not reached this level.

Figure 24 – Illustrative Pro Forma ECR Calculation

Class	Business mix NGWP* £m	Ratio of technical reserves to written premium	Premium charge £m	Reserve charge £m	Insurance-related risk charge £m
Accident and Health	65	0.6	4	2	6
Motor	85	1.7	9	12	21
Marine/Aviation/Transport	125	2.0	28	40	68
Property	250	0.9	25	20	45
Third Party Liability	250	4.5	35	154	189
Misc and Pecuniary Loss	150	2.3	37	46	83
Direct Total	925	2.3	138	274	412
Non-proportional	180	2.3	88	51	139
Proportional	40	2.3	8	11	19
Reinsurance Total	220	2.3	96	62	158
Total	1,145	2.3	234	336	570
Asset-related Risk Charge					**100**
Enhanced Capital Requirement					**670**

* 'NGWP': Gross Written Premium less reinsurance payable

The asset related risk charge is based on assumed proforma total gross assets of approximately £3.5bn and applying the following charges per principal category:

Figure 25 – Asset Related Risk by Principal Category

	%
Equities	16.0
Tangible fixed assets	7.5
Debtors and fixed income securities	1.5 to 4.0
Cash	–

As can be seen from Figure 25, the Group's current net tangible assets of £649.8m are broadly equal to the proforma ECR. The Group is likely to have a small quantity of inadmissible assets and US$14.4m of qualifying subordinated debt at 31 December 2004.

The Group's policy is to manage its rating to a high 'A' as compared with the 'BBB' level at which ECR is set, in order to maximise quality of earnings, reduce risk to shareholders and policyholders and to attract high quality business from clients and brokers.

In accordance with this policy, the Group maintains a margin of capital above its ECR. Assuming the ECR grows over time to its proforma level, the Group has the scope to raise appropriate additional capital recognised by regulators and rating agencies by way of subordinated debt and would expect to grow its net assets via a level of retained profits. The potential capacity for subordinated debt issuance without adversely impacting rating agency requirements is up to 20.0% of our equity capital.

Group Pension Schemes

The Group operates two principal pension schemes:

- A money purchase scheme based on the stakeholder legislation.
- A final salary scheme. This scheme was closed to new members during 2001.

Total assets backing the final salary scheme at 31 December 2004 were £60.7m (2003: £56.7m). During the year the benchmark for the proportion of assets invested in equities was revised from 85.0% to 70.0%.

The Group has not adopted FRS 17 in respect of the final salary scheme. Details of the effect of accounting under FRS 17 have been included in Note 31 to the Financial Statements. The scheme at 31 December 2004 would have had a liability net of deferred tax under FRS 17 rules of £12.9m (2003: £10.9m). This increased deficit is primarily due to changes in the assumptions made at the year end, especially the increase in the rate of inflation and a reduction in the discount rate.

Net Asset Value per Share

At 31 December 2004 net assets totalled £710.0m (2003 restated: £697.5m) equivalent to 72.9p per share (restated 2003: 71.6p per share). Net tangible assets totalled £649.8m (2003 restated: £627.6m) equivalent to 66.7p per share (restated 2003: 64.4p per share).

Changes in Accounting Policy

The Group has adopted UITF 37 "Purchases and sales of own shares" and UITF 38 "Accounting for ESOP trusts". These require that consideration paid for an entity's own shares should be deducted from equity rather than being shown as an asset on the balance sheet. Further details are given in the Accounting Policies to the Financial Statements.

International Financial Reporting Standards ("IFRS")

Brit's IFRS Conversion Project is progressing well. Brit has reached an advanced stage in the conversion of its 31 December 2003 balance sheet as well as the restatement of the 2004 consolidated accounts for both 30 June and 31 December.

The standards are subject to possible amendments by the International Accounting Standards Board ("IASB") or other bodies and therefore may change prior to the publication of the Group's IFRS result. As a result, full quantification of the effects of conversion for the consolidated accounts has yet to be finalised.

The primary conclusions formed from the conversion work performed to date are as follows:

- The transition to IFRS is not expected to have a significant impact on the Group's shareholders' funds;
- Brit's stated dividend payout policy is not expected to be affected by IFRS; and
- Almost all insurance policies written by the Group fall within the IFRS 4 "Insurance Contracts" definition of an insurance policy and therefore will continue to be accounted for under the Group's existing accounting policies.

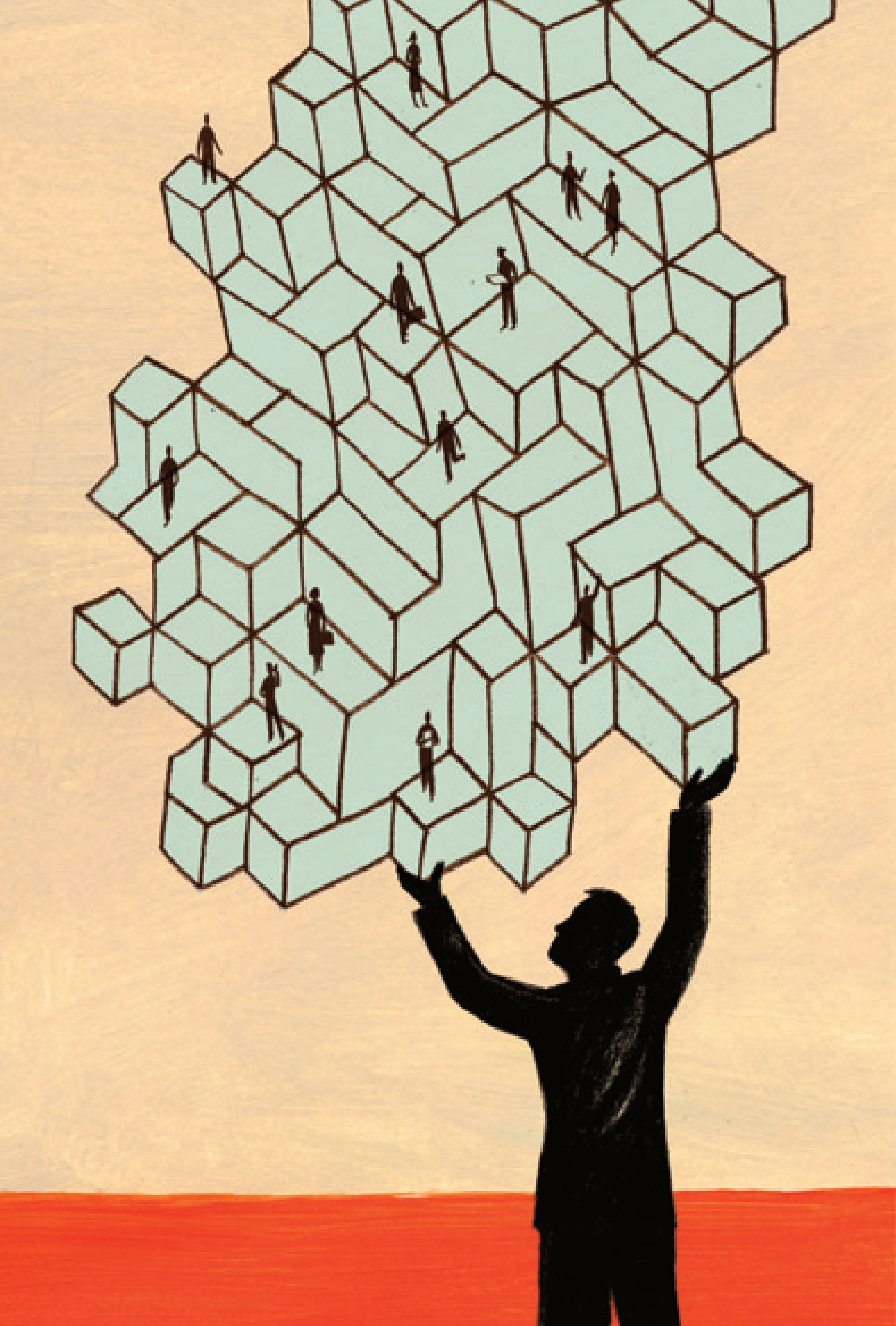
The key changes in accounting treatment for Brit include:

- Elimination of the equalisation provision;
- Elimination of the long-term rate of investment return calculation;
- Separate recognition of an expense in the income statement for employee incentive schemes under IFRS 2 "Share Based Payments";
- Goodwill no longer amortised but subject to annual impairment test;
- Separate recognition of debt and equity portions of hybrid instruments such as the convertible unsubordinated loan stock;
- Investments will continue to be marked to market but will be valued at bid price and not at mid price as at present; and
- The incorporation of the pension scheme deficit measured under IAS 19 "Employee Benefits".

It is our intention to present 31 December 2003 and 31 December 2004 balance sheets, together with primary statements for the year ended 31 December 2004 on an IFRS basis prior to the announcement of our next set of interim results.

Matthew Scales
Finance Director
28 February 2005

Overleaf: Aude Van Ryn's interpretation of "The Stronger Option".



Clive Coates

Neil Eckert

Clive Frederick Coates

Chairman

Born 1944. He is a Fellow of the Chartered Association of Certified Accountants and has nearly 40 years' experience in the insurance industry. He was formerly Chief Executive of Eagle Star Insurance Company Limited, Group Deputy Chairman of Eagle Star Holdings PLC and Finance Director of British American Financial Services Limited until his retirement in December 1997. He is a Director of Eagle Star Executives' Pension Trustees Limited. He joined the Board of Brit Insurance Limited in December 1998 and was the Chairman from September 1999 until August 2004. He was appointed as a Director and Deputy Chairman of Brit on 29 April 2002 and became the Chairman of the Company on 24 September 2002.

Neil David Eckert

Chief Executive Officer

Born 1962. He became a Lloyd's reinsurance broker in 1980, joining the Benfield Group in 1986 and its main board in 1991. In 1995 he co-founded the Company as a listed Investment Trust and following a sustained period of corporate activity, the Company re-listed as a publicly quoted insurance company in 1999 when he was appointed as Chief Executive Officer. He resigned from all Benfield Boards in January 2000 to concentrate on his role at Brit. Neil is Non-Executive Chairman of Design Technology & Innovation Limited, a patenting and intellectual property company and a Director of Ri3K, an internet hub for reinsurance. Neil is also a founder Director of Climate Exchange plc and Chairman of the European Climate Exchange, an exchange set up to trade carbon and other emissions permits.


Dane Douetil


Matthew Scales

Dane Jonathan Douetil
Deputy Chief Executive Officer
Born 1960. He graduated in 1982 from Birmingham University with an Honours Degree in commerce, joined the Willis Faber Group in 1982 and was appointed Executive Director of the Political & Financial Risk Division in 1988. He was a founding shareholder and Director of insurance broker, Special Risk Services Limited, from 1989 to 1994. Between 1994 and 1998 he acted as a consultant on the sale of a number of mortgage operations, as well as acting as a risk consultant for several financial institutions. He became a consultant to The Benfield Group in July 1997 prior to joining Brit Insurance Limited, the Company's FSA regulated insurance company, in August 1998 and was appointed as its Chief Executive in December 1998. He joined the Brit Insurance Holdings PLC Board on 30 November 1999, becoming Chief Executive of Brit Syndicates Limited in July 2002, Head of Underwriting for the Brit Group in August 2002, and Deputy Chief Executive of Brit Insurance Holdings PLC on 1 March 2004. He is a Director of the Lloyd's Market Association, chairs the LMA Market Processes Committee and sits on the Market Reform Group and the Lloyd's Claims Steering Committee.

Matthew Scales
Finance Director
Born 1954. He is a Fellow of the Institute of Chartered Accountants and joined the C T Bowring Group in 1979, transferring within that group to English & American Group in 1982. He was the Finance Director of English & American Group plc (1991-1993). He also acted as Group Financial Controller of Benfield Group plc from February 1996 to March 1999. He has been Finance Director of Brit Insurance Limited, the Company's FSA regulated insurance company, since its establishment in 1993 and joined the Board of the Company as Finance Director on 30 November 1999.

Peter Frank Hazell

Non-Executive Director

Born 1948. He was appointed to the Board on 1 April 2004. He is Chairman of the Argent Group, a Non-Executive Director of UK Coal PLC and of Smith & Williamson Holdings Limited and Chairman of both companies' audit committees. He is a member of the Competition Commission, and a member of the Natural Environment Research Council whose audit committee he also chairs. He was previously UK Managing Partner of PricewaterhouseCoopers. He spent his early career at Deloitte Haskins & Sells starting in their Management Consultancy Division and later advising on competition policy, investment appraisal and strategic planning. He was also involved in founding the Corporate Finance Practice, specialising in privatisation, regulation and mergers and acquisitions.

Peter Hazell

Glyn MacAulay

George (Glyn) Franklin MacAulay

Non-Executive Director

Born 1937. He joined Neville Russell (now Mazars LLP), UK chartered accountants, in 1964, becoming a Partner in the London office in 1966 and Senior Partner of the national firm in 1991. He retired from Neville Russell in December 1995. Whilst at Neville Russell, he advised audit clients that included Lloyd's syndicates and UK insurance and reinsurance companies. He has also acted as representative and adviser in the UK to many overseas insurance companies. He was appointed as a Director of the Company on 1 January 1996.

Donald Cecil McCrickard
Non-Executive Director
Born 1936. He was previously a Director of American Express International Inc (1978-83), Group Chief Executive of TSB Group Plc (1990-92), Chief Executive of TSB Bank Plc (1989-92) and Chairman of Hill Samuel Bank (1991-92). He was also a member of the executive committee of the British Bankers Association (1988-92) and a member of the Bank of England's Deposit Protection Board (1989-92). He is a fellow of the Chartered Institute of Bankers. He has been a Director of the Company since its flotation in 1995.


Don McCrickard

Michael Gordon Smith
Non-Executive Director
Born 1945. He joined the Board on 8 March 2004 and is a member of the Company's Nomination and Remuneration Committees. He is a former senior partner of Titmuss Sainer & Webb (now Dechert), the international law firm. He was a specialist corporate lawyer and from the early 1990's he focused on the Lloyd's insurance market and built a team of lawyers concentrating solely on this area.


Michael Smith

John Anthony Victor Townsend
Non-Executive Director
Born 1948. He graduated from Cambridge University with a degree in engineering. Following 10 years as a merchant banker he worked in his family's Lloyd's broking business from 1979 to 1987 and then moved to investment banking with Rea Brothers Group from 1988 to 1998. He was Chairman of the Association of Investment Trust Companies from 2001 to 2003. He has been a name at Lloyd's since 1974 and was a member of the Executive Committee of the Lloyd's Regulatory Board from 1996 until it relinquished its functions to the new Lloyd's Franchise Board at the end of 2002. He has been a Director of Brit since 2 August 1999.


Anthony Townsend

Overleaf: Reggie Pedro's interpretation of "The Stronger Option".

Governance

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

Results and Dividends

The results are considered in detail in the Operating and Financial Review on pages 5 to 24.

Details of dividends in respect of 2004 are set out in Note 10 on page 67. The Directors recommend a final dividend of 2p per ordinary share for the year ended 31 December 2004. If approved, this dividend will be paid on 22 April 2005 to shareholders on the register on 11 March 2005.

Principal Activity and Review of the Year

The Company is a holding company and through its subsidiaries, is engaged in risk-taking, as an insurer or reinsurer, and investment. A detailed review of the activities and operations of the Group during 2004, together with the events since the end of the financial year and likely future developments, is included in the Operating and Financial Review on pages 5 to 24.

Directors

The names of the Directors as at the date of this report are shown on page 92. Michael Smith and Peter Hazell joined the Board on 8 March 2004 and 1 April 2004 respectively. Jo Welman was a director from 1 January 2004 until 27 May 2004.

In accordance with the Combined Code and Articles of Association, Clive Coates, Neil Eckert and Don McCrickard retire this year and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting ("AGM"). Glyn MacAulay also retires at the AGM and will not be offering himself for re-election.

The interests of the Directors and their families in the Company's ordinary shares of 25p each and convertible unsecured subordinated loan stock units of 100p each, together with details of the Directors' interests in share incentive schemes are set out in Notes 33 and 32 on pages 87 and 84 respectively.

The interests of the Directors in transactions with the Group are set out in Note 33 on page 87.

Employment Policy

Details of employees and their remuneration are included in Note 7 on page 65.

The Group's employment policies embracing recruitment, training and development continue to evolve whilst maintaining the core aims of attracting and retaining high calibre personnel. The emphasis has been directed towards internal development through the graduate recruitment programme which is in its second year and now includes seven high quality graduates working through the different areas of the business. The appraisal scheme and incentivised programme scheme underpin the aspiration and aims of staff and the Group's development.

The reward structure is under constant review and the Group's share ownership and share incentive schemes along with the recently introduced profit related bonus are designed for good staff retention.

Employee involvement and consultation is accomplished in a number of ways, including the use of a feedback mechanism via the Group's Intranet, "Britnet", briefing meetings and presentations on different aspects of the Group's business. These arrangements also enable the development of a common awareness among employees of the financial and strategic factors affecting the performance of the business. Employee participation in the Group's employee share ownership plan and share incentive schemes has continued to grow.

It is the Group's policy and practice to offer employment opportunities that are free from discrimination on any grounds relating to selection, training, promotion, career development and any other employment matters and to have full and fair regard to the particular aptitudes and abilities of disabled persons.

If existing employees become disabled, it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to offer training and career development and promotions to disabled employees wherever appropriate.

Substantial Share Holdings

On 28 February 2005 the Directors had been advised of the following interests as at 22 February 2005 of 3% or more in the Company's issued share capital:

	Number of Shares	Percentage of Issued Share Capital
Invesco	188,148,860	19.32
Jupiter Asset Management	67,536,576	6.93
Fidelity Investments	53,113,041	5.45
Schroder Investment Management	42,538,202	4.37
Liontrust Asset Management	38,137,045	3.92
F&C Asset Management	36,392,653	3.74
Legal & General Investment Management	35,595,939	3.65
Rostrum Investors	30,306,964	3.11

Corporate Social Responsibility
The Group aims to be a responsible contributor to the beneficial development of society and the environment. The Director with responsibility for Corporate Social Responsibility issues is Neil Eckert who is associated with the Chicago Climate Exchange, a self-regulatory exchange that administers a multi-national and multi-sector marketplace for reducing and trading greenhouse gas emissions.

Social – The Charities Committee is responsible for the distribution of funds to registered charities in accordance with its terms of reference. The Group is a member of the Lloyd's Community Programme whereby members of staff may contribute time to assist in the improvement of youth education. The Company has also introduced the Employee Grant Matching Scheme which encourages staff participation in raising funds for charities by the Company matching the funds raised by staff.

Environmental – The Group's Document Management System pilot has an aim of reducing paper usage and storage.

Ethics – The Group continues its commitment to the highest standards of business conduct. Procedures remain in place to facilitate the reporting of suspect fraudulent activities such as money laundering.

Health and Safety – The Group's Health and Safety policy aims, insofar as it is reasonably practical, to ensure the health and safety of all employees and other persons who may be affected by the Group's operations and provide a safe and healthy working environment. The Group has a good record of safety and all staff are provided with health and safety training. All staff have access to health and safety information via Britnet, the Group's intranet.

Work/Life Balance – The Brit Get a Life programme piloted in 2003 has gained momentum and is well supported by employees. The programme encourages individuals to have new experiences or fulfil lifelong ambitions outside the work environment. Activities undertaken are as diverse as learning a foreign language or musical instrument to learning to drive a steam train.

In recognition of the increasing pressures on members of staff, Brit has implemented an employee assistance programme giving direct access to a counselling service. This service is to help to relieve the day to day stresses of the workplace. Also, a new dress code has been introduced allowing individuals to dress more comfortably and expressively when business commitments permit.

Business in the Community – The Birmingham Business School (part of Birmingham University) sponsorship of the Lecturer in Insurance and Risk Management continues and further links have been forged through guest lecturing and workshops run at the School by Brit staff.

Creditors Payment Policy
It is the policy of the Company to settle all expenses on a timely basis in the ordinary course of business. At 31 December 2004, other creditors of the Company had an average five days outstanding (2003: zero days). It is the Group's policy to agree appropriate terms and conditions in advance with its suppliers and to make payment in accordance with those terms and conditions, provided that the supplier has complied with them.

Donations
During the period, the Group made charitable donations amounting to £86,259 (2003: £22,566).

No donations were made to any political organisations (2003: nil).

Auditors
Following the conversion of Mazars to a Limited Liability Partnership ("LLP"), Mazars resigned as the Company's auditors on 6 September 2004 and the Directors appointed Mazars LLP to fill the casual vacancy created by the resignation. Special notice of the resolution proposing the reappointment of Mazars LLP has been received by the Company in accordance with the Companies Act 1985 and will be put to the AGM.

Annual General Meeting
The AGM will be held at 10 o'clock on 19 April 2005 at the Company's offices at 55 Bishopsgate, London EC2N 3AS. A booklet containing the Notice of the Meeting, Explanatory Notes and a Proxy Form is enclosed.

Going Concern
After making due enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing financial statements.

Statement of Directors' Responsibilities

Company Law requires Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial period and of the profit of the Group for the period. The financial statements must be prepared in compliance with the required format and disclosures of the Companies Act 1985 and with applicable accounting standards.

In addition, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare financial statements on a going concern basis unless it is inappropriate to assume the Group will continue in business.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are also responsible for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Group to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report and other information included in the annual report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring the annual report includes information required by the Listing Rules of the Financial Services Authority.

By Order of the Board

Peter Goddard
Secretary
28 February 2005

This report has been prepared by the Remuneration Committee in accordance with the Companies Act 1985, as amended, and has been approved by the Board for submission to shareholders.

Composition and Terms of Reference

During the year, the Committee comprised the following:

Don McCrickard (Chairman of the Committee)*
Clive Coates (Chairman of the Board)
Glyn MacAulay*
Anthony Townsend (from 24 February 2004)*
Michael Smith (from 8 March 2004)*
Jo Welman (until 27 May 2004)

*considered independent by the Company.

Clive Coates's continued membership of the Committee is considered by the Board to be appropriate given his role and valuable experience of the sector. Along with the Non-Executive Directors, his remuneration is not set by this Committee but by the Executive Management Committee to preserve independence of contribution. Don McCrickard's independence is covered in more depth in the Corporate Governance Report. Peter Hazell, who is considered independent, joined the Committee on 11 January 2005.

The Committee formally met on six occasions during the year and its responsibilities, as defined by its terms of reference, include:

- ensuring the broad policy for the remuneration of the Group's senior executives provides senior executives with appropriate incentives to encourage enhanced performance, attracts and rewards senior executives in a fair and responsible manner for their individual contributions to the success of the Group, reflects a strong link between performance and reward; and aligns the interests of senior executives and shareholders;
- analysis of current trends in remuneration, benefits and rewards for senior executives, and in particular as applied in competitors;
- approval of the design of, and determine targets for, any performance related pay schemes operated by the Group;
- determining the policy for, and scope of, pension arrangements for senior executives; and
- to ensure that contractual terms on termination, and any payments made, are fair and recognise the duty to mitigate loss.

The Committee's full terms of reference are available on the Company's website, www.britinsurance.com and from the Company Secretary at the registered office.

Advisers

The Committee consults regularly with the Group Services Director and the Company Secretary. It sought independent legal advice from the Company's legal advisers, Macfarlanes, in connection with the Brit 1998 Unapproved Executive Share Option Scheme, and consulted with the Company's auditors, Mazars LLP, in connection with the performance conditions attaching to the 1999 Long Term Incentive Plan, during 2004. In addition, as described below, the Group Chief Executive advises the Committee in connection with the annual salary review, bonus payments and grant of awards under the Group's share incentive schemes (save in respect of his own remuneration).

Remuneration Consultants

The Committee has appointed New Bridge Street Consultants LLP ("NBSC") as its remuneration consultants. NBSC has no other connection with the Company other than in the provision of advice on executive and employee remuneration. NBSC advises the Committee directly on matters within the Committee's Terms of Reference on which the Committee chooses to consult NBSC. NBSC also advises the Company generally on aspects of executive and employee remuneration, typically on the implementation and ongoing operation of executive remuneration schemes. Such advice is usually provided through the Group Services Director. NBSC advises the Board of Directors of Brit Insurance Holdings PLC (or those Directors charged by the Board to make recommendations) from time to time on the remuneration of Non-Executive Directors, including the Chairman.

Remuneration Policy

The Group operates in personnel-orientated markets and its performance is dependent on the skill and experience of motivated employees. The remuneration policy aims to attract, retain and motivate high calibre executives, rewarding outstanding performance with packages that are aligned with the interests of shareholders. The level of Executive Directors' remuneration takes account of practice in comparable companies and Directors are rewarded on the basis of responsibility, competence and contribution. Components of these packages include salary, on which pension and other benefits are calculated, together with short and long-term incentives. Therefore, a material element of senior executives' remuneration is performance-related.

The Committee assesses whether the reward strategies are achieving their objectives. It reviews regularly independent market data and assesses, with advisers, whether any adjustments to policy and practices are necessary. In this regard, the Committee strongly believes that the increases to the Executive Directors' basic salaries made during the year were appropriate, given their performance and the competitive nature of the employment market and, in the case of Dane Douetil, his expanded role.

Annual Bonuses

Participation in the Group's annual bonus scheme is open to all Group employees (save for Ri3K employees in respect of whom separate arrangements are operated), including Executive Directors. The scheme aims to reinforce the relationship between individual and Group performance and reward and is dependent on profit. Under this scheme, a bonus pool equalling no more than 7% of Group profit before tax can be distributed to participants, save that no bonus payable to any executive director may be greater than 80% of basic salary. If the Committee determines that it is not appropriate for the entire bonus pool to be allocated, any unallocated portion can be retained and paid out in subsequent years as the Committee deems appropriate.

The Committee considered the bonuses awarded to Neil Eckert, Dane Douetil and Matthew Scales appropriate given the Company's record financial performance and the respective executives' exceptional personal contribution.

Long-Term Incentives

The Group operates two active long-term share incentive schemes.

Under the Brit Executive Share Option Scheme 2003, options may be granted each year over shares with an aggregate exercise price normally no greater than 100% of basic salary. These options will only become exercisable if a performance condition is satisfied. For the November 2003 grant of options the performance condition was based on the Company's Total Shareholder Return ("TSR") performance over a period of at least three years from grant compared with the TSR of the constituents of the FTSE Mid 250 Index. No portion of an option will vest for median performance. If the Company's TSR is immediately above that of the median company, 50% of the options will vest, with full vesting for upper quartile performance (with straight-line vesting between these two points). If the performance condition is not met in full over years 0-3, performance can be re-tested once over years 0-4. The same performance conditions apply to the grants of options made in October and November 2004, save that retesting does not apply to grants made in 2004 and any future grants of options made under this scheme.

Under the Brit Performance Share Plan 2003, awards may be granted each year over shares with a value of up to 100% of basic salary. The extent to which awards vest is determined by the extent to which performance conditions are satisfied over the three-year period following grant. For the grant of awards in November 2003, October 2004 and November 2004, the performance condition was based on the TSR performance of the Company compared with the constituents of the FTSE All Share Insurance Index as follows:

Brit's ranking	Percentage of award that vests
Below median	0
Median to upper quartile	20-100 (with straight-line vesting)
Upper quartile	100

The Committee intends to continue to use the same performance conditions to any future awards granted under the Performance Share Plan 2003 and the Executive Share Option Scheme 2003 as they provide participants with the incentive to deliver returns to shareholders that are greater than the market generally and the Company's specific industry peers. All TSR calculations will be performed by an independent third party (thereby ensuring that the calculations are performed independently) and will be reviewed by the Committee.

Non-Executive Directors

Non-Executive Directors receive an annual fee. Fees paid to Non-Executive Directors are determined by the Executive Management Committee, with the quantum of fees payable being comparable to those of similar organisations and the level being set to reflect the time devoted to the Group's affairs. The Non-Executive Directors are not entitled to participate in any of the Group's short and long-term incentive and pension arrangements.

Further details of the fees payable to Non-Executive Directors are set out below.

Service Contracts

Dane Douetil and Matthew Scales have service contracts with Brit Group Services Limited ("BGS") dated 30 July 1998 and 10 December 1998 respectively with no fixed terms. The Committee's policy on the length of notice periods is that they should be set so as to reflect appropriately the interests of the Company and the senior executives, while also reflecting best practice. Consequently, these Executive Directors have notice periods of twelve months, which can be given by either party.

Neil Eckert has a service contract with BGS dated 8 May 2000 which has a fixed term expiring on 31 December 2005. Consequently, Neil Eckert, who retires by rotation and offers himself for re-election at the AGM, will have eight months remaining under his service contract. This agreement provides that if BGS terminates his employment because he becomes a patient as defined under the Mental Health Act 1983, is prevented by illness or otherwise from performing his duties for a consecutive period of 203 days or an aggregate of 203 days in any period of 365 days, or is, in the reasonable opinion of the Board, based on a medical report, unfit to perform his duties, BGS will pay to him by way of compensation for loss of employment, within fourteen days of such termination, a sum equal to twelve months' salary.

In the event of early termination, when determining the amount of compensation that is paid, the Committee will take into account the departing director's duty to mitigate his loss. Compensation payments will not exceed the total of 12 months' remuneration and accrued benefits.

Clive Coates, Peter Hazell, Glyn MacAulay, Don McCrickard, Anthony Townsend and Michael Smith have service letters from the Company dated 30 April 2002, 1 March 2004, 27 April 2000, 27 April 2000, 18 May 1999 and 1 March 2004 respectively, under which there is no fixed term, a nil notice period on behalf of both the Company and the Non-Executive Directors and no provision for compensation for loss of office.

Service Contracts of Former Directors

Jo Welman had a service letter from the Company dated 20 September 2002, under which there was no fixed term, a nil notice period on behalf of both the Company and Jo Welman and no provision for compensation for loss of office.

1 Emoluments and Compensation

						2004	2003
	Fees and salaries £'000	Benefits in kind £'000	Bonus £'000	Car Allowance £'000	Pension £'000	Total £'000	Total (restated)[1] £'000
Current Directors							
Chairman							
Clive Coates	**120**	**–**	**–**	**–**	**–**	**120**	95
Executive Directors							
Dane Douetil	**351**	**1**	**260**	**8**	**20**	**640**	536
Neil Eckert	**445**	**21**	**340**	**4**	**41**	**851**	739
Matthew Scales	**319**	**11**	**240**	**–**	**36**	**606**	515
Non-Executive Directors							
Peter Hazell[2]	**30**	**–**	**–**	**–**	**–**	**30**	–
Glyn MacAulay	**65**	**–**	**–**	**–**	**–**	**65**	50
Don McCrickard	**88**	**–**	**–**	**–**	**–**	**88**	58
Michael Smith[3]	**36**	**–**	**–**	**–**	**–**	**36**	–
Anthony Townsend	**84**	**–**	**–**	**–**	**–**	**84**	54
Former Directors							
Jo Welman[4]	**16**	**–**	**–**	**–**	**–**	**16**	40
Total for the Year	**1,554**	**33**	**840**	**12**	**97**	**2,536**	2,581

1 Totals restated to reflect remuneration of the Directors who were in office on 1 January 2004 and not those who served for part of 2003.
2 With effect from appointment, 1 April 2004.
3 With effect from appointment, 8 March 2004.
4 Until cessation of directorship, 27 May 2004. Jo Welman's fees were paid directly to his ultimate employer group, The Equity Partnership Limited.

Executive Directors are offered a number of benefits namely a car, private medical insurance, permanent health insurance and life assurance. Neil Eckert has a death benefit attached to the life assurance of four times annual salary (subject to the Inland Revenue cap). Dane Douetil and Matthew Scales have a death benefit equal to ten times annual salary (subject to the Inland Revenue cap) as they participate in the Group Stakeholder Pension Plan.

The fees of the Chairman and Non-Executive Directors are set by the Executive Management Committee (the "EMC") which comprises the Executive Directors and three other senior executives. The EMC strongly believes that the increases to the fees of the Chairman and the Non-Executive Directors made during the year were appropriate, given their expanded roles, increased time commitment requirements following corporate governance changes and the significant work required on the Group succession plans.

The Chairman receives a fee of £120,000 per annum which comprises a Chairman's fee of £57,500, directorship fee of £32,500 and fees in respect of his membership of the Finance, Investment, Remuneration and Nomination committees. All Non-Executive Directors received a basic fee of £32,500 per annum. Non-Executive Directors received additional fees in respect of membership of Board committees as follows:

Audit committee	£7,500 per annum
Remuneration committee	£7,500 per annum
Nomination committee	£7,500 per annum
Finance committee	£10,000 per annum
Investment committee	£5,000 per annum

The fee paid to the Chairmen of the Audit, Remuneration and Nomination Committees is £10,000 per committee per annum. Don McCrickard is the Senior Independent Director and receives an additional fee of £12,500 per annum. Anthony Townsend chairs the Board of Brit Syndicates Limited for which he receives an additional annual fee of £10,000 over and above the standard subsidiary board fees.

2 Share-based incentives

(a) Share Options – The interests of the Directors in share options in the Company are set out in the table below:

	Scheme	1 January 2004	Number of options granted in year	**As at 31 December 2004**	Exercise price at date of grant/rollover	Date from which exercisable	Expiry date
Current Directors							
Dane Douetil	A	–	414,023	**414,023**	78.50p	18/10/07	17/10/14
	A	357,520	–	**357,520**	76.92p	03/11/06	02/11/13
	B	749,224	–	**749,224**	62.50p	23/10/05	22/10/12
	B	450,000	–	**450,000**	70.83p	31/05/05	30/05/12
	B	250,000	–	**250,000**	66.00p	24/05/03	23/05/10
Neil Eckert	A	–	541,406	**541,406**	78.50p	18/10/07	17/10/14
	A	487,520	–	**487,520**	76.92p	03/11/06	02/11/13
	B	589,473	–	**589,473**	142.50p	10/09/01	09/09/08
	B	525,000	–	**525,000**	80.25p	06/12/02	05/12/09
Matthew Scales	A	–	382,166	**382,166**	78.50p	18/10/07	17/10/14
	A	357,520	–	**357,520**	76.92p	03/11/06	02/11/13
	B	172,646	–	**172,646**	62.50p	23/10/05	22/10/12
	B	400,000	–	**400,000**	70.83p	31/05/05	30/05/12
	B	300,000	–	**300,000**	66.00p	24/05/03	23/05/10
Former Directors							
Jo Welman [1]	B	210,526	–	**210,526**	142.50p	10/09/01	09/09/08
	B	300,000	–	**300,000**	80.25p	06/12/02	05/12/09

A Options granted to directors under the Brit Executive Share Option Scheme 2003.
B Options granted to directors under the Brit 1998 Unapproved Executive Share Option Scheme.
1 As at cessation of directorship, 27 May 2004.
All of the above options were granted for nil consideration, save in respect of 749,224 options granted to Dane Douetil and 172,646 options granted to Matthew Scales on 23 October 2002, further details of which are disclosed below.

The Remuneration Committee has applied performance conditions to all of the above options, except in the special circumstances detailed below. The performance conditions for options granted in 2003 and 2004 under the Brit Executive Share Option Scheme 2003 are explained on page 34.

The performance conditions applied to options granted under the Brit 1998 Unapproved Executive Share Option Scheme (the "1998 Scheme") were determined following discussions with the Company's advisors and consideration of market practice. The full performance conditions for options granted in 1998, 1999, 2000 and 2002 state that options are only exercisable if the Company's ranking in terms of TSR is higher than the average TSR growth of the FTSE Actuaries (Insurance) Index and the FTSE 100 Index over a performance period of three years. Additional phased vesting performance conditions based on TSR were applied to any options granted to senior executives and directors in May 2002 in excess of 1 x salary whereby vesting of the options in excess of 1 x salary is contingent on the Company's TSR exceeding the FT Actuaries (Insurance) Index over a performance period of three years. For the amount of options granted in excess of 1 x salary to vest in full, the TSR must have exceeded the FT Insurance Index by 25% or more.

In 2002, the Committee agreed to use the 1998 Scheme to satisfy in part a commercial settlement which had been agreed with the participants of the Brit Insurance Phantom Share Option Scheme. On 23 October 2002 a total of 1,353,913 options at a strike price of 62.50p were awarded to Group employees who were participants of the Phantom Scheme, of which 749,224 options were awarded to Dane Douetil and 172,646 options were awarded to Matthew Scales. Performance conditions were not applied to these options as they were awarded as part of a commercial settlement, but all other normal vesting criteria were applied. Full details of the settlement are disclosed in the Company's Report and Accounts 2002.

No further grants will be made under the 1998 Scheme.

No options were exercised by the directors during the year and no options expired unexercised during the year.

(b) Share Awards – The interests of the Directors in share awards made under the Brit Performance Share Plan 2003 are set out in the table below:

	Performance period ended	Award date	Plan interest (shares) as at 1 January 2004	Number of plan shares allocated in 2004	Plan interest (shares) vested in 2004	**Plan interest (shares) as at 31 December 2004**	Value vested 2004	Vesting date
Dane Douetil	2007	18/10/04	–	308,188	–	**308,188**	–	18/10/07
	2006	03/11/03	360,113	–	–	**360,113**	–	03/11/06
Neil Eckert	2007	18/10/04	–	403,009	–	**403,009**	–	18/10/07
	2006	03/11/03	491,055	–	–	**491,055**	–	03/11/06
Matthew Scales	2007	18/10/04	–	284,475	–	**284,475**	–	18/10/07
	2006	03/11/03	360,113	–	–	**360,113**	–	03/11/06

The share price as at 18 October 2004 was 70.75p. The Remuneration Committee has applied performance conditions to all awards and these are explained on page 34.

Share Price – The share price at 31 December 2004 was 78.75p (31 December 2003: 72.75p). The highest and lowest closing prices during the financial year were 90.50p and 66.75p respectively.

Brit Employee Share Ownership Plan 2001 – This Inland Revenue approved Plan, which was approved by shareholders in June 2001, is generally available to all Group employees and subject to vesting periods of three to five years.

	As at January 2004	Free shares granted in year	Partnership shares acquired in year	Matching shares granted in year	**As at 31 December 2004**
Current Directors					
Dane Douetil	8,392	500	1,908	951	**11,751**
Neil Eckert	8,392	500	1,908	951	**11,751**
Matthew Scales	8,392	500	1,908	951	**11,751**

3 Directors' Pension Benefits

No director who held office during 2004 was a member of a defined benefit pension scheme.

A funded unapproved retirement scheme (FURBS) is run by the Company. Contributions are paid annually in arrears.

Neil Eckert is a member of the Brit Insurance defined contribution scheme. Matthew Scales is a member of the FURBS scheme and the Brit Insurance Limited defined contribution scheme. Dane Douetil is a member of the FURBS scheme and the defined contribution Brit Group Services stakeholder scheme. Only basic salary of the Executive Directors is pensionable. The Chairman and the Non-Executive Directors do not have any pension benefits.

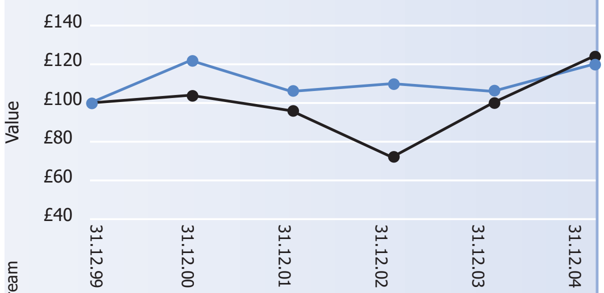
External Appointments

Executive Directors are permitted to accept appointments on external boards or committees so long as these are not deemed to interfere with the business of the Group. Any fees received in respect of these appointments are remitted to the Group and any such fees are reflected in the remuneration package of the individual Director concerned.

Performance Graph

As required by legislation regarding disclosure in the remuneration report, Graph 1 illustrates the performance of Brit and a "broad equity market index" over the past five years. Brit became a constituent of the FTSE Mid 250 index in 2002 and therefore that index is considered the most appropriate form of "broad equity market index" against which the Group's performance should be graphed. Performance, as required by the legislation, is measured by Total Shareholder Return (share price growth plus dividends paid). Graph 2 illustrates the Group's performance compared with the FTSE All Share Insurance Index, the index used for the purposes of performance conditions attaching to the Performance Share Plan 2003.

Graph 1 Total Shareholder Return – Brit vs FTSE Mid 250 Index

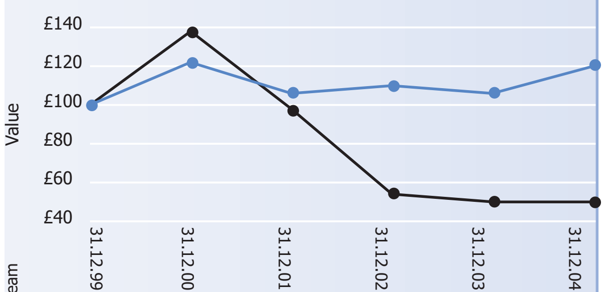


This graph shows the value, by the end of 2004, of £100 invested in Brit Insurance on 31 December 1999 compared with that of £100 invested in the FTSE Mid 250 Index. The other points plotted are the values at intermediate financial year-ends.

Source: Datastream

Brit Insurance Holdings — FTSE Mid 250 Index

Graph 2 Total Shareholder Return – Brit vs FTSE All-Share Insurance Sector Index



This graph shows the value, by the end of 2004, of £100 invested in Brit Insurance on 31 December 1999 compared with that of £100 invested in the FTSE All-Share Insurance Sector Index. The other points plotted are the values at intermediate financial year-ends.

Source: Datastream

Brit Insurance Holdings — FTSE All-Share Insurance Sector Index

The Chairman of the Committee will attend the AGM and will be available to answer shareholders' questions regarding remuneration.

Sections numbered 1, 2 and 3 of this report have been audited.

On Behalf of the Board
Don McCrickard
Chairman of the Remuneration Committee
28 February 2005

Combined Code Compliance

The Board of Brit Insurance Holdings PLC is committed to business integrity, ethics and professionalism across its activities and as an essential part of this commitment, the Board promotes the highest standards of corporate governance. This report summarises how the Board is applying all principles of good governance in the Combined Code on Corporate Governance.

During the year, the Company carried out a review of its corporate governance practices and a number of the measures were implemented in order for the Company to be in a position to report its substantial compliance with the requirements of the Code. These include replacing Jo Welman with two independent Non-Executive Directors.

The Board considers that the Company has complied with the provisions set out in Section 1 of the Code throughout the period under review (and subsequently up to the date of this report) with the following exceptions:

- the Chairman, Clive Coates, is a member of the Remuneration Committee. His continued membership, however, is considered by the Board to be appropriate and his relevant industry experience valuable. Along with the Non-Executive Directors, his remuneration is not set by this Committee but by the Executive Management Committee to preserve independence of contribution.
- Don McCrickard may not be presumed wholly independent under the Code because of his duration in office. The Board, mindful of stakeholders' interests, does not consider that his independence in character or judgement has been compromised by the expiration of an arbitrary time period. Also the number of independent Non-Executive Directors increased by two to five in 2004 and, in addition to further improving Board balance, these individuals joined the Nomination and Remuneration Committees that Don chairs.

The Board

Composition – The Board comprises a part-time Chairman, the Chief Executive, two further Executive Directors and five Non-Executive Directors, reflecting Brit's policy that a majority of the Board should be made up of independent Non-Executive Directors. The Board is satisfied that the executive and non-executive elements of the Board are well-balanced, that no individual or group of individuals is or has been in a position to dominate the Board's decision-making and that the Board, as currently constituted, has strongly independent and diverse characteristics.

Role – The Board is responsible for the system of corporate governance and is ultimately accountable for strategy, delivering shareholder value and financial performance. The Board therefore sets risk appetite and core values, approves strategic plans, annual budgets, extraordinary capital and investment expenditure, the risk management framework for internal controls, governance and compliance.

The Chairman – Clive Coates – is responsible for leading an effective Board, ensuring that the Board adheres to its role, maintaining effective communications with major shareholders and, with the assistance of the Company Secretary, ensuring timely delivery to the Board of accurate and relevant information on financial, business and corporate issues.

The Chief Executive – Neil Eckert – is responsible for the executive management of the Company, building long-term shareholder value and recommends and implements the strategy, budget and overall policies set by the Board.

The Non-Executive Directors

Independence – As explained above, the Board continues to regard Don McCrickard as independent. The Board also considers Peter Hazell, Glyn MacAulay, Michael Smith and Anthony Townsend to be independent. Each of them brings to the Board wide experience and an objective viewpoint and none of the factors implying a lack of independence as set out in the Code applies.

The Senior Independent Director – Don McCrickard – is available to shareholders if contact through the channels of Chairman and Chief Executive fails to resolve an issue. He meets with major shareholders from time to time to gain a balanced understanding of their views.

Meetings of Non–Executives – During 2004, the Non-Executive Directors met formally without executive management present on two occasions with and on one without the Chairman present.

Time Commitment – The Board is satisfied that the Non-Executive Directors and Chairman commit sufficient time to the fulfillment of their duties as directors of the Company. The external commitments of the Chairman did not change during 2004. Non-Executive Directors have specified terms of office.

Election and re-election

Directors are initially appointed by the Board and, in accordance with the Articles, retire and seek re-election at the next AGM. Thereafter, in accordance with the Articles, one-third of the Directors retires by rotation and seeks re-appointment at each AGM. Directors are re-elected at intervals of no more than three years as required under the Code. Those members of the Nomination Committee not interested have reviewed those individuals due for re-election at the 2005 AGM – Clive Coates, Neil Eckert, Glyn MacAulay and Don McCrickard – and, in light of the breadth and relevance of their experience and skills and the contributions they each make to the Board and its committees, the Committee made recommendations to the Board that they be put forward for re-election (save for Glyn MacAulay, who is retiring).

As his tenure in office has exceeded nine years Don McCrickard is subject to annual re-election and has expressed the intention to stand down at the 2006 AGM (when the hand-over to his successor as chair of the Remuneration and Nomination Committees should be completed). The Board recommends Don's continuance in office for the following reasons:

- the experience Don brings as a former FTSE 100 Chief Executive is proving invaluable in board structuring, ongoing succession planning and governance. This is phased work in progress which the Board would like to be completed under Don's chairmanship of the Nomination and Remuneration Committees.
- were Don to retire along with Glyn MacAulay at the next AGM it would leave the Company with only one Non-Executive Director (in addition to the Chairman) with more than one year's experience of the Group.
- the phasing of actions which is underway enables the Company to manage the process in accordance with its own needs in the best interests of shareholders.

Board Effectiveness

Performance Evaluation – Late in 2003 – under the Chairman's sponsorship – the Board commenced a rigorous performance evaluation involving independent consultants, Edis-Bates Associates. The scope of the review covered the Board, its members and committees, roles and processes. The findings included input from external stakeholders and these were presented to the Chairman and discussed fully by the Board at a special meeting in August 2004. The outcome of the evaluation has been positive and recommendations implemented include simplifying Board processes; refining the Board's and Non-Executives' roles; reviewing professional development needs; refreshing the strategic and business planning cycle timetable and formulating a more extensive succession plan. The Company Secretary monitors progress on behalf of the Board, which will use external consultants every third year.

At the end of 2004, the Board reviewed an internal report sponsored by the Chairman and this was completed shortly after year end. Significant progress has been made and the main outstanding issue is refinement of the succession plan.

Chairman's Performance – A separate process involving a meeting of Non-Executive Directors led by the Senior Independent Director without the Chairman present was held in the year and this took into account the views of the executive directors.

Continuing Professional Development – Brit has reviewed the continuing professional development needs of each Director and a programme has been made available to all Directors of the Company in 2004 and monitored by Human Resources. Non-Executive Directors have attended specific courses on remuneration, pension and accounting issues. In addition, the Directors receive regular updates or lunchtime briefings on activities concerning the business and particular topics affecting their duties.

Induction – Newly appointed Directors (including those on operating subsidiaries) receive induction on the Group's operations and activities and risks, responsibilities of a Director, role of the Board and committees, governance policies and procedures.

How the Board Operates

The Board holds at least six scheduled meetings a year and other meetings on an ad hoc basis as and when required. The Board met on nine occasions in 2004 of which six were scheduled and three ad hoc meetings. Papers are distributed five days in advance of each meeting.

Company Secretary – All Directors have access to Peter Goddard, who is responsible for supporting and advising the Chairman and Board on all corporate governance matters, Board procedures and compliance with applicable rules and regulations. The Secretary can only be removed by the Board.

Independent Professional Advice – The procedure for Directors, in the furtherance of their duties, to seek advice at the Company's expense is co-ordinated through the Company Secretary.

Insurance – The Company maintains Directors and Officers' insurance on such terms and level of cover which the Board considers appropriate.

External Directorships – External directorships held by Executive Directors are approved by the Chairman.

Delegation – The Board has a formal schedule of matters reserved to it for decision which include: approval of the financial results, strategy and corporate objectives, significant transactions and matters affecting share capital. Subject to this, the Board delegates certain powers to the following committees within written terms of reference:

- the *Executive Management Committee* comprises the three Executive Directors, the Company Secretary and two other senior executives. Chaired by the Chief Executive, this Committee is the primary vehicle for implementing Board decisions and managing the Group's business on a day-to-day basis. It normally meets twice a week.
- the *Audit Committee* reviews the financial and internal reporting process, the system of internal control, risk management and the external and internal audit process. It meets at least four times a year and wholly comprises independent Non-Executive Directors. The Report of the Audit Committee is at page 43.
- the *Nomination Committee* reviews the structure, size and composition of the Board and recommends appointees to the Board, as well as establishing, approving and monitoring the succession planning for Board and senior management. It meets at least twice a year and comprises a majority of independent Non-Executive Directors. The Report of the Nomination Committee is at page 45.
- the *Remuneration Committee* determines the terms of service and remuneration of Executive Directors and senior management, using input from external advisers and sets policy in this area. It meets at least four times a year and comprises a majority of independent Non-Executive Directors.
- the *Risk Management Group* assesses the corporate risks affecting the Group and the effectiveness of the control environment. It meets monthly and comprises the Group Finance Director, the Company Secretary and appropriate senior management.

Membership and Attendance at Meetings

Attendance by individual Directors at Board and Committee meetings which they were eligible to attend was as follows:

	Board	Audit	Nomination	Remuneration
C F Coates	9/9		3/3	5/6
D J Douetil	9/9			
N D Eckert	9/9			
P Hazell [1]	7/7	3/4	1/1	
G F MacAulay	9/9	5/5	2/3	6/6
D C McCrickard	7/9	3/5	3/3	6/6
M Scales	9/9			
M Smith [2]	7/7		1/1	4/4
J A V Townsend	9/9	4/5	1/3	5/5 [3]
Jo Welman [4]	4/4		2/2	3/3

1 Peter Hazell was appointed to the Board on 1 April 2004.
2 Michael Smith was appointed to the Board on 8 March 2004.
3 Anthony Townsend was appointed to the Remuneration Committee on 24 February 2004.
4 Jo Welman resigned from the Board on 27 May 2004.

Internal Control and Risk Management

The Board is ultimately responsible for the Group's systems of internal control and for reviewing their effectiveness. These systems manage the risks of the Group's business, ensure that financial information on which business decisions are made and which is published is reliable, and ensure that Group assets are safeguarded. The systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal controls aim to provide reasonable and not absolute assurance against material mis-statement or loss.

Control and Risk Framework – The corporate governance framework is a key feature of the control environment with its matters reserved to the Board, terms of reference for each committee, delegation of authority to executive management, and policies and procedures for the operations. During 2004 a complementary Group risk management framework was implemented to ensure a consistent and transparent risk management process across the Group that links to the Group's strategic and business plans.

Assurance – Independent risk management, compliance and internal audit functions identify, evaluate and monitor significant risks. The Risk Management Group reviews this work to identify and objectively assess a risk in terms of financial impact, likelihood and the effectiveness of the relevant internal control. The risk register that has resulted is continually updated and the effectiveness of controls communicated to the relevant business unit with internal audit conducting the follow-up review programme. The process has been in place for the year under review and up to date of the approval of the annual report and accounts. The Risk Management Group reports to the Audit Committee and Board and is responsible for monitoring the controls relating to:

- *strategic planning,* risk appetite and asset allocation policy for operating divisions are conducted through the Chief Executive's office.
- *underwriting activities* One of the Group's core activities is to accept risks from parties who do not manage their risk exposures through internal controls alone. As such the financial outcomes of accepting third parties' risks can be subject to considerable volatility and this is a primary focus of Brit's internal control systems. Group underwriting activities are co-ordinated by the Underwriting Sub-committee which:
  - oversees the use of Group capital allocated to underwriting;
  - manages exposures of the Group, ensuring that these remain within risk appetite parameters agreed by the Board;

- continually reviews all classes of insurance and reinsurance underwritten to determine the Group's portfolio mix; and
- ensures consistent, prudent and appropriate reserving across the Group.

The Underwriting Sub-committee conducts an annual business planning exercise to ensure that these requirements of the Board are complied with and any changes are subject to a formal approval process. Each requirement is maintained by a nominated Sub-committee covering areas such as delegation of underwriting authority, reinsurance, security, claims and reserving.

- *asset allocation* and the overall benchmark for investment returns and guidelines are set and monitored by the Investment Sub-committee.
- *financial performance and planning* are monitored through the Finance Sub-committee which co-ordinates the overall budget and the timing and accurate delivery of all financial reporting. Monthly monitoring includes cash flow management, counterparty credit control, expenses, tax, foreign exchange, capital management, and key performance indicators.
- *operational risks* – these include information technology and human resources. Information technology is critical to the Group's activities and IT systems are continuously evaluated and disaster recovery and business continuity plans are the subject of regular review. Training and development are aligned to the Group's objectives.
- *regulatory compliance* – the Group operates in a highly regulated environment and regulatory compliance is embedded within the Group and adherence continually monitored by the Compliance Officers.

Board Review – Prior to producing this internal control statement, the Board undertook a formal assessment of the risk management and control environment in order to form a view on the overall effectiveness of the system of internal control. The assessment considered issues dealt with in reports received by the Executive Management Committee and the Board during the year together with any additional information necessary to ensure that the Board has taken account of significant aspects of internal controls for the Group.

Code Compliance – The Company has complied during the year with the Code provisions on internal control and has maintained policies and procedures necessary to implement the guidance therein.

Relations with Shareholders

During the year, the Chief Executive, his Deputy and the Group Finance Director held meetings with the Company's principal institutional shareholders to discuss the Company's strategy and financial performance. In addition, the Chairman and Senior Independent Director hold meetings with major shareholders, as recommended by the Code. The Board received reports on the items discussed at all these meetings and matters arising.

In 2004, the Company's investor relations team organised meetings with major investors and stakeholders in the UK and abroad and disseminated information through various media subject to a control framework to ensure protection of price sensitive information. A programme of meetings was initiated after the release of final and interim results and other significant announcements. The investor relations section on the Company's website (www.britinsurance.com) displays press releases, shareholder presentations and the terms of reference for the Audit, Nomination and Remuneration Committees. Shareholders are encouraged to contact the Company direct with questions or concerns and, subject to price sensitivity, the investor relations team seek to provide an efficient and timely response.

The Board received a regular report from the Company Secretary about significant shareholdings and changes to the shareholder register.

At the Annual General Meeting, shareholders have an opportunity to meet the Chairman and other Directors, and to receive an update on the development of the business and to ask questions of the Board. The Chairmen of the Audit, Nomination and Remuneration Committees attend the meeting and are available to answer relevant questions. The annual report and accounts and the notice of meeting are sent to shareholders at least 20 working days prior to the date of the AGM. The Company proposes a separate resolution for each item of business, giving shareholders the opportunity to vote on each substantially different issue. The results of the proxy votes received by the Company, including abstentions, are declared at the meeting, following votes by shareholders on a show of hands.

Peter Goddard
Secretary
28 February 2005

Composition and Terms of Reference

Composition – The Committee comprises entirely Non-Executive Directors all of whom served throughout the year (with the exception of Peter Hazell). All members are considered independent by the Company and are:

Glyn MacAulay Chairman of the Committee
Peter Hazell appointed 1 April 2004
Don McCrickard
Anthony Townsend

Glyn MacAulay will be retiring from the Board at the next AGM and Peter Hazell will replace him as Chairman of the Committee. Both are considered by the Board to possess relevant and recent financial experience and their biographies are on page 27. Don McCrickard chairs the audit committee of a building society and, together with the other Committee members who sit on the audit committees of other listed companies, brings to the Group a wide range of business experience.

Glyn MacAulay has a prior relationship with the predecessor firm to the Company's auditors and this is disclosed at page 27. The Committee is satisfied that this former relationship does not prejudice the independence of neither Glyn MacAulay nor the Company's auditors.

Terms of Reference – The Committee's principal areas of responsibility concern the Group's financial statements, together with external and internal audit. Specifically it:

- reviews the annual and interim financial statements of the Company and principal operating subsidiaries along with their accounting policies;
- monitors compliance with the financial reporting requirements of Accounting Standards, the Financial Services Authority's Listing Rules and the Companies Act 1985;
- agrees the nature, scope and planning of the audit with the external auditors;
- reviews matters arising from the audit with the external auditors (including difficulties, reservations, cost effectiveness and fees);
- reviews the independence and objectivity of the external auditors, including a review of non-audit fees;
- recommends to the Board the appointment, re-appointment or removal of the external auditors;
- approves the plans and reviews the effectiveness of the internal audit function;
- liaises with the Risk Management Group as regards the effectiveness of the Company's internal control policies and risk management framework;
- monitors compliance with important regulations relevant to the activities of the Group and its subsidiaries; and
- reviews and monitors whistle blowing procedures.

The Committee's terms of reference are available on the Company's website at www.britinsurance.com or from the Company Secretary at the registered office.

Activity

The Committee has focused on the following activities during the year:

- annual audit and interim review planning;
- monitoring the integrity of the financial statements;
- the Group's preparedness for introduction of International Financial Reporting Standards;
- the relationship with auditors and their independence;
- internal audit reporting;
- risk management; and
- succession planning.

Audit – The Committee has worked closely with the Company's financial team and its external auditors to ensure that the audit processes adopted in connection with the Group's financial statements accord with best practice. The Chairman of the Committee has regular meetings with the Company's Finance Director and external auditors.

Integrity – The Committee has examined in detail with the Company's financial team and its external auditors the integrity of the annual financial statements.

International Financial Reporting Standards – The Committee regularly reviews the Group's project for adopting IFRS (which external auditors have reviewed) and has convened specific meetings dedicated to understanding issues and assess progress. The Committee is satisfied that the project is on schedule.

Independence of External Auditors – The Company's external auditors are generally prohibited from carrying out work falling outside their permitted services and other accounting firms are utilised for such work to preserve the auditors' independence (see breakdown in Note 8). If there is uncertainty as to whether a matter falls within the permitted services, the matter is referred to the Finance Director who will consult with the Chairman of the Committee.

The Committee has examined with external auditors how their independence from the Company can be assured and reviewed the connections, if any, with Directors of the Company.

The Committee has reviewed the policy on non-audit work and the permitted services which substantially follows ICAEW guidelines. This includes audit work; further assurance services; tax compliance services; and such other ancillary services that raise no questions as to the auditors' independence.

Mazars LLP report regularly to the Committee on the actions taken to comply with professional and regulatory requirements in order to maintain auditor independence.

Internal Audit – The internal audit function reports to the Committee. The Head of Internal Audit was appointed by the Committee and Committee members have individually met regularly with him during the year to review work plans and findings. The internal audit function presents a report at each regular meeting of the Committee.

Risk Management – During the year, the Group has continued to develop its risk management framework and the Committee has reviewed progress along with the internal controls assurance mechanisms in the Group. The Committee has reviewed the Annual Report on Internal Controls at page 41.

Governance – The Committee met five times during the year and details of attendance are disclosed in the Corporate Governance Report. The Finance Director and other non-members attend by invitation of the Chairman. The Company Secretary attends all formal meetings.

Glyn MacAulay
Chairman of the Audit Committee
28 February 2005

Composition and Terms of Reference

Composition – The Committee comprises the Chairman of the Company and all Non-Executive Directors all of whom served throughout the year (with the exceptions of Peter Hazell and Michael Smith. Jo Welman served from 1 January 2004 until 27 May 2004). Members are:

Don McCrickard* Chairman of the Committee
Clive Coates
Peter Hazell* appointed 11 January 2005
Glyn MacAulay*
Michael Smith* appointed 1 April 2004
Anthony Townsend*

*considered independent by the Board

Terms of Reference – The Committee is responsible for:

- reviewing the structure, size and composition of the Board;
- assessing the independence of Non-Executive Directors;
- evaluating the skills, knowledge and experience on the Board, identifying any gaps;
- ensuring that a performance evaluation is conducted;
- making recommendations to the Board on the appointment of Executive and Non-Executive Directors;
- ensuring that procedures are in place for Board appointments; and
- ensuring that succession plans are in place.

The Committee's full terms of reference are displayed on the Company's website at www.britinsurance.com and are also available from the Company Secretary at the registered office. Copies of the Non-Executive Directors' appointment letters and Executive Directors' service agreements are available for inspection at the registered office.

Activity

The Committee focused on three principal activities during the year:

- the composition and balance of the Board and the appointment of two Non-Executive Directors;
- the development of the Group's succession planning; and
- the phasing of director appointments to meet the requirements of the business.

Board Appointments – In the second half of 2003 following its recommendation on Board refreshment, the Committee was tasked by the Board with identifying further Non-Executive Directors for appointment and the time commitment required. The Committee retained Egon Zehnder as external consultants to find suitable candidates for the detailed profile which was jointly developed for each vacancy. Interviewing was completed at the end of January following which the Committee made final recommendations to the Board in the first quarter of 2004 on appointees and the committees of the Board that they should sit on. Michael Smith and Peter Hazell were appointed to the Board on 8 March and 1 April 2004 respectively.

Board Evaluation – The Committee recommended that the board evaluation requirements under the Combined Code were best addressed by the Chairman of the Company acting as sponsor with the final report being considered by the whole Board. This is examined in the Corporate Governance Report at page 40 and has proved useful to the Committee's work in examining the roles and responsibilities of each director, assessing Non-Executive Directors' independence and gaining a better understanding of the time commitment and attributes required of each of the Non-Executive Directors.

Succession Planning – The Board evaluation has in turn contributed to the Committee's development of a succession plan for the Group covering directors, executives and senior management.

The first element of the succession plan was that of the Chief Executive. Neil Eckert has held this office since 1999 and, after a review of the expanded Group's needs, the Committee recommended that Dane Douetil be appointed as Deputy and this was announced in March 2004. Since then, he has been working closely with Neil Eckert in anticipation of this planned succession of Chief Executive and the Committee recommended that Dane Douetil be appointed Chief Executive in February 2005. Neil Eckert will continue to work in an executive capacity spending more of his time on the strategic investments and investment management business and supporting Dane Douetil until the end of the year, at which time he has agreed to remain as a Non-Executive Director. These changes were approved by the Board on 28 February 2005 to take effect from the AGM on 19 April 2005.

The second element was to agree the profile for the replacement Non-Executive Director for Glyn MacAulay (who retires at the 2005 Annual General Meeting). Russell Reynolds are currently carrying out this search which the Committee hopes to complete before the half year.

Thirdly, the profile for a successor to Don McCrickard will be fed into these processes in due course as part of our phased planning.

Independence – The Committee also reviewed Don McCrickard's term of office at the beginning of 2004 before recommending that shareholders' interests were best served by re-appointing him for a further year. This was endorsed at the 2004 Annual General Meeting.

At the end of 2004 the Committee again considered Don McCrickard's tenure and recommended that this should be renewed whilst his successor is found. This is explained in detail in the Corporate Governance Report at page 40. Don McCrickard has abstained from involving himself in such discussions.

The Committee has reviewed the independence of all Non-Executive Directors and this is examined in detail in the Corporate Governance Report at page 39.

Governance – The Committee met formally three times during the year and its members have also met frequently on an informal basis. The Company Secretary attends all formal meetings. Details of attendance are disclosed in the Corporate Governance Report.

Don McCrickard
Chairman of the Nomination Committee
28 February 2005

Overleaf: Howard Read's interpretation of "The Stronger Option".

Financial Statements

Consolidated Profit and Loss Account – Technical Account – General Business

for the year ended 31 December 2004

	Notes	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Earned premiums, net of reinsurance:			
Gross premiums written		**1,086,731**	1,015,727
Outward reinsurance premiums		**(176,300)**	(164,962)
Net premiums written		**910,431**	850,765
Change in the provision for unearned premiums		**(63,599)**	(181,388)
Change in the provision for unearned premiums, reinsurers' share		**7,642**	2,059
Net change in the provision for unearned premiums		**(55,957)**	(179,329)
Earned premiums, net of reinsurance		**854,474**	671,436
Allocated investment return transferred from the non-technical account		**61,439**	43,985
Total technical income		**915,913**	715,421
Claims incurred, net of reinsurance:			
Claims paid:			
Gross amount		**(309,077)**	(228,667)
Reinsurers' share		**57,293**	89,490
Net claims paid		**(251,784)**	(139,177)
Change in the provision for claims:			
Gross amount		**(361,621)**	(224,234)
Reinsurers' share		**67,760**	(37,039)
Net change in the provision for claims		**(293,861)**	(261,273)
Technical charges:			
Claims incurred, net of reinsurance		**(545,645)**	(400,450)
Change in other technical provisions		**(5,254)**	(673)
Net operating expenses	2	**(244,779)**	(210,840)
Change in the equalisation provision		**1,737**	(3,186)
Total technical charges		**(793,941)**	(615,149)
Balance transferred to the non-technical account		**121,972**	100,272

Consolidated Profit and Loss Account – Non-Technical Account

for the year ended 31 December 2004

	Notes	Year ended 31 December 2004 £'000	Year ended 31 December 2003 (restated) £'000
Balance on technical account for general business		**121,972**	100,272
Net investment return	3	**69,623**	42,708
Allocated investment return transferred to the technical account for general business		**(61,439)**	(43,985)
Fees and commissions	4	**2,542**	8,653
Other income	5	**310**	1,540
Other expenses	6	**(31,116)**	(33,761)
Operating profit		**101,892**	75,427
Profit on disposal of subsidiary undertakings		**–**	1,920
Share of operating profit in associated undertakings, net of goodwill amortisation	15	**577**	219
Profit on ordinary activities before tax		**102,469**	77,566
Tax charge on profit on ordinary activities	9	**(30,074)**	(20,385)
Profit on ordinary activities after tax		**72,395**	57,181
Equity minority interests	27	**(362)**	312
Profit attributable to members of the parent company		**72,033**	57,493
Equity dividends	10	**(58,067)**	–
Profit retained for the year		**13,966**	57,493
Operating profit based on the long-term rate of investment return		**97,615**	91,167
Short-term fluctuations in investment return		**4,277**	(15,740)
Operating profit		**101,892**	75,427
Basic earnings per share (pence per share)	11	**7.45p**	6.58p
Diluted earnings per share (pence per share)	11	**7.30p**	6.50p

In accordance with the amendment to Financial Reporting Standard 3 "Reporting Financial Performance", the inclusion of unrealised gains and losses in the profit and loss account to reflect the marking to market of investments in the balance sheet is deemed not to be a departure from the unmodified historical cost basis of accounting. Accordingly a separate note of historical cost profits and losses is not given.

All results arise from continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2004

	Notes	Year ended 31 December 2004 £'000	Year ended 31 December 2003 (restated) £'000
Profit attributable to members of the parent company		**72,033**	57,493
Prior year adjustment	24	**110**	
Total recognised gains and losses relating to the year		**72,143**	

Consolidated Balance Sheet

as at 31 December 2004

Assets	Notes	As at 31 December 2004 £'000	As at 31 December 2003 (restated) £'000
Intangible assets:			
Syndicate participations		**502**	2,236
Goodwill		**59,631**	67,732
	12	**60,133**	69,968
Investments:			
Financial investments	13	**1,719,684**	1,164,122
Investments in associated undertakings	15	**1,570**	253
		1,721,254	1,164,375
Reinsurers' share of technical provisions:			
Provision for unearned premiums		**59,610**	103,072
Claims outstanding		**266,438**	222,863
		326,048	325,935
Debtors:			
Arising out of direct insurance operations		**183,638**	147,917
Arising out of reinsurance operations		**266,719**	255,305
Other debtors	17	**31,325**	31,976
		481,682	435,198
Other assets:			
Tangible assets	18	**11,194**	4,779
Cash at bank and in hand		**97,785**	183,993
Other assets		**29,286**	15,069
		138,265	203,841
Prepayments and accrued income:			
Deferred taxation	22	**–**	18,922
Deferred acquisition costs		**110,436**	100,481
Other prepayments and accrued income	19	**17,690**	11,409
		128,126	130,812
Total assets		**2,855,508**	2,330,129

Consolidated Balance Sheet

as at 31 December 2004

Liabilities	Notes	**As at 31 December 2004 £'000**	As at 31 December 2003 (restated) £'000
Capital and reserves:			
Called up share capital	23	**243,518**	243,513
Share premium account	24	**311,145**	481,135
Capital redemption reserve	24	**586**	586
Investment in own shares	24&26	**(5,615)**	(4,085)
Profit and loss account	24	**160,341**	(23,625)
Equity Shareholders' funds	25	**709,975**	697,524
Equity minority interests	27	**10,238**	9,398
Technical provisions:			
Provision for unearned premiums		**566,801**	569,764
Claims outstanding		**1,284,715**	852,340
Equalisation provision		**3,933**	5,670
Other technical provisions		**–**	(5,254)
		1,855,449	1,422,520
Provisions for other risks and charges			
Deferred taxation	21	**10,837**	–
Other provisions	21	**533**	801
		11,370	801
Creditors: Amounts falling due within one year			
Arising out of direct insurance operations		**15,824**	23,969
Arising out of reinsurance operations		**126,009**	71,862
Other creditors	20	**61,408**	31,195
		203,241	127,026
Creditors: Amounts falling due after more than one year			
Other creditors including convertible debt	20	**51,654**	58,872
Accruals and deferred income		**13,581**	13,988
Total liabilities		**2,855,508**	2,330,129

Balance Sheet of the Company

as at 31 December 2004

	Notes	As at 31 December 2004 £'000	As at 31 December (restated) 2003 £'000
Fixed asset investments:			
Investments in subsidiary undertakings	14	**506,854**	506,854
Investments in associated undertakings	15	**1,055**	62
Other financial investments	13	**28,141**	63,005
		536,050	569,921
Current assets:			
Debtors	17	**198,699**	187,539
Deferred taxation	22	**355**	295
Prepayments and accrued income	19	**26**	19
Cash at bank and in hand		**210**	4,066
		199,290	191,919
Creditors: Amounts falling due within one year			
Other creditors	20	**(37,526)**	–
Accruals and deferred income		**(2,197)**	(3,923)
		(39,723)	(3,923)
Net current assets		**159,567**	187,996
Total assets less current liabilities		**695,617**	757,917
Creditors: Amounts falling due after more than one year			
Other creditors including convertible debt	20	**(51,654)**	(58,872)
Net assets		**643,963**	699,045
Capital and reserves:			
Called up share capital	23	**243,518**	243,513
Share premium account	24	**311,145**	481,135
Capital redemption reserve	24	**586**	586
Investment in own shares	24&26	**(264)**	(445)
Profit and loss account	24	**88,978**	(25,744)
Equity Shareholders' funds	25	**643,963**	699,045

The financial statements were approved by the Board of Directors on 28 February 2005 and were signed on its behalf by

Clive Coates
Chairman

Matthew Scales
Finance Director

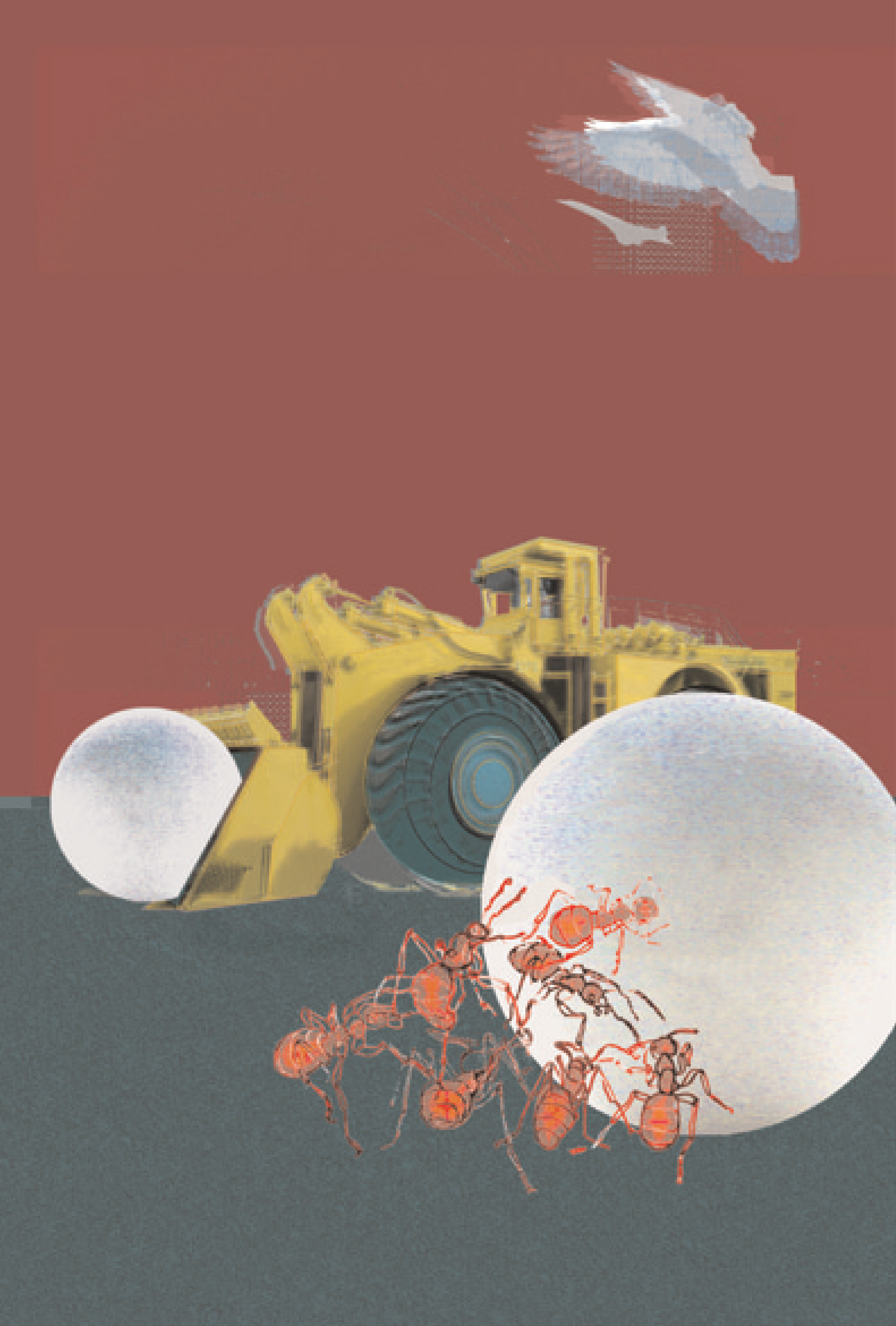
Consolidated Cash Flow Statement

for the year ended 31 December 2004

	Notes	Year ended 31 December 2004 £'000	Year ended 31 December 2003 (restated) £'000
Net cash inflow from operating activities	30(ii)	**269,408**	226,416
Interest:			
Interest paid		**(2,758)**	(4,600)
Taxation:			
Corporation tax recovered/(paid)		**1,621**	(973)
Capital expenditure:			
Purchase of tangible fixed assets		**(9,737)**	(1,931)
Proceeds from disposal of tangible fixed assets		**402**	6
		(9,335)	(1,925)
Acquisitions and disposals:			
Acquisition of subsidiary undertakings		**–**	50,037
Disposal of subsidiary undertakings		**–**	4,881
Investment in associated undertaking		**(341)**	–
Loan to associated undertaking		**(652)**	–
		(993)	54,918
Equity dividends:			
Equity dividends paid		**(38,762)**	–
Financing:			
Increase/(decrease) in bank loans and overdrafts		**3,221**	(7,037)
Proceeds from exercised share options		**9**	–
Acquisition of own shares for the Performance Share Plan		**(2,750)**	(3,559)
Net proceeds from issue of floating rate notes		**7,984**	–
		8,464	(10,596)
Increase in cash in the year		**227,645**	263,240
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings	30(iii)	**(36,743)**	41,819
Net portfolio investments:			
Deposits with credit institutions	30(v)	**67,391**	26,589
Fixed income investments	30(v)	**213,620**	128,176
Variable income investments	30(v)	**(21,591)**	18,517
Protected funds	30(v)	**–**	(8,336)
Equities	30(v)	**4,968**	56,475
Increase in cash in the year		**227,645**	263,240

The consolidated cash flow statement excludes syndicate cash flows and cash held within Lloyd's Premium Trust Funds on behalf of the Group's Lloyd's underwriting subsidiaries.

Overleaf: Nick Higgins' interpretation of "The Stronger Option".



Notes to the Financial Statements

Basis of Preparation

The financial statements of the Group and the Company have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified by the revaluation of investments.

The financial statements of the Group have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Businesses issued by the Association of British Insurers in November 2003 (the "ABI SORP") have been adopted.

The balance sheet of the Company has been prepared in accordance with Schedule 4 to the Companies Act 1985. No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act. The profit dealt with in the accounts of the parent company was £2,789,000 (2003: £1,403,000).

Changes in Accounting Policy

The Urgent Issues Task Force ("UITF") of the Accounting Standards Board issued UITF 37: Purchases and sales of own shares in October 2003 and UITF 38: Accounting for ESOP trusts in December 2003. UITF 37 requires that consideration paid for an entity's own shares should be deducted from equity rather than being shown as an asset on the balance sheet. UITF 38 requires that a similar treatment be made in respect of own shares held within an ESOP trust.

The financial effect of adopting these UITFs for the current period balance sheet has been to decrease net assets and shareholders' funds by £5,521,000. The balance sheet for 31 December 2003 has been restated and the financial effect has been to decrease the comparative figures by £3,975,000.

Where own shares held were previously impaired, these impairments have been reversed on adoption of the new UITFs. The financial effect has been to decrease profit by £16,000 in the current period. The comparative profit and loss account has been restated and the financial effect has been to increase profit by £9,000. The effect on the current period balance sheet has been to increase the value of own shares by £94,000 while the comparative balance sheet has been restated to increase the value of own shares by £110,000 as at 31 December 2003.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, together with the Group's participation in the Lloyd's syndicates' assets, liabilities, revenues and expenses for the year ended 31 December 2004. In the Group accounts, associated undertakings are accounted for on the equity basis from the date the Directors deem that the Group exercises a significant influence over the company. Subsidiaries are consolidated from the date control is gained.

1 Underwriting Activities

(a) Managed syndicates and the insurance companies

The results for all classes of business have been determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premium, net of reinsurance as follows:

(i) Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified, less an allowance for cancellations.

(ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportioned basis.

(iii) Acquisition costs represent commission and other expenses arising from the conclusion of insurance contracts. They are deferred over the period in which the related premiums are earned.

(iv) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from prior years. Where applicable deductions are made for salvage and other recoveries.

(v) Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of those claims. Claims outstanding are reduced by anticipated salvage and other recoveries.

The ultimate cost of outstanding claims is based on statistical techniques of estimation applied by the Group's internal actuaries and reviewed by external consulting actuaries. The primary sensitivity in these methods is the assumption that past experience is indicative of the final outcome of current business and, where past experience is insufficient that the market benchmarks are representative of the Group's own underwriting.

For the managed syndicates, claims provisions have been established on a class of business basis for each year of account. The underwriting and management teams of the syndicates conduct a quarterly review of each class of business for all years of account. Claims are projected to the ultimate position after 36 months and provision is made for known claims and claims incurred but not reported.

For the insurance companies, claims based estimation techniques have been used to establish claims provisions for catastrophe reinsurance, financial risks and mortgage indemnity classes of business. The relevant management teams review each contract quarterly and set the provision on a contract by contract basis. Provisions are established for all known losses and major events to the extent that management estimates that individual contracts are likely to incur a loss. Claims provisions for all other classes of business have been established on an individual class of business basis. The underwriting and management teams conduct a quarterly review of each class of business. Claims are projected to the ultimate position and provision is made for known claims and claims incurred but not reported.

Whilst the Directors consider that the estimate of claims outstanding is fairly calculated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability which will vary as a result of subsequent information and events. Adjustments to the amounts of the claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made.

(vi) Unexpired risks provision: Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred up to the balance sheet date.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

(vii) Equalisation reserves (the insurance companies): Amounts are set aside in accordance with the requirements of the Insurance Companies (Reserves) Regulations 1996 for the purpose of mitigating exceptionally high loss ratios in future years. The amounts reserved are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions.

(viii) Net operating expenses: Operating expenses are charged in the year in which they were incurred.

(ix) The principles of the annual basis of accounting for insurance business are applied to the underwriting transactions and balances of the managed syndicates. Results under the annual basis of accounting are estimated on the basis of premiums earned in the year as a proportion of the projected ultimate premiums for each syndicate year of account, together with any adjustments in relation to prior years. Premium earnings patterns are set on the basis of the underwriter's and internal actuary's judgement. Major claims are allocated to the year in which they occur.

(x) For each managed syndicate on which the Group participates, the Group's proportion of the syndicate's assets and liabilities has been reflected in its Consolidated Balance Sheet. Syndicate assets are held subject to trust deeds for the benefit of the syndicate's insurance creditors.

(b) Non-Managed Syndicates

The Group's non-managed syndicate participations consist entirely of run-off syndicate years of account, with the last year being 2000.

Provision is made for the estimated future deterioration of years of account in run-off. External Managing Agents' published forecast information and management's market knowledge are used to establish the loss provision for the non-managed syndicates. All available information is reviewed quarterly and the open year loss provisions are set on a syndicate by syndicate basis. While the Directors make every effort to ensure that adequate provision is made for losses on open years of account, their view of the ultimate loss may vary in later periods as a result of subsequent information and events. This in turn may require adjustment of the original provisions. These adjustments are reflected in the financial statements for the period in which the related adjustments are made.

2 Other Accounting Policies

(a) Investments

(i) The values of financial investments are stated in the financial statements on the following basis:
– Listed investments are stated at closing middle market prices on recognised stock exchanges.
– Unlisted investments and subsidiary undertakings are stated at cost or Directors' valuation.

(ii) Investment Return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Dividends are recorded on the date on which the shares are quoted ex-dividend. Interest and expenses are accounted for on an accrual basis.

Realised gains and losses arise from the difference between proceeds and cost. Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and the valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current year's profit and loss account.

The investment return is accounted for in the non-technical account. An allocation is made from the non-technical account to the general business technical account to reflect the long-term investment return on funds supporting underwriting business. The long-term investment return is an estimate of the long-term investment return for the Brit Insurance Holdings PLC Group, including the managed syndicates, having regard to past performance, current trends and future expectations.

(b) Goodwill

Goodwill arising on the acquisition of companies or businesses is capitalised and amortised on a straight line basis over the period which, in the Directors' opinion, is its useful economic life. For all acquisitions up to 31 December 2004, the Directors' estimate of the useful economic life of the goodwill arising is ten years.

Where, following a formal impairment review conducted in accordance with Financial Reporting Standard 11 "Impairment of Fixed Assets and Goodwill" ("FRS 11"), there has been, in the Directors' opinion, an impairment in the value of any goodwill being carried, this impairment is recognised in the profit and loss account.

(c) Syndicate Participation Rights

Where the Group has purchased the right to participate on managed syndicates, the cost is capitalised and amortised in equal annual instalments over three years. Amortisation commences from the date the underwriting results are first recognised in the technical account.

If, at any time, the Directors become aware of a permanent diminution in the value of the Group's right to participate on a syndicate, the asset will be written down accordingly. If a syndicate participation is sold any related costs are offset against the disposal proceeds and any gain or loss is taken to the non-technical profit and loss account in the same accounting period.

(d) Taxation

Items of income/gain and expenditure/loss are recognised and assessable to corporation tax in the same period, after adjustment in accordance with tax legislation, except for the following:

The Group is taxed on its share of the underwriting results declared by syndicates and for tax purposes these are deemed to accrue evenly over the calendar year in which they are declared. The managed syndicate results included in these financial statements relate to the annually accounted result for the 2004 calendar year. These will be declared for tax purposes in the years following the closure of the relevant years of account contributing to the annually accounted result.

The Inland Revenue determines the taxable results of individual syndicates on the basis of computations submitted by the Managing Agent. At the date of approval of these financial statements, none of the syndicate taxable results have been agreed. Any adjustments that may be necessary to the tax provisions established by the Group as a result of Inland Revenue agreement of the taxable results of individual syndicates will be reflected in the financial statements of subsequent periods.

(e) Deferred Taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit those earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(f) Tangible Fixed Assets

Tangible fixed assets are stated at cost. Depreciation is calculated so as to write-off the cost over their estimated useful economic lives on a straight line basis as follows:

Freehold property	2% per annum
Office refurbishment costs, computers (except personal computers and visual display units), office machinery, furniture and equipment	20% per annum
Motor vehicles and visual display units	25% per annum
Personal computers	33% per annum

(g) Own Shares

The consideration paid for the acquisition of own shares has been deducted from shareholders' funds.

Where an award is made under an employee performance share plan, the difference between the fair value of the shares at the end of the award and any consideration paid for the shares is charged to the profit and loss account over the performance period.

(h) Fees and Other Income

Fees and other income are recognised in the period to which they relate.

(i) Expenses

All expenses are accounted for on an accruals basis. Expenses which are incidental to the acquisition or disposal of an investment are treated as part of the cost or proceeds of the investment.

Profits arising in Marham Consortium Management Limited, which are due to a Brit managed syndicate, are charged as an expense to the Group.

(j) Pension Costs

The Group operates a defined contribution stakeholder pension scheme, a defined contribution funded unapproved retirement benefits scheme and several other defined contribution schemes. It also makes payments into a number of personal money purchase pension plans. Contributions in respect of these schemes are charged to the profit and loss account in the period to which they relate.

The Group also operates a defined benefit pension scheme with pension benefits funded over employee's periods of service. Contributions are based on the recommendation of the scheme actuary following the valuation of the fund and are charged to the profit and loss account so as to spread the cost of the pension over the employee's working lives with the Group. This scheme closed to new members on 4 October 2001.

(k) Leased Assets

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to enter into an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

(l) Foreign Currencies

Transactions in foreign currencies other than sterling, US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in US dollars, Canadian dollars and Euros are translated at the average rates of exchange for the period. Assets and liabilities in currencies other than sterling are translated at the rate of exchange ruling at 31 December of each year. Exchange differences arising on translation are dealt with in the profit and loss account.

Foreign currency options are marked to market. Any gains or losses are recognised in the profit and loss account.

(m) Convertible Unsecured Subordinated Loan Stock 2008 ("CULS ") and US Dollar Floating Rate Unsecured Subordinated Loan Notes 2034 ("FRNS")

CULS and FRNS are initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Finance costs are recognised in the profit and loss account over their term at a constant rate on the carrying value. CULS are reported as a liability unless conversion actually occurs. No gain or loss is recognised on conversion.

(n) Performance Share Plans

Where shares are acquired in respect of the Group's performance share plans including free and matching shares acquired by the Brit Insurance Holdings PLC Employee Share Participation Trust, such shares are included in own shares at cost and are amortised against profits on a straight-line basis over the life of the scheme. Own shares are deducted in arriving at shareholders' funds.

1 Segmental Information

(i) Technical Account by Underwriting Centre

	Year ended 31 December 2004				
	London Market Underwriting Centre £'000	**Reinsurance Underwriting Centre £'000**	**UK Underwriting Centre £'000**	**Other Underwriting £'000**	**Total £'000**
Gross premiums written	**431,613**	**279,994**	**345,401**	**29,723**	**1,086,731**
Net premiums written	**363,620**	**219,025**	**305,151**	**22,635**	**910,431**
Earned premiums net of reinsurance	**361,948**	**182,399**	**300,948**	**9,179**	**854,474**
Allocated investment return transferred from the non-technical account	**21,710**	**15,319**	**24,325**	**85**	**61,439**
Claims incurred, net of reinsurance	**(213,067)**	**(121,541)**	**(204,872)**	**(6,165)**	**(545,645)**
Change in equalisation provisions	**(2,290)**	**4,647**	**(620)**	**–**	**1,737**
Change in other technical provisions	**–**	**(5,254)**	**–**	**–**	**(5,254)**
Acquisition costs – commissions	**(94,086)**	**(37,964)**	**(50,111)**	**(6,730)**	**(188,891)**
Acquisition costs – other	**(16,574)**	**(6,381)**	**(9,931)**	**(845)**	**(33,731)**
Movement in deferred acquisition costs	**(3,362)**	**8,171**	**1,567**	**4,344**	**10,720**
Operating expenses	**(10,054)**	**(11,800)**	**(12,542)**	**1,519**	**(32,877)**
Balance on technical account	**44,225**	**27,596**	**48,764**	**1,387**	**121,972**
Claims ratio	**58.9%**	**69.5%**	**68.1%**	**67.2%**	**64.5%**
Expense ratio	**33.2%**	**25.6%**	**23.8%**	**26.7%**	**28.0%**
Combined ratio	**92.1%**	**95.1%**	**91.9%**	**93.9%**	**92.5%**

	Year ended 31 December 2003				
	London Market Underwriting Centre £'000	Reinsurance Underwriting Centre £'000	UK Underwriting Centre £'000	Other Underwriting £'000	Total £'000
Gross premiums written	468,326	221,792	309,395	16,214	1,015,727
Net premiums written	381,323	178,468	279,454	11,520	850,765
Earned premiums net of reinsurance	285,424	150,312	221,167	14,533	671,436
Allocated investment return transferred from the non-technical account	19,350	11,179	13,451	5	43,985
Claims incurred, net of reinsurance	(177,266)	(59,230)	(157,953)	(6,001)	(400,450)
Change in equalisation provisions	(751)	(3,059)	624	–	(3,186)
Change in other technical provisions	–	(673)	–	–	(673)
Acquisition costs – commissions	(91,596)	(25,152)	(42,062)	(7,994)	(166,804)
Acquisition costs – other	(434)	(10,286)	(11,056)	(11,014)	(32,790)
Movement in deferred acquisition costs	15,494	9,457	5,602	3,393	33,946
Operating expenses	(20,445)	(10,672)	(13,629)	(446)	(45,192)
Balance on technical account	29,776	61,876	16,144	(7,524)	100,272
Claims ratio	62.1%	39.9%	71.4%	41.3%	59.7%
Expense ratio	29.5%	25.8%	23.9%	168.9%	28.8%
Combined ratio	91.6%	65.7%	95.3%	210.2%	88.5%

1 Segmental Information continued

(ii) Gross Premiums Written by Geographical Segment

	Year ended 31 December 2004				
	United Kingdom £'000	**Other EU member states £'000**	**USA £'000**	**Other (including worldwide) £'000**	**Total £'000**
London Market Underwriting Centre	**104,253**	**35,599**	**140,741**	**151,020**	**431,613**
Reinsurance Underwriting Centre	**22,244**	**16,818**	**87,804**	**153,128**	**279,994**
UK Underwriting Centre	**273,871**	**38,070**	**44**	**33,416**	**345,401**
Other Underwriting	**19,344**	**6,078**	**–**	**4,301**	**29,723**
	419,712	**96,565**	**228,589**	**341,865**	**1,086,731**

	Year ended 31 December 2003				
	United Kingdom £'000	Other EU member states £'000	USA £'000	Other (including worldwide) £'000	Total £'000
London Market Underwriting Centre	81,196	31,686	171,460	183,984	468,326
Reinsurance Underwriting Centre	31,260	16,758	63,330	110,444	221,792
UK Underwriting Centre	276,910	20,416	16	12,053	309,395
Other Underwriting	14,027	247	–	1,940	16,214
	403,393	69,107	234,806	308,421	1,015,727

1 Segmental Information continued

(iii) Corporate

	Year ended 31 December 2004					
	Under-writing (Lloyd's) £'000	**Under-writing (companies) £'000**	**Ri3K Limited £'000**	**Peoples Choice (Europe) Limited £'000**	**Other £'000**	**Total £'000**
Technical result at the long-term rate of return	**56,822**	**65,150**	**–**	**–**	**–**	**121,972**
Other investment return	**(1,627)**	**6,673**	**14**	**–**	**3,775**	**8,835**
Interest payable	**–**	**(17)**	**–**	**–**	**(4,911)**	**(4,928)**
Fees and commissions	**902**	**–**	**1,640**	**–**	**–**	**2,542**
Other income	**60**	**–**	**–**	**–**	**250**	**310**
Other expenses	**–**	**(1,181)**	**(4,363)**	**–**	**(15,737)**	**(21,281)**
	56,157	**70,625**	**(2,709)**	**–**	**(16,623)**	**107,450**
Amortisation of goodwill and syndicate participations	**(1,734)**	**–**	**–**	**–**	**(8,101)**	**(9,835)**
Operating profit/(loss) based on long-term rate of investment return	**54,423**	**70,625**	**(2,709)**	**–**	**(24,724)**	**97,615**
Short-term fluctuations in investment return	**984**	**3,293**	**–**	**–**	**–**	**4,277**
Operating profit/(loss)	**55,407**	**73,918**	**(2,709)**	**–**	**(24,724)**	**101,892**
Share of operating profit in associated undertakings, net of goodwill amortisation	**–**	**–**	**–**	**–**	**577**	**577**
Profit/(loss) before taxation	**55,407**	**73,918**	**(2,709)**	**–**	**(24,147)**	**102,469**
Net assets/(liabilities)	**325,513**	**422,940**	**8,509**	**–**	**(46,987)**	**709,975**
Net tangible assets/(liabilities)	**315,459**	**379,995**	**1,953**	**–**	**(47,565)**	**649,842**

	Year ended 31 December 2003 (restated)					
	Underwriting (Lloyd's) £'000	Underwriting (companies) £'000	Ri3K Limited £'000	Peoples Choice (Europe) Limited £'000	Other £'000	Total £'000
Technical result at the long-term rate of return	63,539	36,733	–	–	–	100,272
Other investment return	(766)	10,878	9	61	8,878	19,060
Interest payable	(68)	–	(5)	(704)	(3,820)	(4,597)
Fees and commissions	2,271	–	131	6,251	–	8,653
Other income	56	90	–	1,257	137	1,540
Other expenses	–	–	(3,989)	(10,453)	(10,912)	(25,354)
	65,032	47,701	(3,854)	(3,588)	(5,717)	99,574
Amortisation of goodwill and syndicate participations	(1,919)	–	–	(153)	(6,335)	(8,407)
Operating profit/(loss) based on long-term rate of investment return	63,113	47,701	(3,854)	(3,741)	(12,052)	91,167
Short-term fluctuations in investment return	(7,614)	(8,126)	–	–	–	(15,740)
Operating profit/(loss)	55,499	39,575	(3,854)	(3,741)	(12,052)	75,427
Profit on disposal of subsidiary undertakings	–	–	–	–	1,920	1,920
Share of operating profit in associated undertakings, net of goodwill amortisation	–	–	–	–	219	219
Profit/(loss) before taxation	55,499	39,575	(3,854)	(3,741)	(9,913)	77,566
Net assets	293,959	382,234	8,492	–	12,839	697,524
Net tangible assets	280,086	334,169	1,116	–	12,185	627,556

2 Net Operating Expenses

	31 December 2004 £'000	31 December 2003 £'000
Acquisition costs – commissions	**188,891**	166,804
Acquisition costs – other	**33,731**	32,790
Movement in deferred acquisition costs	**(10,720)**	(33,946)
	211,902	165,648
Operating expenses	**32,877**	45,192
	244,779	210,840

3 Investment Return

(i) Investment Return – the Net Investment Return comprises:

	31 December 2004 £'000	31 December 2003 (restated) £'000
Investment income	**63,347**	52,108
Realised losses on investments	**(10,258)**	(14,711)
Unrealised gains on investments	**24,206**	13,496
Investment management expenses	**(2,744)**	(3,585)
Interest payable on convertible unsecured subordinated loan stock	**(3,837)**	(3,836)
Interest payable on US dollar floating rate unsecured subordinated loan notes	**(162)**	–
Other interest payable	**(929)**	(764)
	69,623	42,708

(ii) Investment Return – the Long-Term Investment Return

The transfer to the technical account represents the estimated long-term rate of return applied to the Group's share of investment assets supporting the insurance business of the insurance companies and Lloyd's syndicates, together with Funds at Lloyd's. The long-term rates of return, which are applied to investments held in all currencies, are based on the historical asset performance, current and prospective bond yields and the estimated risk premium for holding equity investments. The long-term rates are reviewed annually and were last revised in 2002. For the investment assets of the insurance companies and the Funds at Lloyd's, separate rates have been established and applied to the average bond and equity components of the underwriting investment assets. For the syndicate investments, a single weighted rate has been applied to all categories of investment.

The long-term rates of return used were:

	31 December 2004 %	31 December 2003 %
Insurance companies and Funds at Lloyd's		
Equities – capital return	**5.0**	5.0
Equities – income	**2.0**	2.0
Bonds and cash	**5.0**	5.0
Syndicate investments	**5.0**	5.0

3 Investment Return continued

Comparison of long-term investment return with actual return

	2000 to 2004 £'000	1999 to 2003 £'000
Actual return attributable to Shareholders:		
Funds at Lloyd's	**34,390**	27,684
Syndicate funds	**53,020**	41,627
Insurance company funds	**41,147**	9,555
	128,557	78,866
Long-term return credited to technical account:		
Funds at Lloyd's	**59,204**	50,755
Syndicate funds	**61,203**	47,630
Insurance company funds	**47,521**	19,234
	167,928	117,619
Excess of the long-term investment return over actual returns	**39,371**	38,753

4 Fees and Commissions

	31 December 2004 £'000	31 December 2003 £'000
Reinsurance industry electronic infrastructure design and development (Ri3K Limited)	**1,640**	131
Sale and administration of private motor and household insurance (Peoples Choice (Europe) Limited)	**–**	6,251
Other fees and commissions	**902**	2,271
	2,542	8,653

5 Other Income

	31 December 2004 £'000	31 December 2003 £'000
Rental and other income	**310**	1,540

6 Other Expenses

	31 December 2004 £'000	31 December 2003 £'000
The following items have been charged/(credited) in operating profit:		
Amortisation of goodwill	**8,101**	6,488
Amortisation of syndicate capacity	**1,734**	1,919
Depreciation of tangible fixed assets	**3,110**	2,169
(Profit)/loss on sale of fixed assets	**(205)**	844
Exchange losses	**1,425**	–
Operating lease rentals – land and buildings	**3,040**	2,522

Details of Auditors' remuneration are given in Note 8.

7 Staff Costs

	31 December 2004 £'000	31 December 2003 £'000
Wages and salaries (including profit related pay)	**34,644**	36,617
Social security costs	**2,853**	3,098
Other pension costs	**4,175**	3,583
	41,672	43,298

The average monthly number of employees during the year, including Executive Directors, was as follows:

	31 December 2004 Number	31 December 2003 Number
Management	**29**	33
Administration	**131**	307
Underwriting	**354**	327
	514	667

8 Auditors' Remuneration

	31 December 2004 Mazars LLP £'000	**31 December 2004 Other auditors £'000**	31 December 2003 Mazars LLP £'000	31 December 2003 Other auditors £'000
Audit services:				
Statutory audit Corporate	**309**	**12**	235	9
Syndicate	**–**	**316**	64	293
Audit-related regulatory reporting:				
Corporate regulatory reports	**79**	**–**	25	–
Interim review	**43**	**46**	40	–
Further assurance services:				
Acquisition*	**–**	**–**	170	–
Disposals	**–**	**–**	21	–
IFRS advisory	**–**	**85**	–	–
Projects	**–**	**20**	–	–
Capital reorganisation	**90**	**–**	–	–
Capital raising	**26**	**–**	–	–
Tax services:				
Compliance services	**60**	**11**	105	15
Advisory services	**36**	**48**	38	–
Other services:				
Printing services	**17**	**–**	162	–
Other advisory	**2**	**16**	37	3
	662	**554**	897	320

Of the above charges, £503,000 (2003: £520,000) has been charged to the non-technical account.

*Included within the capitalised acquisition costs on the purchase of Brit Underwriting Group Limited.

9 Tax Charge

(i) Analysis of Charge in Year

	31 December 2004 £'000	31 December 2003 £'000
Current tax:		
Adjustments in respect of prior years	**996**	(145)
Overseas tax	**(1,058)**	(250)
Share of associate's tax	**(253)**	(82)
	(315)	(477)
Deferred tax:		
Origination and reversal of timing differences	**(29,759)**	(19,908)
Tax charge on profit on ordinary activities	**(30,074)**	(20,385)

9 Tax Charge continued

(ii) Factors affecting Tax Charge for Year

	31 December 2004 £'000	31 December 2003 (restated) £'000
Profit on ordinary activities before tax	**102,469**	77,566
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	**(30,741)**	(23,270)
Effects of:		
Expenses not deductible for tax purposes and other permanent differences	**(3,063)**	(4,100)
Investment gains outside the scope of corporation tax	**2,077**	4,429
Equity dividends not subject to corporation tax	**735**	646
Short-term timing differences:		
Syndicate results	**31,987**	20,874
Realised and unrealised investment losses	**755**	139
Other timing differences	**(2,003)**	1,200
Overseas tax not recoverable	**(1,058)**	(250)
Adjustments to tax charge in respect of prior years	**996**	(145)
Current tax charge for the year (per Note 9(i))	**(315)**	(477)

(iii) Factors that may affect Future Tax Charges
The future tax charge for the Group is dependent on the ability of the Group to utilise tax losses as they become available.

10 Equity Dividends

	31 December 2004 £'000	31 December 2003 £'000
First interim dividend paid – 2.0p per ordinary share (2003 – nil)	**19,381**	–
Second interim dividend paid – 2.0p per ordinary share (2003 – nil)	**19,381**	–
Final dividend proposed (payable 22 April 2005) – 2.0p per ordinary share (2003 – nil)	**19,305**	–
	58,067	–

The Trustees of the Company's employee benefit trust have waived their entitlement to dividends on shares held for the Brit Performance Share Plan 2003 ("the PSP") and the Brit Long Term Incentive Plan 1999 ("the LTIP").

The reduced amount to be paid in respect of the proposed final dividend for 2004 reflects the awards made under the PSP in October 2004.

Further details of the PSP and LTIP are given in note 32.

11 Earnings Per Share

The calculations of the basic and diluted earnings per share are based on the following figures:

	31 December 2004 £'000	31 December 2003 (restated) £'000
Profit attributable to members of the parent company	**72,033**	57,493
Dilutive post tax effect on profits:		
Convertible unsecured subordinated loan stock	**2,685**	2,685
Diluted profit attributable to members of the parent company	**74,718**	60,178

	31 December 2004 Number	31 December 2003 Number
Basic weighted average number of shares	**967,295,848**	874,056,697
Dilutive potential ordinary shares:		
Convertible unsecured subordinated loan stock	**54,347,727**	51,276,076
Employee share options	**1,293,871**	698,381
Diluted weighted average number of shares	**1,022,937,446**	926,031,154

In accordance with Financial Reporting Standard 14 "Earnings per Share", convertible unsecured subordinated loan stock and employee share options are only treated as dilutive when their conversion to ordinary shares would decrease net profit per share or increase net loss from continuing operations.

12 Intangible Assets

	Syndicate participations £'000	Goodwill £'000	Total £'000
Cost:			
At 1 January 2004	9,025	80,408	89,433
At 31 December 2004	**9,025**	**80,408**	**89,433**
Amortisation:			
At 1 January 2004	6,789	12,676	19,465
Charge for the year	1,734	8,101	9,835
At 31 December 2004	**8,523**	**20,777**	**29,300**
Net book value:			
At 31 December 2004	**502**	**59,631**	**60,133**
At 31 December 2003	2,236	67,732	69,968

In accordance with the provisions of Financial Reporting Standard 10 "Goodwill and Intangible Assets", the goodwill arising on the acquisition of Brit Underwriting Group Limited has been subject to an impairment review being the first full financial year after its acquisition. The Directors believe that following this impairment review, the carrying value of Brit Underwriting Group Limited does not exceed its recoverable amount.

13 Financial Investments

Group:

	31 December 2004 Market value £'000	31 December 2004 Cost £'000	31 December 2003 Market value £'000	31 December 2003 Cost £'000
Shares and other variable-yield securities and units in unit trusts:				
Listed	**231,644**	**215,416**	225,124	230,546
Unlisted	**3,653**	**9,824**	1,115	7,440
Debt securities and other fixed income securities:				
Listed	**672,964**	**678,148**	685,920	710,404
Certificates of Deposit	**399,689**	**397,997**	125,960	125,677
Participation in investment pools	**284,620**	**284,628**	65,956	68,661
Deposits with credit institutions	**127,114**	**127,114**	60,047	60,047
	1,719,684	**1,713,127**	1,164,122	1,202,775

Company:

	31 December 2004 Market value £'000	31 December 2004 Cost £'000	31 December 2003 Market value £'000	31 December 2003 Cost £'000
Shares and other variable-yield securities and units in unit trusts:				
Listed	**25,722**	**29,508**	23,935	29,603
Unlisted	**1,115**	**7,440**	1,115	7,440
Debt securities and other fixed income securities:				
Listed	**1,304**	**942**	23,967	23,920
Deposits with credit institutions	**–**	–	13,988	13,988
	28,141	**37,890**	63,005	74,951

If the investments held at 31 December 2004 had been sold at that date, there would have been no liability to tax.

The movement in the Company's financial investments during the year were as follows:

	31 December 2004 £'000	31 December 2003 £'000
Market value at 1 January	**63,005**	84,621
Purchases	**56,417**	186,504
Sales	**(93,057)**	(213,081)
Sales – realised losses on sales	**(421)**	(345)
Increase in unrealised gains	**2,197**	5,306
Market value at 31 December	**28,141**	63,005

14 Investments in Subsidiary Undertakings

Company:

	31 December 2004 £'000	31 December 2003 £'000
Cost	**507,955**	507,955
Provision for permanent diminution in value	**(1,101)**	(1,101)
	506,854	506,854

Details of the Company's principal subsidiaries are as follows:

Name of company	Nature of business	Proportion of ordinary shares held by the Company %	Proportion of ordinary shares held by subsidiary %
Underwriting companies			
Brit Insurance Limited	Insurance company		100
Brit Insurance (UK) Limited	Insurance company		100
Brit Syndicates Limited	Lloyd's managing agent		100
Brit UW Limited	Lloyd's corporate member		100
Wren Insurance Services Limited	Lloyd's syndicate support company		100
Marham Consortium Management Limited	Lloyd's syndicate support company		100
Investment company			
Masthead Insurance Underwriting Limited	Intermediate holding company	100	
Distribution companies			
Ri3K Limited	E-commerce solutions company	77.2	
Ri3K Asia Pte Limited	E-commerce solutions company		91.0
Ri3K Inc [1]	E-commerce solutions company		100.0
Group services companies			
Brit Group Services Limited	Group services company		100
PRI Management Limited	Group services company		100
Intermediate holding companies			
Wren Limited	Intermediate holding company	100	
Wren Holdings Group PLC	Intermediate holding company		100
HCG Holdings Limited	Intermediate holding company	100	
Finsbury Underwriting Limited	Intermediate holding company		100
Brit Underwriting Group Limited	Intermediate holding company	100	
Open ended investment company			
CF Epic Investment Funds [2]	Open ended investment company		80.9
Lloyd's corporate members (last year of account 1999)			
HCG Alpha Limited	Lloyd's corporate member		100
HCG Bravo Limited	Lloyd's corporate member		100
HCG Charlie Limited	Lloyd's corporate member		100
HCG Delta Limited	Lloyd's corporate member		100
HCG Echo Limited	Lloyd's corporate member		100
HCG Foxtrot Limited	Lloyd's corporate member		100
FUIT One Limited	Lloyd's corporate member		100
FUIT Two Limited	Lloyd's corporate member		100
FUIT Three Limited	Lloyd's corporate member		100
FUIT Four Limited	Lloyd's corporate member		100
FUIT Five Limited	Lloyd's corporate member		100
Masthead A Limited	Lloyd's corporate member		100
Masthead B Limited	Lloyd's corporate member		100
Masthead C Limited	Lloyd's corporate member		100
Masthead D Limited	Lloyd's corporate member		100
Masthead E Limited	Lloyd's corporate member		100

1 Ri3K Inc was formed during the year.

2 During the year, CF Epic Investment Funds issued new shares to third party investors in its funds resulting in the Brit Group holding reducing from 81.6% to 80.9%. These new shares were issued at a market value reflecting the underlying value of the investments held by the funds. As a consequence, this deemed disposal has not resulted in any gain or loss.

All companies are registered and operate in England with the exception of Ri3K Asia Pte Limited which is incorporated and operates in Singapore and Ri3K Inc which is incorporated and operates in Canada.

All subsidiaries are included in the Group consolidated financial statements.

15 Investments in Associated Undertakings

Group:

	The Equity Partnership Limited £'000
Profit and loss account, Group share:	
Turnover	**2,833**
Profit on ordinary activities before tax	**601**
Tax charge on profit	**(253)**
Profit on ordinary activities after tax	**348**
Balance sheet, Group share:	
Fixed assets	**260**
Current assets	**2,071**
Current liabilities	**(1,407)**
Long term loan	**(267)**
Net assets	**657**

The movements in the Group's investments in associated undertakings are as follows:

	The Equity Partnership Limited £'000
Balance at 1 January 2004	253
Share of profit after tax arising in the year	348
Net assets acquired on purchase	56
	657
Loans to associated undertaking	652
Goodwill acquired on purchase	285
Goodwill amortised during the year	(24)
Balance at 31 December 2004	**1,570**

The Group share of operating profit in associated undertakings, net of goodwill amortisation is as follows:

	The Equity Partnership Limited £'000
Group share of operating profit in associated undertakings	601
Goodwill amortised during the year	(24)
Group share of operating profit in associated undertakings, net of goodwill amortisation	**577**

The carrying value of associated undertakings in the Group balance sheet is made up as follows:

	The Equity Partnership Limited £'000
Share of net assets	657
Loans to associated undertaking	652
Goodwill arising on acquisition less amortisation	261
Balance at 31 December 2004	**1,570**

The carrying value of The Equity Partnership Limited in the Company balance sheet of £1,055,000 (2003: £62,000) represents its cost of £403,000 (2003: £62,000) and loans of £652,000 (2003: nil).

15 Investments in Associated Undertakings continued

The Equity Partnership Limited

On 10 March 2004, the Company increased its share in The Equity Partnership Limited ("EPL") by purchasing a further 6.8% of EPL's ordinary share capital bringing its total holding to 40.9%. The cost of acquisition was £341,000 and the net assets acquired were £56,000 generating goodwill of £285,000.

As at the balance sheet date, EPL had issued £440,000 of preference shares to a third party. Since 10 March 2004, these preference shares pay a dividend of 5.0% per annum. EPL is prevented from paying a dividend on the ordinary shares until the preference shares have been repaid in full.

The company's principal activity is that of an investment manager.

The company's accounting reference date is 31 December. It is registered and operates in England.

16 Significant Interests in Other Companies

At 31 December 2004, the Company/Group had holdings in the companies listed below which exceeded 20.0% of any class of equity share capital.

The Company/Group does not exercise control over or significantly influence the activities of these companies and therefore the holdings have not been equity accounted.

Name of undertaking	Country of incorporation and registration	Class of capital	Percentage of class held by Company	Percentage of class held by Group	Latest available accounts	Aggregate capital and reserves £'000	Profit/(loss) after tax for the year £'000
Ebix Inc	USA	Common stock	32.0%	32.0%	31 Dec 2003	3,738	932
The Equity Partnership Investment Company PLC	Isle of Man	Capital shares	14.4%	34.7%	31 Jul 2004	31,057	(2,186)
The Equity Partnership Investment Company PLC	Isle of Man	Income shares	0.0%	4.8%	31 Jul 2004	31,057	(2,186)

17 Other Debtors

Amounts due within one year:

	Group		Company	
	31 December 2004 £'000	31 December 2003 £'000	**31 December 2004 £'000**	31 December 2003 £'000
Trade debtors (including share of syndicates' debtor balances)	**15,743**	24,225	**–**	–
Amounts owed from managed syndicates	**445**	1,347	**–**	550
Amounts owed by Group undertakings	**–**	–	**198,477**	186,550
Tax recoverable	**–**	227	**–**	–
Other debtors	**15,137**	6,177	**222**	439
	31,325	31,976	**198,699**	187,539

18 Tangible Assets

The net book value of tangible assets is made up as follows:

					Group
	Freehold property £'000	Office refurbishment £'000	Computers and office machinery, furniture and equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 January 2004	509	2,931	11,320	76	14,836
Additions	–	276	9,467	–	9,743
Disposals	(509)	–	(49)	(76)	(634)
Exchange adjustments	–	–	(6)	–	(6)
At 31 December 2004	**–**	**3,207**	**20,732**	**–**	**23,939**
Depreciation:					
At 1 January 2004	327	1,545	8,123	62	10,057
Charge for the period	5	602	2,489	14	3,110
Disposals	(332)	–	(29)	(76)	(437)
Exchange adjustments	–	1	14	–	15
At 31 December 2004	**–**	**2,148**	**10,597**	**–**	**12,745**
Net book value:					
At 31 December 2004	**–**	**1,059**	**10,135**	**–**	**11,194**
At 31 December 2003	182	1,386	3,197	14	4,779

19 Prepayments and Accrued Income

	Group		Company	
	31 December 2004 £'000	31 December 2003 £'000	**31 December 2004 £'000**	31 December 2003 £'000
Accrued income:				
– fees and commissions	**3,324**	7,870	**–**	–
– investment income (including share of syndicates' accrued investment income)	**11,701**	2,727	**26**	19
Prepayments	**2,665**	812	**–**	–
	17,690	11,409	**26**	19

20 Other Creditors

Amounts payable within one year:

	Group		Company	
	31 December 2004 £'000	31 December 2003 £'000	**31 December 2004 £'000**	31 December 2003 £'000
Bank loans and overdrafts	**18,221**	–	**18,221**	–
Trade creditors (including share of syndicates' creditor balances)	**14,931**	24,446	**–**	–
Equity dividend proposed	**19,305**	–	**19,305**	–
Taxation due	**1,456**	–	**–**	–
Other taxes and social security costs	**2,133**	1,639	**–**	–
Other creditors	**5,362**	5,110	**–**	–
	61,408	31,195	**37,526**	–

On 4 November 2004, the Group entered into a £40,000,000 overdraft facility with Barclays Bank PLC to assist with the repayment of the loan referred to below and to provide working capital.

	Group		Company	
	31 December 2004 £'000	31 December 2003 £'000	**31 December 2004 £'000**	31 December 2003 £'000
Amounts payable between two and five years:				
– Bank borrowings	**–**	15,000	**–**	15,000
– Convertible unsecured subordinated loan stock 2008	**44,115**	43,872	**44,115**	43,872
– US dollar floating rate unsecured subordinated loan notes 2034	**7,539**	–	**7,539**	–
	51,654	58,872	**51,654**	58,872

On 3 February 2000, the Group entered into a £80,000,000 loan facility with Barclays Bank PLC and National Westminster Bank PLC. The £15,000,000 outstanding under this facility as at 31 December 2003 was repaid on 5 November 2004. The interest rate payable on the loan up to that date was equal to LIBOR plus 1.0%.

The convertible unsecured subordinated loan stock attracts interest at 8.5%. The conversion rate of the convertible unsecured subordinated loan stock of 113.64 ordinary shares for every £100 nominal of loan stock converted has been adjusted with effect from 23 April 2004 to 123.46 ordinary shares for every £100 nominal of loan stock converted. This follows the reduction of the Company's share premium account. The conversion right expires on 31 October 2005. Issue costs are being amortised over the term of the loan stock.

On 28 June 2004, $15,000,000 of US dollar floating rate unsecured subordinated loan notes were issued providing net proceeds of £7,984,000 after the deduction of issue costs of £304,000. These issue costs are amortised over the period up to the earliest redemption date being 15 August 2009. These loan notes attract interest at US dollar three month LIBOR plus 3.5%.

21 Provisions for Other Risks and Charges

	Provision for lease shortfall £'000	Provision for rent-free period £'000	Total other provisions £'000	Provision for deferred taxation £'000	Total £'000
At 1 January 2004	570	231	801	–	801
Provisions made in the year	–	–	–	10,837	10,837
Amounts utilised during the year	(37)	(231)	(268)	–	(268)
At 31 December 2004	**533**	**–**	**533**	**10,837**	**11,370**

The provision for lease shortfalls is in respect of a property which is leased by Wren Underwriting Agencies Limited and sublet to third parties. Under the terms and conditions of the leases, the Directors anticipate a loss arising over the period of the lease which has been recognised as a provision.

The provision for rent-free period relates to a lease agreement entered into in July 1999 which provided an 18 month rent-free period. The cost of the lease has been charged evenly to the profit and loss account up to the date of the first rent review in 2004.

Further details relating to the deferred taxation provision are set out in Note 22.

22 Deferred Taxation

	Group		Company	
	31 December 2004 £'000	31 December 2003 £'000	**31 December 2004 £'000**	31 December 2003 £'000
Timing Differences:				
Declared underwriting (profits)/losses	**(17,326)**	17,989	**–**	–
Trading losses carried forward	**6,476**	–	**–**	–
Provision for future underwriting losses	**–**	100	**–**	–
Unrealised losses on investments	**–**	625	**355**	295
Other	**13**	208	**–**	–
	(10,837)	18,922	**355**	295
Undiscounted deferred tax asset at the start of the year	**18,922**	38,395	**295**	295
Acquired with Brit Underwriting Group Limited	**–**	435	**–**	–
Origination and reversal of timing differences (Note 9(i))	**(29,759)**	(19,908)	**60**	–
Undiscounted deferred tax (provision)/asset at the end of the year	**(10,837)**	18,922	**355**	295

In determining the deferred tax position, it has been assumed that group relief will be available between companies within the Group.

There are unrealised equity losses of £3,249,000 (2003: £1,717,000) on which deferred tax has not been provided because of uncertainty as to the timing of their utilisation. If these losses were included at 31 December 2004, the deferred tax liability would have been reduced by £975,000 (2003: £515,000).

In addition the Group has unclaimed capital allowances on which deferred tax has not been provided because of the uncertainty as to the timing of their utilisation. If the capital allowances were included at 31 December 2004, the deferred tax liability would have been reduced by £2,146,000 (2003: £1,149,000).

23 Share Capital

	31 December 2004 £'000	31 December 2003 £'000	**31 December 2004 Number '000**	31 December 2003 Number '000
Authorised:				
Ordinary shares of 25p each	**350,000**	350,000	**1,400,000**	1,400,000
Allotted, issued and fully paid:				
Ordinary shares of 25p each	**243,518**	243,513	**974,072**	974,054

Number of ordinary shares of 25p each allotted, issued and fully paid:

	2004 Number	2003 Number
At 1 January	**974,053,647**	747,466,314
Exercised share options	**10,000**	25
Converted unsecured subordinated loan stock	**8,215**	3,564
Acquisition of Brit Underwriting Group Limited	**–**	226,583,744
At 31 December	**974,071,862**	974,053,647

On 21 June 2004 the Company issued 10,000 ordinary shares in relation to exercised share options.

During the May and October 2004 conversion periods, the Company issued 6,724 and 1,491 shares respectively to converting holders of the convertible unsecured subordinated loan stock 2008 issued on 18 December 2001.

24 Reserves

Group:

	Share premium account £'000	Capital redemption reserve £'000	Investment in own shares £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2004					
as previously reported	481,135	586	–	(23,735)	457,986
Prior year adjustment	–	–	(4,085)	110	(3,975)
Balance at 1 January 2004 as restated	481,135	586	(4,085)	(23,625)	454,011
Issue of shares	10	–	–	–	10
Acquisition of own shares	–	–	(3,368)	–	(3,368)
Amortisation of own shares	–	–	1,657	–	1,657
Disposal of own shares	–	–	181	–	181
Capital reorganisation	(170,000)	–	–	170,000	–
Profit for the year	–	–	–	72,033	72,033
Equity dividends	–	–	–	(58,067)	(58,067)
At 31 December 2004	**311,145**	**586**	**(5,615)**	**160,341**	**466,457**

Further details relating to own shares are provided in note 26.

24 Reserves continued

Company:

	Share premium account £'000	Capital redemption reserve £'000	Investment in own shares £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2004					
as previously reported	481,135	586	–	(25,744)	455,977
Prior year adjustment	–	–	(445)	–	(445)
Balance at 1 January 2004 as restated	481,135	586	(445)	(25,744)	455,532
Issue of shares	10	–	–	–	10
Disposal of own shares	–	–	181	–	181
Capital reorganisation	(170,000)	–	–	170,000	–
Profit for the year	–	–	–	2,789	2,789
Equity dividends	–	–	–	(58,067)	(58,067)
At 31 December 2004	**311,145**	**586**	**(264)**	**88,978**	**400,445**

Full details of the prior year adjustment are set out in the section "Basis of Preparation of Financial Statements".

Following an application to the High Court, the Company was permitted to make a transfer from the share premium account to the profit and loss account of £170,000,000. This capital reorganisation became effective on 23 April 2004.

The Company had distributable reserves of £49,135,000 at 31 December 2004 (2003: negative £65,587,000). The difference of £39,843,000 between the Company's profit and loss account balance and its distributable reserves is the profit made on the sale of Brit Insurance Limited to Brit Underwriting Group Limited on 4 December 2003. The consideration for this sale was satisfied by the issue of new ordinary shares by Brit Underwriting Group Limited.

25 Reconciliation of Equity Shareholders' Funds

	Group		Company	
	31 December 2004 £'000	31 December 2003 (restated) £'000	**31 December 2004 £'000**	31 December 2003 (restated) £'000
Total recognised gains for the year	**72,033**	57,493	**2,789**	1,403
Equity dividends	**(58,067)**	–	**(58,067)**	–
Issue of shares	**15**	167,674	**15**	167,674
Acquisition of own shares	**(3,368)**	(3,559)	**–**	–
Amortisation of own shares	**1,657**	221	**–**	–
Disposal of own shares	**181**	565	**181**	475
Total movements during the year	**12,451**	222,394	**(55,082)**	169,552
Opening equity shareholders' funds				
as previously reported	**701,499**	476,341	**699,490**	530,413
Prior year adjustment	**(3,975)**	(1,211)	**(445)**	(920)
Opening equity shareholders' funds as restated	**697,524**	475,130	**699,045**	529,493
Closing equity shareholders' funds	**709,975**	697,524	**643,963**	699,045

26 Investment in Own Shares

In December 1999, May 2000 and December 2001 the trustees of the Brit Long-Term Incentive Plan ("the LTIP") acquired Brit Insurance Holdings PLC shares in accordance with the terms of that plan. Following the vesting of some of these shares during 2004 the number of shares held at 31 December 2004 was 321,768 (2003: 588,268).

In November 2003 and October 2004 the trustees of the Brit Performance Share Plan 2003 ("the PSP") acquired Brit Insurance Holdings PLC shares in accordance with the terms of that plan. The number of shares held at 31 December 2004 was 8,554,371 (2003: 4,659,894).

In October 2001, the Brit All Employee Share Ownership Plan ("the ESOP") commenced purchasing shares to be held in trust for the benefit of employees of the Group. Ongoing purchases of shares are made on a monthly basis.

Details of the LTIP, PSP and ESOP are given in note 32.

As at 31 December 2004, Brit Insurance Limited held 265,623 (2003: 265,623) ordinary 25p shares of Brit Insurance Holdings PLC.

	Group		Company	
	31 December 2004 £'000	31 December 2003 (restated) £'000	**31 December 2004 £'000**	31 December 2003 £'000
Long-Term Incentive Plan	**264**	445	**264**	445
Performance Share Plan	**4,671**	3,337	**–**	–
All Employee Share Ownership Plan	**377**	–	**–**	–
Held by Brit Insurance Limited	**303**	303	**–**	–
	5,615	4,085	**264**	445

27 Equity Minority Interests

	31 December 2004 £'000	31 December 2003 £'000
At 1 January	**9,398**	(371)
Equity minority interest at date of acquisition – CF Epic Investment Funds	**–**	10,134
Deemed disposal of CF Epic Investment Funds	**478**	–
Deemed disposal of Ri3K Limited	**–**	(53)
Profit/(loss) on ordinary activities after tax	**362**	(312)
At 31 December	**10,238**	9,398

The equity minority interest in CF Epic Investment Funds represents 19.1% of its total issued income and accumulation shares. The equity minority interest in Ri3K Limited represents 22.8% of its issued ordinary shares. The holders of these equity minority interest shares have no rights against any other Group company.

28 Capital Commitments

	31 December 2004 £'000	31 December 2003 £'000
Capital expenditure contracted but not provided for in the financial statements	**2,653**	580

29 Operating Leases

At 31 December 2004, the Group was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2005:

		Land and buildings		Other
	31 December 2004 £'000	31 December 2003 £'000	**31 December 2004 £'000**	31 December 2003 £'000
Annual commitments under operating leases which expire:				
– within one year	**3**	280	**29**	126
– between two to five years	**238**	47	**66**	84
– after five years	**1,734**	1,802	**–**	–
	1,975	2,129	**95**	210

30 Consolidated Cash Flow Statement

(i) Scope of Consolidated Cash Flow Statement

The consolidated cash flow statement excludes syndicate cash flows and cash held within Lloyd's Premium Trust Funds on behalf of some of the Group's underwriting subsidiaries.

(ii) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	31 December 2004 £'000	31 December 2003 (restated) £'000
Profit before tax on ordinary activities	**102,469**	77,566
(Profit)/loss on sale of fixed assets	**(205)**	844
Profit on disposal of subsidiary undertakings	**–**	(1,920)
Depreciation of fixed assets and related exchange adjustments	**3,125**	2,179
Amortisation of goodwill	**8,101**	6,488
Amortisation of loan stock and loan notes issue costs	**279**	250
Charges in respect of employee share schemes	**1,038**	221
Amortisation of syndicate capacity	**1,734**	1,919
Increase in debtors	**(149,384)**	(72,837)
Increase/(decrease) in creditors	**8,807**	(13,303)
Increase in provisions	**307,053**	223,395
Foreign exchange rate movements on financing items	**(475)**	–
Realised and unrealised investment gains	**(15,315)**	(2,767)
Share of operating profit in associated undertakings, net of goodwill amortisation	**(577)**	(219)
Interest payable	**2,758**	4,600
Net cash inflow from operating activities	**269,408**	226,416

30 Consolidated Cash Flow Statement continued

(iii) Movement in Opening and Closing Portfolio Investments Net of Financing

	31 December 2004 £'000	31 December 2003 £'000
Net cash (outflow)/inflow for the year	**(36,743)**	41,819
Cash flow – portfolio investments	**264,388**	221,421
Movement arising from cashflows	**227,645**	263,240
Changes in market value and currencies	**15,315**	2,767
Other changes	**478**	106,992
Total movement in portfolio investments net of financing	**243,438**	372,999
Portfolio at 1 January	**953,380**	580,381
Portfolio at 31 December	**1,196,818**	953,380

(iv) Movement in Cash and Portfolio Investments

	At 1 January 2004 £'000	Cash flow £'000	Changes to market value and currencies £'000	Other changes £'000	**At 31 December 2004 £'000**
Cash at bank and in hand	75,845	(36,743)	–	–	**39,102**
Deposits with credit institutions	60,047	67,391	(324)	–	**127,114**
Total cash	135,892	30,648	(324)	–	**166,216**
Fixed income investments	600,437	213,620	(7,016)	–	**807,041**
Variable income investments	70,920	(21,591)	(11)	–	**49,318**
Protected funds	1,383	–	18	–	**1,401**
Equities	144,748	4,968	22,648	478	**172,842**
Total portfolio investments	817,488	196,997	15,639	478	**1,030,602**
Total cash and portfolio investments	953,380	227,645	15,315	478	**1,196,818**
Bank borrowings	(15,000)	(3,221)	–	–	**(18,221)**
Total cash and portfolio investments, net of debt	938,380	224,424	15,315	478	**1,178,597**

(v) Net Cash Outflow on Portfolio Investments

	Year ended 31 December 2004			Year ended 31 December 2003		
	Purchases £'000	**Sales £'000**	**Net cash flow £'000**	Purchases £'000	Sales £'000	Net cash flow £'000
Deposits with credit institutions	**81,379**	**13,988**	**67,391**	26,589	–	26,589
Fixed income investments	**1,720,608**	**1,506,988**	**213,620**	1,619,256	1,491,080	128,176
Variable income investments	**–**	**21,591**	**(21,591)**	25,547	7,030	18,517
Protected funds	**–**	**–**	**–**	–	8,336	(8,336)
Equities	**28,736**	**23,768**	**4,968**	90,880	34,405	56,475
	1,830,723	**1,566,335**	**264,388**	1,762,272	1,540,851	221,421

31 Pensions

The Group has the following pension schemes in operation:

(i) Brit Group Services Limited – Defined Benefit Pension Scheme
For some of the employees of Brit Group Services Limited, the Group operates a funded pension scheme providing benefits for its employees based on final pensionable emoluments. The assets of the Scheme are held in a separate trustee administered fund. The most recent completed actuarial valuation of the Scheme was carried out as at 31 July 2003 by a professionally qualified actuary using the projected unit method. At this date, the market value of the assets amounted to £52,500,000 which, on an ongoing funding basis, covered 86.0% of the benefits that had accrued to members after allowing for expected future increases in earnings.

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 pension. For the purposes of Statement of Standard Accounting Practice 24 "Accounting for Pension Costs" ("SSAP 24") it was assumed that investment returns in excess of salary growth would be 3.2% pa and that investment returns in excess of present and future pension increases would be 3.1% pa.

The actuarially calculated deficit is being amortised over the average remaining service of the active members with each annual deficit contribution increasing with pay. The employer has been making contributions at the rate of 24.8% of pensionable salaries from 1 January 2004 to 18 May 2004 and 24.7% thereafter to the end of the year. In addition it has been making an annual lump sum contribution of £390,000 since 1 January 2004.

The pension cost charge represents contributions payable by the Group to the Scheme and amounted to £1,940,000 (2003: £1,691,000).

At 31 December 2004 no contributions were payable to the Scheme (2003: £nil).

Financial Reporting Standard 17 "Retirement Benefits" ("FRS 17") Disclosures
While the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 "Accounting for Pension Costs", under FRS 17 transitional disclosures are required as at 31 December 2004 using the different measurement basis prescribed by the Standard. None of the information set out in (a) to (g) below is reflected in the primary statements of the Group for the year ended 31 December 2004.

(a) Composition of the Scheme
The results of the formal actuarial valuation as at 31 July 2003 were updated to the accounting date by an independent qualified actuary in accordance with the transitional arrangements of FRS 17. As required by FRS 17, the value of the defined benefit liabilities has been measured using the projected unit method.

The following table sets out the key FRS 17 assumptions used for the Scheme. The table also sets out as at the accounting date the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS 17 liabilities and the deficit of assets below the FRS 17 liabilities (which equals the gross pension liability).

	31 December 2004 %	31 December 2003 %	31 December 2002 %
Retail Price Index inflation	2.90	2.80	2.30
Discount rate	5.30	5.40	5.60
Pension increases in payment	2.70	2.60	2.30
General salary increases	4.90	4.80	4.30

31 Pensions continued

The assets in the Scheme and the expected long-term rates of return were:

	31 December 2004		31 December 2003		31 December 2002	
	Expected return %	**Value £'000**	Expected return %	Value £'000	Expected return %	Value £'000
Equities	**7.50**	**43,367**	7.70	48,741	7.40	37,906
Bonds	**5.30**	**8,248**	5.40	4,316	5.60	5,537
Gilts	**4.60**	**8,853**	4.80	2,411	4.40	2,733
Cash	**4.50**	**278**	4.60	1,187	4.00	1,862
Total market value of assets		**60,746**		56,655		48,038
Present value of liability		**(79,216)**		(72,171)		(58,401)
Deficit in the Scheme		**(18,470)**		(15,516)		(10,363)
Gross pension liability		**(18,470)**		(15,516)		(10,363)
Related deferred tax asset at 30%		**5,541**		4,655		3,109
Net pension liability		**(12,929)**		(10,861)		(7,254)

Under FRS 17, the Scheme would be represented on the balance sheet at 31 December 2004 as a liability of £18,470,000 (2003: £15,516,000), which amounts to £12,929,000 net of deferred tax (2003: £10,861,000).

Notes:
1 Figures have been estimated, where necessary.
2 Contributions were paid at the rate of 24.8% of pensionable salaries from 1 January 2004 to 18 May 2004 and 24.7 % thereafter to the end of the year. In addition a lump sum contribution of £390,000 was also made to the Scheme during the year.
3 The Scheme closed to new entrants with effect from 4 October 2001. Under the projected unit method the current service cost will increase as the members of the Scheme approach retirement.

(b) Analysis of the Amounts to be charged to Operating Profit (for illustrative purposes only)

	31 December 2004 £'000	31 December 2003 £'000
Employer's part of current service cost	**2,207**	2,059
Vested past service cost	**–**	125
Curtailment	**–**	(306)
Total operating charge	**2,207**	1,878

(c) Analysis of the Amount to be credited to Other Finance Income (for illustrative purposes only)

	31 December 2004 £'000	31 December 2003 £'000
Expected return on pension scheme assets	**4,134**	3,273
Interest on pension scheme liabilities	**(3,888)**	(3,249)
Net return – credit	**246**	24

31 Pensions continued

(d) Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (for illustrative purposes only)

	31 December 2004 £'000	31 December 2003 £'000
Actual return less expected return on pension scheme assets	**571**	6,428
Experience losses arising on the scheme liabilities	**(843)**	(2,499)
Changes in assumptions underlying the present value of scheme liabilities	**(2,666)**	(8,965)
Actuarial loss recognised in the statement of total recognised gains and losses	**(2,938)**	(5,036)

(e) Movement in Scheme Deficit during the Year (for illustrative purposes only)

	31 December 2004 £'000	31 December 2003 £'000
Deficit in scheme at beginning of the year	**(15,516)**	(10,363)
Movement in year:		
Current service cost (total)	**(2,207)**	(2,059)
Aggregate contributions	**1,945**	1,737
Past service costs (vested and non-vested)	**–**	(125)
Curtailment	**–**	306
Other finance income	**246**	24
Actuarial loss recognised in the statement of total recognised gains and losses	**(2,938)**	(5,036)
Deficit in scheme at end of the year	**(18,470)**	(15,516)

(f) History of Experience Gains and Losses (for illustrative purposes only)

	31 December 2004 £'000	31 December 2003 £'000	31 December 2002 £'000
Difference between expected and actual return on scheme assets:			
Amount – gain/(loss)	**571**	6,428	(15,155)
Percentage of scheme assets	**1%**	11%	32%
Experience gains and losses on scheme liabilities			
Amount – gain/(loss)	**(843)**	(2,499)	190
Percentage of the present value of the scheme liabilities	**(1%)**	(3%)	0%
Total amount recognised in the statement of total recognised gains and losses			
Amount – gain/(loss)	**(2,938)**	(5,036)	(17,058)
Percentage of the present value of the scheme liabilities	**(4%)**	(7%)	(29%)

(g) Reserves Note (for illustrative purposes only)

	31 December 2004 £'000	31 December 2003 £'000
Profit and loss reserve excluding pension liability	**160,341**	(23,625)
Pension reserve	**(12,929)**	(10,861)
Profit and loss reserve	**147,412**	(34,486)

31 Pensions continued

(ii) Brit Group Services Limited – Defined Contribution Stakeholder Scheme

From 5 October 2001, Brit Group Services Limited has operated a defined contribution stakeholder pension scheme. The assets of the Scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £1,974,000 (2003: £1,035,000). At 31 December 2004 no contributions were payable to the fund (2003: £nil).

(iii) Brit Group Services Limited – Funded Unapproved Retirement Benefits Scheme ("FURBS")

Brit Group Services Limited also operates a defined contribution FURBS, into which additional contributions are paid in respect of certain employees. The assets of the Scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £52,000 (2003: £72,000). At 31 December 2004, contributions amounting to £30,000 (2003: £72,000) were payable to the fund and are included in creditors.

(iv) Brit Insurance Limited

For Brit Insurance Limited employees, the Group operates a defined contribution pension scheme. The assets of the Scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £16,000 (2003: £63,000). At 31 December 2004, no contributions were payable to the fund (2003: £nil).

(v) PRI Management Limited

PRI Management Limited operated a defined contribution pension scheme. During the year, all members of this scheme transferred to the Brit Group Services Limited defined contribution stakeholder scheme. The assets of the Scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £53,000 (2003 for the period following acquisition: £173,000). At 31 December 2004, no contributions were payable to the fund (2003: £9,000).

32 Long-Term Incentive Schemes

There are three active schemes and five closed schemes, details of which are set out below:

Active Schemes

(i) Brit All Employee Share Ownership Plan ("the ESOP")

Approved by members at the Annual General Meeting on 20 June 2001, the ESOP comprises a Trust Deed and Rules establishing an All Employee Share Ownership Scheme which was approved by the Inland Revenue, pursuant to the Finance Act 2000. All eligible employees of the Company and participating subsidiaries are entitled to participate subject to various detailed provisions. An independent Trustee holds all shares purchased under the plan and dividends are payable on shares held in the Trust. Pursuant to the ESOP, the Board may award free shares or give employees the opportunity to acquire partnership shares or make an award of matching shares to those employees who have invested in partnership shares or require or allow employees to reinvest dividends paid on their plan shares in further dividend shares.

An aggregate of 167,500 free shares were awarded on 20 October 2004 to 335 members of staff, including certain executive Directors, (each of whom were awarded 500 shares each) at a cost per share of 70.75p each. Since the launch of the ESOP, all participating employees have had the opportunity to subscribe for partnership shares on a monthly basis and to be awarded matching shares. Free shares are held in trust for a three year qualifying period and matching shares for five years.

As at 31 December 2004, the Trust held 511,500 free shares, 364,622 matching shares and 733,048 partnership shares with a total nominal value of £402,293 and a market value, based on mid-market value of the Company's shares at close of business on 31 December 2004, as shown in the Official List of the London Stock Exchange of £1,267,221. This equates to 0.17% of the Company's issued share capital as at 31 December 2004.

As at 31 December 2004, the Trust held 784,622 free and matching shares with a market value of £617,890 which had not yet vested unconditionally. All of these shares have been conditionally gifted to employees subject to reaching the relevant qualifying period.

32 Long-Term Incentive Schemes continued

(ii) Brit Executive Share Option Scheme 2003 (“the ESOS”)

The ESOS was approved by shareholders on 18 June 2003 and comprises two parts, namely the ‘Approved’ part, which has been approved by the Inland Revenue, and the ‘Unapproved’ part, which is intended to be used primarily where executives have more than £30,000 worth of outstanding Approved options.

The price per share payable upon exercise of an option will not be less than the higher of the average of the middle-market quotations of a share on the London Stock Exchange on the three dealing days immediately prior to the grant date, provided that no such dealing day falls prior to the date on which the Company last announced its results for any period and the nominal value of a share (unless the option is expressed to relate only to existing shares).

Further details of the operation of the ESOS are disclosed in the Directors’ Remuneration Report.

Outstanding options granted at nil cost under the ESOS are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
3 Nov 03	77	7,919,215	76.92	3 Nov 06	2 Nov 13
18 Oct 04	103	5,932,105	78.50	18 Oct 07	17 Oct 14
4 Nov 04	1	22,930	78.50	4 Nov 07	3 Nov 14

(iii) Brit Performance Share Plan 2003 (“the PSP”)

The PSP was approved by shareholders on 18 June 2003 and details of its operation are disclosed in the Directors’ Remuneration Report.

Awards will be satisfied by the transfer of shares from the Company’s employee benefit trust which may acquire shares for this purpose either by subscribing for new shares or by buying shares in the market. The trustees have waived their entitlement to dividends on any shares acquired. As at 31 December 2004, the employee benefit trust held 8,876,136 ordinary 25p shares (including shares in respect of the Brit Long Term Incentive Plan 1999 referred to in Note 32(viii)) which represented 0.91% of the issued share capital of the Company as at 31 December 2004.

Awards have been made under the PSP as follows:

Date of grant	Number of employees including Directors	Number of shares	Value of shares at date of grant £	Latest vesting date
3 Nov 03	54	4,659,894	3,459,971	2 May 07
18 Oct 04	57	3,894,477	2,755,343	17 Apr 08

Closed Schemes

(iv) Brit 1998 Approved Executive Share Option Scheme (“the Approved Scheme”)

The Approved Scheme is a discretionary share option scheme approved by the Inland Revenue. Following shareholder approval of the ESOS in 2003, no further grants of options will be made under the Approved Scheme. Options granted under the Approved Scheme were subject to performance criteria at the discretion of the Board and are generally exercisable between three and ten years from the date of grant.

Outstanding options granted at nil cost under this scheme are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
6 Dec 99	3	99,688	80.25	6 Dec 02	5 Dec 09
8 Jun 00	1	38,710	77.50	8 Jun 03	7 Jun 10
20 Nov 00	9	162,164	74.00	20 Nov 03	19 Nov 10
7 Jun 01	22	308,377	113.50	7 Jun 04	6 Jun 11
27 May 02	1	28,368	70.50	27 May 05	26 May 12
6 Feb 03	9	111,562	75.50	6 Feb 06	5 Feb 13

32 Long-Term Incentive Schemes continued

(v) Brit 1998 Approved Executive Share Option Scheme – Part B (formerly Wren Approved Share Option Scheme 1998)

This is a discretionary share option scheme approved by the Inland Revenue. Options granted under this scheme were not subject to performance criteria and are generally exercisable between three and ten years from date of grant. All option holders accepted rollover terms granting them options over shares in the Company on 21 September 1999. It is not expected that any future options will be granted under this scheme.

Outstanding options granted at nil cost under this scheme are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
10 Sep 98	16	397,557	112.00	10 Sep 01	9 Sep 08

(vi) Brit 1998 Unapproved Executive Share Option Scheme (“The Unapproved Scheme”)

The Unapproved Scheme is a discretionary share option scheme not approved by the Inland Revenue. Following shareholder approval of the ESOS in 2003, no further grants of options will be made under the Unapproved Scheme. Options granted under this scheme were subject to performance criteria determined by the Board and are generally exercisable between three and ten years from the date of grant.

Outstanding options granted at nil cost under this scheme are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
10 Sep 98	2	799,999	142.50	10 Sep 01	9 Sep 08
6 Dec 99	6	1,575,000	80.25	6 Dec 02	5 Dec 09
24 May 00	2	550,000	66.00	24 May 03	23 May 10
20 Nov 00	4	705,000	74.00	20 Nov 03	19 Nov 10
7 Jun 01	1	125,000	113.50	7 Jun 04	6 Jun 11
31 May 02	37	2,497,550	70.50	31 May 05	30 May 12
31 May 02	8	2,460,000	70.83	31 May 05	30 May 12
5 Jun 02	10	635,500	70.50	5 Jun 05	4 Jun 12
23 Oct 02	3	1,353,913	62.50	23 Oct 05	22 Oct 12
4 Nov 02	2	839,844	64.00	4 Nov 05	3 Nov 12
15 Jan 03	1	240,000	78.00	15 Jan 06	14 Jan 13

(vii) Brit 1998 Unapproved Executive Share Option Scheme – Part B (formerly Wren Unapproved Share Option Scheme 1998)

This is a discretionary share option scheme not approved by the Inland Revenue. Options granted under this scheme were subject to performance criteria (other than those granted on 18 May 1998) determined by the board of Wren Limited. Options are generally exercisable between three and ten years from the date of grant (with the exception of those granted on 18 May 1998). All option holders accepted rollover terms granting them options over shares in the Company on 21 September 1999. It is not expected that any future options will be granted under this scheme.

Outstanding options granted at nil cost under this scheme are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
18 May 98	1	319,365	119.00	22 Dec 00	17 May 08
14 Aug 98	1	117,500	130.50	14 Aug 01	13 Aug 08

32 Long-Term Incentive Schemes continued

(viii) Brit Long Term Incentive Plan 1999 ("the LTIP")

Following shareholder approval of the PSP in 2003, no further awards will be made under the LTIP.

The LTIP was controlled by the Remuneration Committee, which set performance targets in respect of all allocations. The LTIP was established under a discretionary employee benefit trust set up for the provision of benefits and assistance to employees of the Company and its subsidiaries. Further details of the trust are disclosed above.

Outstanding awards made under the LTIP are as follows:

Date of grant	Number of employees including Directors	Number of shares	Value of shares at date of grant £	Latest vesting date
18 Dec 01	1	67,030	50,000	31 Dec 04

33 Related Party Transactions

(i) Directors' Interests in Share Capital

The interests of the Directors who held office as at 31 December 2004 and their families in the ordinary shares of 25p each of the Company are as follows:

	Held at 31 December 2004			Held at 31 December 2003 *		
	Shares	**Options**	**PSP/LTIP**	Shares	Options	PSP/LTIP
Dane Douetil	**934,734**	**2,220,767**	**668,301**	828,875	1,806,744	462,613
Neil Eckert	**6,034,086**	**2,143,399**	**894,064**	5,830,727	1,601,993	491,055
Matthew Scales	**255,603**	**1,612,332**	**644,588**	115,577	1,230,166	496,780
Clive Coates	**190,000**	**–**	**–**	100,000	–	–
Peter Hazell	**–**	**–**	**–**	–	–	–
Glyn MacAulay	**40,000**	**–**	**–**	40,000	–	–
Don McCrickard	**40,000**	**–**	**–**	40,000	–	–
Anthony Townsend	**352,538**	**–**	**–**	352,538	–	–
Michael Smith	**10,000**	**–**	**–**	10,000	–	–

* Or date of appointment

All Directors' interests in the ordinary shares of the Company are beneficial. Neil Eckert and Anthony Townsend are also interested in 456,761 and 47,543 units of 8.5% convertible unsecured subordinated loan stock 2008 respectively (2003: 456,761 and 47,543 respectively). No other Director held any interest in the 8.5% convertible unsecured subordinated loan stock 2008 as at 31 December 2004 and no Director held any interest in any other group company.

As at 25 February 2005, the Employee Share Ownership Trust was interested in 1,669,362 ordinary 25p shares in which the Directors who are employees are deemed to be interested by virtue of section 324 of the Companies Act 1985 (see Note 32 of the financial statements).

As at 25 February 2005, the Employee Benefit Trust held 8,876,136 ordinary 25p shares in which the Directors who are employees are deemed to be interested by virtue of section 324 of the Companies Act 1985 (see Note 32 of the financial statements).

(ii) Directors' Interests in Transactions

Jo Welman is a shareholder in The Equity Partnership Limited ("EPL"). EPL's subsidiaries, EPIC Asset Management Limited and EPIC Specialist Investments Limited, have entered into certain investment management agreements with the Group and, accordingly, Jo Welman is interested in these contracts. Details of these contracts are set out in part (iv) below. Jo Welman resigned as a Non-Executive Director of the Group on 27 May 2004.

33 Related Party Transactions continued

(iii) Loans

As at the balance sheet date, Brit Insurance Holdings PLC had a loan of £8,100,000 outstanding made to Ri3K Limited, a 77.2% owned subsidiary. This amount has been fully provided for in the books of the Company. With effect from 1 January 2005 interest will be charged on outstanding balances at an annual rate of 3.0% above the prevailing three month LIBOR rate.

As at the balance sheet date, Brit Insurance Holdings PLC had a loan of £652,000 outstanding made to The Equity Partnership Limited, a 40.9% owned associated company. Interest is charged on outstanding balances at an annual rate of 2.0% above the prevailing six month LIBOR rate.

(iv) Trading

The Equity Partnership Limited, EPIC Asset Management Limited and EPIC Specialist Investments Limited

During the year, the Group traded with The Equity Partnership Limited ("EPL"), an associated undertaking 40.9% owned by Brit Insurance Holdings PLC and with EPIC Asset Management Limited ("EPAM") and EPIC Specialist Investments Limited ("ESI"), subsidiaries of EPL. Brit Insurance Holdings PLC charged EPL £250,000 (2003: £186,000) in respect of operational office costs.

EPL, EPAM and ESI also have an agreement with Brit Group Services Limited ("BGS"), a 100% subsidiary of Brit Insurance Holdings PLC, whereby BGS pays certain expenses on behalf of these companies which it then recovers in full. The total of all of these costs amounted to £3,359,000 (2003: £2,863,000), of which £524,000 (2003: £782,000) was outstanding at the balance sheet date.

EPL also traded during the year with The Equity Partnership Investment Company PLC ("EPIC"), a company with a 29.9% holding in EPL. Brit Insurance Holdings PLC owns 34.7% of the ordinary share capital of EPIC. EPIC purchased investment management services from EPL amounting to £652,000 (2003: £699,000). As at the balance sheet date the amounts owed in relation to these services amounted to £115,000 (2003: £114,000).

EPAM and ESI are Investment Managers regulated by the Financial Services Authority and provided the following services to Brit Insurance Holdings PLC and its subsidiaries:

EPAM

		Fund value	Fees charged during 2004	Fees outstanding	
	Commenced	**As at 31 December 2004**	£	**As at 31 December 2004 £**	As at 31 December 2003 £
Investment Advisory:					
Brit Insurance Holdings PLC	2001		103,548	**9,775**	–
		£m	%	**£**	£
Investment Management:					
Brit Syndicates Limited	2001	**666**	0.18	**102,862**	89,400
Brit Insurance Holdings PLC	2002	**–**	0.15/0.125*	**–**	3,300
Masthead Insurance Underwriting Limited	2002	**186**	0.15/0.125*	**19,690**	19,800
Brit Insurance Limited	2002	**514**	0.15/0.125*	**54,562**	31,300
Brit Insurance (UK) Limited	2004	**142**	0.15/0.125*	**15,073**	–

*On 1 October 2004, EPAM reduced its annual fee from 0.15% to 0.125%.

33 Related Party Transactions continued

ESI

		Fund value	Fees charged during 2004	Fees outstanding	
	Commenced	**As at 31 December 2004**	%	**As at 31 December 2004 £**	As at 31 December 2003 £
Investment Management:					
Brit Syndicates Limited	2003	**5**	1.5	**6,218**	6,820
Brit Syndicates Limited	2003	**14**	1	**11,921**	10,946
Brit Insurance Holdings PLC	2003	**1**	1	**673**	1,873
Masthead Insurance Underwriting Limited	2003	**6**	1	**5,513**	4,580
Brit Insurance Limited	2003	**12**	1.5	**15,837**	11,569
Brit Insurance Limited	2003	**29**	1	**24,383**	26,718
Brit Insurance Limited	2004	**1**	2	**996**	–
Brit Insurance (UK) Limited	2003	**8**	1	**7,152**	6,567

Ebix Inc

The Group entered into various software and service agreements with Ebix Inc, a company in which Brit Insurance Holdings PLC owns 32.0% of the common stock. The cost of these contracts in 2004 was £1,941,323 (2003: £1,100,551). £nil (2003: £29,268) was outstanding at the year end.

34 Contingent Liabilities

(i) Lloyd's

(a) Company

Lloyd's has a floating guarantee over the assets of Brit Insurance Holdings PLC.

(b) Group

If any of the corporate member subsidiaries fails to meet any of its Lloyd's obligations, after having called on the Group under its guarantees, then:

(a) Lloyd's will be entitled to require the other corporate member subsidiaries to cease or reduce their underwriting; and/or

(b) having regard to the fact that the Central Fund or the New Central Fund may be applied to discharge the obligations of the defaulting corporate member subsidiary, Lloyd's will be entitled to require each of the other corporate member subsidiaries to make contributions to the New Central Fund up to the amount of their respective net profits held from time to time in Premium Trust Funds, sufficient to reimburse the Central Fund or the New Central Fund in full for any payment made on behalf of the defaulting member.

At the date of signing these financial statements the Group is not aware of any corporate member subsidiary failing to meet its Lloyd's obligations.

On 26 November 1999, there was a reorganisation of the Group such that:

(i) all underwriting at Lloyd's is now conducted through one corporate member subsidiary; and

(ii) all investments and assets supporting the underwriting at Lloyd's are held in one subsidiary, being Masthead Insurance Underwriting Limited ('Masthead').

A number of agreements were entered into in order to achieve this.

34 Contingent Liabilities continued

A deed of charge was entered into by Masthead with Lloyd's to support the underwriting activities of all corporate member subsidiaries within the Brit Insurance Holdings PLC Group. Masthead entered into deeds of covenant with Lloyd's to cover the run-off liabilities of these corporate members. It also entered into guarantees with respect to interavailable funds of £118,738,728. As at 31 December 2004 the value of these funds was £85,250,775 (2003: £86,807,120).

Lloyd's has the right to retain the income on charged investments, although it is not expected to exercise this right unless it considers there to be a risk that one or more of the covenants might need to be called and, if called, might not be honoured in full.

The parent company, Brit Insurance Holdings PLC, has given an indemnity to Lloyd's, of up to £63,333,500, in the event that Masthead fails to meet its obligations. The Directors do not consider this to be likely.

(ii) Bank Borrowings

As detailed in Note 20, Brit Insurance Holdings PLC had an overdraft facility with Barclays Bank PLC at 31 December 2004. The lender has the following security under the terms of the facility which has priority over those provided to Lloyd's:

(a) A debenture which includes a fixed charge over assets including the shares held by Brit Insurance Holding PLC in Masthead Insurance Underwriting Limited and Brit Underwriting Group Limited and a floating charge over the remaining assets of the Company.

(b) A memorandum of deposit whereby Brit Underwriting Group Limited has deposited its shares in Brit Insurance Limited.

(iii) Letters of Credit

At 31 December, 2004 Brit Insurance Limited had in place a Letter of Credit ("LOC") facility for US $100,000,000 with Barclays Bank PLC (2003: US $100,000,000).

This facility supports the underwriting of US reinsurance business. LOCs issued will be collateralised by a mixture of cash, money market funds and government securities. At 31 December 2004 the company had issued and collateralised US $4,600,000 of LOCs (2003: US $4,500,000).

We have audited the financial statements for the year ended 31 December 2004 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein. 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 auditors' 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 Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 company and other members of the group is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review, the Report of the Audit Committee, the Report of the Nomination Committee and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. 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 in 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 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 the Group's and the Company's affairs as at 31 December 2004 and of the Group's profit for the year 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.

Mazars LLP

Chartered Accountants and Registered Auditor
24 Bevis Marks
London EC3A 7NR
28 February 2005

Chairman
Clive Frederick Coates ●+

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Neil David Eckert *Chief Executive Officer*
Dane Jonathan Douetil *Deputy Chief Executive Officer*
Matthew Scales *Finance Director*

Non-Executive Directors
Peter Frank Hazell *●+
George Franklin MacAulay *●+
Donald Cecil McCrickard *●+ *Senior Independent Director*
Michael Gordon Smith ●+
John Anthony Victor Townsend *●+

* Member of the Audit Committee
● Member of the Nomination Committee
\+ Member of the Remuneration Committee

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Financial Calendar 2005	
Full Year Figures	March
Annual Report Posted	March
Annual General Meeting	April
Proposed dividend payment	April
Half Year Figures Announced	September
Interim Report Posted	September

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